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

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Summary

Continuing economic problems have created budget problems in many states, leading some 25 states to reduce services to their residents, including some of their most vulnerable families and individuals. Some 14 states have increased taxes or taken other revenue raising measures to help mitigate the need for budget cuts.

Examples of enacted cuts to state services include:

- **Public health programs:** At least 17 states have implemented 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** eliminated health coverage for 1,000 low-income parents; **New Jersey** cut funds for charity care in hospitals; and **California** and **Utah** are reducing the number of services covered. Additionally, the governor in **California** has proposed cuts that, when fully phased in, will cause more than 400,000 adults to be denied health coverage.
- **Programs for the elderly and disabled:** At least 15 states are cutting 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, **Florida** has frozen reimbursements to nursing homes and relaxed staffing standards and **Rhode Island** is requiring low-income elderly people to pay more for adult daycare. **Arizona** eliminated temporary health insurance for people with serious medical problems.
- **K-12 education:** At least 16 states are cutting K-12 and early education; For example: **Florida**, **Georgia** and **South Carolina** have each cut school aid by an estimated \$95 or more per pupil; **Nevada** eliminated funds for gifted and talented programs; **Rhode Island** is eliminating early education funding for 550 children; and **Massachusetts** is reducing funding for a number of early care programs.
- **Colleges and universities:** At least 21 states have implemented cuts to public colleges and universities. The result is cuts in faculty and staff and (in more than half of those states) tuition increases of 5 percent to 15 percent. **Rhode Island** students are facing mid-year tuition hikes on top of tuition increases enacted at the beginning of the academic year.

- **State workforce:** At least 20 states are reducing their state workforces. Workforce reductions often result in reduced access to services residents need. They also add to states' woes by contracting the state economy. **New Jersey** is reducing its workforce by 2,000 employees through early retirement, lay-offs and attrition; **Virginia** is laying off 567 workers, freezing hiring and delaying a planned state employee salary increase; in **Kentucky**, the public defender will eliminate 10 percent of positions and decline certain types of cases; hiring freezes have been instituted in **Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Kansas, Hawaii, Minnesota, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Vermont, and Washington.**

It appears increasingly likely that many states will be forced to cut even more deeply in the near future. Governors in at least five states — **Kansas, Maine, Mississippi, North Carolina and Pennsylvania** — have ordered or requested that most state agencies reduce state spending by 2 to 5 percent; details on how those savings will be achieved are not yet known. Special legislative sessions to consider further cuts to the current year budget are expected in **Arizona, California, Connecticut, and New York.** Legislative action is likely in Michigan and Nevada as well.

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.

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, most states have faced budget shortfalls in the current fiscal year or beyond. Some 29 states (plus the District of Columbia) entered the current fiscal year (2009) with budget gaps totaling \$48 billion. Now, the number of states with fiscal problems has risen to 41; new, additional deficits for the current fiscal year are approaching \$25 billion, and for next year (2010) are likely to exceed \$100 billion.²

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

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 *State Budget Troubles Worsen*, revised October 2008, <http://www.cbpp.org/9-8-08sfp.htm>.

running a deficit. Thus, states have to close these deficits 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. A few states, such as Arizona and Wisconsin, have virtually depleted their budget stabilization funds. As the economy remains weak or recessionary, more states' reserve funds will be depleted and many more states will likely turn to increasingly harmful budget cuts to balance their budgets. In addition, several states have already enacted tax increases.

Budget Cuts

At least 25 states have enacted 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 In several states, such as **Arizona, California, Florida, Maine, and New York**, some cuts have already been implemented *and* additional reductions are being considered. **Nevada** anticipates additional cuts even after three rounds of budget cuts for the current budget year.

Public Health Programs

At least 17 states have implemented cuts that will affect eligibility for health insurance programs and/or access to health care services.

- **Rhode Island** has reduced the maximum income level at which parents can receive public health insurance from 185 percent of the federal poverty line to 175 percent. This will eliminate coverage for approximately 1,000 parents. More than 7,800 low-income families will also have to pay higher monthly premiums for public health insurance.
- **Nevada's** governor has capped the state's SCHIP program at its approximate current number of enrollees and increased the premiums that families must pay. 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.
- **Utah** legislators recently cut funding for vision care, physical therapy, occupational therapy, and speech and hearing therapy services for adults. They also cut Medicaid provider rates for hospitals, skilled nursing, and dentists.
- **Arizona** is reducing its Medicaid rolls by increasing the frequency with which some adult recipients must reapply for benefits. (Research has shown such added paperwork requirements have the effect of causing *eligible* people to become uninsured.) Arizona has also cut funding for community health centers and vaccines.
- **Maine** approved a budget that requires an annual \$25 Medicaid enrollment fee for some low-

³ The 25 states are Alabama, Arizona, California, Connecticut, Delaware, Florida, Georgia, Illinois, Kentucky, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, Nevada, New Jersey, New York, Ohio, Oklahoma, Rhode Island, South Carolina, Tennessee, Utah, Vermont and Virginia.

income parents. Enrollment fees can deter individuals from seeking needed health insurance.

