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FACING DEFICITS, MANY STATES ARE IMPOSING CUTS THAT HURT VULNERABLE RESIDENTS

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Summary

To date, at least 20 states have made or proposed budget cuts that threaten vital services for many residents, including some of the state's most vulnerable residents. Examples include:

- **Public health programs:** At least 13 states have implemented or are considering cuts that will affect low-income children's or families' eligibility for health insurance or reduce their access to health care services. For example, **Rhode Island's** governor has proposed eliminating health coverage for nearly 7,400 low-income parents; **New Jersey's** governor has proposed cutting funds for charity care in hospitals by 15 percent; and **California's** governor has proposed requiring many families to pay more for their children's health care.
- **Programs for the elderly and disabled:** At least five states are cutting or proposing to cut medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increasing the cost of these services. For example, **Tennessee** has cut community-based services for the mentally retarded; **Florida** proposes to freeze reimbursements to nursing homes and relax staffing standards as well as to eliminate hospice care for 8,000 terminally ill Medicaid patients; and **Rhode Island** is requiring low-income elderly people to pay more for adult daycare.
- **K-12 education:** At least 9 states are cutting or proposing to cut K-12 education; three of them are proposing cuts that would affect access to child care. For example: **California's** governor is proposing cuts in state education aid that would translate to a total loss of \$787 per student and school districts have sent preliminary lay-off notices to 20,000 teachers; and **Arizona** is considering eliminating child care subsidies for approximately 3,200 children in low-income working families.

Colleges and universities: At least 12 states have implemented or proposed cuts to public colleges and universities. For example, **Florida** has already cut university budgets and community-college funding, with further cuts expected; and **Kentucky** and **Virginia** have cut university funding for the current fiscal year by 3 percent and 5 percent, respectively

When states cut spending, they lay off employees, cancel contracts with vendors, reduce payments to businesses and nonprofits that provide services, and cut benefit payments to individuals. *All* of these steps remove demand from the economy, which only worsens a downturn. Tax increases also remove demand from the economy by reducing the amount of money people have to spend.¹

The federal government, which can — and arguably *should* — run deficits during troubled economic times, can help states minimize damaging budget cuts by providing assistance to the states, as it did in the recession in the early part of this decade. Federal assistance can lessen the extent to which states take these harmful, “pro-cyclical” actions and prevent budget cuts in vital services residents need. In recognition that the current downturn is hitting some areas harder than others, federal aid could be targeted to help the states that are experiencing the greatest economic problems.²

Downturn Creating Widespread Deficits

When the economy weakens, state and local revenues *decline* but the need for public programs *increases*, as residents lose jobs, income, and health insurance. Already, more than half the states are projecting deficits for the upcoming fiscal year or beyond. In the 22 states (plus the District of Columbia) for which specific estimates are available, the combined deficits are expected to total at least \$39 billion for fiscal 2009. (In most states, fiscal year 2009 starts July 1 of this year.) These deficits average 9 percent of these states’ general fund budgets.

Virtually all states are required to balance their operating budgets each year or each biennium. Unlike the federal government, states cannot maintain services during an economic downturn by running a deficit. Thus, states will have to close the deficits now being reported with a combination of actions: drawing down reserves, raising taxes, or cutting expenditures.

Some states have already begun drawing on their rainy day funds and reserves. But if the economy remains weak or falls into recession, states’ reserve funds will be depleted and many more states will likely turn to harmful budget cuts to balance their budgets. In addition, three states have already enacted significant tax increases, and a few other states are considering them.

Budget Cuts

At least 20 states have made or proposed budget cuts that will affect services for children, the elderly, the disabled, and families, as well as the quality of education and access to higher education.³

¹ Tax increases on higher-income households, however, are less damaging to the economy than either spending cuts or tax increases on lower-income households. This is because some of the funds higher-income people would use to pay the increased taxes would come from savings and thus would not represent a decline in their consumption. See <http://www.cbpp.org/1-8-08sfp.htm>.

² See Economic Data Can be Used to Target State Fiscal Relief Effectively, <http://www.cbpp.org/3-3-08sfp.htm>

³ The 20 states are Alabama, Arizona, California, Connecticut, Florida, Illinois, Kentucky, Maine, Minnesota, Mississippi, New Hampshire, Nevada, New Jersey, New York, Ohio, Rhode Island, South Carolina, Tennessee, Vermont, and Virginia.

Public Health Programs

At least 13 states have implemented or proposed cuts that will affect eligibility for health insurance programs and/or access to health care services.

