



Written by [Bob Adelman](#) on December 9, 2010

States' Budget Shortfalls: Pressure From Above, Pressure from Below

With all the attention being focused on extending the "Bush tax cuts," granting additional unemployment benefits, and the arrival in Washington of newly minted congressional Representatives and Senators, a major piece of the fiscal puzzle has been ignored altogether: states' increasingly pressured budgets for next year. As noted by the Center on Budget and Policy Priorities (CBPP), the Great Recession "has caused the steepest decline in state tax receipts on record."



And just because most states (except, of course, California) have somehow managed to close those gaps, which averaged one-fifth of the average state budget in 2010, that "does not end the story," according to contributor Elizabeth McNichol. Thirty-nine states have already reported that their expected budget shortfalls for 2011 will exceed \$100 billion, and when all states have reported, "these are likely to grow to some \$140 billion." Over the last three years, states have suffered deficits of more than \$435 billion, and these shortfalls are expected to continue for at least the next several years.

The study revealed that most states have closed the gaps through a series of increased taxes on their citizens, reduced benefits and services, negotiations with state employee unions, borrowing, and deferral of payments into the states' pension plans. They have also enjoyed the temporary benefits, approximately \$140 billion, flowing to the states from the American Recovery and Reinvestment Act (ARRA).

The report concludes that the worst is not over by any means. High unemployment, an economy that remains largely moribund, and increasing demands for public services like Medicaid, are continuing to keep the states in a budgetary bind.

The size of the bind was first exposed by Meredith Whitney in her investment report *The Tragedy of the Commons* which was reviewed in detail [here](#). Her concern was that no one was paying any significant attention to the budgetary problems faced by the states. Moreover, it was exceedingly difficult even to determine accurately just how bad the situation was. She said, "The states represent a new systemic



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risk to financial markets. I see a lack of transparency and an abundance of complacency ... just as we saw before the banks imploded."

Her conclusion was that bailouts of the states by the federal government could approach a trillion dollars, which would have "significant consequences on just about everything."

Now comes [Bloomberg](#) with its discovery of the size of the impact that property tax appeals are having on local and municipal revenue streams. In Michigan, for example, appeals for tax relief from excessively high property values — values that have declined between 30 and 50 percent in the last three years — have increased dramatically. Appeals from those owing more than \$100,000 in property taxes have more than doubled, and smaller claims for tax relief are *eight times higher* than 10 years ago.

In Atlantic City, New Jersey, property owners, including each of the owners of the 11 high-end casinos, are demanding tax relief on their properties with values, before the recession, into the billions. So severe is the situation there that Moody's has reduced the city's credit rating to just above "speculative." According to Michael Pagano, dean at the University of Illinois, "If we look into the future, assessments will have to [come down] to reflect the market value, and two years out, property-tax receipts will have to be coming down [as well]. And if the appeals are largely successful, they will generate [even] more appeals."

Illinois is expected to have nearly 20,000 property tax appeals, and the Property Tax Appeal Board already has a backlog of 35,000 pending cases. Louis Apostol, executive director of the board, gets letters every day from property owners desperately seeking relief: "These letters are heart-wrenching. I've got drawers and drawers of them. I respond [to each of them] directly. I also include my phone number and tell them how they can appeal their taxes."

The new reality for cities, towns, townships, and municipalities is that many of them will be seeking relief at the state level. But the states are under terrific pressure, amplified and augmented by the termination in 2012 of the federal bailouts of the states under ARRA.

The pain and suffering as cities, states, and the federal government try to get their finances under some kind of control, is just beginning. The pressure from above and the pressure from below are just now starting to pinch the taxpayer.



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