

THE  
**PEW**  
CENTER ON THE STATES



**PPIC**

PUBLIC POLICY  
INSTITUTE OF CALIFORNIA

# Facing Facts

PUBLIC ATTITUDES AND FISCAL REALITIES  
IN FIVE STRESSED STATES

OCTOBER 2010

This report is a joint project of the Pew Center on the States and the Public Policy Institute of California.

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Dear Reader:

State lawmakers have had an extraordinarily tough couple of years—including historic drops in revenue, significant budget shortfalls, increased demand for public services and widespread dissatisfaction among taxpayers—and they face continued budget challenges ahead. Come January, policy makers responsible for guiding states out of the red will include a large crop of first-term governors and legislators. It is critical that these leaders have the information they need to make the difficult decisions before them.

*Facing Facts: Public Attitudes and Fiscal Realities in Five Stressed States* describes how residents of five of the nation's most fiscally challenged states—Arizona, California, Florida, Illinois and New York—view their state's budget problems and potential solutions. The Pew Center on the States and the Public Policy Institute of California (PPIC) partnered to gather those perspectives through a first-of-its-kind survey. The results reveal the issues on which lawmakers and the public are, and are not, aligned. It provides insight into what these residents expect moving forward—on the size and scope of state government, what services it should deliver and who ultimately should pay the bill. And it illuminates both constraints and opportunities that public opinion poses for officials in many states.

This report builds on the track records of both Pew and PPIC in providing state leaders with the vital information they need. The Pew Center on the States helps lawmakers, the media and other stakeholders better understand states' current fiscal conditions and future prospects. PPIC has informed important policy debates in California through its Statewide Survey, which over the past 12 years has generated responses from more than 230,000 residents of the Golden State, and through reports and events that stimulate discussion and ideas about how to solve California's most pressing problems.

We hope this joint effort will inform and guide state leaders as they chart a path toward fiscal recovery today and sustainability tomorrow.

Sincerely,



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The full questionnaire and survey results for all five states—Arizona, California, Florida, Illinois and New York—are available online at [www.pewcenteronthestates.org/budgetrealities](http://www.pewcenteronthestates.org/budgetrealities) and at [www.ppic.org/main/publication.asp?i=952](http://www.ppic.org/main/publication.asp?i=952).



# Executive Summary

Residents of five of America's most fiscally challenged states are more likely to say their elected leaders are wasting their money and could deliver services more efficiently than to complain that state government is too big. They would prefer to tax the other guy—such as the wealthy, corporations, and smokers, drinkers and gamblers—but they are willing to increase their own taxes to pay for the things they consider most important, particularly K-12 education and health and human services. These residents are tired of lawmakers passing the costs down to future generations: They would rather keep cutting and taxing than see short-term deficits papered over with borrowing. Finally, they are widely distrustful of state government and believe it could operate more effectively. They want fiscal reforms—and a better return on their tax dollars—now.

These are the key findings of the Pew Center on the States and the Public Policy Institute of California (PPIC) based on a survey of public opinion in five politically, geographically

and demographically diverse states: Arizona, California, Florida, Illinois and New York.<sup>1</sup>

This analysis is the first effort of its kind to seek an in-depth, multi-state read on how residents view their state's budget problems during this nationwide economic downturn and what they think their elected officials should or should not do to cope. What state policy leaders decide, and whether they succeed, matters far beyond their own borders: The longer it takes states to emerge from the Great Recession, the slower the nation's economic recovery will be.

Although the survey was not a national poll, at least 1,000 residents were interviewed in each of the five states to provide statistically sound findings within each locale, plus rare multi-state comparisons. Together, the five states surveyed comprise almost a third of the U.S. population and almost a third of the nation's economic output (see Exhibit 1). Collectively, they accounted for 45 percent of states' total projected budget gaps for fiscal year 2011 (see Exhibit 2).<sup>2</sup>

## Striking Similarities— and Contradictions

The five states surveyed are different in many ways. Florida and Arizona are Sunbelt states with conservative voting tendencies and frugal spending habits, their economies suffering from the collapse of the real estate market. New York is the anchor of the more liberal Northeast, while Illinois is in the old industrial heartland with a powerful Democratic Party that launched President Barack Obama; both

states face seemingly intractable, long-term fiscal challenges. California, the most ethnically diverse of the group, has big Democratic majorities controlling the legislature while a Republican has held the governorship for the past seven years; its budget problems may be the most daunting of all.

Yet even in these diverse states, residents' reactions to fiscal problems are very similar. In all five locations, a majority of respondents expects bad times in

## KEY FINDINGS ACROSS ALL FIVE STATES

### ■ FINDING 1: GOVERNMENT PERFORMANCE MATTERS MORE

Respondents are more likely to say their elected leaders are wasting their money and could deliver services more efficiently than to complain that state government is too big.

### ■ FINDING 2: PROTECT THE ESSENTIALS

K-12 public education and health and human services are seen as state government's core functions—worth protecting from cutbacks even if it means more taxes.

### ■ FINDING 3: TAX THE OTHER GUY

Residents would prefer to charge the other guy—particularly the wealthy, corporations, and smokers, drinkers and gamblers. But they appear to be willing to pay higher taxes themselves for the things they care about.

### ■ FINDING 4: NO MORE BORROWING

Residents are tired of lawmakers passing the costs down to future generations. Overwhelmingly, they would rather keep cutting and taxing, if necessary, than see short-term deficits papered over with borrowing.

### ■ FINDING 5: LACK OF TRUST—AND DESIRE FOR REFORM

Residents are widely distrustful of state government and believe it can operate more effectively. They want fiscal reforms—and a better return on their tax dollars—now.



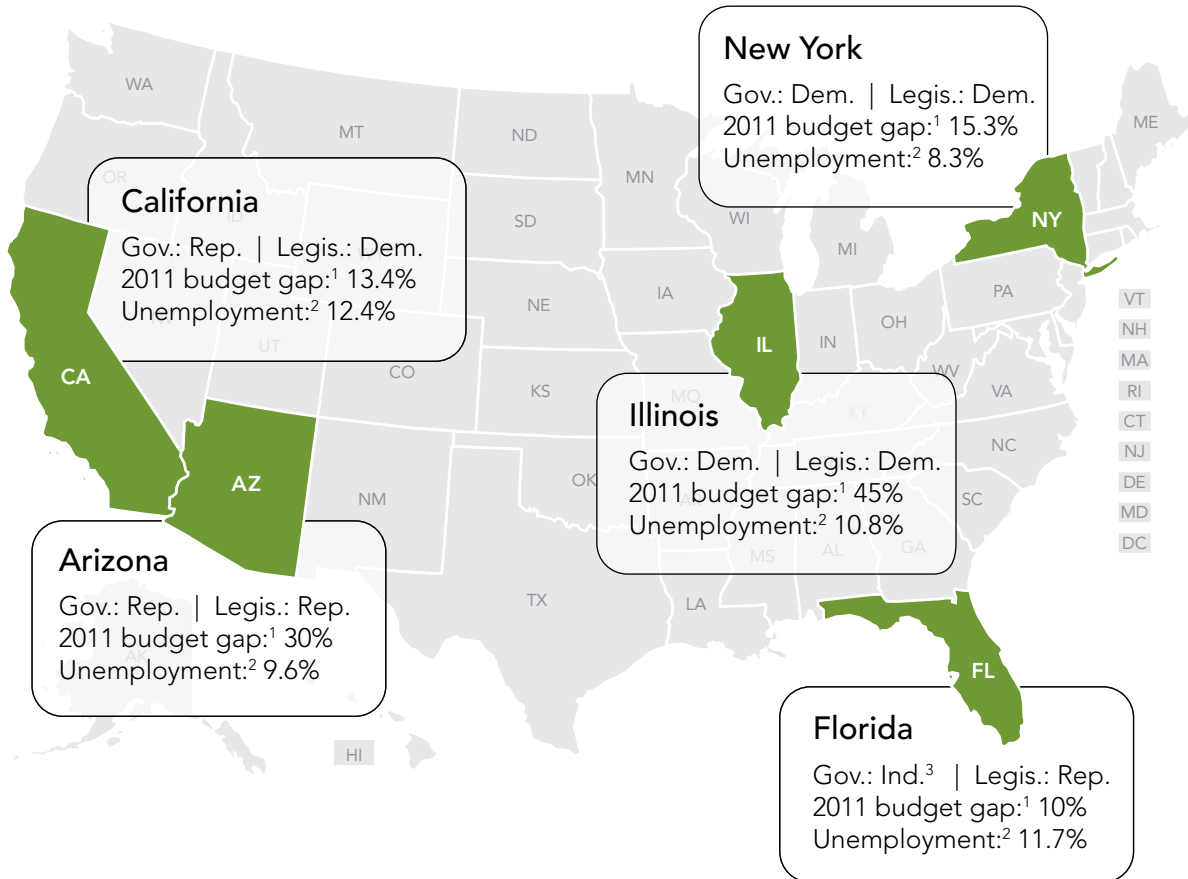
the coming year. They want to preserve funding for K-12 education and, to a lesser extent, health and human services, such as Medicaid, and a majority in each state is willing to pay more if necessary to do that. Meanwhile, most residents are skeptical about paying more taxes to preserve funding for transportation and

for prisons and corrections, and few want to continue the practice of extensive state borrowing. Majorities in all locations believe major changes are needed in their state's budget process—and they overwhelmingly think their elected leaders should take action now, rather than wait until the economy improves.

**Exhibit 1**

The five states

The five states in the survey account for about a third of the U.S. population and economic output. They are among the hardest hit by the economic downturn and face some of the most difficult budget challenges anywhere in the country.



<sup>1</sup>Estimated gap as a percentage of general fund expenditures

<sup>2</sup>Estimated for the second quarter of 2010 based on analysis of U.S. Bureau of Labor Statistics data

<sup>3</sup>Governor Charlie Crist was elected governor as a Republican in 2006. He became an independent in April 2010 to run for a U.S. Senate seat.

SOURCES: Pew Center on the States and Public Policy Institute of California 2010, based on U.S. Census Bureau 2008 population estimates, the U.S. Census Bureau's Statistical Abstract of the United States, National Conference of State Legislatures State Budget Update: March 2010, and U.S. Bureau of Labor Statistics Local Area Unemployment Statistics.

The consistency with which respondents express similar preferences across the five states also is surprising. For instance, public willingness to pay more taxes to maintain funding for K-12 public education ranges from 63 percent in New York to 71 percent in Arizona. Similarly, support for immediate reform of the state budget process spans from 76 percent in Florida to 86 percent in Illinois.

“ The states have to deal with a new economic reality. The public is looking for leadership from their elected officials to set priorities, get rid of waste and inefficiencies and make smart investments that deliver solid returns.”

—Susan Urahn, managing director, Pew Center on the States

But the survey results also reveal important areas where residents' attitudes are contradictory and their expectations are unrealistic. For example, by hefty margins, respondents across the five states say they are very or somewhat concerned about the effects of state spending reductions on government services. Yet they also name spending cuts as their first choice to balance state budgets. Solid majorities believe that a good portion of their state's budget squeeze can be solved relatively painlessly, by reducing

waste and inefficiency in government, without affecting services. But majorities also want to protect funding for K-12 education or Medicaid—by far the biggest portions of state budgets. This would mean making far deeper cuts in other areas, such as higher education, transportation and corrections. The clear difficulty is that tinkering with other, smaller appropriation areas likely will not bridge these states' ongoing structural gaps between revenues and expenditures. The same is true when it comes to revenues. Most residents would prefer to squeeze new revenue from someone else—smokers, drinkers, gamblers and corporations—to ensure essential government services. But increases in these revenue streams likely would not be enough to close severe budget gaps on their own.

Many factors likely contribute to these public perceptions, but given the chronic structural deficits these states and others face—with their projected expenditures consistently outstripping projected revenues—perhaps residents of these states have become accustomed to getting more services than they pay for.

## Challenges Await New Leaders

The sentiments in the survey have been expressed at a moment of severe budget constraint in virtually every jurisdiction in the country. Projected revenues are

running far short of expenditures in all but a handful of agricultural and resource-rich states in the Midwest, and three of the five states surveyed—Arizona, California and New York—already are predicting budget gaps in fiscal years 2012 and 2013.<sup>3</sup>

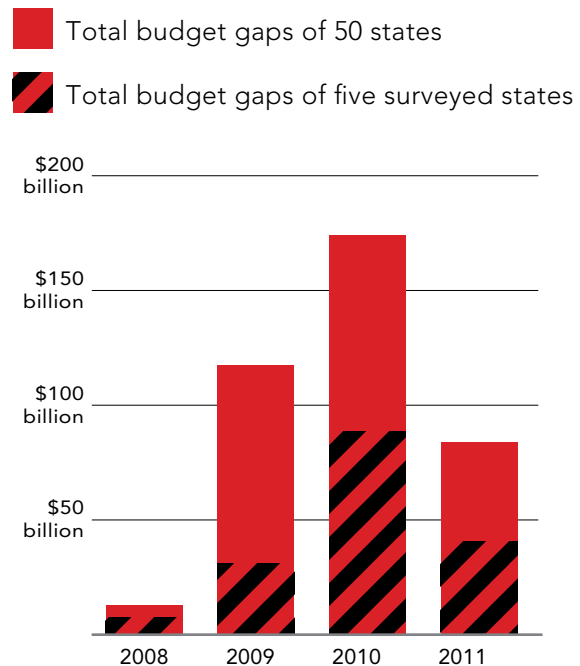
Almost all states have slimmed down since the recession began in December 2007: All but six operated on a smaller general fund budget last year than two years ago.<sup>4</sup> Many states have used both spending cuts and tax or fee increases to close large budget gaps in the past three years.<sup>5</sup> Federal stimulus funds have softened the blow, providing as much as \$140 billion—enough to help states plug up to 40 percent of their projected budget holes over the past two years.<sup>6</sup> In August, Congress approved an extra \$26 billion in state aid for education and Medicaid. But most of the stimulus funds will run out by July 2011.<sup>7</sup> Even a national recovery could not boost state revenues fast enough to restore budgets to health across the country in time to avoid another year—if not several more—of cuts, new taxes or other remedies.<sup>8</sup>

In many state capitals, next year's policy makers—bound by law to balance their ledgers—will inherit a seemingly impossible job. States will struggle with their fourth and perhaps toughest year of budget challenges in the midst of a

Exhibit 2

## Budget gaps: 5 stressed states

Collectively, the budget gaps of the five states surveyed—Arizona, California, Florida, Illinois and New York—have made up a sizable portion of the total shortfalls facing all 50 states over the last few years.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010, based on data from the National Conference of State Legislatures State Budget Update: April 2008, State Budget Update: July 2009, and State Budget Update: March 2010.

nationwide public debate about the size and purpose of government—what it can and should do, and where it should focus its resources and attention. And many of their leaders will be new. It is almost certain that at least half the nation's governors will be new in 2011, and more than 6,100 of states' 7,500 legislative seats are up for grabs. This new leadership class must make good on state promises to educate, protect

“ California is not alone in experiencing prolonged economic and budget problems that have left residents in a sour and distrustful mood. Across the five states, the public is deeply interested in finding long-term fiscal solutions and is willing to make sacrifices to preserve what they see as core functions of state government.”

—Mark Baldassare, president and chief executive officer, Public Policy Institute of California

and enrich the lives and livelihoods of their constituents, but with fewer dollars in 2011 than were spent on those same services at the start of the recession.

## CONCLUSION

This is a challenging moment—but as the responses to the survey of residents in five fiscally troubled states reflect, it also is a moment of opportunity. Residents in Arizona, California, Florida, Illinois and New York may not be out on the barricades demanding specific changes in their state’s fiscal policies. But they are looking to policy leaders to weed out waste and inefficiency, prioritize spending and reform the budget process now. This survey signals that, at least in these five states, newly elected governors or legislative leaders who want to embrace

serious change in 2011 will receive a respectful hearing from the public. Policy makers will need to engage the public if they want residents to understand the severity of their state’s fiscal challenges and support painful decisions that may be required. In the end, however, lawmakers may need to make unpopular budget decisions if their states are to emerge from the fiscal crisis. Ultimately, leaders must lead.

The arrival in 2011 of a massive new crop of first-term governors, coupled with the likelihood of a larger-than-usual number of new state legislators, could make for an unusually stressful and contentious legislative season next spring. Or—if respondents to this survey have their way—it could present an opening for genuine reform.



The full questionnaire and survey results for all five states—Arizona, California, Florida, Illinois and New York—are available online at [www.pewcenteronthestates.org/budgetrealities](http://www.pewcenteronthestates.org/budgetrealities) and at [www.ppic.org/main/publication.asp?i=952](http://www.ppic.org/main/publication.asp?i=952).

# Key Findings

## ■ FINDING 1: GOVERNMENT PERFORMANCE MATTERS MORE

*Respondents are more likely to say their elected leaders are wasting their money and could deliver services more efficiently than to complain that state government is too big.*

Public sentiment for reducing waste and making state government more efficient and effective is more widespread in the five states surveyed than are complaints about the size of government. While at least four in 10 in Arizona, California, Florida, Illinois and New York say state government is too big, even more respondents across all five states express a sense that state government can be better run—with less waste and more efficiency. Overall, the more robust message is that residents would like state leaders to maximize returns on taxpayers' dollars. That suggests a need to rethink how government operates at the most fundamental level.

Although respondents are of like mind on many fiscal choices in the survey, there is more division both within states

and among states regarding the size of government and the level of services it provides residents. At least half of those in California (53 percent), Illinois (50 percent) and New York (57 percent) say their state government is too big, trying to do too much and could make do with less money. But somewhat fewer say that in Arizona (43 percent) and Florida (45 percent). On a related issue, Arizonans (by 52 percent to 43 percent) and Illinoisans (by 51 percent to 44 percent) prefer lower taxes and a state government that provides fewer services over higher taxes and more services. But those in California, Florida and New York are more evenly divided between these two options.

To a large extent, partisanship shapes these perceptions. A solid majority of Republicans in each state sees government as too big, while fewer than half of Democrats in each of the five states offer that response.<sup>9</sup> A majority of independents in California, Illinois and New York says state government is too big, while fewer in Arizona and Florida hold this view. More than seven in 10 Republicans

across all five states say they would rather have lower taxes and fewer services from state government. Between 55 percent and 60 percent of Democrats in each state favor higher taxes and more services. Results vary by state for independents: They are divided in Arizona and Florida but prefer lower taxes and fewer services in California, Illinois and New York.

Why might people in Arizona and Florida be a little less likely than those in the other states to perceive their state government as “too big”? While there is no universally accepted way to assess a government’s size, a look at one common measure helps show how these states stack up nationally. Here, public opinion seems to track the facts. Arizona’s and Florida’s governments really are smaller when measured by how much they spent per resident from their general fund in fiscal year 2010. Arizona ranks 47th and Florida 49th, while New York’s government was the 10th biggest spender of state tax dollars per capita, California the 16th and Illinois the 29th.<sup>10</sup> (Those statistics played out roughly the same way in 2009 and 2008.)

Overall, greater percentages see waste in state spending than complain that state government is too big. About nine in 10 see at least some waste. Almost two in three Californians, Illinoisans and New Yorkers say that

state government wastes not just some but “a lot” of the money they pay in taxes, and about half of Arizonans and Floridians agree.