- In **Tennessee**, an estimated 30,000 to 40,000 seriously ill people are expected to lose hospitalization and other needed medical services provided through TennCare.
- In **New Jersey**, funds for charity care in hospitals have been cut, potentially affecting hospitals' ability to care for some of the state's neediest residents.
- **California** is cutting its SCHIP program, including increasing co-payments and reductions in dental services. The state will also require more frequent eligibility determinations for Medi-Cal recipients and is cutting payments to health care providers significantly through February of next year.⁴ In November, the governor proposed additional cuts, including reducing eligibility for public health insurance for some poor adults. If enacted, this change — once fully phased-in — is expected to result in more than 400,000 people being denied needed health coverage.
- In response to flat funding and rising costs, the health care agency in **Illinois** is lengthening the amount of time that it takes to pay health care providers such as doctors and hospitals for Medicaid services. This is likely to reduce access to health care for low-income families.
- Other states that have enacted cuts in Medicaid or SCHIP include **Florida, Georgia, Maryland, Minnesota, New Hampshire, New York, South Carolina** and **Virginia**. Cuts include reduced or frozen reimbursements to health care providers.

Programs for the Elderly and Disabled

At least 15 states have cut medical, rehabilitative, home care, or other services needed by low-income people who are elderly or have disabilities, or significantly increased 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.
- In **Florida**, nursing homes and other providers will not get scheduled cost-of-living adjustments in their reimbursements and staffing standards will be relaxed for one year in the expectation that the freeze would result in staffing cuts. Medicaid reimbursements to hospitals and community-based services for the elderly, such as meals and homemaker services, have also been cut.
- **Virginia** has decreased facility reimbursements for special hospitals serving people with needs relating to mental health, mental retardation, or substance abuse. Additionally, pass-through grants for various aging programs has been reduced. Funding for local mental health providers was also cut.
- In **Massachusetts**, the Governor has ordered spending cuts for programs for elders, including home care, geriatric mental health services, and prescription drug assistance.

⁴ The Medi-Cal provider rate cut is currently being challenged in the courts.

- In **Georgia**, services for the elderly, such as Alzheimer services, elder service centers, prescription drug assistance, and elder support services have been reduced.
- In **Minnesota**, policymakers capped enrollment at current levels for a program that provides expanded health services and care coordination for people with disabilities.
- **Ohio** plans to close two mental health facilities.
- In **Alabama**, the Department of Human Resources has announced it will end in August home-makers services for approximately 1,100 older adults. These services often allow people to stay in their own homes and avoid nursing home care.
- **Arizona** eliminated temporary health insurance for people with disabilities coping with serious medical problems.
- **Vermont** has reduced some home-based services, such as housekeeping and shopping, for people who are elderly or disabled. Such services help pay stay in their own homes and possibly delay or avoid more expensive nursing home care.
- **Tennessee** has reduced community-based services for people who are mentally retarded.

Other states that have capped or reduced funding for programs that serve people who have disabilities or are elderly include **California, Maryland, Nevada, and South Carolina.**

K-12 Education and Other Childhood Education Programs

At least 16 states have implemented cuts to K-12 education.

- **Florida** has cut aid to local school districts for the current year by \$130 per pupil. **Georgia** has cut aid to local school districts for the current year by \$99 per pupil. **South Carolina** has cut per-pupil funding by \$95 in the current year.
- **Massachusetts** enacted cuts to Head Start, universal pre-kindergarten programs, and early intervention services to help special need children develop appropriately and be ready for school. Funding for K-12 has also been reduced, including spending for mentoring, teacher training, reimbursements for special education residential schools, services for disabled students, and programs for gifted and talented students.

Maryland cut funding for a school breakfast pilot program, professional development for principals and educators, health clinics, gifted and talented summer centers, and math and science initiatives.

- 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. Additionally, young children with developmental delays will lose more than 15,000 hours of needed services.

- **California's** budget reduces basic K-12 education aid to local school districts. It also cuts a variety of other programs, such as adult literacy instruction.
- **Rhode Island** has frozen state aid for K-12 education at last year's levels in nominal terms and reduced the number of children who can be served by Head Start and similar services by more than 550.
- State education funding has also been cut in **Alabama, Delaware, Connecticut, Kentucky, Maine, Ohio, Utah** and **Virginia**.

