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## Election-year politics has state budgets in limbo

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By [Karen Pierog](#) and [Jim Christie](#)

CHICAGO/SAN FRANCISCO (Reuters) - Election politics is hobbling the budget process in states like Illinois more than usual this year, as lawmakers try to square dire government balance sheets with voter resistance to spending cuts and tax increases.

The outcome of this fine balancing act could shift control of more state legislatures to the Republicans after the November 2 vote, dealing a major setback to President Barack Obama and his once-resurgent Democratic Party.

The stakes are no higher than in Obama's home state of Illinois, a political bellwether and the industrial and financial heart of the U.S. Midwest. The state, however, is in the worst financial shape in its history.

With all 118 state representatives and 35 percent of senators up for election, Illinois' Democrat-controlled General Assembly chose not to anger constituents with tax increases or massive spending cuts as they sought to deal with a \$13 billion budget deficit heading into fiscal 2011.

Instead, it sent Governor Pat Quinn a budget full of undetermined cuts and one-time revenue measures, including debt sales and a reliance on yet-to-be approved federal Medicaid funds.

Quinn, a Democrat serving out the remainder of impeached former Governor Rod Blagojevich's term and who seeks a fresh mandate from voters in November, hopes legislators will increase the state income tax rate to 4 percent from 3 percent and authorize the sale of \$3.7 billion of bonds for a pension payment after the election.

### LEGISLATIVE SEATS IN PLAY

Eighty-three percent of all legislative seats in 46 states and 37 governors' races will be decided by voters in the November elections, according to the National Conference of State Legislatures. The looming races have influenced budget negotiations from New York to California.

Democrats currently control 27 legislatures, with 14 held by Republicans and eight split, the NCSL reported. Nebraska's single-chamber legislature is nonpartisan.

Buoyed by polls showing a nationwide surge in favor of Republicans, the Republican State Leadership Committee is predicting the party will pick up at least four chambers with another 12 currently run by Democrats in play.

The potential for the political fallout to reach Illinois has led the Democrat-controlled House to balk on passing a tax increase without Republican support to help solve the state's "horrendous" budget problems, said Kent Redfield, political science professor emeritus at the University of Illinois-Springfield.

"Republicans have a vested interest in letting the Democrats stew, but that means the citizens of Illinois are also going to stew until after November. So it's not a profile of courage anywhere," Redfield said.

Illinois' bond ratings have fallen to the lowest levels among the states as a result of the failure to address the structural budget deficit. And investors recently demanded a premium for a short-term debt sale, making the governor's plan for strategic borrowing more expensive.

### BUDGET GAPS AND POLITICS

U.S. states headed into fiscal 2011 facing a collective budget gap estimated at \$84 billion to \$120 billion, after dealing with previous years' shortfalls largely caused by the economic recession. And all states with the exception of Vermont, must balance their budgets.

California's Democrat-controlled legislature and Republican Governor Arnold Schwarzenegger are locked in a battle over a \$19 billion shortfall, and the state missed its mid-June deadline to agree on a spending plan for the fiscal year that began July 1.

As a result, the California treasurer has been forced to hold up bond sales for the state, which is the biggest issuer in the \$2.8 trillion U.S. municipal market.

The divide assures another lengthy summer budget battle in the state capital Sacramento, which many analysts say may last deep into the fall or longer, partly because Schwarzenegger is also demanding reform of the state's pension system as part of any budget agreement.

California requires two-thirds approval by lawmakers to approve a budget. Democrats would need to win over a handful of Republicans for their plan to force a showdown with Schwarzenegger, who is not seeking re-election.

Allan Hoffenblum, publisher of the California Target Book, which tracks state political races, predicted protracted budget negotiations ahead of the November 2 vote, partly because candidates were in "safe, gerrymandered districts" and, as a result, had little interest in a compromise.

Election-year politics was one of the main reasons that the last slice of New York State's \$136 billion budget, a \$1 billion revenue bill, was enacted 125 days late.

New York has such a long history of late budgets that legislators' paychecks are withheld when they miss the April 1 deadline. Carol Kellermann, president of the Citizens Budget Commission, a fiscal monitor, said the fear of setting a new record for tardiness pushed the state Senate into finally enacting the revenue bill on Tuesday.

"They thought that would be liability on the campaign trail plus they wanted to get paid," she said.

But aside from a few changes that raised taxes, with a levy on sugary sodas discarded in favor of a clothing sales tax hike, "Nothing really changed dramatically from the governor's budget," Kellermann said.

Kathryn Wylde, who runs the Partnership for New York City, which lobbies for business, said election-year concerns inhibited broad tax hikes. "The budget included no significant tax increases, reflecting awareness among legislators that anti-tax sentiment is high among the electorate," she said in an email.

Andrew Cuomo, a state attorney general and top gubernatorial candidate for the Democrats, played a role by frowning on two possible budget remedies: deficit borrowing and tax hikes.

"The fact that the Democratic candidate for governor came out with a strong position against a tax increase during a fragile economic recovery was undoubtedly an important factor in keeping taxes off the table," Wylde said.

Though the Democrats are widely expected to hang onto their big majority in the lower Assembly, the Senate is up for grabs. Senate Democrats only have a two-seat majority and Republicans ruled that chamber for decades until the 2008 election.

All of New York's Senate seats and 150 Assembly seats are up for election in November.

(Reporting by Karen Pierog in Chicago, Jim Christie in San Francisco and [Joan Gralla](#) in New York; Editing by Paul Simao)

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