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The States

Policy Innovation Amid Fiscal Constraint

Four of the past five U.S. presidents, including George W. Bush, were governors first – a useful reminder about where much of the country's political energy and policymaking expertise originates.

States are front-line providers of basic services such as education, health care, transportation, public safety and law enforcement. They deal with real human needs in real time, and they have little choice but to be disciplined and innovative in solving their problems. Unlike the federal government, they are limited by the requirement (written into 49 of 50 state constitutions, with Vermont's the sole exception) that they balance their budget each year. States also are constrained by their legislative calendars. Just eight states have legislatures that meet year-round; 36 meet in regular session for part of the year, and six hold regular legislative sessions only every other year. In short, when states make policy, they often do so under severe pressures of time and money.

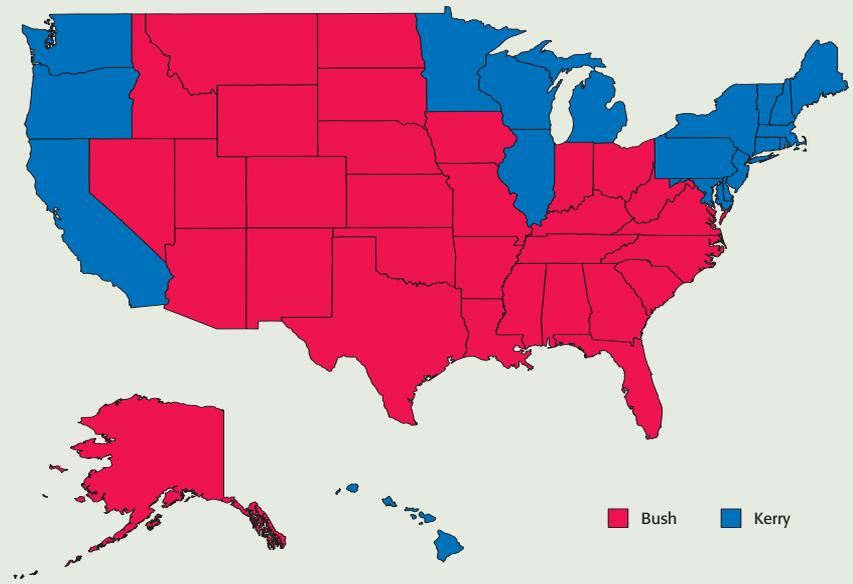
PARTISAN ALIGNMENT OF THE STATES

This chapter provides an overview of the major policy and fiscal issues facing these laboratories of democracy, as U.S. Supreme Court Justice Louis Brandeis famously described the states. But first it reviews the current partisan political alignment of the states, an exercise that dramatizes another key difference between the states and the federal government: The familiar red state/blue state map that works so well for presidential campaigns looks quite different at the next level down of government.

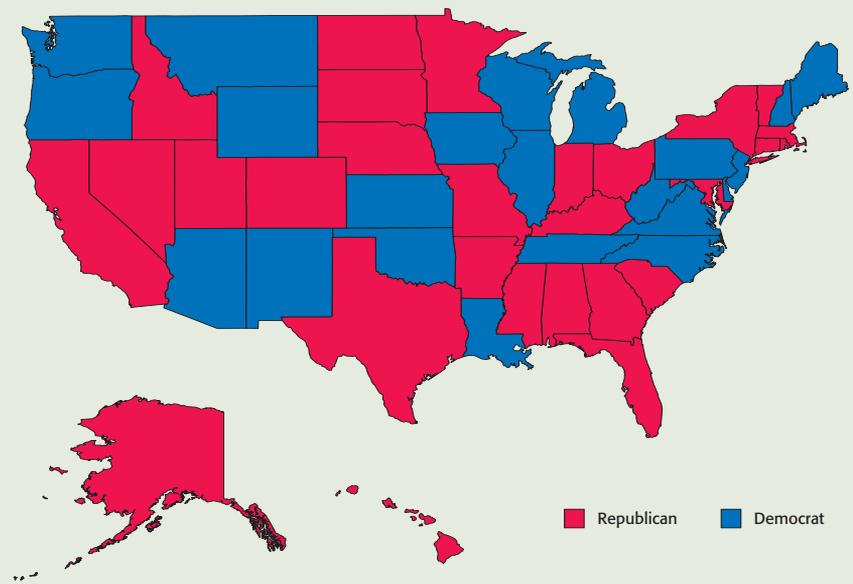
In the 2004 presidential race, 31 states went for President Bush and 19 for Democrat John Kerry. This lineup was little changed from 2000. In fact, just three of the 50 states switched their presidential preference between 2000 and 2004 — New Hampshire moved over to the Democratic column; Iowa and New Mexico went over to the Republican side — and in all three cases, the new verdict was the result of a small shift (of 2.3 percentage points or fewer) within a basically evenly divided state electorate.

