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A Precarious State

As more states slash their budgets, charities fear financial fallout

By Suzanne Perry

Devastating. That's the one-word heading that appeared on a recent report by the Maryland Budget and Tax Policy Institute, a group that analyzes the effect of the state budget on low and medium-income residents.

As the recession that has been stoked by the credit crisis and home foreclosures takes its toll, Maryland's economic growth has ground to a halt and has perhaps even reversed, the report says.

A legislative committee that recommends how much the budget should grow turned in the lowest number in its 25-year history last year: 0.7 percent. The state faces a budget shortfall of more than \$2-billion in the 2009 and 2010 fiscal years, with revenue projections rapidly falling.

"The spending cuts needed to address budget gaps of this size would lead to a catastrophic threat to state programs and Maryland's most vulnerable families," the institute says.

Those kinds of grim reports are circulating across the country as many governors prepare to introduce their 2010 budget proposals — and, in some cases, grapple with new gaps that have emerged in this year's budgets.

As charities deal with growing demand for their services and shrinking revenue from private sources, many are also bracing for further cuts in state programs that help pay their bills.

Request for Relief

Nonprofit organizations in California "are just facing tough budgets for the foreseeable future," says Jean Ross, executive director of the California Budget Project, a public-policy group in Sacramento.

California's governor, Arnold Schwarzenegger, a Republican, and the Legislature are locked in a bitter fight over how to close a \$42-billion budget deficit over the next 18 months.

Among the governor's proposals: Cut benefits in California's Medicaid program, Medi-Cal, which provides health insurance to the poor.

Planned Parenthood Mar Monte, in San Jose — which lost nearly \$200,000 in Medicaid reimbursements in this year's budget — is among the groups that are on edge over further cuts.

"We don't know when the other shoe is going to drop," says John Giambruno, Planned Parenthood's chief financial officer.

While state fiscal crises are nothing new, the recession has magnified the challenge of drawing up the balanced budgets that most states require.

As sales and income tax revenue plummets in many states, lawmakers must consider increasing taxes or cutting spending — strategies that could further dampen economic growth.

Many nonprofit and other experts say the federal government must step in — and are asking for relief in the economic-stimulus package that Congress and President-elect Barack Obama are now drafting.

"There is already strong pressure to fund infrastructure projects that are 'spade ready,' such as roads and bridges," said the Maryland Association of Nonprofit Organizations, in a message urging its members to press Congress to provide \$2-billion for the state's operating revenue.

"These are important, but don't prevent state spending cuts for operating programs that immediately harm people, communities, and the economy — employee layoffs and pay cuts, health and education reductions, cutoffs or cutbacks of benefits and services to families and individuals," the group wrote.

At least 41 states and the District of Columbia expect budget shortfalls totaling \$42-billion this fiscal year (which began in most states on July 1), according to the Center on Budget and Policy Priorities, a liberal research organization in Washington.

Those are above and beyond the gaps that the states plugged when they adopted their 2009 budgets. At least 38 states anticipate budget deficits in 2010, the center says, and it estimates the total shortfall will reach \$145-billion.

The deteriorating conditions are taking their toll on human services, and on the charities that provide them.

At least 18 states are cutting medical and other services to old or disabled low-income people, or are significantly increasing their costs, the center says. At least 19 have made or are considering cuts limiting the eligibility of low-income children or families for health insurance.

At least 34 states have proposed or made cuts to their state work force, thus crimping services to their residents.

Florida is among the states that are eyeing health-care cuts in an effort to close a big budget gap.

At a special session called in early January, state legislators released proposals for nearly \$1-billion in cuts to help close a \$2.3-billion budget deficit fueled by declining sales-tax revenue and a surge in demand for state services like food stamps.

Those proposals include new cuts in Medicaid reimbursement rates for hospitals and nursing homes. Erwin Bodo, chief operating officer of the Florida Association of Homes and Services for the Aging, which represents nonprofit facilities, says nursing homes stand to lose \$220-million in Medicaid payments — following \$75-million in cuts in 2008, he says.

Aid to State Governments

More than 90 percent of Florida's nursing homes already get less in Medicaid than it costs to provide care, Mr. Bodo says. "Once this cut goes through, we'll have virtually 100 percent of nursing homes

subsidizing Medicaid residents."

Mr. Obama and Congress have made clear that their economic-stimulus package, which is expected to authorize spending in the neighborhood of \$775-billion, will offer some kind of aid to state governments.