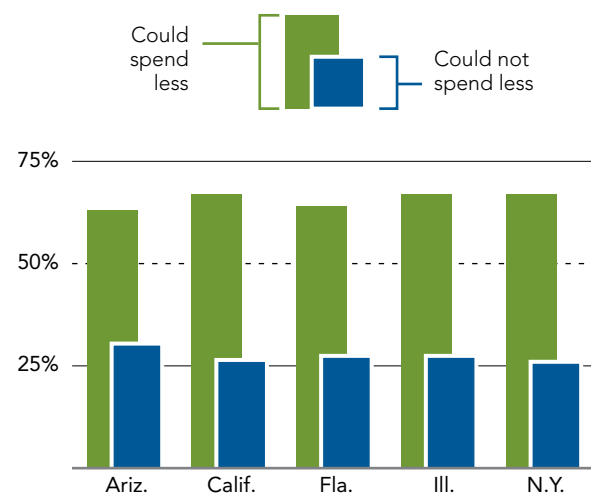


In fact, across all five states, about two out of three respondents say their state government could spend less and still provide the same level of services. Of those, three out of four or more say at least “10 percent to under 20 percent” could be safely cut from their state’s budget without affecting services (see Exhibit 3).

Exhibit 3

### Reality check: More efficiency and effectiveness, please

Strong majorities in all five states believe that state government could cut spending substantially without diminishing services. Of those, most think 10 percent or more could be cut. Many state budget experts think that is unrealistic.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

It is a strikingly consistent view—but experts who work closely with state budgets say it may not be realistic, especially given the steep spending reductions many states already have made since the recession started.

Between fiscal years 2009 and 2010, for example, general fund spending among all 50 states is estimated to have decreased by 6.8 percent—the largest decline in state spending in at least the past three decades, according to the National Association of State Budget Officers (NASBO).<sup>11</sup> Additional cuts of 20 percent “would mean the loss of either significant slices of governmental activity, or such erosion across government that many programs would simply cease to exist,” says Ronald Snell, director of the State Services Division at the National Conference of State Legislatures.<sup>12</sup>

“One reason reality hasn’t caught up with the voting public and the union members and so forth,” says Mike Genest, former state budget director for California Governor Arnold Schwarzenegger, “is that politicians have made it sound like there are other alternatives, like we can simply get rid of fraud, waste and abuse and [have] a spending freeze and ... have the same kind of government we’ve always had. ... The reality is that’s just not right. That’s just not true.”<sup>13</sup>

Across the 50 states, spending without adjusting for inflation decreased in

both fiscal years 2009 and 2010—the first decline in general fund spending for two consecutive years on record.<sup>14</sup> Forty states decreased their general fund expenditures in fiscal year 2010 compared with 2009. And nearly every state was expecting to spend at a lower level for fiscal year 2011 than it did before the recession began. The spending level for recommended 2011 budgets, while subject to change, was 7.6 percent below the level before the start of the recession.<sup>15</sup>

The ramifications of historic drops in state revenue are intruding more and more on daily life, and majorities in all five states are concerned about the impact of cuts on government services (see Exhibit 4). Arizona’s Department of Transportation closed 13 of the state’s 18 highway rest stops to save money in late 2009, though five later were reopened. Through June, Californians saw many

Exhibit 4

### How concerned are you about the effects of state spending reductions on government services?

	Very	Somewhat	Not too	Not at all	Don't know
Arizona	40%	43%	11%	5%	1%
California	46%	38%	10%	4%	2%
Florida	40%	41%	11%	7%	1%
Illinois	47%	41%	8%	4%	–
New York	45%	41%	9%	4%	1%

SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

government offices close three Fridays a month as state workers were sent home without pay for 46 furlough days. After a brief reprieve, furloughs started again in August. Florida state universities have raised tuition by 32 percent in the past two years.<sup>16</sup> Illinois focused much of its \$341 million in K-12 education cuts on student transportation services, making it more difficult for parents to get their kids to school. The state was so strapped for cash this year that it was unable to make timely payments to state colleges and universities, or to hundreds of nonprofits and other social service providers. New York has cut \$110 million from hospital funding, \$100 million from public health programs and \$72 million from nursing homes.<sup>17</sup>

### **An Upside in the Downturn**

In several ways, those surveyed show they want state leaders to prioritize. At least two-thirds of respondents in all five states pick spending cuts as their top choice for balancing state budgets—discussed in greater detail later—but the findings also reveal that the public’s desire for cuts in spending is not the same as a desire for cuts in services. In fact, in all five states, at least four out of five respondents are either “somewhat concerned” or “very concerned” about the effects of state spending reductions on government services. Plus, about two in three reject across-the-board reductions—the simplest way to shrink government—in favor of targeted trims.

“The public’s priority is that their tax dollars are spent in the most effective and efficient manner,” says Laurence Msall, president of The Civic Federation in Chicago. “We are not evaluating those programs that are giving us the biggest impact. We are not making decisions saying that our priorities are education or other areas and that the budget reflects limited resources being prioritized for [certain] areas,” he says.<sup>18</sup>

The fact is that almost everywhere during this recession, state governments have been shrinking, with more shrinkage on the way. Whether or not the public wants smaller state government, it is getting smaller government. But based on residents’ responses to the survey, the real question is not how small or large government ultimately should be, but how state policy leaders can demonstrate they are reducing waste, making government more efficient and effective, and prioritizing spending.

This time of extreme stress on state government presents “an unusual strategic opportunity” for policy making, says Lawrence Jacobs, a political scientist at the University of Minnesota’s Humphrey Institute of Public Affairs. “There’s a tendency to think that when things are good, that’s when you have your best shot at reform,” Jacobs says. “But history shows that the period when things are dislocated actually opens the doors, because stakeholders and



lawmakers become more uncertain of the usual rules and they have to open their eyes to new options.”<sup>19</sup>

## ■ FINDING 2: PROTECT THE ESSENTIALS

*K-12 public education and health and human services are seen as state government’s core functions—worth protecting from cutbacks even if it means more taxes.*

Across all five states, there is striking agreement about which services are fundamental priorities and too important to cut: public schools from kindergarten through high school and health and human services, which generally include social assistance for the vulnerable, such as the Medicaid health care program for the poor (see Exhibit 5). In fact, majorities across all five states say they are willing to pay more taxes to maintain current funding for these services.

By contrast, many fewer respondents are willing to invest to the same degree in transportation or prisons and corrections, two other areas of significant state spending. Residents are more torn about whether higher education—public colleges and universities—should get extra help from taxpayers.

### **K-12 Education and Health and Human Services**

Asked a battery of questions that yield a ranking of preferences for five major

areas of state services, residents in all five states answered with remarkable similarity and clarity.

Half or more of those in Arizona, California, Florida and Illinois, along with a plurality of 48 percent in New York, picked K-12 public education as their top priority to protect from spending cuts from a list of four choices. Moreover, despite differences in politics and ideology, more than three in five taxpayers across all five states—ranging from 63 percent of New Yorkers to 71 percent of Arizonans—indicate a willingness to dig into their own pockets for extra tax money to preserve K-12 funding, if necessary. In fact, even among those who say they trust state government to do what is right only some or none of the time, at least six in 10 in all five states say they are willing to pay more taxes if necessary to keep the same level of funding for K-12 education.

The consensus did not stop there. Respondents say after primary and secondary education, they most value health and human services. More than half—ranging from 52 percent in New York to 57 percent in Illinois—say they are willing to pay higher taxes to keep funding for those services stable (see Exhibit 6).

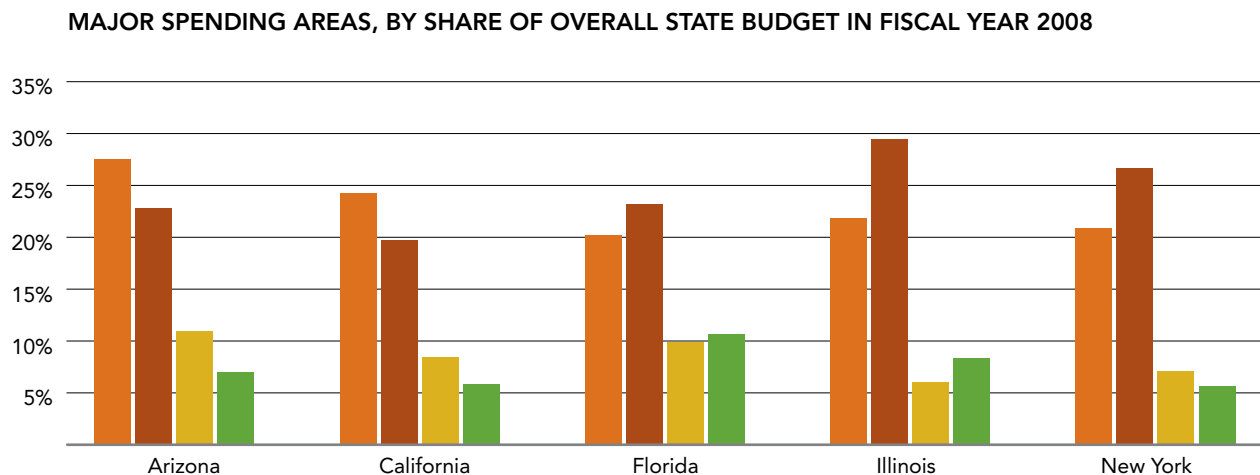
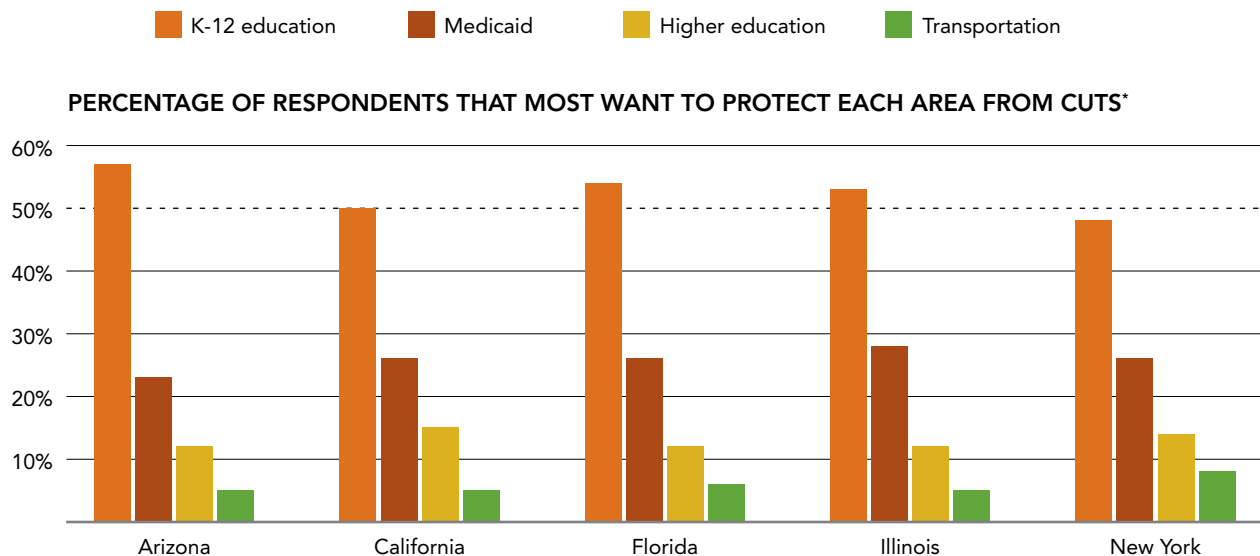


These findings may provide clarity about what residents of the five states want

Exhibit 5

### Spending priorities and essential services

K-12 education and Medicaid spending are the two areas that residents of the five states surveyed would most like to protect from state spending cuts. Those priorities mirror how state resources are spent.



\*Survey question asked only about K-12 education, Medicaid, higher education and transportation—not corrections or public assistance, which also are significant budget drivers.  
 SOURCE: Pew Center on the States and Public Policy Institute of California 2010; spending data from the National Association of State Budget Officers, State Expenditure Report 2008.

government to prioritize—but they also complicate the task of policy makers. It will be extremely difficult, given the size of deficits in all five states, to fully protect K-12 education and Medicaid, the biggest recipients of state dollars. Doing so would compel deeper cuts everywhere else, and even then may not be enough.

“People generally don’t understand that if you have to cut \$2 billion from a \$23 billion general fund you have to hit health, you have to hit education,” says Eliza Hawkins, staff director of the Florida Senate’s Policy and Steering Committee on Ways and Means. Hawkins concedes that because of public support for those areas, they remain difficult to cut.<sup>20</sup>

For example, spending data from Arizona’s Joint Legislative Budget Committee show that K-12 public education and Medicaid accounted for all but 40 percent of the state’s general fund appropriations in fiscal year 2010.<sup>21</sup> Arizona closed budget gaps—at the beginning of that fiscal year and at the mid-point—that totaled nearly half of its general fund, or approximately \$4.8 billion.<sup>22</sup> The share of state dollars going to K-12 education and Medicaid is so great that if the state had eliminated everything in its discretionary budget but those two areas, Arizona still would have been more than \$1 billion short of closing its budget shortfall.

Ultimately, Arizona’s policy makers chose to make cuts to both K-12 education and health care, and they were not alone. At least 33 states and the District of Columbia cut K-12 education since 2008. California laid off thousands of teachers in the past year alone, and scaled back the minimum number of school days from 180 to 175.<sup>23</sup> At least 29 states plus the District of Columbia cut services for low-income people who are elderly or have disabilities.<sup>24</sup> These cuts might have been even more severe without federal economic stimulus dollars, which provided extra doses of cash for school districts and Medicaid programs and prohibited states from cutting beyond a certain level if they wished to remain eligible for more federal aid.

### Higher Education

All five states draw a sharp distinction between protecting K-12 schooling and higher education. Residents are far less willing—by roughly 20 to 30 percentage points—to pay higher taxes for colleges and universities than they are for primary and secondary schools. In fact, more than half in Arizona, Illinois and New York oppose more taxes to keep funding stable for higher education; those in California and Florida are more divided.

Indeed, in times of financial stress, state legislatures generally make the same choice: Cut higher education first, and spare primary education if possible. States since the 1980s have turned to higher

education during downturns to absorb disproportionate cuts compared with other state services, in part because public colleges and universities can make up state spending cuts through tuition and other fee increases, according to a 2009 analysis.<sup>25</sup>

This recession is no exception. In fiscal year 2010, 37 states made cuts to their college or university systems that amounted to \$2.4 billion, and 31 included cuts in their 2011 budgets, according to NASBO.<sup>26</sup> Some of those reductions were later backfilled with stimulus funds, but the impacts on tuition, staff and programs are still apparent.<sup>27</sup> In fact, the effects of the current fiscal crisis are increasing for higher education.<sup>28</sup> In fiscal year 2010, California enacted measures affecting higher education that included furloughs, budget cuts and fee increases for students. Students at Florida's 11 public universities this fall will be paying 32 percent more for tuition compared with two years ago.<sup>29</sup> Illinois cut \$225 million from college scholarships last fiscal year and \$100 million from higher education this year.<sup>30</sup> New York originally spared its higher education system in fiscal year 2010, but the governor ordered \$90 million in cuts to the state university system after the final budget was enacted.<sup>31</sup>

So why is higher education a lower public priority? Large majorities of

taxpayers clearly see educating young people as an obligation, but many draw a line at footing the bill for a college degree, which even today still is considered a privilege that students should help pay for, according to experts.

Patrick M. Callan, president of the nonprofit National Center for Public Policy and Higher Education, says the results also reflect a backlash against colleges' failure to do more to control costs. "One of the things we've seen in the last decade is declining confidence in higher education leadership, that we don't try very hard to keep costs under control. There is a lot of anger that [higher] tuition is the first resort" instead of moves to be more cost-effective, Callan says. "To some extent, it's the generic problem people have about a lot of government if people don't think you spend the money well."<sup>32</sup>

### Transportation

Transportation fares far worse when it comes to the public's taxing and spending priorities. With remarkable similarity in each of the five states surveyed, supermajorities of roughly 75 percent turn thumbs down to paying additional taxes to fund transportation. In fact, asked which of their state's biggest expenses they would least protect from budget cuts, far more respondents in each state—from 46 percent in New York to 55 percent in Illinois—offered

to put transportation on the chopping block ahead of higher education, Medicaid and K-12 education.



But public understanding about how much of their state's budget is devoted to transportation is not necessarily accurate. About one in five in Arizona, New York and Illinois wrongly names transportation as the state's biggest expense; transportation actually makes up only 7 percent of the overall budget in Arizona, 8 percent in Illinois and 6 percent in New York, counting both state and federal funds.<sup>33</sup> This same disparity between perception and reality is present in the other states as well.<sup>34</sup>

In fact, most experts believe the nation is significantly under-spending on upkeep of its highway and transit systems. The National Surface Transportation Infrastructure Financing Commission, created by Congress to analyze transportation financing problems in America, estimated in 2009 that the amount raised by all levels of government for capital investment is only about a third of the \$200 billion necessary each year to maintain and improve the nation's highways and transit systems.<sup>35</sup> Some experts question whether these are smart choices in the long run, given the importance of transportation and infrastructure to improving public safety, residents' quality of life and economic development.

"I don't think people quite understand how fundamental transportation is to the economy and their standard of living," says Byron Schlomach, director of the Center for Economic Prosperity at the Goldwater Institute in Arizona.<sup>36</sup>

It is difficult to discern why respondents across the five states show a strong unwillingness to support additional transportation funding. It is open to interpretation whether residents think that too much money is going to traditional projects, such as building additional roads, or that too much money is going to new modes, such as high-speed rail.

Regardless, many state policy makers have made choices in line with public sentiment. Arizona cut its transportation budget by a quarter in 2009 and 2010, and Florida moved \$120 million from its transportation trust fund to patch the 2010 general fund budget.

When given a choice between asphalt or teachers' jobs, it is not surprising that the public would choose to defer investments in transportation in favor of more immediate needs, says John Horsley, executive director of the American Association of State Highway and Transportation Officials, which represents all 50 state transportation departments. "It's the rare state that has the courage even to try [to pass higher taxes or fees for transportation] because

it isn't polling well with the voters, but some legislators recognize they have to do something," Horsley says.<sup>37</sup>

### Corrections

An overwhelming majority of respondents—from 73 percent in Arizona to 82 percent in New York—would not be willing to pay higher taxes to maintain current funding for prisons and corrections.

Up until the past several years, that sentiment largely would have been at odds with states' spending practices. States' general fund dollars for corrections jumped from about \$11 billion in the early 1980s to more than \$47 billion by 2008. Corrections has been the second-fastest-growing portion of state budgets behind Medicaid; in fact, between 1987 and 2008, its budget totals increased by 303 percent, while state spending for higher education grew by 125 percent.<sup>38</sup>

But a growing number of states are moving to reduce corrections spending because the increased investment in prisons has not necessarily ensured greater public safety. One of every 100 adults in the United States is behind bars and one in every 31 adults is under some form of correctional control, but recidivism rates remain stubbornly high, according to the Public Safety Performance Project, an initiative of the Pew Center on the States.

"State leaders have begun to realize there are research-based ways they can cut

their prison costs while continuing to protect public safety," says Adam Gelb, the project's director. "In the past few years, a number of states have enacted reforms designed to get taxpayers a better return on their public safety dollars."

Texas has been in the forefront of such efforts. Even before the economic downturn, Texas steered funding away from the construction of new prisons and toward community-based supervision for lower-risk offenders. The move saved half a billion dollars over two years and has helped reduce recidivism, Gelb says.