However, this seemingly locked-in Electoral College map for presidential races obscures the texture and fluidity of politics at the state level. And it hides some anomalies. For example, California, New York and Massachusetts, three of the bluest Democratic states, have Republican governors, while Virginia and Montana, two of the reddest Republican states, are led by Democrats. One explanation favored by political scientists: Campaigns for national office tend to be driven more by ideology; campaigns for state executive office tend to turn more on managerial competence. Republicans currently hold 28 governorships

Presidential Vote by State, 2004

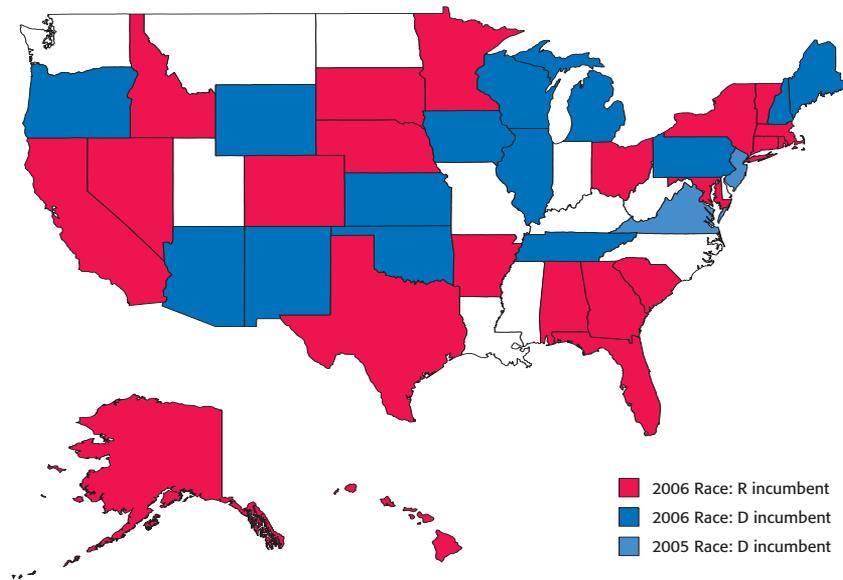


Governors by Party, 2005



Note: Washington governor's race still being challenged.

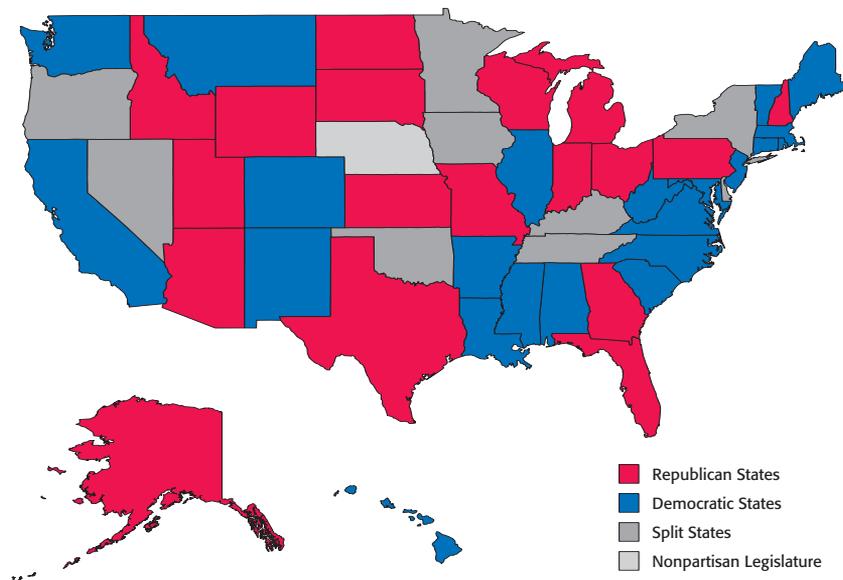
Upcoming Governors' Races: More Red States Than Blue



and the Democrats hold 22, but the balance could shift dramatically when voters in 34 states pick their leaders next year. (Just two states, New Jersey and Virginia, will elect governors in 2005.) In 2006, Democrats will have some built-in advantages. Of the 36 governors' races, 22 Republican-held seats are at stake, and in six of those the incumbent cannot run again because of term limits. By contrast, all 14 Democratic governors up for re-election in 2006 will be eligible to run for another term.

