VIEWS FROM THE FIELD
FEBRUARY 15, 2010

GRANTMAKERS IN HEALTH

The State of State Budgets

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At a recent meeting of state health policymakers, California team members were asked to compare their budget problems with the Titanic's sinking and determine which health initiatives were essential and worthy of being loaded into a lifeboat. One member quipped, "We're just trying to figure out whom to EAT in the lifeboat!"

Such is the state of many state budgets. In its latest report *State Budget Update: November 2009*, the National Conference of State Legislatures (NCSL) warns, "The state revenue nightmare continues… Revenues continue to fall below expectations…They are projected to be anemic for years to come."

Just how bad are state fiscal conditions? And what can health grantmakers do to help? These are multibillion dollar questions. This article intends to provide some answers to the first question. It also contributes some thoughts to the second question, but it is answered better by grantmakers themselves.

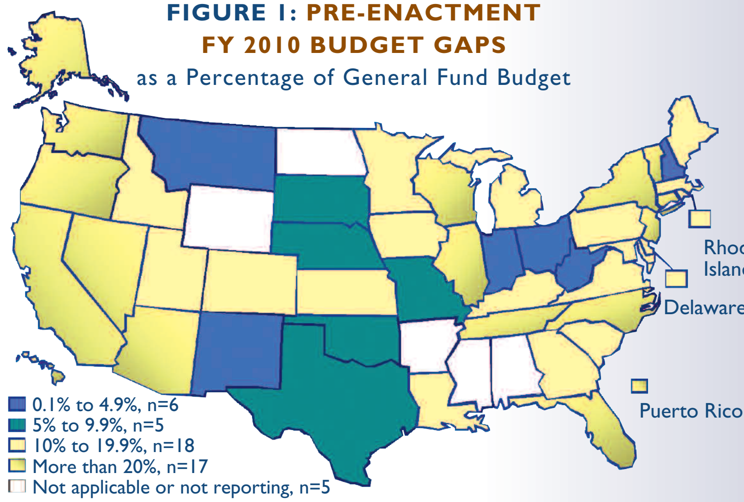
SO, HOW BAD IS IT?

Really bad – especially in some states. In NCSL's (2009a) survey, several legislative budget officers used terms such as "grim," "dire," and "volatile" to describe their budget situations. So far, states have reported a total estimated budget "gap" of $428.5 billion from FY 2008 through FY 2012. The gap represents the difference between enacted budgets and available revenues, absent law changes. As we all know, states cannot print their own money and they must balance their budgets, so they have to close those gaps before the end of their fiscal years.

Figure 1 shows the FY 2010 estimated budget gaps as a percentage of general fund budgets before actions were taken to close the gaps. Seventy percent of states reported gaps of 10 percent or more. Budget gaps in 17 states amounted to 20 percent or greater. In most states, the FY 2010 gaps came on the heels of substantial shortfalls in FY 2009, and many also experienced budget woes in FY 2008. At least 13 states reported budget gaps in all three years (NCSL 2009a).

Since the FY 2010 budgets went into effect, more than two-thirds of states have reported new budget gaps and revenues continue to disappoint. Only North Dakota stands out with a stable fiscal situation, which is attributed to its energy and farm economies (NCSL 2009a).

FIGURE 1: PRE-ENACTMENT FY 2010 BUDGET GAPS
as a Percentage of General Fund Budget



Source: NCSL survey of state legislative offices, 2009.

WHY ARE STATE BUDGETS SO BAD?

To invoke a famous Clinton-era campaign slogan, "It's the economy, stupid!"

The national recession is the main culprit in state fiscal woes. Virtually all state revenue sources have taken a nosedive. Energy taxes helped states like Alaska, Montana, North Dakota, and Wyoming weather the storm early on, but even those taxes have faltered in some states. Traditional sources of state revenue include:

- personal income taxes (except in nine states), which account for nearly 36 percent of revenues;
- general sales taxes (except in Alaska, Delaware, Montana, New Hampshire, and Oregon), which account for 31 percent of revenue;
- corporate income taxes, which bring in about 7 percent of state tax collections; and
- other taxes, such as property, excise, business and occupation, and real estate taxes (NCSL 2009a).