Californians, like respondents in other states, are wary of spending more money on corrections. Just a fifth indicate they would pay higher taxes to maintain current corrections funding levels, far below the support shown for K-12 education and health and human services. But California devotes a bigger portion of its budget to corrections than all but a few states, with about one in 10 dollars in the general fund directed toward this area.<sup>39</sup>

Governor Schwarzenegger kicked off the legislative session this year calling for a constitutional amendment to limit spending on prisons and guarantee funding for higher education. "The priorities have become out of whack over the years," Schwarzenegger told lawmakers in his State of the State address. "What does it say about our state? What does it say about any state

that focuses more on prison uniforms than on caps and gowns? It simply is not healthy.”

### ■ FINDING 3:

## TAX THE OTHER GUY

*Residents would prefer to charge the other guy—particularly the wealthy, corporations and smokers, drinkers and gamblers. But they appear to be willing to pay higher taxes themselves for the things they care about.*

Nobody likes taxes, and according to the survey, tax increases are not the first choice of respondents for managing state budget gaps. But while “tea party” activists and no-tax pledges are grabbing attention in this election year, the

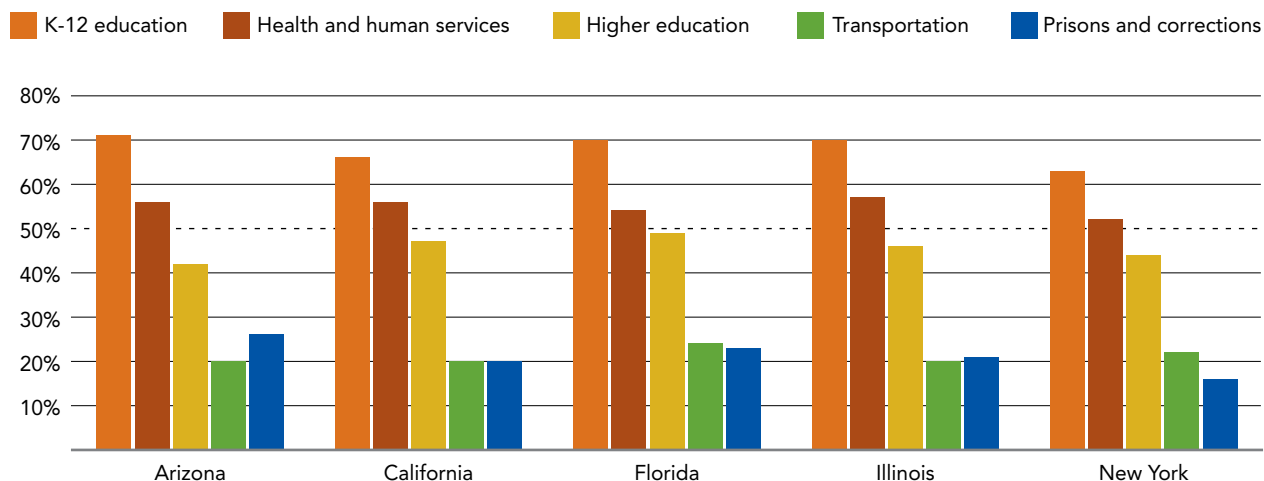
survey results challenge perceptions that tax hikes will not be tolerated by the public. In all five states, the public indicates some room for raising taxes—as described previously, a surprisingly uniform level of willingness to consider tax increases to support K-12 education and, to a somewhat lesser degree, health and human services. In addition, even though many people say state government is wasting substantial sums of tax dollars, there is ambivalence among respondents about paying lower taxes if it means fewer services.

As noted, residents across all five states, by a range of 63 percent to 71 percent, say they would be willing to pay higher taxes to keep public schools at current

### Exhibit 6

## What people say they will pay higher taxes to support

More than six out of 10 respondents across the five states would be willing to pay higher taxes to maintain current funding for K-12 education. Fewer than three in 10 respondents would be willing to raise taxes to maintain current funding for transportation or prisons and corrections.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

funding levels (see Exhibit 6). Democrats are more likely than Republicans to assent to raising taxes for education, but Republican support is no lower than 49 percent in any of the five states and is as high as 64 percent in Illinois.

Majorities ranging from 52 percent to 57 percent also agree they would pay higher taxes to preserve health and human services funding (see Exhibit 6). There is more of a partisan divide in this area than on education; clear majorities of Republicans in all five states are against raising taxes for health and human services.

Across all five states, from 43 percent to 46 percent say they would rather pay higher taxes for more state services; only in Arizona and Illinois do a majority of residents (52 percent and 51 percent, respectively) prefer lower taxes and fewer services.

Some experts may question whether taxpayers will be so generous when real dollar signs are attached—but in several states, residents already have acted on this sentiment. In Arizona, for example, voters in May approved a temporary one-cent sales tax increase to prevent further cutbacks in education, health services and public safety, among the public's highest priorities. The tax vote came after lawmakers in Phoenix made drastic cutbacks and budget-balancing steps elsewhere, including the sale and leaseback of the state capitol and Supreme Court building to raise cash.

### **Tax the Other Guy, if Possible**

But policy makers should be cautious when interpreting the apparent willingness to increase taxes even for what the public considers its core priorities. The Pew Center on the States and PPIC found that residents across the five states, if pressed to raise revenue, would prefer to increase taxes that hit somebody else, rather than themselves, or to tap those engaging in a voluntary behavior, such as smoking, drinking or gambling (see Exhibit 7).

More than seven in 10 reject the general idea of raising the personal income tax (or in Florida's case, creating one) to solve their state's budget problems. Two-thirds or more in California, Florida, Illinois and New York are against raising sales tax rates, and a similar margin in Arizona rejects the idea of making the recent one-penny sales tax rate increase permanent. Instead, the greatest support among the five states is for raising "sin taxes" on drinkers and smokers; that is favored across the board by solid majorities of Democrats, Republicans and independents. Support overall ranges from 66 percent in both Arizona and Illinois to 74 percent in California.

Although more controversial, tapping gamblers for more revenue by expanding gaming is favored by half or more in all five states. And although Democrats and independents are more likely than are Republicans to agree to raise corporate taxes, this concept passes muster in all five states—with support ranging from 55



## Exhibit 7

## Raising taxes

Respondents were asked: *New revenue sources have been proposed to address the state budget situation. For each of the following, please indicate whether you favor or oppose the proposal.*

### How about raising personal income taxes?

	Favor	Oppose	Don't know
Arizona	20%	79%	1%
California	22%	76%	2%
Florida*	23%	73%	4%
Illinois	26%	73%	1%
New York	20%	79%	1%

\*Florida residents were asked whether they would favor creating a personal income tax.

### How about raising corporate taxes?

	Favor	Oppose	Don't know
Arizona	55%	42%	3%
California	63%	34%	3%
Florida	58%	38%	4%
Illinois	60%	38%	2%
New York	65%	33%	2%

### How about raising taxes on alcohol and cigarettes?

	Favor	Oppose	Don't know
Arizona	66%	34%	0%
California	74%	25%	1%
Florida	69%	30%	1%
Illinois	66%	33%	1%
New York	73%	26%	1%

SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

percent in Arizona to 65 percent in New York. Finally, respondents in New York and Illinois would choose higher income taxes on the wealthy as their top choice for how to navigate out of their state's unique budget bind.<sup>40</sup>

A growing number of states already are taking advantage of the public's sweet spot when it comes to taxes. Since 2002, 47 states and the District of Columbia have increased their cigarette tax rates altogether more than 100 times;<sup>41</sup> 14 states in 2009 and at least six in 2010 did so to buttress their budgets against the recession.<sup>42</sup> New York increased its tax \$1.60 in June 2010, to \$4.35 per pack, the highest rate in the nation. Meanwhile, a record eight states—Connecticut, Delaware, Hawaii, New Jersey, New York, North Carolina, Oregon and Wisconsin—increased income taxes on their top earners in fiscal year 2010, although the increases in five of those states are temporary.<sup>43</sup>



The revenue raisers that respondents are most widely willing to tolerate—hitting smokers, drinkers, gamblers and corporations—would tap marginal revenue streams and likely would not be sufficient to address their state's budget shortfalls (see Exhibit 8).

Take New York, for example. Interviewed just a few days before their legislature passed the most recent tobacco increase, nearly three-quarters of New Yorkers

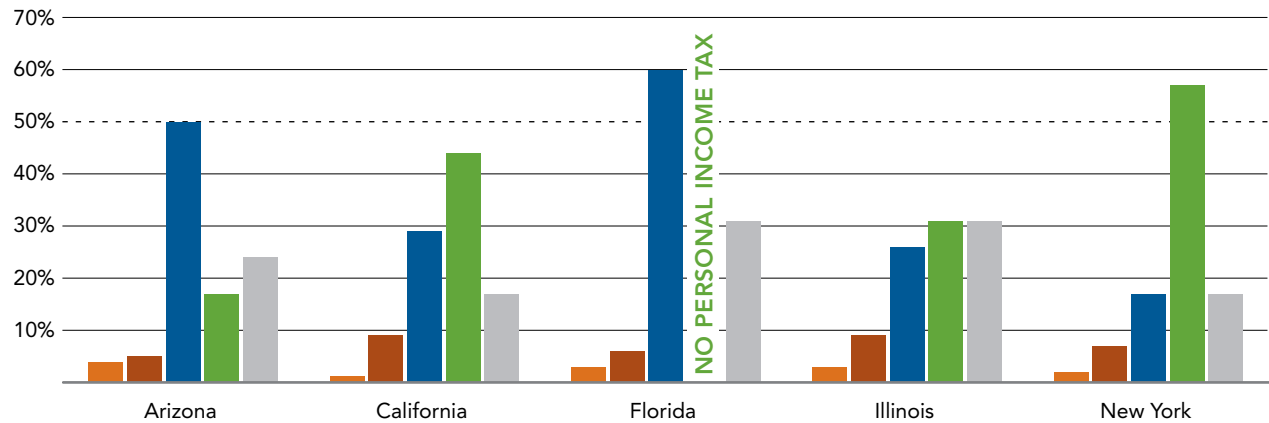
Exhibit 8

## Reality check: Taxes public prefers will not close budget gaps

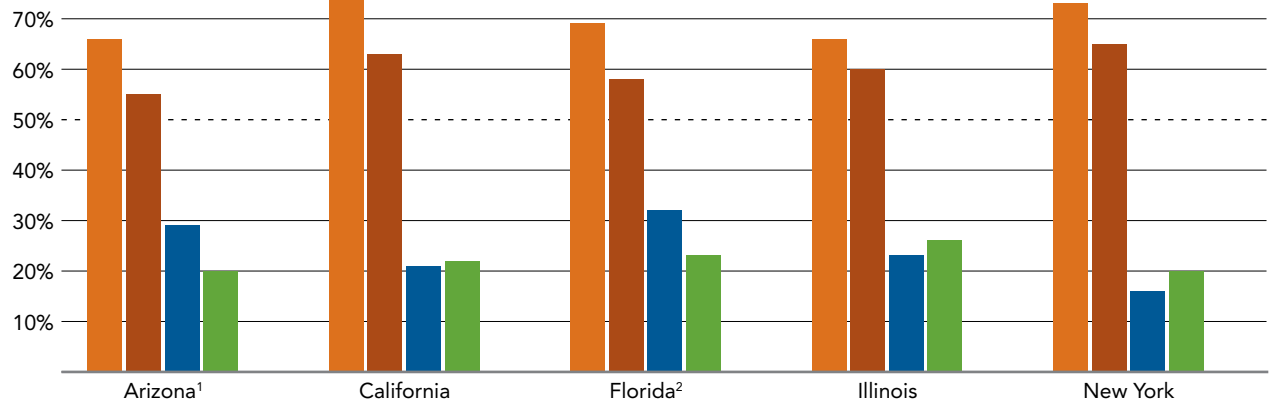
Although respondents support raising taxes on corporations and alcohol and cigarette consumption, those types of increases will not close the budget gap in their state. As a share of current state revenue, these two sources—the corporate income tax and “sin” taxes—comprise about \$1 out of every \$10.

■ Taxes on cigarettes and alcohol    
 ■ Corporate tax    
 ■ Sales tax    
 ■ Personal income tax    
 ■ All other

SHARE OF STATE TAXES IN FISCAL YEAR 2009



TAX INCREASES FAVORED BY RESIDENTS



<sup>1</sup>Arizonans were asked whether they would favor making the recent state sales tax increase permanent

<sup>2</sup>Floridians were asked whether they would favor creating a personal income tax

SOURCE: Pew Center on the States and Public Policy Institute of California 2010; tax data from Federation of Tax Administrators and the U.S. Census Bureau.

surveyed agreed with raising taxes on alcohol and cigarettes. This year's cigarette increase is projected to bring in hundreds of millions in additional revenue. That is on top of what its cigarette tax earned the prior fiscal year. In fiscal year 2009, cigarette taxes represented only 2 percent of New York's \$65 billion in total taxes. That same year, New York faced a \$7.4 billion budget shortfall. So even if New York had doubled the amount of revenue from its cigarette tax, the Empire State still would have faced a \$6 billion shortfall.

Another useful example is Arizona's corporate income tax. While there is significant partisan division on this issue (73 percent of Arizona Democrats and only 36 percent of Republicans support an increase), a majority of Arizonans surveyed favor collecting more of corporations' income. A corporate tax increase is at least 26 percentage points more popular among Arizonans than raising personal income taxes or making permanent a temporary sales tax increase. But of \$11.3 billion in total taxes Arizona collected in fiscal year 2009, only \$600 million (5.3 percent) was from corporate income taxes.<sup>44</sup> Holding all else constant, the state would have had to increase its corporate income tax collections more than 500 percent in fiscal year 2010 to close its budget shortfall. And, of course, tax increases of that magnitude could have significant consequences for the state's business climate.

Meanwhile, there appears to be little public appetite for broadly raising taxes that could generate significantly more revenue for states: namely, sales and income taxes that account for about 66 percent of states' tax collections nationwide.<sup>45</sup> Sales and personal income taxes generate the bulk of state revenue each year in four of the surveyed states: Arizona, 68 percent; California, 73 percent; Illinois, 57 percent; and New York, 74 percent. Florida has no personal income tax, so it depends on sales taxes for 60 percent of its revenue.<sup>46</sup>

Decision makers in Illinois have encountered first-hand the difficulties in attempting to generate funds through increases in sales and personal income taxes. Governor Pat Quinn's efforts to raise income taxes have stalled in the general assembly for two consecutive years, and a one-cent sales tax increase in Cook County—which came just as state legislators slightly increased the state sales tax in the Chicago area—is thought to have cost the county board chair his job.

In recent years, some tax experts and economists have advocated broadening states' sales taxes to capture more of the economic activity in the service sector that has supplanted sales of manufactured goods, by adding a sales tax to dry cleaning bills, haircuts, legal fees and the like. In all five states, there is less opposition to extending the sales tax to services not currently taxed than

to simply raising the sales tax on all purchases, or in the case of Arizona, making the recent state sales tax increase permanent. Majorities ranging from 51 percent in Illinois to 62 percent in New York still object to expanding the sales tax to services, but the percentage opposing a sales tax rate increase (or retaining the recent increase in Arizona) ranges from 66 percent in Florida to 82 percent in New York.

When given no choice but to raise taxes on individuals to keep state coffers flush, though, expanding the sales tax to services is more popular in California than raising either vehicle fees or the income tax rate. More New Yorkers would rather begin paying sales taxes on services not now taxed than raise the income or sales tax rate. More Floridians would rather begin paying sales tax on Internet purchases or on services than see the sales tax rate go up or a personal income tax levied. Charging a sales tax on Internet purchases or on services also was preferred by more Arizonans than was making a recent one-cent sales tax increase permanent, increasing income taxes or reinstating a state property tax.

#### ■ FINDING 4:

### NO MORE BORROWING

*Residents are tired of lawmakers passing the costs down to future generations. Overwhelmingly, they would rather keep cutting and taxing, if necessary, than see*

*short-term deficits papered over with borrowing.*

One tool increasingly used by the federal government and states alike to make ends meet is decidedly out of public favor: borrowing. In fact, most of those surveyed would even rather raise taxes than borrow money to balance their state's budget. The widespread antipathy to borrowing detected in this survey suggests that state governments are caught in a broader net of national concern about debt, seen in households turning away from borrowing after record mortgage defaults helped spark the recession as well as in growing public worries about the steep federal deficit.

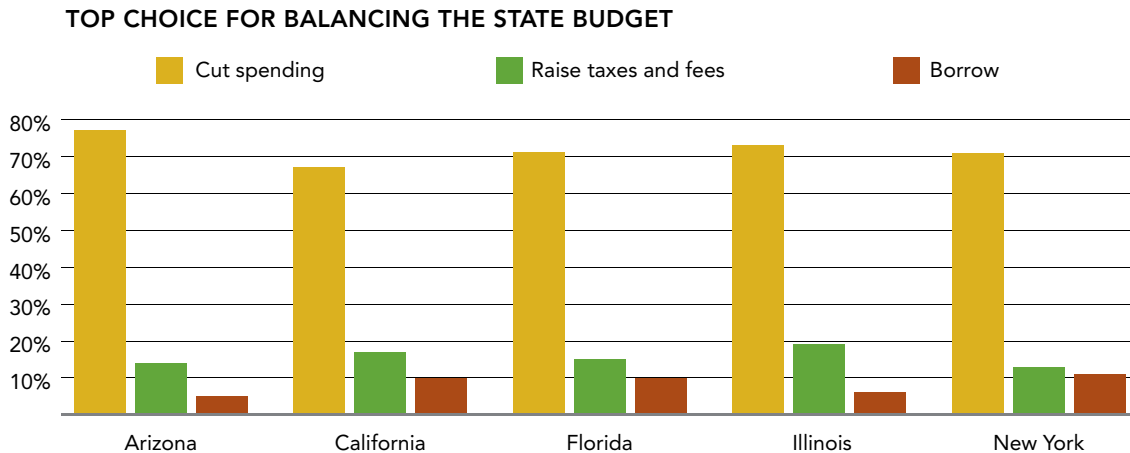
Given three choices to balance state budgets, more than two-thirds of residents in all five states pick spending cuts first; among those, majorities prefer even tax increases to borrowing as a second choice (see Exhibit 9). Across the states, only 5 percent to 11 percent of respondents choose borrowing as the top option to balance their state's budgets.

“Whatever their views on taxes and spending, most voters agree there's something wrong with shifting enormous costs to the next generation. They want leaders to make decisions, rather than kick the tough choices down the road forever,” says Robert Ward, deputy director of the Nelson A. Rockefeller Institute of Government, which studies fiscal conditions in the 50 states.<sup>47</sup>

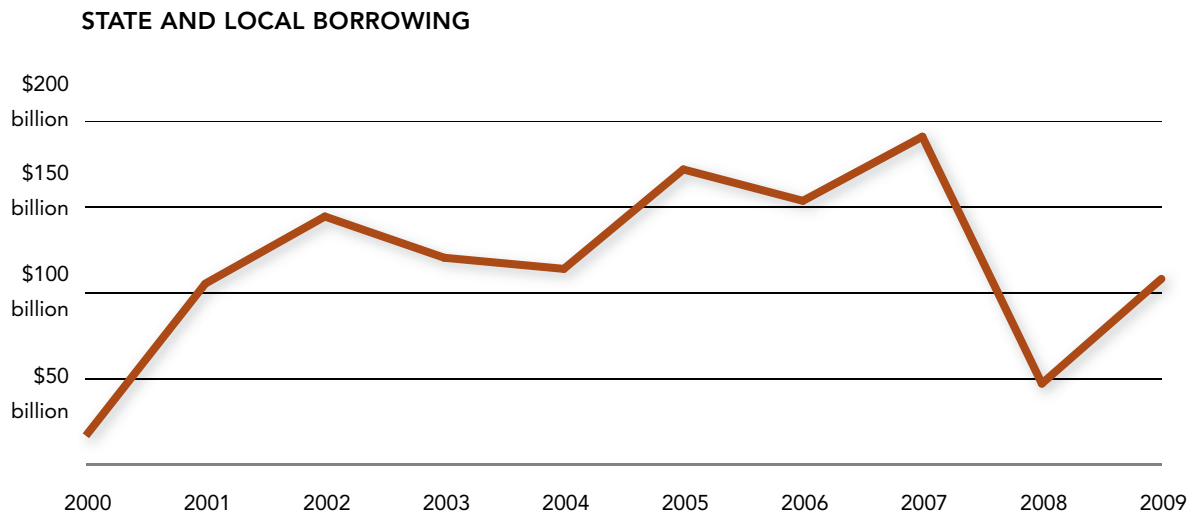
## Exhibit 9

## Cut up the credit card

Strong majorities in all five states prefer spending cuts or tax increases before borrowing to balance their state's budget...