Republicans and Democrats stand nearly dead even in political control of state legislatures. In the 2004 election, while Republicans were running the table in the contests for federal office, Democrats picked up a small number of state legislative seats, breaking out of a slump that began in the 1980s, following a half century of Democratic domination of state legislatures. Democrats won back 76 state legislative seats last year to take a minuscule 12-seat advantage among the combined total of 7,382 state legislators in the 50 states. A flurry of post-election party switching left the parties hovering at a near-even split as 2005 began. Tallying up legislative chambers rather than individual legislators, Republicans control 20 state legislatures, the Democrats 20, and nine states are split, one party holding the state house and the other the state senate. (Nebraska has a unicameral, nominally nonpartisan Legislature.)

State Legislatures by Party, 2005



Source: National Conference of State Legislatures

Top Ten Tuition Hikes at State Universities

UNIVERSITY	2003-4 TUITION	2004-5 TUITION	CHANGE	PERCENT
Univ. of Houston	\$3,972	\$4,978	\$1,006	25.3
Univ. of Texas at Arlington	\$4,423	\$5,300	\$877	19.8
North Dakota State Univ.	\$3,965	\$4,733	\$768	19.4
Texas A & M Univ.	\$5,051	\$5,964	\$913	18.1
Northern Kentucky Univ.	\$3,744	\$4,368	\$624	16.7
Univ. of North Dakota	\$4,156	\$4,828	\$672	16.2
Univ. of Kansas	\$4,101	\$4,737	\$636	15.5
Kansas State Univ.	\$4,060	\$4,665	\$605	14.9
Southern Illinois Univ.	\$5,521	\$6,340	\$819	14.8
Virginia Polytechnic Institute	\$5,095	\$5,838	\$743	14.6
Oklahoma State Univ.	\$3,748	\$4,296	\$548	14.6

Source: National Association of State Universities and Land-Grant Colleges. Figures are for in-state tuition.



Termed out: California's John Burton gets an outgoing hug from Governor Schwarzenegger.

Associated Press World Wide

THE FISCAL OUTLOOK

After 20 years in which their spending grew by 6.5% annually, states faced plunging revenues in 2001 — the result of a national recession that began that spring and deepened following the terrorist attacks of September 11, 2001. It was the worst fiscal crisis for states in six decades, and it forced drastic budget belt-tightening to close budget gaps that collectively totaled \$236.2 billion between fiscal 2002 and fiscal 2005.

State colleges and universities quickly felt the pinch; many were forced into steep tuition increases. Medicaid, the health care program for 52 million poor, elderly and disabled people that is both federally and state financed, also took a hit, though the blow was cushioned by a one-time, \$10 billion federal payout to the states in 2003. At the height of the fiscal crisis, budgetary pressure was so severe Kentucky granted more than 850 nonviolent felons early release from prison. The move created a gigantic political headache for then-Gov. Paul Patton (D) when one newly freed inmate celebrated by allegedly robbing a bank.

State revenues reached a low point in mid-2002. Then, as the national recession ended and a patchy recovery began, the state fiscal crisis subsided in 2004. Based on a survey of state budget directors, the National Conference of State Legislatures reported in December that budget gaps were “practically non-existent” and that finances were “stable or improving” for most states. For the first quarter of fiscal 2005, the Albany, N.Y.-based Nelson A. Rockefeller Institute of Government reported that tax revenue in the 50 states grew by 8.4% compared with a year earlier, but it also found that “state tax resources are still well below what they were before the 2001 recession.”