Colleges and Universities

At least 21 states have implemented cuts to public colleges and universities and/or implementing large increases in college tuition to make up for insufficient state funding.

- When the state of **Rhode Island** cut higher education funding last year, the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island all increased tuition for the current academic year. Each of these institutions now has gone one step further by increasing tuition further mid-year, by 6.7 percent, 8.2 percent, and 14.3 percent respectively.
- In **Florida**, university budgets and community-college funding have been cut. The University of Florida has announced it will eliminate 430 faculty and staff positions and decrease funding for disability services, financial aid services and internship opportunities. Student enrollment is declining by more than 1,000 students at both Florida State University and the University of Florida. The legislature has approved a statewide tuition increase of 6 percent; the University of Florida is increasing tuition for in-state under-graduates by 15 percent.
- **Arizona** State University plans to address its loss of state funds by holding vacant or laying off 150 to 200 faculty associates, boosting class size, and reducing enrollment in its nursing school by 5 percent to 10 percent.
- In **Kentucky**, state budget cuts to colleges and universities of about three percent have led to in-state tuition hikes of 5.2 percent at the Kentucky Community and Technical College System. The Council on Postsecondary Education has also approved in-state tuition increases for universities across the state from 6.1 percent (Murray State University) to 9 percent (University of Kentucky and University of Louisville). Additionally, the University of Kentucky has announced 188 faculty and staff positions will be eliminated.
- Following cuts to state university budgets, tuition increases have been announced in **Alabama** (13 percent), **Maine** (10 percent), **New Jersey** (4 percent to 9 percent), **Oklahoma** (9 percent to 10 percent), **South Carolina** (6 percent), **Tennessee** (6 percent) and **Virginia** (average increase of 7.3 percent when fees are included). **California** is raising in-state tuition by 7.4 percent to 10 percent as part of its October budget deal, and in November the governor called for additional 10 percent cuts to universities.

Other states making cuts in higher education operating funding include **Connecticut, Georgia, Maryland, Massachusetts, Minnesota, Nevada, New York, Utah,** and **Vermont.** Large tuition increases are likely in some or most of these states.

Cuts in Other Services

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

- **Rhode Island** has cut funds for affordable housing, eliminated health insurance for home-based child care providers, restricted TANF cash assistance for children, reduced health insurance for retired state workers and cut support to localities by \$10 million.
- To operate within a reduced budget, the Chief Justice in **Vermont** has ordered the Supreme court, district court, and family court to close for half a day each week.
- In **Maryland**, institutions that provide services to abused and neglected children have had their rates cut.
- **California** is suspending cost-of-living adjustments to cash assistance programs for low-income families and cutting child care subsidies. The governor has proposed various additional changes that could result in more than 180,000 children losing basic monthly assistance, and he has also proposed a 10 percent reduction in monthly benefits for those children continuing to receive aid.
- The **Nevada** welfare agency will make it harder for low-income families to receive cash assistance and health insurance, for instance by increasing the amount of time before which some families that have lost benefits may reapply, with the expected result that fewer families will receive those benefits.
- **Illinois** has reduced funding for child welfare, mental health, youth services, and other programs.
- In **Connecticut**, the governor has ordered budget cuts to programs that help prevent child abuse and provide legal services for foster children

Some states, such as **Delaware, New Jersey, New York, Rhode Island,** and **Virginia,** have implemented cuts to localities, leading to local concerns about reductions in funding for policing, meals for the elderly, hospice care, veteran services, senior services, and other services.

Cuts in State Workforce

At least 20 states are eliminating or not filling various state jobs. Fewer staff often leads to difficulties for residents in accessing state services. It also may contribute to increases in unemployment in the state.