...Yet, annual borrowing by state and local governments is on the rise, growing at an average annual rate of 85 percent from 2000 to 2007. The lack of credit early this recession slowed state and local borrowing, but it has picked up sharply since the end of 2008—contrary to what respondents would like to see.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010; data on borrowing trends from the Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the United States, June 2010.



Nevertheless, borrowing remains a tool heavily used by state policy makers. According to federal data, outstanding debt for state and local governments as of 2009 amounted to more than \$2.3 trillion—doubling (in real dollars) since 2000.<sup>48</sup> Debt at the state and local level grew 5 percent between 2008 and 2009.<sup>49</sup>

In many cases, debt plays a productive role in providing funding for infrastructure, services and budget flexibility. Not all debt is bad debt, and borrowing is an important financial tool for state governments—similar to the way businesses and individuals use debt to finance expansions or to make long-term investments, such as homeownership and education. But too much of any kind of debt is problematic. Regardless of how it is managed, it can be risky or expensive because of high interest payments.<sup>50</sup> And borrowing to pay for everyday bills generally is frowned on by fiscal experts and rating agencies.

Unable to make sufficient cuts or to pass revenue-raising measures, Illinois is among the states that have turned to borrowing to balance the books. In the past two years, the state has issued long-term debt for new roads and schools, medium-range debt so it could skip its annual pension payment and short-term debt just so it could start paying a long line of businesses and nonprofit organizations to which it owes money.

The state's one-year borrowing tally in the year ending June 30: \$9.4 billion, three and a half times what it had been the year before.<sup>51</sup> Issuing debt, says Southern Illinois University political scientist Jack Johnson, “is the easiest and most immediate way out. It has worked for us to keep us afloat, but it is increasingly unrealistic.”<sup>52</sup>

Together, Arizona, California, Florida, Illinois and New York held \$919.5 billion in outstanding debt in 2008, with California responsible for 37 percent of that total.<sup>53</sup> All of these states have credit ratings above investment grade (BBB-), according to Standard & Poor's—meaning they have adequate capacity to meet their financial commitments. But while these states range from a high rating of AAA- (Florida) to A- (California), the road ahead in fiscal years 2011 and 2012 is not expected to be smooth. As of April 2010, Arizona, California and Florida all had negative outlooks from S&P, meaning their ratings could be downgraded soon. Illinois is on S&P's negative watch list. Among the five states, only New York has a stable credit outlook.<sup>54</sup> In fact, Moody's—another credit ratings agency—downgraded Arizona, California and Illinois in July 2010, July 2009 and December 2009, respectively, giving California and Illinois Moody's lowest credit ratings among the 50 states.<sup>55</sup> And while most states have not had difficulty accessing credit markets to date, their ratings—and the negative outlooks for some of these states—will make it far more expensive to borrow.

What might explain the respondents' lack of support for borrowing? Opposition to borrowing in these five states is consistent with national polling that has found considerable concern over the federal budget deficit.<sup>56</sup> From 1981 to 2009, there were only four years (1998 to 2001) when the federal government did not spend more than it took in. In August 2010, the Congressional Budget Office calculated that the annual federal budget deficit for 2010 will exceed \$1.3 trillion, or about 9 percent of U.S. gross domestic product.<sup>57</sup>

Concern about the federal deficit even seems to trump these taxpayers' worries about their own state's fiscal problems. By totals ranging from 48 percent in Illinois to 55 percent in Arizona, respondents in all five states say the federal government is not doing enough to help states facing budget deficits. Yet, support quickly reverses and majorities from 52 percent in New York to 61 percent in Arizona say they would oppose a second round of economic stimulus funds for their state if it would add to the federal deficit.

Congress clearly had such a message in mind when it fashioned a second emergency aid package for states in August; it balanced its extra \$26 billion for states with savings elsewhere in the federal budget.<sup>58</sup> While the survey was taken before Congress' action, its message could become relevant if states come knocking on Washington's

door again—a possibility given the extent of their fiscal problems and the sluggishness of the national recovery.

#### ■ FINDING 5:

### LACK OF TRUST—AND DESIRE FOR REFORM

*Residents are widely distrustful of state government and believe it can operate more effectively. They want fiscal reforms—and a better return on their tax dollars—now.*

Given other results in this survey—for instance, that substantial portions of respondents think their state wastes “a lot” of their tax dollars—the fact that residents across the five locations widely distrust their elected officials should come as little surprise. Across all five states, two-thirds or more of respondents report that they either never trust state government to do what is right, or trust it only some of the time (see Exhibit 10). What is striking is that the highest levels of trust in state government in the survey appear in Arizona and Florida, both conservative states led by Republicans in the executive and legislative branches during much of this economic downturn. And while specific next steps are left up to lawmakers, residents across the five states overwhelmingly believe their state should pursue major reforms to their budget processes, and pursue them now.

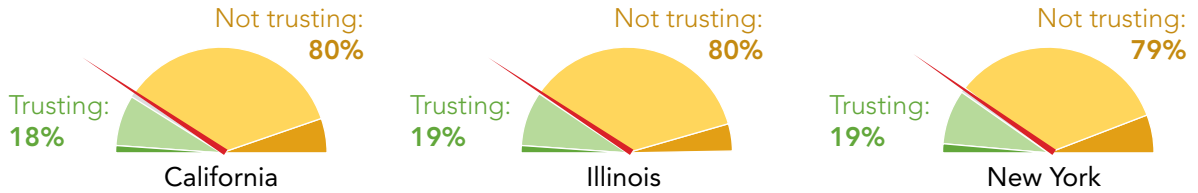
Overall, residents have a grim view of their state leaders. Those who express

## Trust in government: Running low?

Trust in state government is low in all five states.

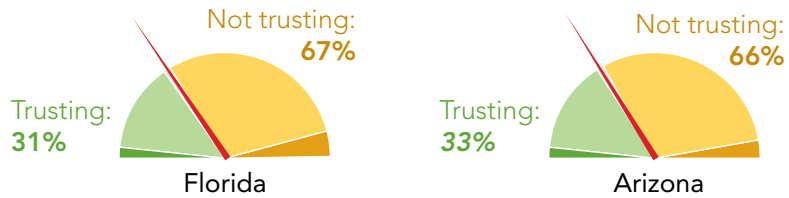
### LESS TRUSTING

Fewer than one in five respondents in California, Illinois and New York say they can trust state government to do what is right just about always or most of the time, as opposed to only some or none of the time.



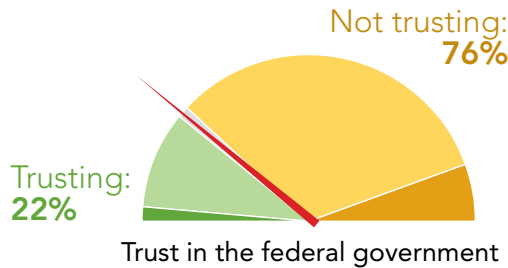
### MORE TRUSTING

In Florida and Arizona, respondents are less negative; about one-third are more trusting.



### THE NATIONAL MOOD

According to a survey released in April 2010 by the Pew Research Center for the People & the Press, 22 percent of Americans trust the federal government almost always or most of the time.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010; national trust findings from the Pew Research Center for the People & the Press in its report, "Distrust, Discontent, Anger and Partisan Rancor," released April 18, 2010.



the least trust in their state government are far more likely to say that it wastes a lot of money. Proportions ranging from 59 percent in Arizona to 81 percent in Illinois complain that state government is run by a “few big interests looking out for themselves.”

Historically, state governments generally have fared better than the federal government when it comes to the public’s trust. Trust in the federal government hit a high point in 1964 but now is at one of the lowest levels measured since then, according to an April 2010 report by the Pew Research Center for the People & the Press. In its national survey, the Pew Research Center found only 22 percent said they trust the government in Washington just about always or most of the time.<sup>59</sup> In September 2009, a Gallup poll found trust in state government also declining; 51 percent said they had a great deal or fair amount of trust in their state government to handle problems, down from 67 percent from 2004 to 2008.<sup>60</sup>

Californians join Illinoisans and New Yorkers in an especially pessimistic take on their leaders’ performance. Only 9 percent of residents in California approve of the way their legislature is handling the state budget and taxes. That number is higher in other states—33 percent of respondents in Arizona and Florida approve of their legislatures’ performance on fiscal

issues—but it does not approach a majority anywhere. Distrust of those who run state government has reached the point that about three out of four residents in Arizona, California and Florida, which allow citizen-led ballot initiatives on the budget, would prefer that they, rather than elected officials, make long-term budget decisions.

Still, there are a few surprises (see Exhibit 11).

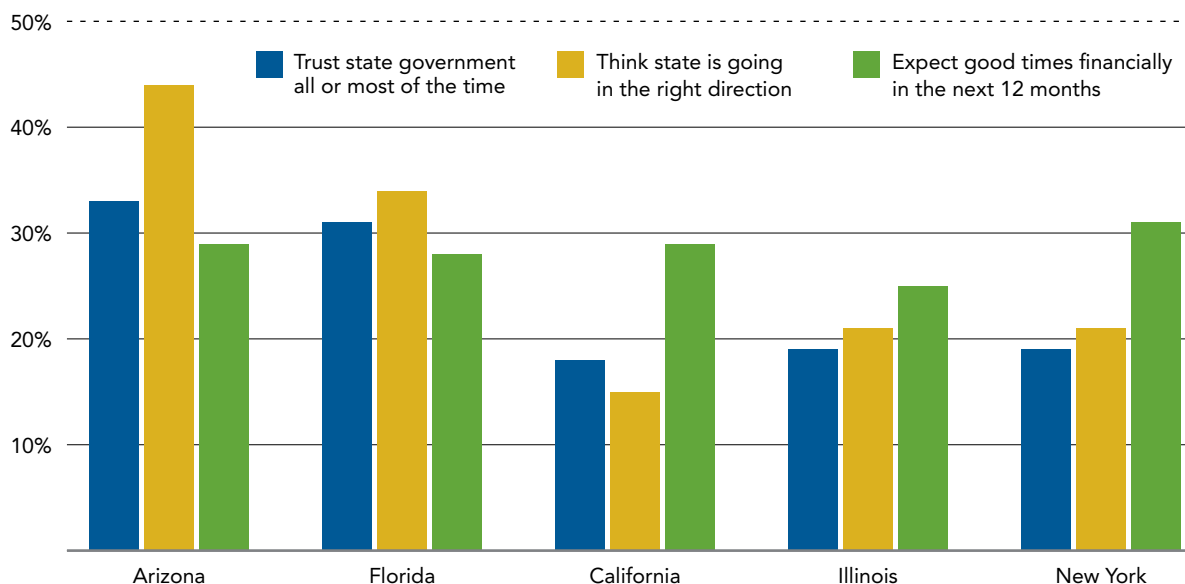
In Arizona and Florida, for instance, about a third of respondents trust their state government all or most of the time, both exceeding California, Illinois and New York by at least 12 percentage points each. Equally striking, Republicans in Arizona actually trust government more than Democrats do, the only state where that is the case. And Democrats in Arizona exhibit at least as much trust in their state government as Democrats do in other states surveyed, including Illinois and New York, both of which have Democratic governors and legislative majorities.

New Yorkers overwhelmingly distrust their elected officials. And yet, surveyed in June, a third of respondents in the Empire State think the economy will turn to “good times” in the next year. Compared with residents of the four other states surveyed, fewer New Yorkers (37 percent) consider their state to be in a “serious” recession.

Exhibit 11

## Varying perceptions of government and the economy

Arizonans and Floridians are more likely to say their state is heading in the right direction than are Californians, Illinoisans and New Yorkers.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

Although many factors likely contribute to public sentiment about their elected officials, it is notable that California, Illinois and New York all missed budget deadlines this year because of highly publicized political impasses over how to close billion-dollar gaps. California legislators are particularly notorious for missing deadlines. They missed the deadline this year and passed a budget on schedule only nine times in the previous 25 years.<sup>61</sup> Last year they resorted to paying bills using IOUs—an action the state has taken only two times since the Great Depression. By contrast, Florida finished its budget work on time in 2010 and filled much

of its gap this year with less pain than in other states, in part by using federal stimulus funds. In Arizona, the Republican legislature and Republican governor went through a stressful tug of war before agreeing to let residents vote on a sales tax increase. They were forced to make significant cuts, but they reached agreement on the state's budget plan earlier than in any of the past 15 years.<sup>62</sup>

### Budget Reforms, Now

On one point, respondents across the five states agree: Their elected leaders need to make fundamental budget reforms, and they need to make them now.

## KEY FINDINGS

The backdrop for those opinions is, of course, the ongoing fiscal crisis. Half or more in each state surveyed believe that things are generally going in the wrong direction, and solid majorities say the economy will remain in bad shape during the next 12 months. More than seven in 10 indicate that their state is experiencing a “serious” or “moderate” economic recession, as opposed to a mild recession or none at all.

When it comes to tax reform, majorities in California (60 percent), Illinois (55 percent) and New York (59 percent) see a need for “major changes” in their state and local tax system, compared with fewer than half in Arizona (43 percent) and Florida (42 percent).

Greater numbers in each of the five states see a need for major budget reform. Overwhelmingly, Californians (77 percent), Illinoisans (75 percent) and New Yorkers (72 percent) say their state’s budget process—the way the state taxes and spends money—requires “major changes.” Fifty-three percent of respondents in Florida and 63 percent in Arizona also feel that way. Fewer than one in 10 in any state believe their state’s budget process is “fine the way it is.” And more than three in four respondents in every state say their elected leaders should “take action now” on long-term budget reforms, rather than wait until the economy improves.





ARIZONA  
CALIFORNIA  
FLORIDA  
ILLINOIS  
NEW YORK

## Arizona

Given its demographics and history, Arizona is hardly a state where one would expect much public confidence in the workings of government. Arizona was the birthplace of Barry Goldwater’s conservative crusade; it remains a hitching post of western libertarianism; and it has been something of a hotbed for “tea party” activists and anti-tax candidates in this year’s campaigns.

Nevertheless, a full third of Arizona respondents trust their state government “just about always” or “most” of the time,

according to a survey of public attitudes in five fiscally challenged states by the Pew Center on the States and the Public Policy Institute of California (PPIC). That might not sound like much—with two-thirds expressing that they trust government “only some” or “none” of the time—but Arizona’s level of trust in its state institutions and elected officials exceeds California’s, Illinois’ and New York’s by at least 14 percentage points each (it is similar to Florida’s).

Likewise, by a wide margin, Arizonans are much more likely to feel that their

state is going in the right direction than are residents in the other states—and that is despite the fact that Arizonans are just as likely as others to think the next 12 months will bring adverse economic conditions.<sup>63</sup>

There is another irony to Arizona’s relative confidence in government at this point: Republicans actually trust government more than Democrats do, making Arizona the only state surveyed where that is the case. That finding could be traced to the fact that Republicans know their party currently is in full control of Arizona government. Yet the level of confidence is not simply a partisan effect. Democrats in Arizona exhibit at least as much trust in their state government (27 percent say they trust state government “just about always” or “most of the time”) as Democrats do in other states surveyed, including Illinois (25 percent) and New York (26 percent), both of which have Democratic governors and Democratic legislative majorities.

About half of Arizonans—as well as a similar share of Floridians—think there is “a lot” of waste in state government, a view held by about two in three in California, Illinois and New York. Along with Florida, Arizona yields the lowest percentage of respondents who believe the tax system is in need of major changes (43 percent). Also with Florida, it has the smallest percentage of respondents who think state government as a whole is too big (43 percent). It

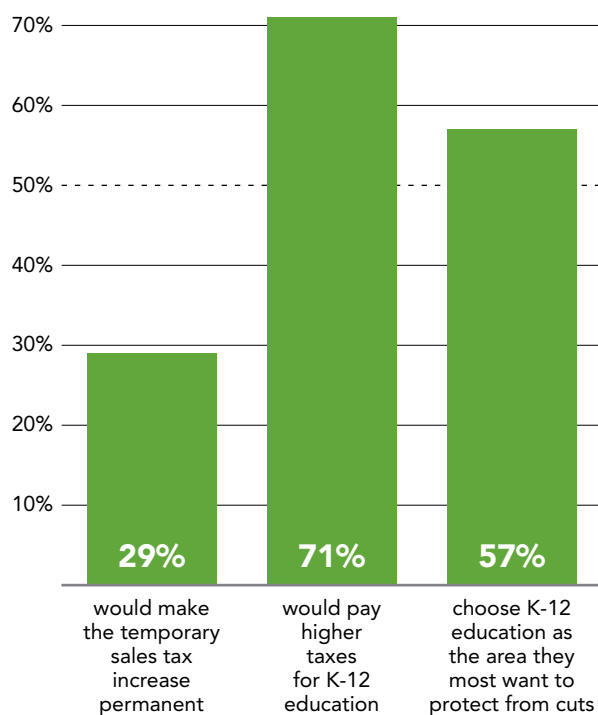
also has by far the lowest percentage of respondents who think liabilities for public sector pensions are a “big problem” (27 percent). And while the economy and jobs were far and away the most frequently cited issues by respondents in the other four states, nearly half of Arizona respondents named immigration as the most important issue facing people in their state.

Arizonans’ confidence in state government already has paid dividends for legislators and budget writers attempting to manage fiscal affairs through daunting challenges. In May, Arizona voters approved a three-year increase of 1 percentage point in the state’s sales tax, with about \$1 billion in annual projected proceeds going toward primary and secondary education, health and human services and public safety. In her campaign to adopt the temporary tax increase, Governor Jan Brewer promised the additional revenue would be used to avoid even deeper education and human services cuts than already had been made.<sup>64</sup> Voters got a taste of what such cuts could look like in March when state budget writers eliminated health insurance for low-income children; lawmakers reinstated coverage in May but froze enrollment.<sup>65</sup> Indeed, 83 percent of respondents to the survey say they are “very” or “somewhat” concerned about the effects of state spending reductions on government services. Arizona’s vote showcases a key finding of the survey across the five states—that citizens may

be willing to shoulder the burden of a hard fiscal downturn when they feel that core functions of government are in peril. Seventy-one percent of Arizona respondents say they would pay higher taxes to maintain current funding for K-12 public education, and 56 percent express such willingness for health and human services (see Exhibit 12). By contrast, a majority of respondents says it would not be willing to pay higher taxes to maintain current funding for higher education (57 percent), prisons and corrections (73 percent), or transportation (78 percent).