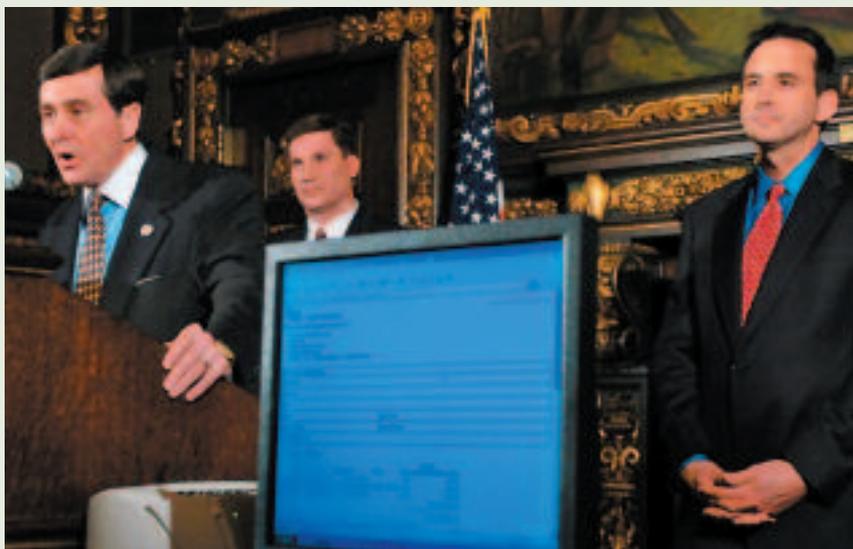
POLICY DEVELOPMENTS

Health Care

There are now a record 45 million Americans who have no health insurance. The most innovative effort to address the problem is being undertaken by Maine, which has the highest rate of uninsured people in New England and which this year is launching its Dirigo program (named for the state's motto, Latin for "I lead"). It is an experiment in universal health care, with a first step of helping small businesses buy insurance for employees. The program aims to cover 31,000 uninsured in 2005 and another 110,000 over the next five years, and will be paid for by shifting a portion of the \$7 billion that Maine spends annually on treating illnesses.

Other states are trying new ways to help residents cope with the spiraling cost of prescription drugs. Last year, a bipartisan group of Republican and Democratic governors in Illinois, Kansas, Minnesota, Missouri, New Hampshire, North Dakota and Wisconsin, and the secretary of state in Rhode Island, defied the federal government and established Web sites or importation programs to help citizens buy cut-rate medications from Canada or Europe.

"The re-importation of prescription medicines from Canada is a way to put pressure on the federal government and the [pharmaceutical] industry for change," Republican Gov. Tim Pawlenty of Minnesota, a leader of the drive, told *Stateline.org*.



Drugs from Canada: Minnesota politicians, including Gov. Tim Pawlenty (right), tout the state's new medication Web site.

Associated Press World Wide

Environment

On the environmental front, several states are tackling the issue of global warming in the absence of strong federal action. California is poised to impose the nation's first limits on automobile emissions to curb greenhouse gases, which trap heat in the atmosphere and are blamed for causing a warming of the Earth. Seven East Coast states — Connecticut, Maine, Massachusetts, New Jersey, New York, Rhode Island and Vermont — will adopt the same limits because they have opted to follow California's stricter vehicle emissions standards rather than national standards. The new standards would require cleaner-running cars starting in model year 2009. But the regulations first must be approved by the federal government and survive a legal challenge from the auto industry. California's requirements call for carbon-dioxide emissions to be cut by 30%. Car manufacturers contended in a lawsuit filed December 7 in U.S. District Court in Fresno, Calif., that the new emission cutbacks are an illegal, backdoor attempt to impose vehicle fuel economy standards stronger than those set by the U.S. Congress.

Stem Cell Research

Several states are taking the initiative on embryonic stem cell research, which medical experts hope will lead to treatments for illnesses such as Parkinson's and Alzheimer's diseases. Last year New Jersey became the first state to fund embryonic stem cell research through a newly created institute, and on November 4, California positioned itself as a potential world leader when voters approved a plan to spend \$3 billion over a decade for the nation's largest research program on embryonic stem cells. Wisconsin, whose state university cultured the first embryonic stem cells, quickly followed up with plans for a \$750 million publicly and privately funded stem-cell research effort. These state initiatives are at odds with federal policy, which sharply limits the same research because of moral and religious arguments against destroying human embryos to harvest their stem cells.



Exchange of views: Rival protesters outside the Massachusetts Statehouse.

Associated Press World Wide

Gay Marriage

Another state-federal conflict broke out when Massachusetts became the first state to legalize same-sex marriage last May. The state's Supreme Judicial Court ruled that denying gays and lesbians the right to wed violated the state Constitution, which was written by John Adams in 1779. The Massachusetts ruling — and a short-lived wave of same-sex weddings in places such as San Francisco and Portland, Ore. — triggered a powerful backlash from social conservatives, who feared that gay nuptials might have to be recognized throughout the country under the U.S. Constitution's guarantee of equal protection under the law.