- The **Tennessee** governor has announced the elimination of over 2,000 state positions – about 5 percent of the state workforce. Some 1,500 employees accepted buy-outs encouraging early retirement.
- In **New York**, the Governor in April asked state agencies to identify 3.35 percent reductions in spending. Many state agencies responded by leaving vacancies unfilled and other actions. In late July, the Governor ordered an immediate hiring freeze and further agency reductions of 7 percent.
- In **New Jersey**, 2,000 state positions will be eliminated through encouraging early retirements, leaving vacancies unfilled and laying off staff.
- **Rhode Island** seeks to reduce the state workforce by 2,000 or more employees. The state is encouraging early retirement but has announced that it will lay off workers if needed.
- To deal with budget cuts in **Kentucky**, the Department of Public Advocacy (which defends clients in the criminal justice system) will cut about 10 percent of its workforce (54 positions). To keep caseloads at manageable levels, the department will decline some cases, including family court cases, probation and parole revocations and some types of involuntary commitments and misdemeanors.
- The **Ohio** governor has announced plans to eliminate as many as 2,700 positions, about 4.5 percent of the state workforce. The reductions will be achieved through a combination of early retirements, lay-offs, and unfilled vacancies. In the Department of Jobs and Family Services — which oversees a wide range of functions including disability services, child care, child support, health care, and child welfare — fully 14 percent of positions are estimated to be eliminated or left unfilled.
- In **Vermont**, vacant positions have been left unfilled and may be eliminated altogether. To date, the state workforce has been reduced by approximately 400 workers.
- In **Washington** state, the number of state workers declined by more than 800 employees between July and September 2008.
- **Virginia's** governor eliminated 800 currently unfilled positions, laid off 567 state workers and delayed a 2 percent salary increase scheduled to begin in November 2008.
- Hiring freezes have also been ordered in **Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Kansas, Minnesota, New Hampshire, New Mexico** and **Pennsylvania**.

In addition, as noted above, a number of state colleges and universities in states such as **Arizona, Florida, Kentucky** and **New Jersey** are responding to budget cuts by cutting faculty and staff positions.

Tax Increases

States can avert deep cuts in vital services by enacting temporary or permanent revenue increases. Several states already have enacted tax increases, closed loopholes, restricted tax credits, increased tobacco taxes, raised tuition as noted above, or implemented other revenue raising measures.

- **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 enacted **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.
- **New Jersey** will eliminate property tax rebates for households with incomes over \$150,000 and reduce property tax rebates for some other residents. Additionally, a public utilities tax that was scheduled to end in 2010 has been extended to 2013. A renters' credit for families with incomes under \$50,000, previously worth \$200 or more per family, has been cut to a maximum \$80 per family for non-elderly, non-disabled renters.
- In **New Hampshire**, large liquor retailers will pay more in state taxes (through a reduced purchasing discount, which amounts to an alcohol excise revenue increase). Additionally, tobacco taxes were increased.
- **Delaware** increased various taxes relating to corporations, including increasing the annual tax on partnerships, limited partnerships, and limited liability companies, raising the gross receipts tax rate for certain businesses, and increasing the rate for computing the annual franchise tax.
- **Rhode Island** eliminated a tax credit for foreign taxes paid, capped a tax credit for motion picture production, placed a moratorium on new projects qualifying for the historic structure tax credit, and increased some fees.
- **Massachusetts** raised an additional \$466 million by closing corporate loopholes and increasing the cigarette tax.
- **Alabama** closed some corporate tax loopholes.
- In **Georgia**, the Governor has withheld funds from the Homeowners Tax Relief Grant which passes state money to counties so that they can provide property tax credits to homeowners. If the funds are not restored by the legislature, localities will need to either roll back the credits, or fund them from their own resources.

- Several states, including **Maine, Oklahoma, Rhode Island** and **Vermont**, changed their tax codes to avoid revenue loss that would otherwise have occurred due to federal tax changes enacted earlier this year.
- In **California**, revenues will be increased in the current fiscal year by limiting certain business tax credits and suspending corporate “net operating loss deductions.” Other revenue increases in the current year will come from accelerating tax withholding, changes to accounting rules, and other actions.⁵ Programs that provide property tax relief for seniors and families also have been eliminated. In November the Governor proposed revenue increases of \$4.7 billion in the current year budget, including a broadening of the sales tax base and temporary increase in the sales tax rate.

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.

It seems increasingly likely that this recession will be more severe than the last recession, and thus state fiscal problems may be worse, for at least three reasons.

- Unemployment, which peaked after the last recession at 6.3 percent, has already reached 6.5 percent, and many economists expect it to rise to 7 percent, 8 percent, or higher. This would reduce state income taxes, and increase participation in Medicaid and other services, more than in the last recession.
- The decline in the stock market is already as great as it was in the last recession by some measures and may turn out to be even greater. This affects states’ capital gains taxes, which in

⁵ The California revenue changes on the whole do not increase revenue in future fiscal years, and in fact include tax reductions for corporations that will decrease revenue when they come into effect in future budget years. This means that California likely will need to consider additional budget-balancing measures in the future, particularly if the economy fails to improve dramatically.

many states are a major component of income taxes.

- Consumer and business access to credit is far less than it was in the last recession, so consumption expenditures and therefore sales taxes are falling more steeply than in the past.

These factors suggest that state budget problems will be worse in the coming year than they were earlier this decade, and therefore state fiscal relief should be substantially greater than the \$20 billion enacted in 2003.