Exhibit 12

### Arizonans' tax and spending choices



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

Kristin Borns, a senior policy analyst with the Morrison Institute of Public Policy at Arizona State University, says the pro-sales tax campaign was effective because it clearly articulated the link between the new revenue and the service benefits to voters. The campaign made the case that “here is the danger to K-12, here is the value in voting for the sales tax, and here is what the sales tax would be used for. That resonated with voters,” Borns says.<sup>66</sup>

Yet there are limits: Most Arizonans want the extra sales tax to remain temporary. Just 29 percent of respondents to the survey say they favor making the tax increase permanent to address the state’s budget situation. Another key ingredient in the success of the sales tax referendum was that the increase was written into the state constitution to phase out after three years, according to Byron Schlomach, director of the Center for Economic Prosperity at the Goldwater Institute in Arizona. “There’s no easy going back [on that provision],” Schlomach says.<sup>67</sup>

This is consistent with another of the survey’s findings in Arizona. Three out of four residents would prefer that they, rather than elected officials, make long-term budget decisions (18 percent prefer elected officials; 78 percent prefer state voters).<sup>68</sup> Arizona is rife with limits on legislative discretion, especially when it comes to budget flexibility. For example, the state has voter-initiated spending limits and a rule requiring a two-thirds

vote of the legislature or a popular majority vote to increase revenue.<sup>69</sup> While these requirements reflect the broad preference of citizens to control the state's fiscal issues themselves, they also constitute a budgeting challenge for state officials, whose policy options, particularly during tight budget times, are constrained as a result.

By Arizona law, any legislative changes to voter-approved mandates effectively require a second round of voter approval, which means the legislature must go back to the citizens with ballot measures regularly.<sup>70</sup> This year, even after the voter-approved sales tax increase, legislators seeking extra funds to achieve a balanced budget referred two more referenda to citizens, both of which propose to shift allocations created by previous ballot measures. One would move \$123.5 million from a land-conservation fund to the general fund, while the other would repeal an early childhood services program, using its \$324 million for general fund purposes related to health and human services for children.<sup>71</sup>

State Representative John Kavanagh says that if citizens do not free up the approximately \$450 million from those two funds for the general budget, the state may have to make substantial cuts to education and law enforcement after all, despite the sales tax increase. “These funds,” he says, “were created by

the voters in flush times. Now we are desperate and we need the cash.”<sup>72</sup>

Indeed, Arizona routinely delays payments to school districts to push one year's bills into the next fiscal year.<sup>73</sup> This year, the state rolled over approximately \$900 million in K-12 education payments, the full amount of which will not be paid until the end of August.<sup>74</sup>

Arizona officials have found another way around the budgetary constraints placed on them: borrowing. This is true even though Arizonans—like residents in all four of the other states surveyed—strongly preferred both cutting spending (77 percent) and raising taxes (14 percent) to borrowing (5 percent) as their first-choice way to balance the budget.

Currently, Arizona has more than \$4 billion worth of debt—a figure that does not include state Department of Transportation bonds backed by dedicated gas taxes<sup>75</sup>—which amounts to approximately 5 percent of the net assessed property value of the state.<sup>76</sup> In some states, that amount of debt might be unsurprising, but Arizona has a constitutional cap on debt set at \$350,000, a limit that has never been adjusted for inflation since Arizona became a state in 1912.<sup>77</sup>

State officials have found several borrowing tactics that courts have determined do not create debt for the



purposes of the constitutional debt limit.<sup>78</sup> In 2010 alone, Arizona has generated about \$1 billion in revenue for its general fund through the sale and lease-back of state buildings, including the state Supreme Court building, which it had only recently finished re-purchasing following an earlier lease-purchase agreement.<sup>79</sup> The state also has securitized \$450 million of lottery revenue to cover operating expenditures, the repayment of which may cost the treasury \$680 million in interest over time.<sup>80</sup> That reliance on non-recurring revenue to balance the budget was one of the reasons cited by Moody's for a July 2010 downgrade of Arizona's credit.<sup>81</sup>



A more balanced approach, though, would require convincing citizens that less popular budgeting decisions must be made. Medicaid and K-12 education, two of the areas that residents say they most want to protect from cuts, already account for a majority of general fund spending, leaving narrow margins for further cuts if and when drastic budget-balancing actions must be taken, as may happen should the state economy not turn around soon.<sup>82</sup> Of the nearly two-thirds of Arizonans who say state spending could be cut without reducing services, three out of four say “10 percent to under 20 percent” or more could be cut without effect. But state general fund expenditures already have been cut more than 20 percent since the

beginning of the downturn,<sup>83</sup> and next year expenditures may see a gap larger than 10 percent of the budget again.<sup>84</sup>

That projected gap nearly swamps what the state spends on areas of government that residents say they would be more willing to cut. Take transportation, for example. In the survey, 52 percent of respondents named transportation as the area of state spending they least want to protect from budget cuts. That compares with 21 percent citing higher education, 17 percent citing Medicaid and 4 percent naming K-12 public education. Yet transportation funding comprised just 7 percent of Arizona's total state expenditures in fiscal year 2008.<sup>85</sup> State funding in this area was reduced by approximately 25 percent in fiscal years 2009 and 2010, forcing reductions in construction, maintenance and staff.<sup>86</sup>

Even if transportation could be cut further, Schlomach wonders whether that might have even more deleterious economic effects. “I don't think people quite understand how fundamental transportation is to the economy and their standard of living,” he says.<sup>87</sup>

Even after this spring's sales tax vote, if there is room to raise revenue in Arizona it may involve further taxes on purchases. Pressed to choose from a menu of possible taxes on individuals to preserve the current level of state

services, 28 percent of those surveyed favor collecting sales tax on Internet purchases, 23 percent would extend the sales tax to services and 20 percent would make permanent the state's recent one-cent addition to its sales tax rate.<sup>88</sup> That compares with 7 percent who would rather raise income taxes and 7 percent who would reinstate a state property tax.

With their residents feeling more upbeat and trusting of state government, at least compared with those surveyed in California, Illinois and New York, Arizona lawmakers may have something to celebrate momentarily. To solve their ongoing budget challenges, they may need to build on that foundation and convince taxpayers to accept even more difficult, less popular fiscal measures.

## MORE RESULTS FROM...ARIZONA

- About as many Arizonans (51 percent) feel they pay “about the right amount” or “less” than they should in taxes to state and local government as do those who feel they pay “much more” or “somewhat more” than they should (48 percent).
- Arizonans will vote November 2 on two ballot proposals to transfer dedicated funds to other purposes in order to plug the state's budget gap. But survey results suggest that given a variety of choices to generate new state revenue, only 14 percent of respondents prefer such transfers as their first option. The majority (54 percent) prefers allowing casinos at racetracks; 16 percent would expand the sales tax to services not now taxed.
- Although their state has done better than California, Illinois or New York at balancing its budget on time, 63 percent of Arizonans still say the budget process needs major changes.







## California

After years of being warned that their state government was on the brink of the worst financial crisis in the country, Californians are left with few doubts that the dire predictions have come true. And they place responsibility on those elected to govern them, according to a survey of public attitudes in five fiscally challenged states by the Pew Center on the States and the Public Policy Institute of California (PPIC).

Californians view their leaders far more negatively than do residents of Arizona

and Florida, which also must cope with massive budget shortfalls but have done so more successfully. Even in the company of Illinoisans and New Yorkers, who are especially pessimistic about their leaders' performance, Californians distinguish themselves. When it comes to overall job approval and handling of tax and budget issues, California's lawmakers and its governor earn some of the lowest ratings in the survey. Only 9 percent of respondents give the California legislature positive marks for its work on fiscal issues.

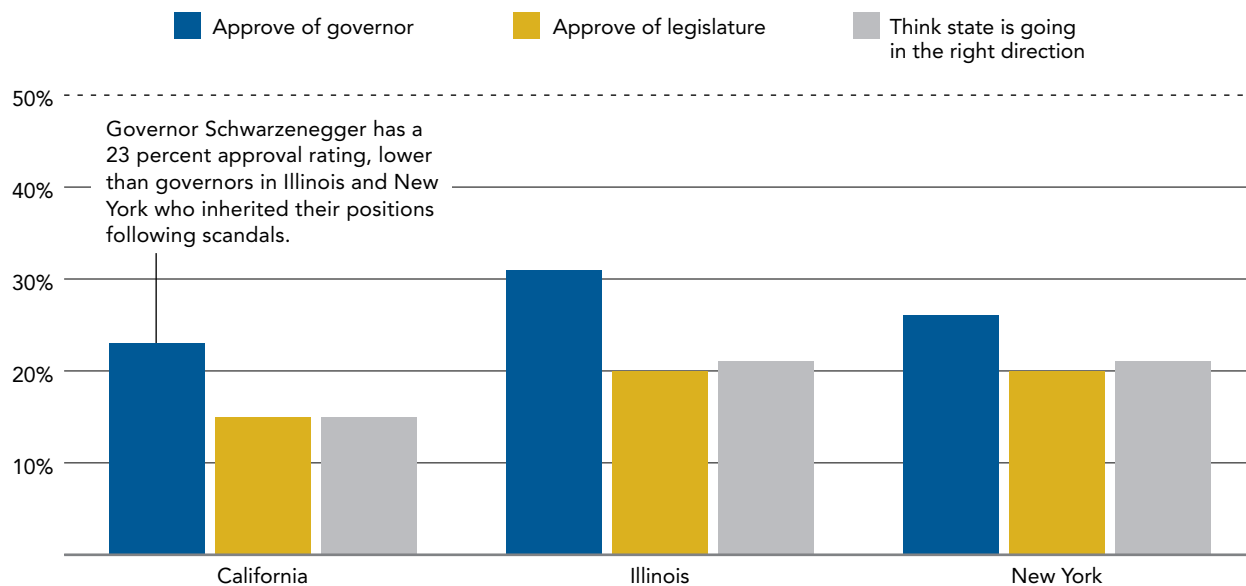
Today, California is the only state of the five surveyed where more than half of the respondents (54 percent) say their economy is in a “serious” recession. Just 15 percent of Californians think their state is headed in the right direction, while 78 percent say it is headed in the wrong direction (see Exhibit 13). That compares with 21 percent in both New York and Illinois who say their state is headed in the right direction, 44 percent in Arizona and 34 percent in Florida. In fact, more Californians believe their state is heading in the wrong direction now than in 2003, when angry voters recalled Governor Gray Davis and replaced him with Governor Arnold Schwarzenegger, according to PPIC polling trend data.

Residents’ current attitudes are in line with the state’s fiscal circumstances. As of July 2010, California had a \$19 billion hole in its fiscal year 2011 budget, the equivalent of a quarter of its yearly general fund.<sup>89</sup> Among states that issue general obligation bonds, California’s bond rating is the lowest, joined only recently by Illinois, and the state resorted to paying bills last year using IOUs—an action it has taken only two times since the Great Depression. Familiar gridlock at the state capitol prevented California legislators from passing a budget on schedule this summer, after missing their July 1 deadline 16 times in the previous 25 years.<sup>90</sup>

Exhibit 13

### Unpopular leadership

Less than a third of the respondents in California, Illinois and New York approve of the way their governors are handling their jobs. But governors are more popular than legislatures.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

To balance the budget last year, lawmakers raised income and sales taxes and vehicle fees, and made deep cuts in a wide range of services. State offices went dark most Fridays for nearly a year and a half until July because of furloughs that kept most state workers out of the office 46 days a year and reduced their pay by 14 percent.<sup>91</sup> After a brief reprieve, furloughs started again in August. Last year, regents increased the price of attending the University of California by nearly a third, to more than \$10,000 a year for in-state students, sparking protests.<sup>92</sup> The state also borrowed money from cities and counties, which triggered cutbacks in a variety of social programs, including foster care, child welfare and in-home services for the elderly and disabled.

Californians are worried about cutbacks—but also believe there is still fat in the state budget, according to the survey. An overwhelming majority—84 percent—of respondents is “very” or “somewhat” concerned about the effects of state spending reductions on government services. Yet at the same time, two-thirds of Californians believe that government could spend less and continue to provide the same level of services. Of those, 37 percent estimate that between a tenth and a fifth of all state spending could be cut without affecting services. Another 38 percent think even more could be cut with no effect on the state’s well-being. Republicans and independents are far more likely than are

Democrats to think state government could spend less and provide the same level of services, but even a majority of Democrats holds this view.



For some perspective, a fifth of California’s general fund in fiscal year 2009 would be more than \$16 billion.<sup>93</sup> So, a 20 percent cut would be enough to eliminate all general fund money going to prisons, welfare and transportation.<sup>94</sup> Finding savings of that size by trimming the state workforce also is problematic. There are fewer state employees per resident now than there were in Ronald Reagan’s last year as governor, says State Senator Denise Moreno Ducheny.<sup>95</sup> Plus, she says, most of the state workers paid for out of the state’s general funds—the area of the budget in most trouble—are in university systems or in corrections. “Nobody really wants to cut university faculty. Nobody really wants to lay off prison guards,” Ducheny says. “So, where is it?”<sup>96</sup>

“One reason reality hasn’t caught up with the voting public and the union members and so forth,” says Mike Genest, former state budget director for Governor Schwarzenegger, “is that politicians have made it sound like there are other alternatives, like we can simply get rid of fraud, waste and abuse and [have] a spending freeze and ... have the same kind of government we’ve always had. ... The reality is that’s just not right. That’s just not true.”<sup>97</sup>

The reality is that lawmakers have been unable to avoid cuts even to more popular services such as education and health care, the two main drivers of the state budget—and they will be unlikely to avoid them in the future.

When asked what areas of state spending they would most want to protect from cuts, half of Californians name K-12 public education, while another quarter pick Medicaid (see Exhibit 14). Just 15 percent say higher education is the area they most want to see protected. But public support has not shielded schools from budget cuts. Two years ago, the legislature approved a change to help local school districts cope with budget shortfalls by reducing the minimum

number of school days from 180 a year to 175.<sup>98</sup> Statewide, 20,000 teachers were laid off last year, according to California’s superintendent of public instruction.<sup>99</sup> And a record 174 school districts landed on the state’s list of financially troubled systems.<sup>100</sup>

“Massive state budget cuts are crippling our public school system’s ability to operate,” said Jack O’Connell, the state superintendent of public instruction, in a statement. “Public education in California received \$17 billion less in state funding than anticipated over the last two budget years. School districts already have made draconian cuts to programs and services, eliminated summer school, increased class sizes, and cut art, music, libraries, school nurses and sports.”<sup>101</sup>

Exhibit 14

### California’s core functions

California residents and policy makers seem to agree on K-12 education and Medicaid as top spending priorities.

	Here’s what Californians most want to protect from cuts	Here’s what California spends as a percentage of its budget*
K-12 ed	50%	24.2%
Medicaid	26%	19.7%
Higher ed	15%	8.4%
Transportation	5%	5.8%

Note: 4% of respondents said they did not know which area they most want to protect from budget cuts.

\*Spending reflects all funding sources

SOURCE: Pew Center on the States and Public Policy Institute of California 2010; spending data from the National Association of State Budget Officers, State Expenditure Report 2008.

In California, as in other states surveyed, a strong majority identifies prisons and corrections as well as transportation as areas in which it does not want to invest additional tax dollars. Fifty-one percent of Golden State respondents cited transportation as the area they least want to protect from budget cuts. Meanwhile, just a fifth of respondents indicate they would pay higher taxes to maintain current corrections spending levels, far below the support shown for K-12 public education and health and human services.

California devotes a bigger portion of its budget to prisons and corrections



than do all but a few states, with about one in 10 dollars in the general fund directed toward this area. Governor Schwarzenegger kicked off the legislative session this year calling for a constitutional amendment to limit spending on prisons that also would guarantee funding for higher education. “The priorities have become out of whack over the years,” Governor Schwarzenegger told lawmakers in his State of the State address. “What does it say about our state? What does it say about any state that focuses more on prison uniforms than on caps and gowns? It simply is not healthy.”<sup>102</sup>

More than twice as many people in California—65 percent vs. 30 percent—say they would prefer that the state target its budget cuts to specific programs rather than impose cuts across the board. Respondents in the other four states polled express nearly identical preferences. Many of Governor Schwarzenegger’s most high-profile cuts, though, sliced across state government. The furloughs affected the majority of state employees. One proposal, which a court ultimately blocked, would have reduced the pay of state employees to the federal minimum wage of \$7.50 an hour and would have applied across all state agencies.

“We tend to choose the path of least resistance,” California Legislative Analyst Mac Taylor told *Stateline*, the news arm of

the Pew Center on the States. “We go in and do the higher-level stuff like furloughs and across-the-board reductions that affect everyone equally. That spreads out the pain and is easier for legislators to sign on to than targeting individual programs.”<sup>103</sup>

Californians’ deep dissatisfaction extends beyond how their money is being spent on individual line items. Seventy-seven percent of Californians call for “major changes” in the state’s budget process. Californians (60 percent) are nearly tied with New Yorkers (59 percent) for having the highest percentage of respondents who say “major changes” are needed in the state and local tax system.

Meanwhile, all signs point to a long road to recovery for California’s budget. In November 2009, the Legislative Analyst’s Office said yearly deficits would remain at around \$20 billion a year through 2015. And that is after assuming state workers would get no pay raises, schools would receive only the minimum amount of money guaranteed by the constitution and federal stimulus money would largely run out.<sup>104</sup>

Despite the state’s historically liberal bent, when forced to choose, a clear majority of Californians surveyed—67 percent—prefers to balance the budget first by cutting spending rather than by raising taxes (17 percent) or borrowing (10 percent). Californians overwhelmingly left borrowing as a last resort, meaning

most respondents say they would rather cut services and raise taxes instead of rely on debt (see Exhibit 15).

In the survey, increasing corporate taxes was the most popular revenue-raising idea among those bandied about in Sacramento this year. It was the choice of 42 percent of respondents. During fiscal year 2009, corporate income taxes amounted to about 12 percent of

California’s general fund. Put another way, the corporate taxes brought in \$9.8 billion to California’s treasury that year, compared with the \$19.1 billion deficit the state faced.<sup>105</sup>

Support for a corporate tax increase skews along party lines. More than half of Democrats prefer that option, while only three in 10 Republicans do. Instead, GOP respondents (36 percent) slightly prefer maintaining the temporary increase in the sales tax. Overall, that was the second-most popular option, with 29 percent of respondents saying they preferred it most. Coming in last was an idea floated by Democrats in the Assembly to borrow money against the future proceeds of a proposed oil extraction tax. Just one in five picks that option, even though California—the third-biggest producer in the country—is the only one of the 22 major oil states to lack this tax.

Exhibit 15

### Which approach would be your first choice to balance the state budget?

	Cutting spending	Raising taxes and fees	Borrowing	Don't know
<b>California</b>	<b>67%</b>	<b>17%</b>	<b>10%</b>	<b>6%</b>
Arizona	77%	14%	5%	4%
Florida	71%	15%	10%	4%
Illinois	73%	19%	6%	2%
New York	71%	13%	11%	5%



### After cutting spending, which approach would be your second choice?

	Raising taxes and fees	Borrowing	Don't know
<b>California</b>	<b>55%</b>	<b>35%</b>	<b>10%</b>
Arizona	53%	38%	9%
Florida	58%	32%	10%
Illinois	60%	35%	5%
New York	55%	38%	7%

When asked to choose among taxes on individuals, California respondents prefer extending the sales tax to services not currently taxed. Forty-five percent of the public picks that as an acceptable way to balance the budget, nearly twice as many as would prefer raising vehicle licensing fees (24 percent) or raising income taxes across the board (21 percent).