Between August and November of 2004, voters in 13 states — Arkansas, Georgia, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, North Dakota, Oklahoma, Ohio, Oregon and Utah — attached amendments to their state constitutions to define marriage as an exclusively heterosexual union. All these initiatives passed by lopsided margins, with the "yes" votes ranging from a low of 57% to a high of 86%. Four states already had such language in their constitutions — Alaska, Nevada, Hawaii and Nebraska.

Lawmakers in at least 10 more states — Alabama, Arizona, Idaho, Indiana, Kansas, Maryland, South Carolina, Texas, Virginia and Washington — plan to try to constitutionally ban gay marriage in 2005. Even Massachusetts, the only state where same-sex weddings still go on, may vote to amend its Constitution at its first opportunity in 2006. "It's clear that the American public is not ready for same-sex marriage and is willing to take strong steps to stop it from becoming a reality," observed the Rev. Peter Sprigg, director of marriage and family studies for the Family Research Council, a conservative lobbying group based in Washington, D.C. It is also clear that states have found it easier and quicker to write anti-gay marriage clauses into their own constitutions than to wait for a similar change to the U.S. Constitution. President Bush has endorsed such an amendment, but the barriers to changing the U.S. Constitution are high, and there is no immediate prospect of congressional action.

Meanwhile, same-sex marriage advocates continue to press for more Massachusetts-type rulings. They have filed lawsuits in California, Connecticut, Maryland, New Jersey, New York and Washington that could reach the highest courts of these states in 2005 or 2006.

Gay Marriage and Civil Unions: Where States Stand

STATE	PERMITS GAY MARRIAGE	PERMITS CIVIL UNIONS	STATE OFFERS REGISTRY OF DOMESTIC PARTNERSHIPS	STATE LAW PROHIBITS SAME-SEX MARRIAGE	STATE CONSTITUTIONAL AMENDMENT PROHIBITS SAME-SEX MARRIAGE	NO STATE LAW OR POLICY	NOTES
Alabama				✓			
Alaska				✓	✓		
Arizona				✓			
Arkansas				✓	✓✓		
California			✓	✓			
Colorado				✓			
Connecticut						✓	
Delaware				✓			
Florida				✓			
Georgia				✓	✓✓		
Hawaii			✓	✓	✓*		* Amendment does not ban same-sex marriage, but stipulates that only the legislature, not the courts, can define marriage.
Idaho				✓			
Illinois				✓			
Indiana				✓			
Iowa				✓			
Kansas				✓			
Kentucky				✓	✓✓		
Louisiana				✓	✓✓*		* Amendment was tossed out by a state court two weeks after it was adopted Sept. 18, 2004, but that ruling is under appeal.
Maine			✓	✓			
Maryland				✓*			* The first state law defining marriage as a union between a man and woman was adopted by Maryland in 1973.
Massachusetts	✓					✓	
Michigan				✓	✓✓		
Minnesota				✓			
Mississippi				✓	✓		
Missouri				✓	✓		
Montana				✓	✓		
Nebraska					✓✓		
Nevada					✓		
New Hampshire				✓			
New Jersey			✓			✓	
New Mexico						✓	
New York						✓	
North Carolina				✓			
North Dakota				✓	✓✓		
Ohio				✓✓	✓✓		
Oklahoma				✓	✓✓*		* Includes a provision making it a misdemeanor crime to knowingly issue a marriage license to same-sex couples.
Oregon					✓		
Pennsylvania				✓			
Rhode Island						✓	
South Carolina				✓			
South Dakota				✓			
Tennessee				✓			
Texas				✓			
Utah				✓	✓✓		
Vermont		✓		✓			
Virginia				✓✓			
Washington				✓			
West Virginia				✓			
Wisconsin				✓*			* 1971 state Supreme Court ruling held that only heterosexual marriages are legal.
Wyoming				✓*			* State law predating federal law prohibits same-sex marriage.

✓✓ signifies law also prohibits civil unions or other domestic partnership status for same-sex couples

Education

Discord of a different variety — between federal and state officials — has flared over President Bush’s attempts to raise academic standards in the nation’s public schools, especially in schools where students are performing below grade level. States, which have the primary responsibility for public education in America, are unhappy with the costs, the penalties and the unprecedented federal oversight imposed by the No Child Left Behind Act. The law, a key domestic policy accomplishment of Bush’s first term, requires that all schoolchildren become proficient in reading and math by 2014, and it invokes penalties if test results don’t show progress.