Some experts say one of the most effective ways the new president and federal lawmakers could both alleviate state budget problems and bolster the social safety net is to increase temporarily the Federal Medical Assistance Percentages, the amount the federal government contributes to state Medicaid programs — as Congress did in 2003 to help move the country out of its last recession.

"That's a real easy way to get [states] money," says Chad Stone, chief economist at the Center on Budget and Policy Priorities. "It allows them to meet increasing Medicaid caseloads without having to cut back on other programs to pay for it because of balanced-budget requirements." The National Governors Association, noting that Medicaid payments represent about 23 percent of state budgets, urged lawmakers in a November report to provide at least \$40-billion in Medicaid relief over two years.

Mr. Stone says it now might make sense to provide as much as \$100-billion.

New Models for Survival

A coalition of human-services charities, state and local government associations, unions, and others is also pressing Congress to help states by raising annual spending on social-services block grants — which help states provide services to children, older adults, people with disabilities, and vulnerable families — by more than \$1-billion, to \$2.8-billion.

The group, the Social Services Block Grant Coalition, argues it would be a quick way to get money to charities because networks already exist to distribute it.

But the National Council of Nonprofits, an organization in Washington that represents small and medium-size charities, is calling for money to go directly to state and local operating budgets.

That would allow them to "fund delivery of basic human services, retain their own employees, and even put more people to work on postponed construction projects" — offering broader and more immediate relief than most infrastructure spending.

While many charities are trying to find quick relief, some are exploring ways to operate differently, given the precariousness of government support.

The Puerto Rican Youth Development and Resource Center, in Rochester, N.Y., for example, recently decided to join forces with another organization in town in order to stay alive.

Mildred Vazquez, executive director, says her small group, which relies on government money to run its social-services programs, decided to make that move shortly after she heard the state's governor, David Paterson, a Democrat, on the radio talking about the need for more state budget cuts last spring.

"The board and I looked at our structure and decided that if we were going to get any cuts that the governor was threatening then, we were not going to survive," Ms. Vazquez says.

With help from the Council of Community Services of New York State, a state association that gets

money from the United Way of Greater Rochester and the Charitable Venture Foundation to help nonprofit organizations restructure, the group is becoming a subsidiary of the larger Ibero-American Action League.

New York now calculates it has a record \$15-billion budget shortfall over two fiscal years, and Mr. Paterson called last month for big spending cuts and higher taxes.

"If we had not started the process when we did, before things even got as bad as they are, we would have closed our doors," says Ms. Vazquez.

Meanwhile, Hillcrest Family Services, in Dubuque, Iowa, is tired of the ups and downs of attracting state money and has decided to embark on a 10-year campaign to reduce its reliance on government aid.

"When the downs come, human services and education get hit," says Gary Gansemer, the group's president. "When the ups come, they make it up to education and not human services."

In the latest development, Iowa's governor, Chester Culver, a Democrat, ordered an across-the-board cut of 1.5 percent in state spending in December to cover a gap in this year's budget.

Hillcrest, which provides a range of health and social services, now depends on state, local, and county money for 86 percent of its \$16-million budget.

Last year the board decided to increase its endowment from \$3-million to \$75-million over 10 years, thus cutting its reliance on government money to 75 percent, Mr. Gansemer says.

While acknowledging that that plan sounded better before the stock market plunged last fall, he says the group expects to tap major philanthropists — including members of the Presbyterian Church (USA) and United Methodist Church, with which it is affiliated — who it hopes will respond to its approach of showing how its services have improved the lives of its clients.

Mr. Gansemer says Hillcrest has also stopped accepting government contracts that pay less for services than it costs to provide them or that place unrealistic demands on the group.

Clara Miller, president of Nonprofit Finance Fund, a group in New York that provides loans and counseling to nonprofit groups, says more charities should consider doing that, despite their reluctance to turn away people in need.

"The difficult thing is it's in our DNA to just keep on keeping on and try to make it work," she says. But charities should be more hard-nosed negotiators if they want to stay financially healthy, she says.

Despite the frustrations of dealing with government agencies, charities should go out of their way to work well with them, advises Peter Brinckerhoff, a nonprofit-management consultant who used to run a government-financed charity. "All of us tend to view our state funders as our worst enemies instead of our best customers," he says.

Charities should, for example, consider commiserating with state project managers about the economic woes both sides are experiencing.

Without good relations, he says, "when times get bad, it's difficult to go back to the folks you fussed at in private and in public and say, Can you help me?"

Eric Kelderman and Grant Williams contributed to this report.

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