In the near term, Californians are likely to see additional cuts in services, tax increases or both—but chronic budget

SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

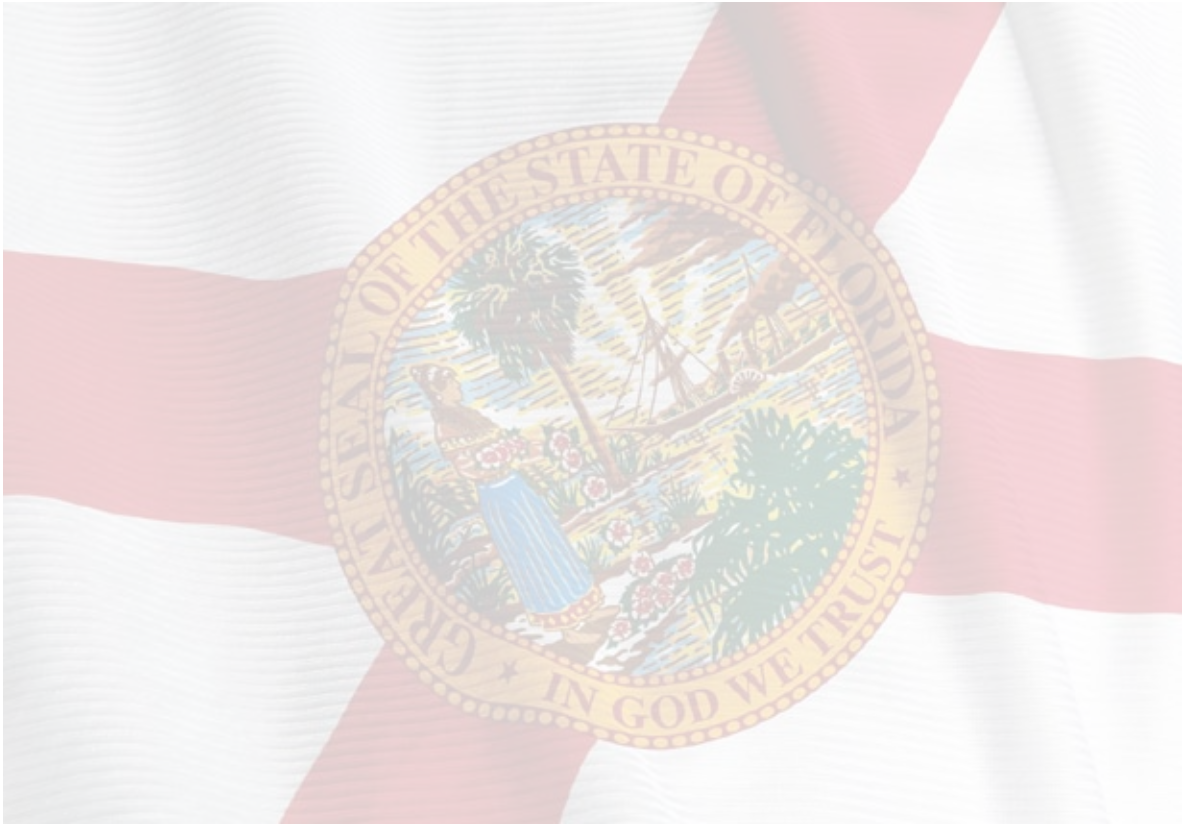
gaps for the foreseeable future may signal the beginning of a long process to revamp state government, says Genest, California's former budget director. "The recession is not just a recession, it's an effective change in the economy and

the revenue forecast for the state going forward," he says. "I don't think people in general believe we're going to recover and get back on the same growth path that we've always been. I just think we've changed."<sup>106</sup>

## MORE RESULTS FROM...CALIFORNIA

- Californians are more likely than are residents of the other four states surveyed to worry about the economy, jobs and unemployment. Fifty-nine percent say these are the most important issues facing people in the state. Eight percent cite the state budget deficit.
- More than four in 10 Californians think that the amount of money being spent on the state's public employee pension or retirement systems is a "big problem." Another 32 percent cite it as "somewhat of a problem."
- In the wake of frequent and highly publicized gridlock in Sacramento, just 22 percent of Golden State residents prefer that the governor and legislature, rather than voters at the ballot box, pass new budget reforms.





## Florida

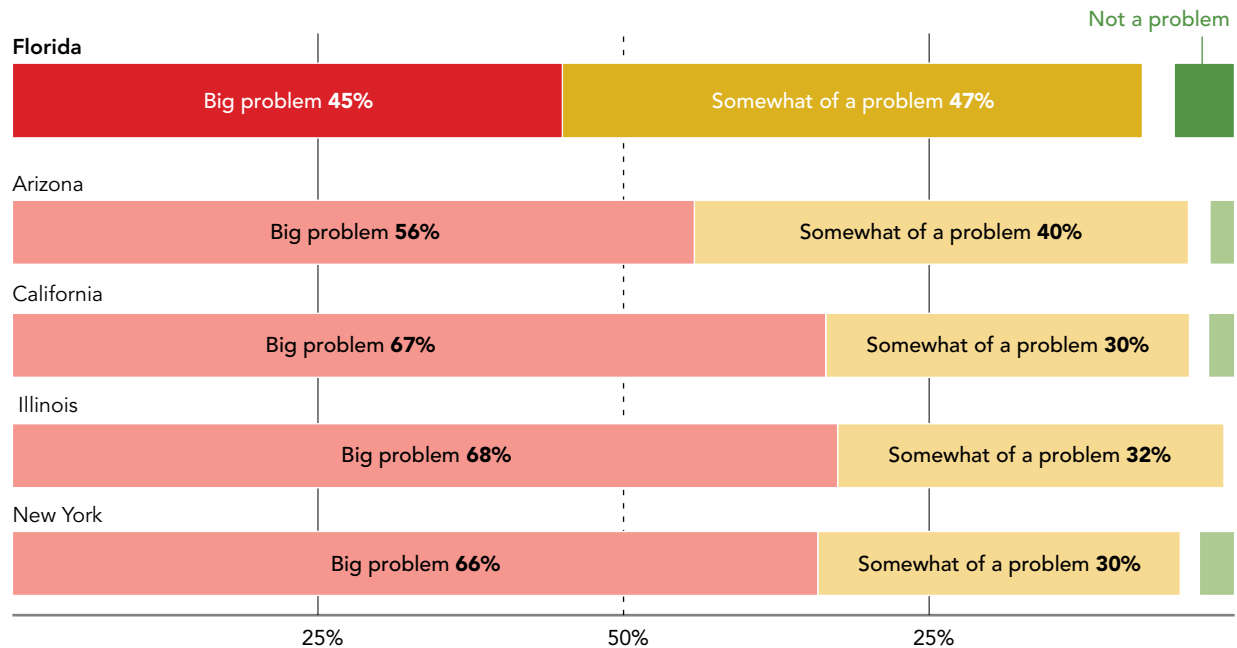
Florida has maintained a balanced budget while largely avoiding the least popular forms of revenue increases and spending reductions. This has not gone unappreciated by Florida residents, according to a survey of public attitudes in five fiscally challenged states by the Pew Center on the States and the Public Policy Institute of California (PPIC). Floridians are more likely than are respondents in California, Illinois and New York to believe that their governor and legislature are handling their jobs well (similar to perceptions

of Arizonans). The problem is that the state remains in serious fiscal trouble—and lawmakers may face tougher, less popular choices ahead.

Floridians are more sanguine about their state's fiscal challenges than are respondents in the other four states; in fact, Florida is the only state surveyed in which less than half of the respondents call the budget situation a “big” problem. Floridians trail only Arizonans in holding the belief that “things are going in the right direction” (see Exhibit 16).

## Floridians least likely to find budget situation highly problematic

With striking consistency, more than nine in 10 respondents across the five states report the state budget situation constitutes a “big problem” or “somewhat of a problem.” Florida is the only state where less than a majority of residents say the budget is a “big problem.”



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

But it may be that Floridians are among the most satisfied of the respondents because their elected officials have not yet had to make the toughest fiscal choices. The fixes the state has employed during the past two years—a mixture of one-time revenue sources, federal stimulus funds, and increases in auto and driver fees and sin taxes—either are no longer available, are running out, or will not cover remaining gaps. In fiscal years 2009 and 2010, state lawmakers filled the largest gaps using a total of more than \$7 billion in stimulus money, expanded revenues from Seminole tribe gambling and a \$1

per pack increase in cigarette taxes, and by sweeping money from dedicated trust funds into the general fund.<sup>107</sup> Even with another \$4 billion in stimulus funds yet to be used, the gap in the coming budget still could range between \$2.5 billion to \$3.5 billion—so the state will have to find new ways to balance revenues and expenditures going forward.<sup>108</sup>

All of which means that budget makers in Florida may soon find out whether they have earned enough good faith to gain public support for even more difficult decisions yet to come.

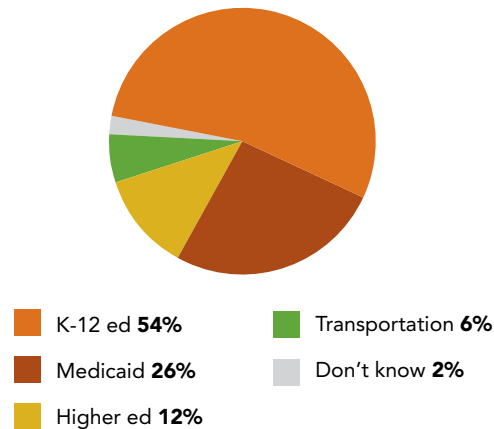
One reason for optimism among Florida's residents is that the state thus far has managed to continue directing allocations toward the core functions of government that the public views as offering a valued return on taxpayer investment. In the survey, a majority (54 percent) of the state's respondents says it most wants to protect K-12 education expenditures from cuts, followed by 26 percent citing Medicaid spending and 12 percent naming higher education (see Exhibit 17). Even more striking, 70 percent of respondents say they would be willing to pay higher taxes just to maintain current funding for K-12 education. Health and human services is the only other area in which a majority (54 percent) of respondents says it would pay higher taxes to maintain funding levels. Floridians are divided on the issue of paying higher taxes for higher education (49 percent say yes, 50 percent say no).

And indeed, the state actually has increased spending levels in K-12 education and Medicaid, as well as in higher education. In the fiscal year 2011 budget, passed in late April 2010, the state increased K-12 education spending by \$849 million.<sup>109</sup>

However, as some state officials point out, continuing to increase state spending in these two areas may prove difficult. "The main budget driver we're seeing in and of itself is Medicaid," says Jerry McDaniel, the director of the Governor's Office of Planning and Budget.<sup>110</sup> As

Exhibit 17

### Core functions: Floridians most want to protect K-12 and Medicaid from cuts



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

Florida slipped deeper into economic recession between June 2008 and June 2009, Medicaid enrollments grew by 16 percent, the fourth-largest climb among the 50 states.<sup>111</sup> That in turn puts greater pressure on the state either to find new revenue or to cut other areas of spending. In recent years, Florida, like other states, has received some relief in the form of expanded federal matching Medicaid payments as part of the stimulus package.



The clear difficulty is that tinkering with other, smaller appropriation areas will not bridge Florida's ongoing structural gap between revenue and expenditures, especially if Medicaid and education continue to grow as a percentage of state spending. "It is impossible to cut the budget without touching those two areas because you

couldn't cut enough from everything else to make up the difference," says State Representative Joseph Gibbons. He adds that when he speaks at town hall meetings, he informs citizens that education (K-12 and higher education) and health care constitute approximately two-thirds of the budget.<sup>112</sup>

Meanwhile, corrections and transportation—the two areas that respondents say they are least willing to pay higher taxes to maintain—account for a much smaller portion of the general fund.<sup>113</sup>

Seventy-five percent of Floridians say they would not be willing to pay higher taxes to maintain current funding for prisons and corrections. These costs make up about 10 percent of general fund spending, but actual corrections costs and their share of the general budget have been rising steadily for decades, from \$502 million in 1988 to more than \$2.8 billion in 2008, owing to an ever-growing prison population.<sup>114</sup> Even in 2009, the year that marked the first nationwide decrease in state prison populations since 1972, Florida's number of inmates grew by 1.5 percent.<sup>115</sup> In 2010, lawmakers reduced corrections spending by \$25 million.<sup>116</sup>

Half of Floridians named transportation—rather than K-12 education, Medicaid or higher education—as the area of state spending that they least want to protect from cuts, and only one in four is willing to pay higher taxes to maintain

its funding levels. But because it is paid for primarily from dedicated gas taxes, it accounts for a mere sliver of the state general fund spending, meaning that reducing this line item would not solve the state's budget woes.<sup>117</sup> Lawmakers have both cut and increased dollars for transportation during the past several years. In December 2009, the state legislature met in special session to approve a commuter rail project in Orlando and to bolster funding for South Florida's Tri-Rail commuter line. In doing so, the legislature reversed itself on a decision it had made earlier in the year, showing it was serious about creating a comprehensive rail network. That, in turn, helped Florida secure \$1.25 billion in federal stimulus money to begin building a high-speed rail line in the state.<sup>118</sup> But to balance the fiscal year 2010 budget, lawmakers swept \$120 million from the transportation trust fund into the general budget. The legislature passed a similar sweep for fiscal year 2011 that Governor Charlie Crist vetoed.<sup>119</sup>

It is difficult to discern why Floridians—like respondents in the four other states—show a strong unwillingness to support additional transportation funding. It is open to interpretation whether residents think that too much money is going to traditional projects, such as building additional roads, or that too much money is going to new modes, such as high-speed rail.



Two out of three Floridians, like respondents in the other four surveyed states, prefer targeted budget-balancing tactics rather than across-the-board cuts. Even in Florida, where adults are least likely to disapprove of the job their elected officials are doing, nearly two-thirds of residents believe that their government could spend less and still maintain the same level of services. Of those, the largest share—38 percent—feels that between 10 percent and 20 percent of government spending could be cut without adverse effects. But more say even greater amounts could be cut: Nearly a quarter say 20 percent to 30 percent, and 17 percent say 30 percent or more could be cut.

However, the state already has had to endure a greater than 10 percent drop in its general revenue and expenditures since the fiscal year 2008 budget.<sup>120</sup> “There is not as much waste as people think,” says Eliza Hawkins, staff director of the Florida Senate’s Policy and Steering Committee on Ways and Means. “When you are doing that level of cuts, agencies are having to scrimp and save in order to make those cuts. There is very low tolerance for waste in other areas while you are cutting deeply into what used to be very critical programs for constituencies and members.” She says that the state has a limited ability to cut a further 10 percent without touching education and health and human services, the areas that solicit the most public support. “People generally don’t understand that if you have

**Even in Florida, where adults are least likely to disapprove of the job their elected officials are doing, nearly two-thirds of residents believe that their government could spend less and still maintain the same level of services.**

to cut \$2 billion from a \$23 billion general fund you have to hit health, you have to hit education,” she adds, conceding that because of public support for those areas, they remain difficult to cut.<sup>121</sup>

If further budget cuts are problematic, the challenge of raising revenues may be even more so. As with cutting expenditures, the state so far has avoided the politically unpopular option: a broad-based tax increase.

Recent changes in highway safety and license fees exemplify the steps Florida already has taken to address revenue shortfalls in the short term—and why those solutions no longer may satisfy the state’s continuing budget needs. Car registration and driver’s license fee increases passed in 2009 added about \$1 billion a year to revenue—an approximate 66 percent annual increase in the amount of money gathered by the state Department of Highway Safety and Motor Vehicles. Among numerous transportation-related fee increases,

the vehicle registration fee more than doubled, as did the cost of a driver's license renewal.<sup>122</sup>

Florida officials boosted these highway safety and license fees in part to avoid the political backlash of broad tax increases. Yet taxpayers in Florida nonetheless felt the impact acutely.<sup>123</sup> About three in 10 Floridians surveyed name “highway safety licenses and fees” as the state's largest revenue source, although the fees in truth account for barely 10 percent of general revenue, compared with more than 75 percent of revenue that comes from sales taxes, named by a plurality of 42 percent of Floridians.

By relying on these fees and measures including expanded revenue from Seminole tribe gambling, a \$1 per-pack increase in cigarette taxes and a sweep of money from dedicated trust funds into the general fund, Florida officials again seem to have followed the popular approach. As in other states, a strong majority of Floridians (69 percent) favors addressing the budget deficit by raising taxes on alcohol and cigarettes, or by expanding gambling (57 percent). When those two revenue increases were enacted in 2009, each was expected to bring in about \$900 million to the state. However, it is not clear that gambling could be expanded again, or that another cigarette tax increase would have the same revenue impact; cigarette sales dropped after the

first tax increase, although not enough to offset the revenue increase.<sup>124</sup>

Florida thus far has avoided increasing either of the state's two largest sources of tax revenue: sales and corporate taxes. If forced to examine those options, residents in Florida are more inclined to prefer an increase in corporate taxes (42 percent) over a broadening of the sales tax to purchases made on the Internet (27 percent) or to a larger number of products not now taxed (22 percent). But corporate taxes comprise far less of the state's revenue than do sales taxes. They account for only about 10 percent of general fund revenue, meaning even a relatively large increase might not cover the state's budget needs.<sup>125</sup> While 66 percent of Floridians oppose increasing the sales tax rate now paid on purchases, fewer (54 percent) object to extending the sales tax to services not now taxed. Florida has no personal income tax, and nearly three out of four respondents say they oppose creating one to address the state's budget challenges.

One other reason that residents might believe their elected officials have done a relatively good job of managing fiscal affairs is Florida's historically prudent approach to borrowing. Floridians, like other survey respondents, listed borrowing as their least preferred option for balancing the state budget. Only 10 percent named borrowing as their

top choice to balance the budget, far behind cutting spending (71 percent) and slightly behind raising taxes and fees (15 percent). Since 2001, Florida has maintained a debt service target of 6 percent of revenue, as well as a debt cap of 7 percent of revenue.<sup>126</sup> However, declining income has caused the state to exceed its debt cap.<sup>127</sup>

Florida officials have built a relatively high degree of public confidence through the crisis thus far. They have

done so by targeting spending cuts to less popular areas of state expenditures, restricting revenue increases, avoiding even tougher steps so far by filling budgets gaps with federal stimulus funds and borrowing prudently. These decisions broadly align with Floridian preferences. Still, unless the state's fiscal situation improves, state officials soon may have to make much more difficult—and perhaps unpopular—decisions about revenue and expenditures to keep the state's budget in good order.

## MORE RESULTS FROM...FLORIDA

- Floridians name jobs/unemployment (32 percent) or the economy (20 percent) as the most important issues facing people in their state, which has suffered from both high unemployment and fallout from the housing collapse. The oil spill in the Gulf of Mexico—which still was growing when the survey was taken—is cited by 15 percent of respondents, followed by the environment/pollution (7 percent).
- Floridians enjoy their status as one of the few states without a personal income tax; 73 percent oppose instituting the levy.
- Florida respondents—along with those in Arizona—are less likely to call for major changes to their state and local tax systems than are residents of other states. Forty-two percent in Florida say the state and local system is in need of major changes; another 42 percent say minor changes are needed.





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## Illinois

Since the recession began, Illinois has been on a borrowing binge—largely because state legislators have been unable to come up with a more politically saleable alternative. In Springfield, a proposal to increase the income tax failed and major program cuts remain largely off the table, leaving lawmakers few options other than to run the state on borrowed time and money.