- **Rhode Island**'s governor has proposed rolling back eligibility for low-income parents from 185 percent of the poverty line to 133 percent. This would eliminate coverage for nearly 7,400 parents.
- **Nevada**'s governor has capped the state's SCHIP program at its approximate current number of enrollees. As a result, many applicants will be denied coverage, even though the economy is weakening and need consequently is rising. Health services for some pregnant women have also been eliminated.
- In **Alabama**, the Department of Public Health has said the SCHIP program will be closed to new enrollees in July if additional funding is not provided. An estimated 16,000 children are expected to lose public health insurance as caseloads decline due to attrition.
- **Maine** recently approved a budget that would require an annual \$25 Medicaid enrollment fee for some low-income parents. Enrollment fees can deter individuals from seeking needed health insurance.
- In **New Jersey**, the governor has proposed cutting funds for charity care in hospitals by 15 percent, affecting hospitals' ability to care for some of the state's neediest residents. He has also proposed imposing co-payments for Medicaid services, which would make it harder for some low-income individuals to afford needed medical care.
- **California**'s governor has proposed cuts in the state's SCHIP program, including increases in co-payments and premiums and reductions in dental services. He has also proposed eliminating dental, vision, and other benefits for adults in Medicaid and requiring more frequent eligibility determinations. (Research has shown that making redeterminations more frequent typically causes significant numbers of eligible families to fall out of the program and become uninsured).
- In **Vermont**, the governor has proposed increasing co-payments and premiums for Medicaid and SCHIP recipients.
- In **Mississippi**, Medicaid is facing a 13.9 percent shortfall, once special funds are taken into account. Policymakers have not yet determined how to address the shortfall.
- Other states that have enacted or proposed cuts in Medicaid or SCHIP include **Florida, New Hampshire, and Virginia**, which have cut or proposed to cut reimbursements to health care providers, and **Illinois and Connecticut**, which have imposed major delays in paying providers, potentially affecting access to health care. (**California** too has delayed paying providers and has cut by 10 percent reimbursements to many Medicaid providers.)

Programs for the Elderly and Disabled

At least five states are cutting or proposing to cut medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increasing the amounts that such people must pay for the services.

- In **Rhode Island**, low-income elderly people now must pay higher rates for subsidized adult daycare. This is estimated to affect more than 1,200 people with incomes below \$20,000. The state is also considering cutting meals-on-wheels.
- **Florida** legislators have proposed a number of cuts which will affect elderly and disabled populations: nursing homes and other providers would not get scheduled cost-of-living adjustments in their reimbursements and staffing standards would be relaxed in the expectation that the freeze would result in staffing cuts; Medicaid reimbursements to hospitals would be cut; hospice care for 8,000 terminally ill Medicaid patients would be eliminated; and the state's only tuberculosis hospital would be closed. The Florida House proposes to eliminate coverage of hospital care from the state's Medically Needy program, while the Senate plan would limit the program to children and pregnant women and eliminate 16,000 beneficiaries from the program. The Senate proposal eliminates a Medicaid program that covers 24,000 disabled and elderly state residents.
- Because of its budget shortfall, the **Alabama** Department of Human Resources anticipates 1,500 adult clients will lose the homemaker and/or day care services they need to live at home.
- In **California**, the legislature has voted to delay the cost-of-living adjustment for 1.3 million poor and near-poor elderly and disabled people who receive state supplementary payments to their Supplemental Security Income (SSI) benefits.
- **Tennessee** has cut community-based services for the mentally retarded.

K-12 Education

At least 9 states have implemented or proposed cuts to K-12 education. Three of these states are also proposing cuts that would affect access to child care.

- **California's** governor is proposing a \$433 per student cut in state aid to education. With the loss of federal and local matching funds, this would translate to a total loss of \$787 per student. School districts have sent preliminary lay-off notices to 20,000 teachers. The governor also has proposed eliminating more than 18,000 child care and preschool slots.
- In **Nevada**, the governor has ordered various cuts to K-12 education, including delaying an all-day kindergarten expansion, cutting per pupil expenditures by \$400 in a pilot program, eliminating funds for gifted and talented programs, eliminating funds for a magnet program for students who are deaf or hard of hearing, and making across-the-board cuts.
- **Rhode Island's** governor is proposing a nominal freeze on state aid for K-12 education, as well as cuts in child care.

- In **Arizona**, the chairmen of the Appropriations Committees have proposed reducing child care eligibility for working families, which would eliminate subsidies for approximately 3,200 children. Cuts in K-12 funding have also been proposed
- State education funding has already been cut in **Maine, Virginia**, and **Florida**, with additional cuts likely in Florida. Cuts in K-12 funding also have been proposed in **Alabama** and **Ohio**.

Colleges and Universities

At least 12 states have implemented or proposed cuts to public colleges and universities.

