

The State We're In: How Bad Is It Out There?

by Rick Cohen and Ruth McCambridge

Editors' note: In this first article in a series on how the economic downturn has affected nonprofits differently from state to state, we look at 14 states: Arizona, Connecticut, Illinois, New York, North Carolina, North Dakota, Maine, Mississippi, Pennsylvania, Florida, Michigan, Louisiana, California, and South Carolina. We greatly appreciate the contributions of our authors from these states. Check our Web site for more current information at www.nonprofitquarterly.org.

THE DAILY NEWS REPORTS OF STATE GOVERNMENT budget impasses, deficits, and cuts hit nonprofits right where it hurts: that is, in their ability to deliver on the programs and services relied on by their constituents and communities across the nation.

As the *Nonprofit Quarterly* has watched the impact of the downturn on nonprofits, we have noted several determining factors that make the economic environment more dangerous for some nonprofits than for others. One of these factors is, quite simply, geography, or more specifically, the key economic drivers in the state in which a nonprofit is located. Two of these drivers are a state's budget deficit and its level of unemployment. This year, however, the stimulus money—which was



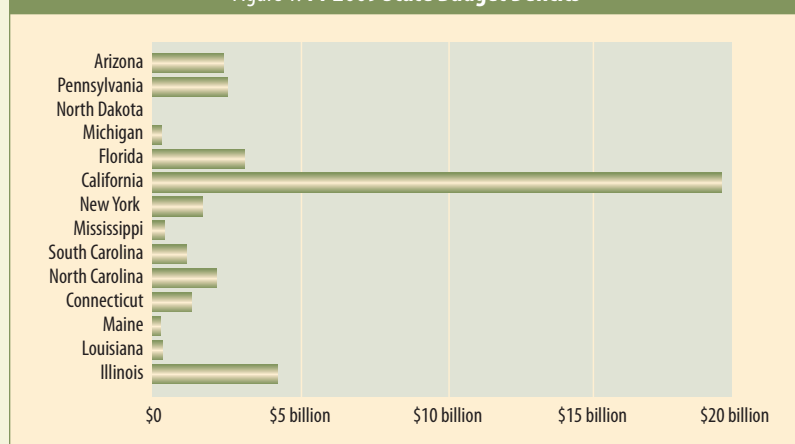
RIK COHEN is the *Nonprofit Quarterly*'s national correspondent. **RUTH MCCAMBRIDGE** is NPQ's editor in chief.



The Fifty United States and their Mottos

Emily Wick 2008

Figure 1: FY 2009 State Budget Deficits



distributed unevenly to the states—is also part of the states’ financial equation and has temporarily relieved some pain. In some cases, American Reinvestment and Recovery Act (ARRA) funds have replaced state money and thus may have unwelcome longer term-effects in states where deficits extend well past the expenditure of that money.

In any case, what follows is a discussion of the multiplier effects of the major variables that measure nonprofit health in these states. These charts track the differences among 14 states and highlight some of the serious problems that nonprofits will face given the fiscal and financial prob-

In October 2009, the nation’s unemployment rate hit 10.2 percent.

lems of state government budgets.

The reports from the Center on Budget and Policy Priorities (see page 20) and the National Conference of State Legislatures tell us that almost every state faces distressing budget deficit levels. But some are significantly more distressed than others. Budget deficits not only drive cuts to nonprofit service providers but also affect the availability of government-delivered services, which can in turn create—over time or immediately—more acute levels of need among those whom nonprofits serve. A serious state budget deficit also places pressure on cities and towns and their budgets, which creates cuts at that level as well. Additionally a serious budget deficit forces state and local government to look for additional revenue, and it may be tempting to levy additional

fees and taxes on nonprofits. Finally, extraordinarily stressed state budgets may cause untenable problems—short of organizations actually losing the money—in terms of nonprofit contracts. Late state payment of contracts, or delays in signing contracts for work that is ongoing in prompt-pay states, creates additional administrative burdens for nonprofits already stretched thin and forces nonprofits to act as unwilling lines of credit for the state.

The unemployment rate has a similar multiplier effect. It drives up the level of need but also increases the amount of work for nonprofits because many new service users need guidance as they make their way through the unfamiliar territory of seeking help from service providers and doing what is required to receive it. High unemployment levels also affect United Way campaigns as well as individual giving by those who are unemployed and by cautious givers in what appears to be an unstable environment. Unemployment also brings the loss of health insurance, which has lengthened the waiting lists at nonprofit providers of health services. And these unemployment-related impacts have state budget impacts, with expanding needs straining state programs at the same time that unemployment results in reduced tax revenue.

These are not, of course, the only variables in the survivability of any particular nonprofit. But for many, they are major scene setters.