All this borrowing is the opposite of what Illinois residents say they want their leaders to do, according to a survey of public attitudes in five fiscally challenged

states by the Pew Center on the States and the Public Policy Institute of California (PPIC). Most respondents in the survey would rather cut spending or raise taxes to balance the budget, and the vast majority of them would do both—that is, cut spending and raise taxes—before resorting to more borrowing. Only 6 percent of respondents say borrowing would be their first choice (see Exhibit 18).

In the past two years, Illinois has issued long-term debt for new roads and schools, medium-range debt so it could skip its

## Reality check: The budget in Illinois

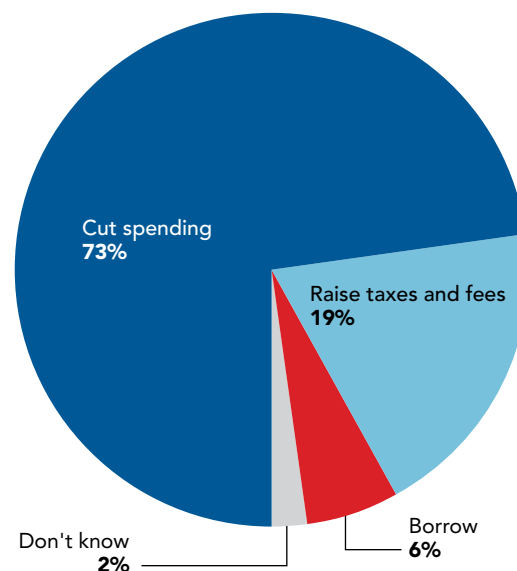
Illinois policy makers have used borrowing as a tool to help manage the fiscal crisis. Between 2004 and 2008, Illinois' total outstanding debt grew 20 percent. Yet, Illinoisans least prefer borrowing as a top choice for balancing their budget.

### A DECADE OF GROWING DEBT



### HOW ILLINOISANS WOULD BALANCE THE BUDGET

Far more Illinoisans would rather cut spending or raise taxes than borrow to balance the state budget.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010; data on debt from the U.S. Census Bureau's Annual Survey of State Government Finances and Census of Governments.

annual pension payment, and short-term debt just so it could start paying a long line of businesses and charities to which it owes money. The one-year tally for all those types of borrowing in the year ending June 30 hit \$9.4 billion, three-and-a-half times what it had been the year before.<sup>128</sup> The state in 2008 already ranked eighth in the country for debt per capita, at \$1,877 per resident.<sup>129</sup> “Illinois ended the [fiscal 2010] year in the worst fiscal position in its history,” wrote Comptroller Dan Hynes in July.<sup>130</sup> The stack of bills was so high this summer,

the comptroller reported it would take six months to pay them.<sup>131</sup> The cash flow crisis also hit public universities. When the schools threatened layoffs unless the state paid the money it promised them, lawmakers decided to let the schools borrow, too.

“The legislature has just, time and time again, refused to bite the bullet” on spending cuts or tax increases, says David Merriman, associate director of the University of Illinois’ Institute of Government and Public Affairs. “Amazingly

to me, credit markets have continued to let the state continue to borrow. At this point, the fiscal problem is so large, it seems that more borrowing is just inevitable.”<sup>132</sup>

The state’s borrowing practices are just one factor contributing to Illinoisans’ grim outlook about the state’s fiscal future. Nearly seven out of 10 respondents predict bad times ahead for Illinois in the coming year—the highest percentage among all five states surveyed. When asked an open-ended question about what they think is the most important issue facing people in their state, a higher percentage of Illinoisans, compared with residents of other states surveyed, identify the budget. A bigger percentage of Illinoisans than residents in the other four states surveyed says state government is run by “a few big interests” rather than for the benefit of all people. Four out of five Illinoisans feel that way, slightly more than New Yorkers or Californians. Generally, residents of Illinois, New York and California are more wary of their state government than are those of Arizona and Florida, with about eight in 10 Illinoisans saying they trust their elected officials to do what is right “only some” or “none” of the time.

Illinoisans give both Governor Pat Quinn and the General Assembly low marks for job performance, but especially for their handling of the budget and taxes. According to the survey, only 31 percent of the public approves of Quinn’s performance as governor and only 24 percent likes the way he manages budget issues. The General

Assembly fares even worse, with 20 percent approval overall and 13 percent approval on the budget.



One of the difficulties for Illinois lawmakers who want to follow public sentiment—such as avoiding debt—is that the public sends mixed signals.

Nearly nine out of 10 Illinoisans say they are either “very” or “somewhat” concerned about the effects of cuts to government services (see Exhibit 19). When asked what services they would most want to protect from cuts, 53 percent of respondents name K-12 public education and another 28 percent name Medicaid. That means that four out of every five want to protect one of the two most expensive areas of state spending, which together make up 57 percent of the bills paid from the state’s general fund.

When it comes to making cuts, the Illinois General Assembly for three straight years has left many of the hard decisions to the governor. At the start of the current budget year in July, Governor Quinn said he would cut \$1.4 billion from the budget lawmakers sent to his desk.<sup>133</sup> He did not release full details of his plan, but he did outline cuts to most major state agencies. Human services, which covers state hospitals and mental health services, would suffer from the biggest reductions at 7.7 percent. By contrast, Governor Quinn vowed to cut \$341 million from education, a drop of 3.3 percent. And within the education budget, he avoided cutting the main source of state aid to

schools. Instead, he scaled back money for transporting students, reduced spending on reading improvements and promised to save money in other grant programs.<sup>134</sup>

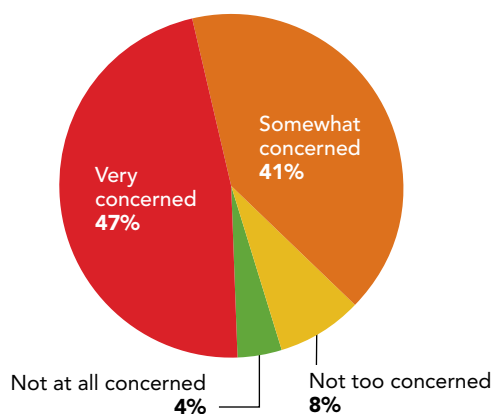
Under the plan, state police would lose 5.4 percent of their funding; higher education would go down 4.5 percent; the Department of Corrections would get cut by 3.6 percent. Only the agency that runs Medicaid would not suffer, thanks largely to federal mandates and higher enrollments. In fact, its budget would actually increase by 2.1 percent. Governor Quinn is in the midst of implementing this plan; more cuts are possible later.<sup>135</sup>

Still, the cuts are small compared with the size of the budget deficit, and the reductions leave the largest state expenses largely

#### Exhibit 19

### Concern over spending cuts in Illinois

88 percent of Illinoisans are very or somewhat concerned about the effects of state spending cuts on services.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

unscathed. “In the three years of the Great Recession, the State of Illinois has been unable to identify one significant program for elimination,” says Laurence Msall, president of The Civic Federation in Chicago.<sup>136</sup>

The system of supporting education and health care complicates the task of cutting for lawmakers. The vast majority of state money for education simply is funneled to local school districts. That means cuts in state aid to schools could result in teacher layoffs or higher local property taxes, but the choices would be up to the more than 850 local school districts—not the General Assembly.

In fact, notes Merriman, more than half the money that passes through the state treasury—some \$32 billion of the state’s total budget of \$61 billion—pays for services that state employees do not provide. That includes money for doctors who serve Medicaid patients, for school districts that teach children and for social service providers who care for the mentally ill.<sup>137</sup>

On the revenue side of the ledger, 70 percent of Illinoisans, like respondents in the other four states surveyed, say they would be willing to pay more in taxes to maintain the current level of support for elementary and secondary education, and nearly six in 10 say the same for health and human services.

But when given a choice of several options for raising new money for the state, respondents continue to shy away from broad-based tax increases. Sixty-six percent



say they favor raising taxes on alcohol and cigarettes and 54 percent favor expanding gambling, while 60 percent favor raising corporate taxes. But these are not major sources of revenue for the state, so even if they were increased, they would not bridge the gap. And there are other obstacles to these options: For instance, increasing income taxes on businesses is complicated by restrictions in the state constitution.

Just 26 percent of Illinoisans say they favor an increase in the income tax, the main source of state revenue. When asked which option they would prefer if the state had to raise taxes on individuals to keep the same level of services, just 18 percent say they prefer an across-the-board income tax increase; another 18 percent select extending the sales tax to services, and 12 percent say they favor raising the sales tax on all purchases. Nearly half of respondents favor raising income taxes on the wealthy—but that would require a constitutional amendment in Illinois.<sup>138</sup>

Tax proposals have been equally unpopular in the General Assembly in recent years. The House resoundingly defeated a proposal championed by then-Governor Rod Blagojevich to impose a gross receipts tax on businesses. After Governor Quinn took office, the Senate passed an income tax increase proposal he supported, but it fell well short of a majority in the House, where both Democrats and Republicans opposed it.

State lawmakers in recent years twice approved higher taxes to fund transportation projects. In 2008, legislators raised the sales tax in the Chicago area—where two-thirds of Illinoisans live—to prevent major cuts in passenger rail and bus services there. And in 2009, they extended the sales tax to candy and other sugary snacks, hiked taxes on alcohol, boosted vehicle registration fees and expanded gambling by legalizing video poker machines at bars, all to fund a five-year, \$31 billion public works effort. Almost half of the revenue would go toward building and fixing roads and bridges.<sup>139</sup>

Ironically, transportation ranks low on the list of priorities for Illinois residents, according to the survey. In fact, only one in five Illinoisans says he or she would be willing to pay higher taxes to maintain transportation funding at current levels. And given a choice among major areas of state spending—K-12 education, higher education, Medicaid and transportation—more than half of Illinois respondents choose transportation as the area they would least protect from spending cuts. Only 5 percent say it is the area they would most want to protect.

Yet, cuts in the transportation budget would not yield enough revenue to solve the state's problems. Nearly a fifth of Illinois respondents incorrectly identify transportation as the largest area of state spending. The trend is especially pronounced among Democrats: Roughly

a quarter say transportation is the state's top expense, about the same proportion that point to K-12 education as the largest cost. In fact, transportation accounts for 8.3 percent of the state's budget, when including specifically dedicated revenue such as federal funds and gas tax proceeds.<sup>140</sup> When it comes to the general fund—the state's main checking account, filled primarily from income and sales taxes—transportation accounts for little more than 0.5 percent.<sup>141</sup>

Their state's continued fiscal struggles have left Illinoisans frustrated with their state government and eager for reforms. Three of four respondents to the survey think the state budget process needs “major” changes, nearly as many as in California, and 86 percent—the highest number in all five states surveyed—say their elected

officials should take action now rather than wait until the economy improves. Fifty-five percent of Illinois residents think their state and local tax systems need “major” changes, just under the roughly 60 percent of Californians and New Yorkers who do.

In fact, many observers marvel at the fact that Illinois has survived this long without a day of reckoning. If policy makers do not fix the state's budget problems soon, two potential crises may loom on the horizon, says Merriman, of the University of Illinois at Chicago: Either credit markets will cut off the state from further borrowing because the investments are too risky, or service providers will stop working for Illinois because of the state's lousy payment record. “I'm always amazed that it hasn't ground to a halt yet,” he says.<sup>142</sup>

## MORE RESULTS FROM...ILLINOIS

- Nearly half of Illinoisans (47 percent) think the amount of money being spent on public employee pensions or retirement systems is a “big problem,” while 36 percent say it is “somewhat of a problem.” In fact, Illinois' state pension systems were the least well-funded among the 50 states as of fiscal year 2008, and the state had no money set aside to pay for the separate bill coming due for retiree health benefits.
- Three-quarters of Illinoisans think that when it comes to reforming the state's budget process, voters should decide at the ballot box, rather than have the governor and legislature pass new laws. But this form of direct democracy is constitutionally prohibited in the state.
- State policy makers have been unable to agree on a proposal to increase the personal income tax. Illinoisans—by a slim margin—are the least reluctant of respondents in any state to raise that tax. Still, only 26 percent of respondents say they would support it.







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## New York

After more than a year of statewide scandal, continuous legislative chaos, partisan gridlock and incessant political bickering, it is no surprise that New Yorkers might seem even more jaded about state government than their widespread reputation for cynicism would suggest. What is surprising is that there is a glimmer of optimism about the future of New York, according to a survey of public attitudes in five fiscally challenged states by the Pew Center on the States and the Public Policy Institute of California (PPIC).

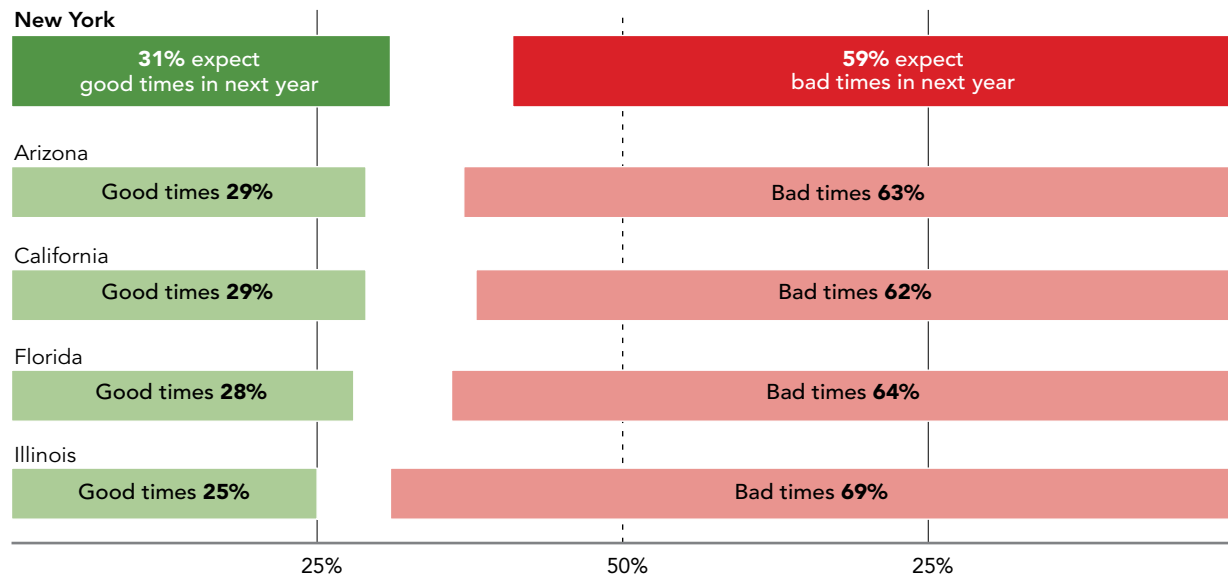
Perhaps it is latent confidence in the financial recovery of Wall Street, among other reasons, but almost a third (31 percent) of New Yorkers think the economy will turn to “good times” in the next year (see Exhibit 20). Fewer (37 percent) consider their state to be in a “serious” recession compared with residents of the four other states surveyed: Arizona, California, Florida and Illinois.

More than half those polled say they would be willing to pay more money in taxes as long as it went for K-12

## Exhibit 20

## New Yorkers slightly less pessimistic about coming year

Respondents across the five states surveyed have a grim outlook about the economic condition of their state over the next 12 months. Slightly fewer New Yorkers expect bad economic times next year than do residents in the other states, and fewer in New York consider the state to be in a “serious” recession.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

public education and health and human services—63 percent and 52 percent, respectively. That is after New Yorkers have seen their taxes increase more than those of any other state since the recession began, giving them the second-heaviest state and local tax burden in the country behind only New Jersey (as of 2008).<sup>143</sup>

Wall Street may or may not be a part of the higher confidence—the survey was taken just as the financial district was beginning to see an uptick in hiring, and the financial industry accounts for some 20 percent of the state’s revenue. But one thing is certain: Albany is not part of it.<sup>144</sup> The distrust of state government runs

exceptionally deep in New York, with 79 percent of respondents saying they trust their elected officials to do what is right “only some” or “none” of the time. As the survey was completed, the state was entering its third month without a budget agreement and teetered on the edge of a government shutdown.<sup>145</sup> New York finally passed a \$136 billion budget in early August.

For a state that was dubbed as having the “most dysfunctional” legislature six years ago by the Brennan Center for Justice at New York University, things seem to get worse with each passing year. Approval ratings for Governor David Paterson and

the Democratic-controlled legislature are at 26 percent and 20 percent respectively, and while the governor receives the same score for his handling of the budget, the legislature sees an eight-point drop on this dimension, to 12 percent.

New Yorkers are used to shenanigans in Albany, but in recent years the scandals have hit state office holders at the highest level—including the current governor and his predecessor. Governor Paterson, who inherited the office when former Governor Eliot Spitzer resigned in 2008 in a prostitution scandal, dropped out of this year’s governor’s race after he was accused of interfering in a domestic abuse case (he was later legally cleared) and of lying about accepting free World Series tickets.<sup>146</sup> Former Senate Majority Leader Joseph Bruno was found guilty of corruption in 2009, and the former state comptroller, Alan G. Hevesi, was forced to resign in 2006 after he was convicted of defrauding the state.<sup>147</sup>

Amid the scandals, Democrats, who finally won control of the state Senate for the first time in 40 years by a slim margin in the 2008 election, engaged in a series of power struggles that effectively shut down the chamber last year as they fought over who was in charge.<sup>148</sup>

“Voters are finally fed up with Albany,” says Laura Seago, a researcher with the Brennan Center for Justice, and coauthor of “Still Broken: New York

State Legislative Reform 2008 Update.” She says state lawmakers openly flout changes designed to make budgeting and legislating more accessible to the public by negotiating nearly all the important decisions in closed-door leaders’ meetings and party conferences.<sup>149</sup> The respondents to the survey seem to agree with Seago’s assessment: 79 percent of New Yorkers trust their government only some of the time (67 percent) or not at all (12 percent). Indeed, 71 percent think things are going in the wrong direction.

One factor in the public’s low trust ratings might be the fact that New York’s state government has passed its budget on time only six times since 1975.<sup>150</sup> Even state policy makers talk about the dysfunction. This year, after the state Senate left Albany for the July 4th holiday without voting on a key part of the budget and publicly rebuffed the governor’s compromise proposal without discussing it, the governor’s spokesman asked in frustration: “Is there any other state capitol in the nation where the legislature refuses to accept legislation from the governor, or is this the latest example of Albany’s famous dysfunction?”<sup>151</sup>

Looking ahead, New Yorkers not only want procedural change, they also want leaders to rein in spending. Two-thirds of New Yorkers think state government wastes “a lot” of taxpayer money. The same proportion says state government could spend less without reducing services; of those, three in four think that at least

“10 percent to under 20 percent” of state spending could be trimmed. Two-thirds also see the state budget situation as a “big problem.” In April, when the state already was supposed to have a new budget, Albany sent out checks totaling \$6.5 million that included \$28,500 for a tennis league and \$11,000 for a lighthouse museum, renewing complaints of rampant waste.<sup>152</sup> Earmarks and waste perhaps are more salient issues in New York than they are in any state surveyed.

“All of this stuff is classic pork,” E.J. McMahon, a fiscal analyst for the Manhattan Institute, a conservative-leaning think tank, said at the time. “It’s hard to justify this stuff even in the good times. It’s impossible to justify this during a fiscal crisis.”<sup>153</sup>

In early July, Governor Paterson, with great fanfare, estimated it would take some 29 hours to line-item veto an estimated 6,700 of these earmarks to help balance the budget. The problem was that all those earmarks totaled some \$525 million, not counting as much as another \$190 million left from projects of prior years.<sup>154</sup> That sounds like a lot of money, but not when the deficit is \$9 billion.