- In **Florida**, university budgets and community-college funding already have been cut, with further cuts expected; schools are anticipating limiting student enrollment, closing satellite campuses, and laying off staff. Florida State University, for example, is considering eliminating 218 faculty and staff positions and has instituted a freeze on hiring and travel.
- In **Alabama**, the governor has proposed cuts to higher education, including zeroing out all workforce funds for community colleges that are used to train students in specific job skills such as welding, and reducing funding for adult basic education by two-thirds.
- In **Kentucky**, the governor has cut almost all agencies — including universities — by 3 percent across the board for the current fiscal year. **Virginia** has cut universities across the board by 5 percent.
- Other states making or proposing cuts in higher education funding include **California, Maine, Minnesota, Nevada, New Jersey, New York, Rhode Island**, and **South Carolina**. Large tuition increases are likely in some of these states.

Cuts in Other Services

States also are making or proposing cuts in a variety of other programs, including programs for very poor families and other vulnerable populations.

- **Rhode Island's** governor has proposed cutting aid to cities by \$12.5 million, requiring employees to take six unpaid days off each year, and reducing health insurance for retired state workers. He also has proposed the elimination of TANF cash assistance to an estimated 3,400 poor children and \$26 million in cuts in affordable housing programs.
- **California** is considering restricting TANF eligibility.
- In **Minnesota**, the governor has proposed a 21% cut to the renter's credit that helps low-income renters, often those who are elderly or disabled.
- **Florida** and **Arizona** are considering reducing staff available to help children who have been abused or neglected.

In addition, some states are instituting across-the-board spending cuts, the impact of which is uncertain. Other states, such as **Illinois**, **New Jersey**, **New York**, and **Virginia**, have proposed or implemented cuts to localities, leading to local concerns about reductions in meals for the elderly, the number of police officers, victim services, libraries and other services.

Tax Increases

States can avert deep cuts in vital services by enacting temporary or permanent revenue increases. Three states already have enacted significant tax increases. A few other states are considering raising tax rates, modernizing their sales taxes by broadening the base, or closing loopholes.

- **Maryland** enacted a \$1.35 billion tax increase in late 2007, which (along with \$277 million in budget cuts passed by the General Assembly) is designed to help address the state's deficit.
- **Michigan** enacted a tax increase in late 2007 to close at least part of its budget gap, although it is expecting a further deficit for fiscal year 2009 (which begins in October 2008). The tax increase is expected to raise \$1.365 billion in fiscal year 2008.
- The newly passed **New York** budget raises approximately \$1.5 billion in revenue through a variety of measures including closing tax loopholes, delaying tax credits, raising cigarette taxes, requiring collection of taxes for more on-line purchases, and increasing various fees.
- The **Massachusetts** House of Representatives voted to increase the cigarette tax by \$1 per pack and close tax loopholes to bring in \$392 million.
- In **California**, the Legislative Analyst Office has issued options for raising state revenue, including changes in the personal income tax and limiting or eliminating some tax breaks for businesses. These changes would raise approximately \$2.5 billion. The speaker of the House has said that budget cuts alone should not close the state's \$16 billion gap; the Senate president has suggested raising revenue by \$5 billion and has opened the door for sales tax increases.
- In **Wisconsin**, the state Senate approved closing a corporate tax loophole to raise an estimated \$131 million towards addressing about 20 percent of the anticipated state budget shortfall.
- In **New Jersey**, the governor has proposed eliminating property tax rebates for households with incomes over \$150,000 and reducing property tax rebates for some other residents.

The Need for Federal Assistance

When states cut spending, they lay off employees, cancel contracts with vendors, reduce payments to businesses and nonprofits that provide services, and cut benefit payments to individuals. *All* of these steps remove demand from the economy, which only worsens a downturn. Tax increases also remove demand from the economy by reducing the amount of money people have to spend.

Federal assistance can lessen the extent to which states take these harmful, “pro-cyclical” actions and the extent to which vulnerable populations are hurt by state budget cuts. In the recession early in this decade, the federal government provided \$20 billion in temporary fiscal relief: 1) a temporary, \$10 billion increase in the federal share of Medicaid costs; and 2) \$10 billion in general grants to states, based on their population. The increased Medicaid match averted even deeper cuts in public health insurance than the substantial cuts that occurred, while the general grants helped prevent cuts in a wide variety of other critical services.

The major problem with that assistance was that it was enacted long after the onset of the recession, so it was much less effective than it could have been in preventing state actions that deepened the economic downturn. To avoid that problem, the federal government should consider aiding states earlier, rather than waiting until the downturn is over or nearly over.

Another difference in this economic downturn is the uneven distribution of the economic and fiscal problems. Some states are particularly hard hit, especially those in which employment is stagnant or declining, housing foreclosure rates are climbing, and poverty is rising. Other states, including those with energy resources and those benefiting from higher commodity prices, have fewer or no problems. To account for the unevenness, federal aid could be targeted based on economic factors to the states most in need of assistance.