

# Have you spotted these trends?

*CSG has identified these trends that may be significant to state government. Are we on track? Let us know whether these trends are affecting your state. Send your comments to [trends@csg.org](mailto:trends@csg.org).*

## Nuclear and water plants tighten security

The Sept. 11 terrorist attacks heightened awareness of security at vital facilities, including nuclear energy, drinking-water and wastewater plants. Terror attacks on these facilities would threaten the day-to-day operations of the nation, peoples' lives and the environment.

States are assisting municipalities in the arduous and costly task of fortifying security at these possible terrorist targets. After Sept. 11, 13 states called on their National Guards to protect nuclear facilities, but 25 states had not as of early December. In response, the Nuclear Regulatory Commission urged all states with nuclear-power plants to supplement plant security with the National Guard or state police.

Though experts think the threat of chemical and biological attacks on municipal water supplies is minimal, some utilities are bolstering security. Strategies include posting armed guards around drinking-water treatment plants, installing tamperproof manhole covers and blocking roadways around reservoirs.

With the help of the FBI, Utah is using planes and satellites to identify locations where it can tighten reservoir security before the 2002 Olympic Winter Games (see "Utah welcomes the world," p. 10-12). The Massachusetts Water Resources Authority is restricting access and placing state police and the National Guard at critical locations.

## Medicaid enrollment, costs up

The economic downturn and growing Medicaid costs are putting pressure on state budgets. The Congressional Budget Office estimated Medicaid costs would rise 8 percent to 9 percent nationwide in fiscal year 2002, but state revenues were projected to grow at only 2.4 percent.

More than 20 state Medicaid programs expect to begin the next fiscal year in the red, according to a recent report from the Kaiser Commission on Medicaid and the Uninsured. At the same time, states expect Medicaid enrollments to expand in the current recession, as workers lose jobs and health benefits.

States generally are reluctant to cut Medicaid enrollments for several reasons. As an entitlement program, Medicaid is designed to counter the effects of an economic downturn. Because the federal government matches state spending, every dollar cut from a state Medicaid budget translates into an average loss of \$2.33 from the state's economy.

Rather than reduce enrollment, states usually restructure optional benefits such as prescription drugs and dental care. Florida and Oregon, for instance, instituted new formulary requirements for Medicaid to save costs.

The trend in 2002 likely will be away from program expansions and toward creative alternatives for maintaining coverage and stretching program dollars, according to the Kaiser Commission report. Strategies may include disease management, utilization review, cost-sharing and prior-authorization requirements.

## Empty jails?

Over the past decade, state and local governments have poured billions of dollars into new prison construction because they did not have enough beds for all inmates. Mandatory minimum sentences for drug infractions, three-strikes laws and truth-in-sentencing guidelines led to overcrowding.

While prisons and jails are being built to meet the demand recognized several years ago, the bottom may be dropping out of the "prison market."

Since mid-2000, the number of prisoners in the United States has declined 0.5 percent, the largest drop since 1972, according to an August 2001 bulletin by the Bureau of Justice Statistics. Moreover, manda-

tory minimums and three-strikes laws are being challenged in courts as cruel and unusual punishment.

Where prison beds are unfilled, trained staff are idled as well. In many communities, jails and prisons also brought economic development and job opportunities that will be affected by a fall in prison populations.

Of course, many states still are dealing with prison overcrowding and prison population growth of more than 10 percent annually.



# Regional economic trends...

*The U.S. economy is in recession. The gradual economic slowdown that began in April might not have ended in recession if it weren't for the Sept. 11 terrorist attacks, which the National Bureau of Economic Research said significantly*

*depressed the economy.*

*After a decade of economic boom, state governments now face declining tax revenues and rising expenses for social services and security measures. Net state budget shortfalls for fiscal year 2002*

*could reach \$15 billion, according to an October 2001 analysis by the National Association of State Budget Officers. In this fast-developing situation, this is a snapshot of regional economic trends and responses to the recession.*

## East: Ground Zero

No Northeastern states were in recession in August 2001, according to an Economy.com report commissioned by the National Governors' Association. The Sept. 11 terrorist attacks disrupted the region's economy, however, and the near-term forecast is for "recession-like conditions" throughout the Northeast.

New York and neighboring states lost tax revenues as production fell, unemployment rose and tourism slowed. At the same time, they began pouring new dollars into recovering from Sept. 11 and preventing future terrorist attacks. For the region's border states, tighter security has disrupted trade with Canada.

As of Oct. 31, NASBO projected budget deficits for Connecticut, Maine, Massachusetts, New York, Rhode Island and Vermont. To offset the shortfalls, state officials cut spending and tapped reserve funds.

In November, New Hampshire reported higher than expected revenues, proving the exception to the national trend. The New England states expect to benefit from increased domestic tourism as Northeasterners drive to nearby winter vacation spots.

## Midwest: Bad gets worse

The Midwest's economic picture wasn't rosy before Sept. 11. Due in part to the region's heavy reliance on manufacturing, the economic downturn hit Midwestern states early and hard.

Indiana, Kansas, Michigan and Ohio were in a recession in August, according

to the NGA report. Iowa, Illinois, Nebraska, South Dakota and Wisconsin were near recession. Only Minnesota and North Dakota were in relatively strong economic shape in early September.

In the face of new or projected revenue shortfalls after the attacks, Midwestern states are revisiting earlier budget decisions. As of Oct. 31, eight Midwestern states expected deficits in fiscal year 2002, including Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, Ohio and Wisconsin, according to NASBO.

Iowa and Nebraska held special sessions in November to revise budgets. Other states instituted such cost-reduction methods as hiring freezes and travel restrictions. Heated debates are likely during the 2002 legislative sessions as decision-makers choose among unpopular policies to balance state budgets.

## South: Budget on my mind

As a result of a slower economy and increased spending, as many as 10 of the 16 Southern states could face budget shortfalls in 2002, according to NASBO. These states are Alabama, Arkansas, Florida, Georgia, Kentucky, Maryland, Mississippi, Missouri, South Carolina and Tennessee.

Each state has begun or considered measures to help its struggling economy and pay for the additional costs of providing homeland security.

A tax-amnesty program helped Louisiana collect \$60 million in back taxes in September and October. Other states may follow Alabama's lead and increase fees, such as those associated

with traffic stops, to generate revenue. Most states will face eliminating or trimming existing programs during this year's legislative sessions.

The South will receive a modest economic boost from increased military spending. Eleven of the 20 metropolitan areas most dependent upon defense spending are in the South, according to the NGA report.

## West: Jobs lost, budgets cut

Four states reported unemployment rates of 6 percent or more in October, and all are in the West. Washington had the highest unemployment at 6.6 percent. Oregon followed at 6.5 percent, and Nevada and Alaska came in at 6.3 and 6 percent respectively.

Nevada and Hawaii, both tourism-dependent economies, experienced the sharpest rise in unemployment. Nevada had the biggest increase at 1.5 percent, with the hotel and gambling industries losing most of the jobs, according to Stateline.org. Hawaii's unemployment rate grew 0.9 percent in October. Gov. Ben Cayetano convened an economic summit in late October to brainstorm ways to kick-start the state's economy.

State budgets are feeling the pinch. California will end the fiscal year with a \$4.5 billion deficit, according to a November report from the state Legislative Analyst's office. Idaho made budget cuts of 2 percent to avoid a \$36 million deficit, according to NASBO. Facing a \$1.6 billion shortfall over two years, Arizona officials cut 4 percent from the budget.