820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Special Series: **Economic Recovery Watch**

Updated March 8, 2010

GOVERNORS' NEW BUDGETS INDICATE LOSS OF MANY JOBS IF FEDERAL AID EXPIRES

By Nicholas Johnson, Erica Williams, and Phil Oliff

States face continued major budget problems, because of the steepest-ever decline in state revenues and the end of most federal Recovery Act assistance halfway through their coming fiscal year. As a result, governors are proposing a new round of deep budget cuts that would increase unemployment and threaten the fragile economic recovery. Without further federal aid, the actions states will have to take to close their budget gaps could cost the economy 900,000 jobs.[1] Congress is considering extending some assistance to states as part of forthcoming jobs legislation.

A recent Goldman Sachs report underlines the importance of state fiscal conditions to the health of the economy. Goldman projects economic growth will slow later this year, in part because "state and local budget cutbacks will almost certainly still be weighing on overall demand."[2] Similarly, Mark Zandi, Chief Economist of Moody's Economy.com, recently warned that large state budget cuts next fiscal year "will be a serious drag on the economy at just the wrong time."[3]

State Budget Cuts Weaken Economy by Reducing Demand

States confront an estimated $180 billion budget gap for fiscal year 2011, which begins July 1, 2010 in most states. The majority of governors now have submitted their 2011 budget proposals, and they demonstrate the scale of cuts that are likely to be pursued to close this large gap. For example, Arizona's governor would eliminate the state's children's health insurance program which covers 47,000 children and repeal Medicaid coverage for more than 310,000 adults with low incomes and/or serious mental illnesses. Mississippi's governor would cut state funding for K-12 schools by over 9 percent and close four state mental health clinics. Hawaii's governor would eliminate a program that provides cash assistance to low-income people who are elderly or have disabilities and also make large cuts to the state workforce. New York's governor would eliminate municipal aid to

---

[1] Iris J. Lav, Nicholas Johnson, and Elizabeth McNichol, "Additional Federal Fiscal Relief Needed to Help States Address Recession's Impact," Center on Budget and Policy Priorities, updated January 28, 2010, http://www.cbpp.org/cms/index.cfm?fa=view&id=2988.

[2] *GS US Economics Analyst,* January 29, 2010.

[3] Zandi, Mark, "What's Wrong with the Job Market, and How to Fix It," Moody's Economy.com, November 25, 2009.

New York City and make deep education and health care cuts. (Further details of governors' proposed cuts are below.)

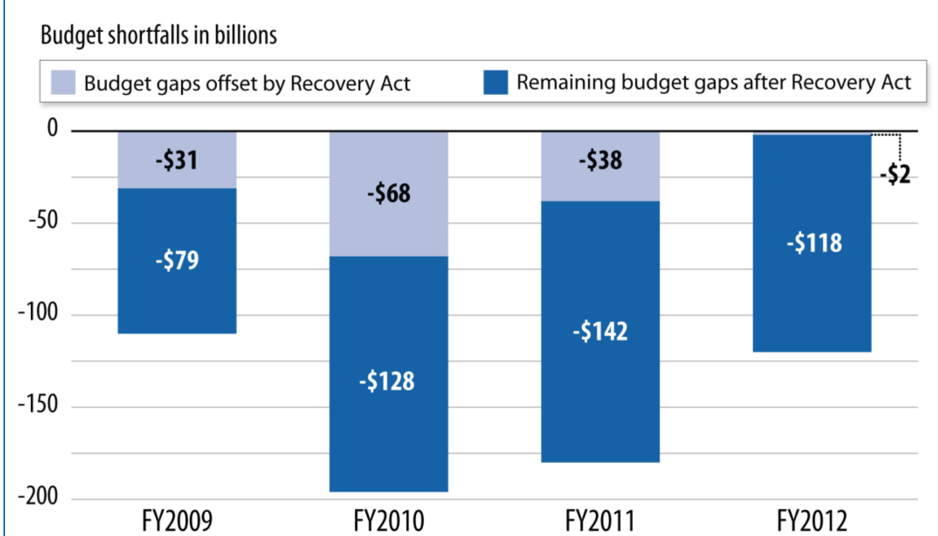
Most governors who have released their budget proposals for the coming fiscal year are proposing smaller budgets in 2011 — typically by 5 to 10 percent — than their states spent in 2009, even though most states face rising numbers of people in need of public services and growing populations.

When states cut spending, they lay off employees, cancel contracts with vendors, eliminate or lower payments to businesses and nonprofit organizations that provide direct services, and cut benefit payments to individuals. In all of these circumstances, the companies and organizations that would have received government payments have less money to spend on salaries and supplies, and individuals who would have received salaries or benefits have less money for consumption. As a result, budget cuts directly remove demand from the economy, which in turn costs jobs.