The issue has inflamed the always-simmering resentment at the state level over the imposition of mandates from Washington, D.C., without the appropriation of sufficient funds to carry them out. The latest batches of test results are showing some progress in pushing school districts to make the grade. But new teacher certification requirements that will take effect at the end of the 2005-2006 school year and penalties due to be imposed on failing schools are potential flash points.

Medicaid

Medicaid in 2004 for the first time eclipsed elementary and secondary education as the single largest state expenditure. The states’ share of expenses in the federal-state health care program for America’s least fortunate is expected to jump almost 12% this year. No relief is in sight. A survey last fall by the Kaiser Commission on Medicaid and the Uninsured found that none of the 50 state Medicaid directors expects the strain on state health budgets to ease anytime soon. “As we look into the future, the states face tremendous challenges in financing and administering” the program, said Vernon Smith, a former Medicaid director in Michigan who conducted the study.

To get federal matching funds, states must provide essential benefits, including hospital care, to people who qualify for Medicaid, but state officials have flexibility to decide what benefits to offer beyond the core package. Faced with tight revenues and skyrocketing costs, states are cutting where they can. Some examples:

- Georgia tightened the income eligibility limit for 7,500 pregnant women and their infants, lowering the income cutoff from 235% of the poverty line to 200%. It also halted coverage for 1,700 medically needy nursing home patients.
- Oregon closed enrollment in a program that covers adults who do not qualify for traditional Medicaid but have incomes at or below the federal poverty level. The move was designed to reduce its caseload by half, from 54,000 patients to between 25,000 and 30,000.
- Michigan Gov. Jennifer Granholm (D) led a drive to raise cigarette taxes to \$2 per pack, netting her state about \$310 million a year, to avoid cutting payments to health care providers who serve Medicaid patients.
- In Mississippi, which faced a projected \$709 million budget deficit, Gov. Haley Barbour (R) last year won a federal waiver to temporarily stave off cutting 65,000 elderly and disabled people from Medicaid.
- Tennessee’s landmark decade-old TennCare program, designed to expand Medicaid’s reach to working families who could not afford private insurance, is on the verge of a collapse or a major downscaling. The idea behind TennCare was that by aggressively managing the health care of its participants, the program could cover far more people for the same dollars that were spent on Medicaid. But the program encountered large overruns from the start and grew to consume a third of the state’s budget. In late 2004, Tennessee Gov. Phil Bredesen (D) threatened to pull the plug on TennCare absent a major overhaul. Reverting to a bare-bones Medicaid program would strip coverage from about 430,000 of the plan’s 1.3 million participants.

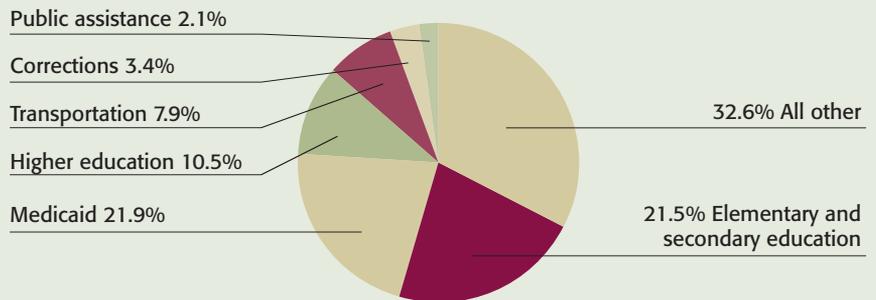
Homeland Security

One casualty of the September 11 terrorist attacks was the illusion of safety from foreign enemies within the borders of the United States. As all of America became a potential target, the states took on many new responsibilities for the common defense. For the first time, police officers, firefighters and emergency medical technicians were called on to think of themselves as serving on the front lines of a global war on terrorism. Challenges included everything from ensuring that first responders can communicate with each other — the policy catchword is “interoperability” — to dusting off and updating antiquated quarantine laws to better protect public health in the event of bioterrorism.

Meanwhile, the deployment of state-based National Guard soldiers to Iraq, Afghanistan, and other overseas theaters last year reached levels unseen since World War II, raising concerns for governors who rely on these forces to protect sensitive domestic facilities and to help out in natural disasters. Many states recorded their first Guard combat deaths since the 1950-53 Korean War. Of 1,340 military deaths in Iraq as of early January, 152 were from the Guard.