“There’s no question there is waste,” says Robert Ward, deputy director of the Nelson A. Rockefeller Institute of Government. Significant cuts could be made to the budget, he says, but a 20 percent cut could not be done without affecting services that the state provides.<sup>155</sup>

More than half (57 percent) of New Yorkers think state government is “too big,” and most (71 percent) prefer spending cuts as the first choice for balancing the budget, consistent with the other four states surveyed. In July, New York’s comptroller said that the budget passed by the legislature for fiscal year 2011 is expected to increase spending by 7.6 percent over the previous fiscal year. The comptroller warned that the state could face another \$4.8 billion deficit because revenue assumptions were overly optimistic.<sup>156</sup>

Steve Taylor, director of research for the Public Policy Institute of New York State, a research organization that promotes economic competitiveness, says that going back one decade, if state spending had matched the growth in the Consumer Price Index, New York’s budget would be \$18 billion less today, which would be more than enough to cover this year’s deficit. “The current level of state spending is unsustainable,” he says.<sup>157</sup>



According to the survey, New Yorkers want the state to cut spending. But asked what they most want to protect from cutbacks, 48 percent choose K-12 education and 26 percent choose Medicaid, programs that together make up half of New York’s budget.<sup>158</sup> This gets to the crux of this year’s budget showdown. Democratic lawmakers were unwilling to cut as deeply as their lame-duck governor had called for, especially in education. Governor Paterson vetoed more than \$400 million in additional education



funding and was roundly criticized for it.<sup>159</sup> Only 12 percent of New Yorkers say they support the governor's approach to the budget while the largest share (41 percent) say they prefer the approach of the Democrats in the legislature.

"I don't mind cutting some services, but we have to protect education and health care," says Karen Johnson, 49, a high school math teacher and Army reservist from Brooklyn who was a survey respondent.<sup>160</sup>

Of four major areas of state spending, New Yorkers (46 percent) want to protect transportation the least, only slightly less than their counterparts in Arizona, California, Florida and Illinois. Three in four New Yorkers would not raise taxes to maintain current funding for transportation—perhaps seeing it as an area ripe for cuts. Interestingly, 20 percent of New Yorkers say they think transportation represents the largest spending item in the state budget, but in reality, it is only 5.6 percent of the budget.<sup>161</sup> One reason for the confusion might be that New York City's Metropolitan Transportation Authority (MTA) often is in the news. This year it faced a \$400 million deficit.<sup>162</sup> "Most voters think we spend a lot of money on MTA, but it's really not a state function," says Justin Phillips, a political science professor at Columbia University who specializes in state and urban politics.<sup>163</sup>

Similarly, if the state has to raise taxes, 65 percent of New Yorkers favor raising the corporate tax rate, which provides only 6.8

percent of state revenue, compared with the sales tax, which provides 17 percent, and the income tax, which provides a full 56.7 percent.<sup>164</sup>

New Yorkers overwhelmingly oppose raising the state sales tax on all purchases (82 percent) or raising the personal income tax (79 percent), and a majority (62 percent) opposes extending the state sales tax to services that currently are not taxed. But even after having raised taxes on cigarettes twice and increasing the tax on wine, about three in four New Yorkers (73 percent) favor going after these sin taxes again. With its latest hike on cigarettes this year, New York now has the highest state cigarette tax in the nation—\$4.35 a pack, up from \$1.50 before the recession began.<sup>165</sup> That means New York smokers will be paying about \$10 a pack (more if they live in New York City, which has its own \$1.50 tax), nearly half of that because of taxes.

When given three choices for finding a new revenue source, a majority of New Yorkers (56 percent) says it prefers raising income taxes again on the wealthy. Three in 10 prefer taxing sugary soft drinks, a proposal that Governor Paterson gave up on because of stiff opposition in the legislature. Just 5 percent prefer borrowing—consistent with responses from residents in the other four states surveyed.

New York Lieutenant Governor Richard Ravitch says there is a good reason for the opposition to borrowing. "You don't have to be a rocket scientist to know that we've been borrowing at all levels of government and

deferring the cost of borrowing to the future. The reason states are in so much trouble is they incurred so much debt, not for capital purposes, but for operating purposes.”<sup>166</sup>

Still, borrowing was a key plank in Ravitch’s five-year plan to put the state on a sounder fiscal footing and rid it of its \$13 billion structural deficit—the gap between spending and revenues that will remain even if economic times improve.<sup>167</sup> The plan would have allowed the state to borrow up to \$2 billion in each of the coming three years, but only if a newly created independent review board found that strict new financial controls had been met. This new board could trigger across-the-board cuts if the budget were not balanced.<sup>168</sup> If the plan had been adopted, Ravitch says, New York would have been the first state to have moved from using “cash-basis budgeting” that has essentially allowed the state to use next year’s revenues to pay this year’s bills, to a system that aligns with “generally accepted accounting principles,” considered the gold standard among accountants and auditors.

“This doesn’t have the drama of a bankruptcy, or the sadness of the tragedy we all suffered on 9/11,” the lieutenant governor said when he released his plan in March. “But inattention to our problems, a failure to be honest about what we’re facing, will lead to something of even greater cataclysmic results.”<sup>169</sup>

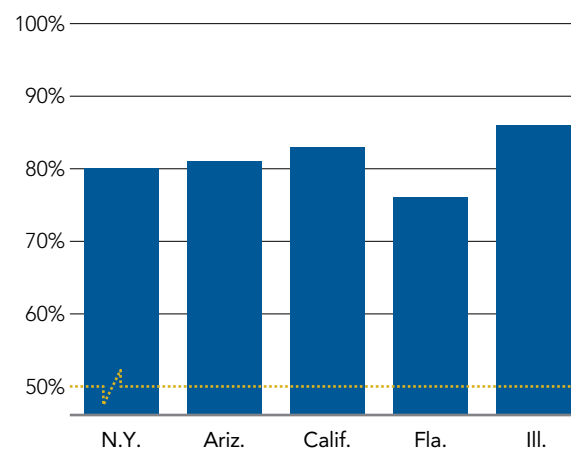
Ravitch helped New York City escape bankruptcy in the 1970s with a similar plan.

But this time around, his proposed package was rejected by a number of policy leaders, a demise that Ravitch blamed on his ideas “not being properly characterized” by the press or politicians.<sup>170</sup> Lawmakers initially panned his plan, and Governor Paterson in particular balked at the borrowing provisions. While the governor touts that the budget finally agreed to in August, 125 days late, contained “absolutely no borrowing,” this is true “only in the narrowest technical sense,” says the Empire Center for New York State Policy, a project of the Manhattan Institute. The center says that instead of selling deficit bonds to investors, the state effectively will borrow up to \$2 billion from taxpayers during the next three years through the tax credit deferrals included in the revenue package. Another \$1.5 billion

#### Exhibit 21

### State budget reform: Act now or wait for improved economy?

Large majorities say their state should act now.



SOURCE: Pew Center on the States and Public Policy Institute of California 2010.

will be borrowed during the same period by “amortizing” a portion of the state’s projected contributions to its pension fund.<sup>171</sup>

An overwhelming majority (80 percent) of respondents says it wants action taken now to reform the state budget process, rather than waiting for the state economy to improve (see Exhibit 21). But New Yorkers will have to press their state leaders to make those changes; New York does not allow citizens to put measures on the ballot directly, and it does not allow legislators to put them there by referendum.<sup>172</sup>

Former New York City Mayor Ed Koch, who is heading up a reform effort called New York Uprising, is asking candidates to pledge they will support reforming the budget process, including many of the

reforms laid out in the Ravitch plan, and nonpartisan redistricting to make state legislative races more competitive.<sup>173</sup> “The legislature’s a disgrace, and to say they’re dysfunctional is to be moderate in your approach,” Koch said in July 2010. “They embarrass every New Yorker.”<sup>174</sup>

Yet for all the talk of dysfunctional government in New York, there is still hope for a turnaround and demand for action. Carl Bourelly, 51, a freelance musician in Harlem and a respondent in the survey, says New Yorkers and their political leaders need to take a hard look at all the services the state provides. “I am willing to sacrifice,” Bourelly says. The question is whether the state will have the bold leadership needed to change course. “We need some new ideas,” he says. “Some radical ideas.”<sup>175</sup>

## MORE RESULTS FROM...NEW YORK

- Although most New Yorkers list the economy and jobs as top priorities, a higher percentage of New Yorkers—14 percent—than other state respondents name taxes as the most important issue.
- Surveyed nearly two months before the governor approved a deal allowing slot machines in New York City, 58 percent of New Yorkers said they favor expanding gambling to raise state revenues.
- In a state where crime is a perennial issue for politicians, New Yorkers are among the least willing of residents across the five states surveyed to pay more taxes to maintain corrections spending; only 16 percent would do so.
- Forty-seven percent of respondents in New York see the amount of money being spent on public employee pension or retirement systems as a “big problem.”



# Methodology

This report, produced jointly by the Pew Center on the States and the Public Policy Institute of California (PPIC), is based on a five-state survey of public attitudes about the fiscal crisis. It seeks to assess how residents of Arizona, California, Florida, Illinois and New York view their states' budget problems during this nationwide economic downturn and what they think their elected officials should or should not do to cope.

These five states were chosen because each has faced unusually severe fiscal stress in the economic downturn, including some of the highest unemployment statistics, biggest home foreclosure rates or largest state budget gaps in the country. Some other states are experiencing economic or budget problems of similar magnitude, and even greater in some cases, so this selection in no way implies these are the five hardest-hit states. Also taken into consideration were geographic and political diversity to solicit a range of regional, cultural and partisan perspectives that might provide a multi-faceted view of today's serious state budget problems. The five states selected allow a sample of

different regions of the country: Arizona in the Southwest, California in the West, Florida in the Southeast, Illinois in the Great Lakes region and New York in the Northeast. The selection also allows for political diversity: The governor's office and both houses of the legislature are controlled by Democrats in Illinois and New York, by Republicans in Arizona and Florida (although Florida Governor Charlie Crist is now seeking federal office as an independent), and California has a Republican governor and Democratic-controlled legislature. Together, the five states account for almost a third of the U.S. population, almost a third of the nation's economic output and 45 percent of states' total projected budget gaps for fiscal year 2011.

The five state surveys were directed by PPIC. Design of the surveys benefited from discussions among Pew Center on the States staff, PPIC staff and state policy experts; however, the survey methods and questions were solely determined by PPIC President and CEO Mark Baldassare and PPIC staff. The Pew Center on the States was responsible for analyzing the survey results, evaluating the findings in the

context of states' current fiscal conditions, interviewing national and state-level experts, and writing and producing the report. The Center's work benefited from survey analysis by and discussions with PPIC staff and discussions with state policy and polling experts. The Pew Center on the States also funded the entire effort.

The five surveys were conducted between June 3, 2010, and June 20, 2010 (see Exhibit A-1 for the exact dates for each state). The survey findings and analysis were supplemented with empirical information about the budget condition of each of the states and interviews with national and state-level informants, including policy makers and researchers, and nationally recognized public polling, fiscal and economic experts.

Findings in this report are based on a survey of at least 1,000 adults in each of the five states (see Exhibit A-1), reached

on landline telephones and cell phones. Interviewing took place on weekday nights and weekend days. Interviews took an average of 18 to 19 minutes to complete.

Abt SRBI conducted the telephone interviewing. Landline interviews were conducted using a computer-generated random sample of telephone numbers, ensuring that both listed and unlisted numbers were called. All landline telephone exchanges in the five states were eligible for selection and the sample telephone numbers were called as many as six times if necessary to increase the likelihood of reaching eligible households. Once a household was reached, an adult respondent (age 18 or older) was randomly chosen for interviewing using the "last birthday method" to avoid biases in age and gender.

A total of 101 cell phone interviews in each of the five states were included in this survey to account for the growing number of U.S. residents who use the devices. These interviews were conducted using a computer-generated random sample of cell phone numbers. All cell phone numbers with area codes in the five states were eligible for selection, and the sample telephone numbers were called as many as eight times to increase the likelihood of reaching an eligible respondent. Once a cell phone user was reached, it was verified that this person was age 18 or older, a resident of one of the five states selected for this study, and in a safe place

Exhibit A-1

## More information about the survey

	Date of survey	Number of adults surveyed	Average time to complete survey (minutes)
Arizona	June 9–15, 2010	1,003	19
California	June 16–20, 2010	1,002	19
Florida	June 9–15, 2010	1,003	19
Illinois*	June 3–9, 2010	1,001	18
New York	June 3–9, 2010	1,001	18

\*685 respondents in Illinois were recontacted between June 15 and 20 and asked an additional question that is reported in question 32a in the Illinois survey results.

to continue the survey (e.g., not driving). Cell phone respondents were offered a small reimbursement for their time to help defray the potential cost of the call. Cell phone interviews were conducted with adults who have cell phone service only and with those who have both cell phone and landline service in the household; many landline interviews include those who have both services.

Landline and cell phone interviewing was conducted in English and Spanish, according to respondents' preferences. Accent on Languages, Inc., translated the survey into Spanish, with assistance from Renatta DeFever.

With assistance from Abt SRBI, PPIC used recent U.S. census figures to compare the demographic characteristics of the survey sample with characteristics of each state's adult population. The survey sample was closely comparable to census figures. Abt SRBI used data from the 2008 National Health Interview Survey and data from the 2006–2008 American Community Survey, both to estimate landline and cell phone

service in each state and to compare it against landline and cell phone service reported in the survey. The survey data in this report were statistically weighted to account for any differences in demographics and telephone service.

The sampling error for each of the surveys, when design effects from weighting are taken into consideration, is  $\pm 4$  percent at the 95 percent confidence level. This means that 95 times out of 100, the results will be within 4 percentage points of what they would be if all adults in the state were interviewed. The sampling error for subgroups is larger. Sampling error is only one type of error to which surveys are subject. Results also may be affected by factors such as question wording, question order and survey timing.

The results allow a comparison of the opinions of registered Democrats, Republicans and independents (voters who are not registered with a party). Illinoisans do not register with a political party, so they were asked in the survey about their partisan identification rather than about party registration.





# Endnotes

1 The Pew Center on the States is a division of The Pew Charitable Trusts that identifies and advances effective solutions to critical issues facing states. The Pew Center on the States is separate from The Pew Research Center for the People & the Press, which is an independent, nonpartisan public opinion research organization that studies attitudes toward politics, the press and public policy issues. The Pew Research Center for the People & the Press also is supported by The Pew Charitable Trusts, but it played no role in this survey. The Public Policy Institute of California (PPIC) regularly conducts the PPIC Statewide Survey as part of the institute's mission to inform and improve public policy with independent, objective, nonpartisan research. It does not take or support positions on any ballot measures or on any local, state or federal legislation. Neither organization endorses, supports or opposes any political parties or candidates for public office.

2 Calculation based on data from National Conference of State Legislatures, *State Budget Update: March 2010*, April 2010.

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4 National Governors Association and National Association of State Budget Officers, *Fiscal Survey of the States*, June 2010, vii.

5 *Ibid.*, 39–40.

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9 Illinoisans do not register with a political party, so they were asked in the survey about their partisan identification rather than about party registration.

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12 Pew Center on the States interview with Ronald Snell, director of State Services Division, National Conference of State Legislatures, July 19, 2010.

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- 20 Pew Center on the States interview with Eliza Hawkins, staff director, Florida Senate’s Policy and Steering Committee on Ways and Means, July 14, 2010.
- 21 Analysis based on Arizona State Legislature, Joint Legislative Budget Committee, *Highlights of the FY 2010 Budget*, BH-7–BH-8, <http://www.azleg.gov/jlbc/10app/bh2.pdf>. Arizona’s general fund spending totaled \$9.4 billion in fiscal year 2010. Its general fund appropriations on K-12 public education and Medicaid totaled \$4.4 billion and \$1.2 billion, respectively..
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- 28 National Conference of State Legislatures, “Actions and Proposals to Balance FY 2010 Budgets,” May 3, 2010, <http://www.ncsl.org/?tabid=17242> (accessed August 16, 2010); see also “Actions and Proposals to Balance FY 2011 Budgets,” July 21, 2010, <http://www.ncsl.org/?tabid=19646> (accessed August 16, 2010).
- 29 Nicholas Johnson, Phil Oliff, and Erica Williams, “An Update on State Budget Cuts,” 3.
- 30 National Conference of State Legislatures, “Actions and Proposals to Balance FY 2010 Budgets: Education,” May 3, 2010, <http://www.ncsl.org/?tabid=17242> (accessed August 16, 2010).
- 31 National Conference of State Legislatures, “Actions and Proposals to Balance FY 2011 Budgets: Education Cuts,” July 21, 2010, <http://www.ncsl.org/?tabid=19646> (accessed August 16, 2010).
- 32 Pew Center on the States interview with Patrick M. Callan, president, National Center for Public Policy and Higher Education, August 17, 2010.
- 33 National Association of State Budget Officers, *2008 State Expenditure Report*, 2009, 67.
- 34 In the survey, 15 percent of respondents in both California and Florida chose transportation as the area of major state spending that receives the most money overall. In California, transportation accounts for 6 percent of overall spending while K-12 education receives the biggest share (24 percent). In Florida, transportation accounts for 11 percent of the state’s overall budget while Medicaid accounts for the largest share (23 percent). Data from National Association of

- State Budget Officers, *2008 State Expenditure Report*, 2009, 17, 29, 67.
- 35 National Surface Transportation Infrastructure Financing Commission, Final Report, *Paying Our Way: A New Framework for Transportation Finance*, February 2009, 3, [http://financecommission.dot.gov/Documents/NSTIF\\_Commission\\_Final\\_Report\\_Advance%20%Copy\\_Feb09.pdf](http://financecommission.dot.gov/Documents/NSTIF_Commission_Final_Report_Advance%20%Copy_Feb09.pdf) (accessed September 8, 2010).
- 36 Pew Center on the States interview with Byron Schломach, director of the Center for Economic Transparency, Goldwater Institute, July 20, 2010.
- 37 Pew Center on the States interview with John Horsley, executive director, American Association of State Highway and Transportation Officials, August 12, 2010.
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- 48 Data from the data download program of the Board of Governors of the Federal Reserve System, D.3 (Annual) Seasonally Adjusted Debt Outstanding by Sector [csv, Last 25 Obs. 4.1 KB], <http://www.federalreserve.gov/datadownload/Choose.aspx?rel=Z.1> (accessed July 11, 2010).
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behind New York with a rating of AA-; with a negative outlook Illinois has an A+ ranking, signifying that while a state has a strong ability to meet financial commitments, it is somewhat at risk to unfavorable economic conditions and changes in circumstances. California's outlook is worse, with a ranking of A-, signifying that it has only an adequate capacity to meet financial commitments and is more subject to adverse economic conditions. BBB- is the lowest investment grade, as considered by market participants. Data from Standard & Poors, "State Budget Roundup: Lingering Gaps and the End of the Stimulus Dominate Deliberations," April 20, 2010, 26.

55 According to Moody's, California and Illinois both have credit ratings of A1 and Arizona has a credit rating of Aa3. The ratings for these states are considered above investment grade and medium credit rating below a best or high-quality rating. Data from Moody's Investors Service, "Rating Changes for the 50 States from 1973 to Date," March 9, 2010, and Moody's Investors Service, "Rating Changes for the 50 States from 1973 to Date," September 13, 2010.

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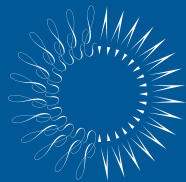
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