Recovery Act Assistance Has Averted Many Job-Killing Budget Cuts

Job loss would have been much more severe were it not for significant fiscal relief provided in the American Recovery and Reinvestment Act (ARRA). Congress authorized this aid in large part to help states — which are facing record revenue declines due to the recession — avert budget-balancing actions that would further weaken the U.S. economy. ARRA gave states roughly $140 billion over two and a half years to help fund ongoing programs, primarily education and health care programs. These funds closed about 30 percent to 40 percent of states' 2009 and 2010 budget shortfalls. Without them, cuts in health care, education, human services, public safety, and other areas would have been much deeper, and job losses much larger.

FIGURE 1:
ARRA Reduces State Budget Gaps, But Large Deficits Remain



Sources: Shortfalls data from CBPP; ARRA data from Congressional Budget Office and CBPP.

Even with the federal assistance, at least 45 states plus the District of Columbia have cut services, including health care services (29 states), services to the elderly and disabled (24 states and the District of Columbia), K-12 education (29 states and the District of Columbia), higher education (39

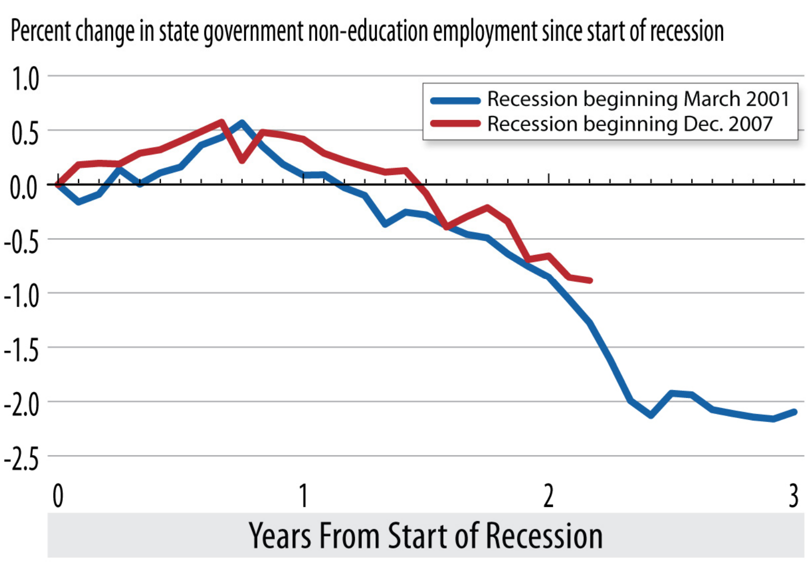
States and Localities Also Eliminating Jobs Through Layoffs

As this report explains, cuts in state and local services reduce the number of jobs in the economy by shrinking overall demand. But states and localities are also contributing to high unemployment more directly, by laying off public workers — and at an increasingly rapid pace.

- ***In the last two months alone, states and localities cut 45,000 jobs.***[a]
- ***These new job losses bring to 192,000 the total number of state and local government jobs lost since August 2008***. Most state and local government workers fall into one of the following categories: schoolteachers and other school employees, university workers, police officers, firefighters, corrections workers, highway and transit workers, public hospital employees, public health workers, public utility employees, and parks and environmental workers.

Additional job losses are likely in the coming months, as states expect only modest revenue growth in the coming year. This would be consistent with previous recessions: state budgets typically recover two to four years after a recession officially ends, leading to continued job losses that slow the recovery. In the 25 months following the end of the (much milder) 2001 recession, for example, states cut 71,000 workers. The job losses ended only in December 2003, when the federal government enacted $20 billion in emergency aid to states. Since state revenues fell much more sharply in the 2007-2009 recession, it is reasonable to predict a greater loss of jobs over a longer period of time.

FIGURE 2:
Experience of Last Recession Suggests Decline in State Government Employment Is Likely to Continue



Source: Bureau of Labor Statistics.

---

[a] Bureau of Labor Statistics, "The Employment Situation – January 2010," Table B-1, Feb. 5, 2010,

states), and other areas.[4] At least 42 states plus the District of Columbia have reduced overall wages paid to state workers through layoffs, furloughs, hiring freezes, or similar actions. In addition, more than 30 states have raised taxes.

Governors' Budget Proposals Demonstrate Serious Economic Consequences if Congress Fails to Extend Assistance

The bulk of ARRA's fiscal relief — a temporary increase in the federal share of Medicaid costs — will expire on December 31. States also will have spent most of their education fiscal relief funds by that time. This means that without additional fiscal relief, states will have to institute massive new budget cuts and tax increases at the start of the new fiscal year on July 1, when unemployment is expected to remain at or near double-digit levels and the economy will likely still be fragile.