What the States Spend Money On

TOTAL STATE EXPENDITURES BY FUNCTION, FISCAL 2004



Source: National Association of State Budget Officers

For the first time in a decade, Army National Guard recruiters during the last fiscal year fell short of enlistment goals — by more than 5,000 recruits — as fallout from the soldiers’ hazardous new duties and lengthy deployments hit home. In October and November, recruitment was down even more, by 30%. In Iowa, where more than 70% of the state’s 9,600 guardsmen have been called to active duty since Sept. 11, 2001, recruitment was down 15%. As early as July 2004, Iowa’s governor, Tom Vilsack (D), told the National Governors Association that the Guard “was not ready for this challenge.”

Antiterrorism Funding: What the States Got, 2002-'04

STATE	TOTAL ALLOCATED, FY '02-'04 (IN MILLIONS)	PER CAPITA
Wyoming	\$49.7	\$100.63
Alaska	\$61.5	\$98.14
Vermont	\$53.4	\$87.68
North Dakota	\$53.7	\$83.63
South Dakota	\$60.3	\$79.84
Montana	\$68.3	\$75.66
Delaware	\$54.3	\$69.30
Hawaii	\$74.4	\$61.42
New Hampshire	\$73.6	\$59.57
Maine	\$73.8	\$57.87
Rhode Island	\$59.6	\$56.84
Idaho	\$63.3	\$48.95
West Virginia	\$81.5	\$45.09
Louisiana	\$193.9	\$43.39
Nebraska	\$71.3	\$41.65
Nevada	\$82.1	\$41.06
Arkansas	\$102.6	\$38.39
Washington	\$226.2	\$38.37
New Mexico	\$67.7	\$37.22
Mississippi	\$104.2	\$36.63
Iowa	\$106.3	\$36.32
New York	\$664.2	\$35.00
Oregon	\$113.9	\$33.30
Missouri	\$184.9	\$33.05
Kansas	\$88.2	\$32.80
Utah	\$72.5	\$32.47
Connecticut	\$109.5	\$32.16
Kentucky	\$127.0	\$31.41
South Carolina	\$125.9	\$31.38
Minnesota	\$151.8	\$30.85
Maryland	\$162.2	\$30.63
Massachusetts	\$192.6	\$30.33
Alabama	\$128.8	\$28.97
Oklahoma	\$99.6	\$28.85
Colorado	\$124.0	\$28.82
New Jersey	\$237.5	\$28.22
Tennessee	\$154.2	\$27.10
Pennsylvania	\$331.6	\$27.00
Illinois	\$333.3	\$26.84
Virginia	\$187.4	\$26.48
Arizona	\$135.4	\$26.39
Wisconsin	\$138.6	\$25.85
Indiana	\$153.0	\$25.15
California	\$803.0	\$23.71
Ohio	\$265.5	\$23.38
Texas	\$478.9	\$22.97
North Carolina	\$183.8	\$22.83
Florida	\$362.8	\$22.70
Michigan	\$214.4	\$21.57
Georgia	\$175.6	\$21.47
TOTAL	\$8,591.4	

Source: Department of Homeland Security

Note: Per capita spending was calculated by dividing state homeland security appropriations by state populations (2000 Census). Grand total includes \$165.5 million for territories, etc., and \$144.3 million for the District of Columbia (\$252.16 per capita).

The threat from al Qaeda has brought state and local governments an infusion of federal cash — \$2.9 billion last year, with roughly the same amount on the way this year from the Department of Homeland Security. But the influx of money has sparked a debate over how the antiterrorism funds are being distributed and whether they really are making the nation safer.

Wyoming received more than \$100 per person in antiterrorism money from the U.S. Department of Homeland Security from 2002 to 2004 — an influx that has enabled officials in the sparsely populated rural state to make extensive upgrades to security. By contrast, the state of New York, where 2,801 people died in the September 11 attacks on the World Trade Center, has received only \$35 per person. Other populous states, including Florida, New Jersey, Pennsylvania and Texas, have gotten even less per capita than New York.

In Alaska, which is second only to Wyoming in its per capita take of federal antiterrorism funds, officials are struggling to find acceptable uses for the money. In one remote area near the Arctic Circle, \$233,000 in homeland security grants reportedly has purchased emergency radio equipment, decontamination tents, headlamps, night-vision goggles, bullhorns and rubber boots. Federal officials rejected the state's proposal to purchase a jet with homeland security money.