HOW ARE STATES COPING?

Poorly. In states facing budget gaps, the consequences are severe in many cases for the economy, as well as for individuals. Nearly every state has cut programs to close its budget gap, including employee layoffs. The ending of FY 2009 and planning efforts for 2010 saw at least 43 states cutting programs and services to their residents, including some of their most vulnerable families and individuals (McNichol and Johnson 2009). These cuts were felt in areas such as K-12 and higher education, Temporary Assistance for Needy Families, school transportation, child care, mental health services, and a host of others.

To add insult to injury, during recessions, Medicaid and other public assistance programs face increasing demands. At least 18 states and Puerto Rico reported that Medicaid or other health care programs were over budget in FY 2010 (NCSL 2009a). For example, Florida reported a projected Medicaid shortfall of $1.3 billion since the fiscal year began.

And, of course, local governments and programs feel the pinch. An estimated 55 percent of local health departments and 76 percent of state health departments cut programs in the past 12 months (Meyer and Weiselberg 2009). Another report found that 8,000 local health department staff positions were lost in the first six months of 2009 (Willard 2009). Moreover, an additional 12,000 employees reduced their hours or were furloughed for some days.

IS THERE ANY GOOD NEWS?

Not so much. Probably the only positive development for state budgets was the cushion provided by federal stimulus funds allocated under the American Recovery and Reinvestment Act of 2009 (ARRA). At least 41 states used ARRA funds to help close their FY 2010 budget gaps (NCSL 2009b). For example, Alabama's percentage change in total operating funds went from a projected -15.1 percent to 7.6 percent with ARRA funds. Missouri's similar figure went from -9.7 percent before using ARRA, to -0.6 percent.

ARRA, however, is a temporary fix. Says Ohio State Senator Tom Niehous, "Short of some miraculous recovery, while the short-term boost from ARRA has helped, long-term we're just pushing the problem into 2011 and 2012" (NCSL 2009b).

WHAT'S IN STORE FOR STATE BUDGETS?

Mostly more bad news, unfortunately. As the national economy turns the corner, state recoveries will lag. According to NCSL's Fiscal Program Director Corina Eckl, "Once it begins, state budget recovery will be a painfully slow process with some hiccups along the way" (NCSL 2009c).

At least 35 states project budget gaps in FY 2011, with more expected to follow as new revenue forecasts come in (NCSL 2009a). Arizona, Hawaii, Maryland, Nevada, and New Jersey all anticipate gaps of 20 percent or greater, with Iowa coming it just under at 19.6 percent. At least 11 states have already projected gaps for FY 2012; most states, however, have not yet gone on record that far out. According to Eckl, "…state budgets are still in appalling condition and are going to be that way for quite awhile…for many states, revenue recovery is not even in the forecast" (NCSL 2009c).

States are likely to reexamine programs as they emerge from the worst recession in decades. Says Florida House Speaker Larry Cretul, in NCSL's January 2010 *State Legislatures* magazine, "We've got to rethink. We are trying to make structural changes, process changes. We've made a lot of reductions. We need to think where we can find efficiencies."

SO, WHAT CAN FOUNDATIONS DO?

With multibillion dollar state budget gaps, it will be critical to engage a diverse array of stakeholders. Health grantmakers are particularly in a strong position to support states. In addition to providing flexible funds to support general operation and service provisions, funders can contribute beyond grant dollars by providing leadership, acting as neutral conveners, and providing technical assistance. Key areas in which funders may offer their support to states in crisis include:

- convening state leaders and community stakeholders to examine problems and propose workable solutions to the benefit of the population's health;
- identifying cost-effective initiatives that show promise in helping states recover, especially in the health arena;
- disseminating timely and accurate information on the state of budgets and program cuts; and
- providing funding to fill service and program gaps that might otherwise be scaled back or eliminated.

Despite the different approaches that stakeholders may take to ensuring the health of citizens in each state, it is critical to remember that we are all in this together. Foundations can provide much-needed assistance to state policymakers.

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