The majority of governors have now released their proposed budgets for the upcoming fiscal year. While many of those proposals will be changed before they are enacted, they are indicative of the magnitude of the cuts that states are facing.

- Alabama's governor is proposing a hiring freeze that would reduce the non-education state workforce by 2,000 workers by the end of fiscal year 2011.

- Arizona's governor is proposing deep cuts to a range of programs and services. If enacted, her budget would: eliminate the state's children's health insurance program (KidsCare), which covers 47,000 children; repeal Medicaid coverage for more than 310,000 adults with low incomes and/or serious mental illnesses; make deep cuts to support for early learning by eliminating preschool for 4,328 children and eliminating state support for full-day kindergarten; and reduce the number of months that low-income families can receive cash assistance through the Temporary Assistance for Needy Families (TANF) program, immediately eliminating assistance for 10,000 poor families, among other cuts. (Under the governor's plan, the repeal of Medicaid coverage would not take effect if the federal government provides additional Medicaid funds.)

- California's governor is proposing deep cuts to health care, education, the state workforce and human service programs beyond those already enacted. Specific cuts include additional deep reductions to Medi-Cal (Medicaid) services, a $1.5 billion reduction in K-12 and community college funding in 2010-11, a 5 percent to 10 percent cut in state employee salaries, a reduction in monthly grants to low-income people who are elderly or have disabilities, elimination of the state's Calworks program (which provides employment services and basic cash assistance for very poor families with children) and a number of other human service programs, and elimination of funding to respond to enrollment growth in the state's public universities.

- Colorado's governor proposes to eliminate a scheduled increase in K-12 funding that would cover enrollment and cost increases and implement an additional cut of $223 million in school aid. He also proposes delaying payments to Medicaid providers and cutting payment rates.

- Connecticut's governor proposes cuts to early care, health care, and other services in the

---

[4] Nicholas Johnson, Phil Oliff and Erica Williams, "An Update on State Budget Cuts," Center on Budget and Policy Priorities, updated March 3, 2010. http://www.cbpp.org/cms/index.cfm?fa=view&id=1214

upcoming fiscal year. Her budget cuts funding for a program that provides child care subsidies to low- and moderate-income working families by 12 percent. It would increase health insurance co-payments and in some cases premiums for more than 15,500 children and 124,000 adults, and would no longer pay for most non-prescription medications, vision services, and eyeglasses for the adults. Other lower-income individuals who now receive subsidies for purchasing health insurance from a state-run health plan would have to pay full price, with the likely result that many of the roughly 13,000 participants in the plan would drop coverage entirely. The governor also has proposed a slew of cuts for the current fiscal year, such as suspending non-emergency dental services for low-income adults, deferring payment to Medicaid managed care organizations, reducing staffing of the state's child advocacy and protection agency by half, and suspending homeless, disability, nutrition, and other social services for the remainder of the fiscal year.

- Delaware's governor proposes five days of furlough for teachers, state police, and other public workers.

- Georgia's governor proposes cuts to education that would reduce K-12 spending by nearly 11 percent from pre-recession levels; state university spending would be reduced by more than 9 percent.

- Hawaii's governor is proposing large cuts to the state workforce, including the layoffs of up to 1,198 employees. She also is proposing elimination of a program that provides cash assistance to low-income senior citizens and people with disabilities; elimination of the Department of Health's Division of Community Health and Dental Hygiene Services; and curtailing the state's Medicaid adult dental services benefits.

- The governor of Louisiana proposes a 3 percent cut in rates for certain Medicaid providers. These are in addition to rate cuts of more than 10 percent since fiscal year 2009.

- Maine's governor is proposing 10 percent cuts in payments to certain Medicaid providers (primarily to long-term care providers), and a further cut in overall K-12 education spending beyond cuts already enacted.

- The Massachusetts budget proposes a $174 million reduction in Medicaid provider rates and the elimination of restorative dental services such as fillings and root canals for 200,000 adults, and virtually eliminates state funding for a program providing housing vouchers to homeless families.

- Maryland's executive budget proposal calls for a reduction of $123 million in Medicaid payment rates to hospitals, $330 million in cuts to local aid relative to current statutory levels, and up to 10 furlough days for state employees.

- The governor of Michigan proposes encouraging early retirement for state workers and teachers and eliminating one-third of the state jobs left vacant. Her budget would reduce health benefits for new state employees and retirees, and eliminate a three percent salary increase for many state workers. The governor's budget also cuts funds to higher education. It eliminates a program that gives college scholarships to 15,000 low-income students, and cuts back another one.