Revenue Sources

Forty-nine states rely on income or sales taxes or a combination of both to pay for most government operations; only oil-rich Alaska has no broad-based taxes. Because every state except Vermont is constitutionally required to balance its budget, higher taxes often are the only alternative to cuts in programs and services. Legislatures in eight states — Alabama, Arkansas, Louisiana, Maine, New Jersey, New York, Rhode Island and Virginia — approved broad-based tax increases last year. In addition, voters in California, Colorado, Montana and Oklahoma approved ballot measures in November that hiked taxes to pay for health care programs.

But states' tax structures are outdated. Many were created for a manufacturing-based economy, not for today's high-tech economy that churns out more services than products. States generally do not tax services. In addition, states currently are blocked from collecting a sales tax on most internet purchases — another source of friction between the states and the federal government. In 2005, states will continue to lobby Congress for the go-ahead to require consumers to pay a sales tax on internet purchases, just as they do on store purchases, a new source of tax revenue that could bring the states \$22 billion to \$34 billion by 2008.

In their quest for more revenues, state budget planners are targeting smokers and gamblers. They're also turning to the credit markets. In the wake of the budget crisis that led to the recall of Gov. Gray Davis (D) in 2003, California leaders resorted to issuing bonds to plug that state's projected \$15 billion deficit for the fiscal year that ends June 30. Florida, Michigan, New Jersey and New York also relied on bond issues and other temporary fixes. In the last election, voters approved more than a dozen borrowing proposals to pay for road repair, bridge construction and other infrastructure improvements that used to be financed out of general revenues. Voters in several states also agreed to bold borrowing initiatives to finance proposals such as California's \$3 billion stem cell research program and a \$150 million conservation project in Utah.

Cigarette and tobacco tax hikes have accounted for about 25% of all state revenue increases in the past three years. Lawmakers in Alabama, Alaska, Michigan, New Jersey, Rhode Island and Virginia singled out smokers for stiffer taxes in 2004. In the November election, voters in Colorado, Montana and Oklahoma also agreed to increase tobacco taxes by amounts ranging from 64 cents to \$1.70 a pack and to use the money for health care. Rhode Island and New Jersey now charge the highest cigarette taxes — \$2.46 and \$2.40 a pack, respectively — in the country.

“In 2005, states will continue to lobby Congress for the go-ahead to require consumers to pay a sales tax on internet purchases, just as they do on store purchases, a new source of tax revenue that could bring the states \$22 billion to \$34 billion by 2008.”

Gambling on Casinos

STATES WITH COMMERCIAL CASINOS

Colorado

Illinois

Indiana

Iowa

Louisiana

Michigan

Mississippi

Missouri

Nevada

New Jersey

South Dakota

STATES WITH RACINOS (RACETRACK CASINOS)

Delaware

Iowa

Louisiana

New York

New Mexico

Rhode Island

West Virginia

*Racinos were legalized in Maine in 2003 but are still pending local approval

STATES WITH RIVERBOAT/DOCKSIDE CASINOS

Illinois

Indiana

Iowa

Louisiana

Mississippi

Missouri

Source: American Gaming Association

Legalized gambling also has become one of the fastest-growing sources of new state revenue. All but two states, Hawaii and Utah, rely on gaming to help pay for schools, health care and other basic services. Even conservative Middle America is a mecca for slots and poker players. Forty riverboat and dockside casinos lure gamblers to gangplanks in Illinois, Iowa, Indiana and Missouri. Nearly 400 Native American-run casinos operate in 29 states, from Connecticut to California. And lotteries, once an oddity found in just seven states, now operate in 41, Oklahoma being the latest state to catch Lotto fever.

States made \$14 billion in profits on the \$45 billion in lottery tickets they sold in fiscal 2003, according to the North American Association of State and Provincial Lotteries, a trade group that represents state lotteries. Commercial casinos in the 11 states that allow them pulled in \$26.5 billion in revenues and paid more than \$4.3 billion in state and local taxes in 2003. Indian-owned casinos in 29 states brought in \$16.7 billion in revenues in 2003 and made \$759 million in payments to state and local governments. The latest fad has been the installation of slot or video-poker machines at dog and horse racetracks. The country's 23 "racinos" already draw crowds in seven states, and Maine and Pennsylvania also are about to tap into this revenue source. Fifty-three million Americans — one in four adults — visited a gambling casino in 2003, almost three times the number that attended professional baseball games, according to the gaming industry.