- In Minnesota's supplemental budget, the governor cuts $250 million in local government aid, reduces funding for higher education institutions to 2006 levels, and cancels state-subsidized health insurance for 21,500 working adults without children. He proposes changes in eligibility for the state's assistance to needy families program that eliminate cash assistance for 4,000 families and remove 500 families from the program altogether, and requires 800 working families to pay more for child care. The governor's budget proposal also eliminates a monthly cash grant to very poor single adults and childless couples who are unable to work.

- Mississippi's governor is proposing to cut state aid to K-12 schools by over 9 percent, close four mental health facilities, and cut most other agencies' budgets by 12 percent.

- In his proposed adjustments to the state's two-year budget, Nevada's governor called for cuts to reimbursement rates for certain health providers, major reductions in K-12 and higher education funding, likely resulting in some combination of teacher layoffs or pay cuts, and reductions in independent living grants to seniors. These cuts have been approved by the legislature (although some still deeper cuts were rejected).

- While New Jersey's new governor has yet to release his FY2011 budget, he announced plans to eliminate eligibility for a key state-subsidized health insurance program for nearly 12,000 legal immigrant adults and to freeze new enrollment in the program for all other adults in the current fiscal year.

- New York's governor is proposing a $1.1 billion cut to state education aid; more than $400 million in reduced payments to health care providers and about $100 million in other health-related cuts; $143 million in funding cuts for four-year public colleges and cuts to a financial aid program serving students from low- and moderate-income families; and the elimination of state revenue-sharing aid to New York City along with a reduction in revenue-sharing aid to other localities.

- The governor of Rhode Island proposes eliminating state reimbursement to cities and towns for the loss of revenue caused by state legislation eliminating local taxes on the value of motor vehicles — a source of revenue equal to roughly 7 percent of local tax revenues. He also proposes cutting state funding for K-12 education by more than 3 percent and higher education by nearly 6 percent below enacted FY10 levels.

- South Carolina's governor is proposing capping total enrollment in the state's children's health insurance program.

- In Tennessee, the governor proposes reducing state Medicaid spending by 7.5 percent ($174 million). He proposes doing this by capping the amount that the state will pay for an individual to receive inpatient hospital care each year at $10,000, which is well below hospitals' actual costs for many patients. He would also eliminate occupation, physical, and speech therapy services, and allow no more than eight lab and x-ray procedures per year for adults. The governor's proposal also would eliminate the jobs of nearly 400 state workers.

- Vermont's Governor recommends a host of spending cuts, primarily focused on human service programs and education, including a 3 percent reduction in Medicaid provider rates, Medicaid premium increases, caps on some Medicaid services like the number of emergency room visits, and an increase of 20 percent in the average number of students per teacher

- Virginia's governor proposes to cut state funding for K-12 education by $731 million or 11 percent beyond the significant cuts that have already been implemented. He proposes to eliminate all state funding for home health care services for Medicaid patients, eliminate eligibility for Medicaid long term care services for approximately 2,000 seniors and people with disabilities, and freeze enrollment in the state's children's health insurance program, which would deny enrollment to an estimated 28,600 children and parents. He would require state workers to take five furlough days, and reduce state aid to local governments by $50 million. These reductions come on top of the significant cuts to education and health care and 664 layoffs of state workers proposed in the original budget.

- Washington's governor is proposing deep cuts to education and health care. She is proposing: eliminating two education programs, both of which reduce class sizes and one of which provides professional development for teachers; cutting the state work-study program as well as several smaller financial aid programs that help 11,000 students go to college; reduced funding for two- and four-year colleges, likely resulting in administrative cuts, larger class sizes, and elimination of support services such as student advising; and a 20 percent reduction in early interventions and 25 percent reduction in direct client services for HIV and HIV-vulnerable populations.

- Wyoming's governor is proposing cutting state aid for local governments by more than half.

Other governors have simply provided a dollar figure for the cuts that state agencies would likely receive under the proposed budget, without fully explaining how these cuts would be achieved or how many people would lose access to services as a result.

At least eighteen of these governors — eight Republicans and ten Democrats in Alabama, California, Colorado, Connecticut, Florida, Georgia, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nevada, New Mexico, New York, Pennsylvania, Rhode Island, and Washington — assume in their proposals that the increase in federal Medicaid assistance will be extended for the rest of state fiscal year 2011, and the National Governors Association has formally requested the extension.[5] Such an extension is included in legislation that the House of Representatives passed last fall. If the federal government does *not* extend this aid, these states likely will be forced to make deeper and broader cuts than those they have already proposed.

---

[5] February 4, 2010 letter (from Governor Douglas and Governor Manchin) to House and Senate leadership to request assistance for states in protecting jobs and speeding economic recovery by extending the American Recovery and Reinvestment Act's (ARRA) enhanced federal match for Medicaid (FMAP) for two additional quarters.