So, in *NPQ*’s typical throw-caution-to-the-wind fashion, we offer the following shorthand for measuring your state’s weather report. If your state shows up relatively high in the first three dimensions of fiscal and economic distress that follow, expect stormy weather; pull out the rain slicker and umbrella; and mobilize with your nonprofit peers to protect, strengthen, and rescue the budget elements important to the nonprofit sector and, more important, to the communities that nonprofits represent and serve. The fourth factor—the stimulus fund—may ameliorate or delay the full force of the tempest. In what follows, we explore the major indicators of fiscal and economic distress at the state level that have multiple and momentous implications for nonprofits.

High unemployment rate. It’s not hard to

Figure 2: Unemployment Rates, November 2009

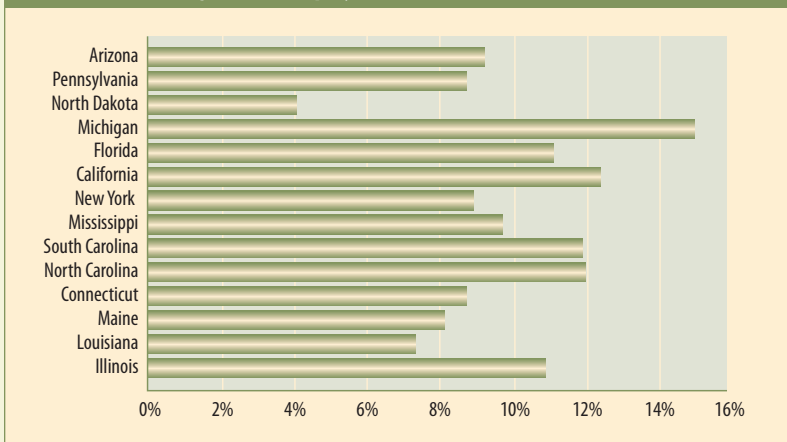


Table 1: State Budget Deficits per Capita

Top 10 States in Budget Deficits per Capita	Per Capita	Bottom 10 States in Budget Deficits per Capita	Per Capita
Connecticut*	\$1,717	Alaska	\$0
New York	\$918	Montana	\$0
California	\$922	North Dakota	\$0
New Jersey	\$806	Wyoming	\$0
Massachusetts	\$769	Arkansas	\$51
Delaware	\$638	Nebraska	\$85
Minnesota	\$613	South Dakota	\$40
Wisconsin	\$569	West Virginia	\$110
Illinois	\$543	Indiana	\$114
Hawaii	\$529	Alabama	\$116

*The Connecticut number highlights a crisis of leadership, not just of revenue and expenditures, and is similar to the situation in Hartford, Sacramento, Albany, and Harrisburg.

understand that with skyrocketing unemployment, taxpaying individuals and corporations generate less of the taxable income that states need. You could complicate this indicator by adding underemployment (those who have stopped looking for jobs, those working part time because they can't find full-time employment, etc.), and the numbers are stunning. In October 2009, the nation's unemployment rate hit 10.2 percent, breaking the dreaded double-digit barrier. If you add "discouraged workers," "other marginally attached workers," and those employed part time for reasons not of their own choosing, the composite proportion of the civilian workforce that is un- and underemployed reaches 17.5 percent.¹

But even unemployment rates on their own are a significant distress indicator to us. In September 2009, the nation's official seasonally adjusted unemployment rate hit 9.8 percent. It was matched or exceeded by New Jersey (9.8 percent), Ohio (10.1 percent), Georgia (10.1 percent), Illinois (10.5 percent), Tennessee (10.5 percent), Alabama (10.7 percent), North Carolina (10.8 percent), Kentucky (10.9 percent), Florida (11.0 percent), Oregon (11.5 percent), South Carolina (11.6 percent), California (12.2 percent), Rhode Island (13.0 percent), Nevada (13.3 percent), and Michigan (15.3 percent).² Throughout the United States, unemployment levels are intolerably high, but for the states exceeding the nation's average, the fiscal outlook is quite grim.

Current year's budget deficit. Many states start off with an initial built-in budget deficit that

simply expands as anticipated revenue falls short. Among the states we've examined below, just consider California, where the FY 2010 deficit will be more than 50 percent of the state's general fund. The state faces an unfathomable budgetary nightmare. With legislators unwilling to raise taxes and a populace inclined toward tax caps, some of California's likely budget cuts will target the critical social programs typically used and delivered by nonprofits. It's one thing to have to cut billions from a state budget, but the amounts vary based on the state's particular budget and program priorities. But how much of the deficit burden

For the states exceeding the national unemployment average, the fiscal outlook is grim.

is carried by each state's resident may indicate something more. If your state has a high per-capita deficit, regardless of the proportion of the general fund that may have to be axed, you can imagine the potential reluctance of voters to save the programs we all need. As of this past June, using data from the Center on Budget and Policy Priorities, the Many Eyes group in IBM's Collaborative User Experience calculated per-capita deficit numbers by states, with the top and bottom quintiles starkly evident (see table 1).

Stimulus monies per capita. According to the Center on Budget and Policy Priorities, funding from the American Recovery and Reinvestment Act has been incredibly important. Fiscal assistance has helped states reduce their budget deficits in this

Figure 3: Per-Capita FY 2010 Budget Deficits

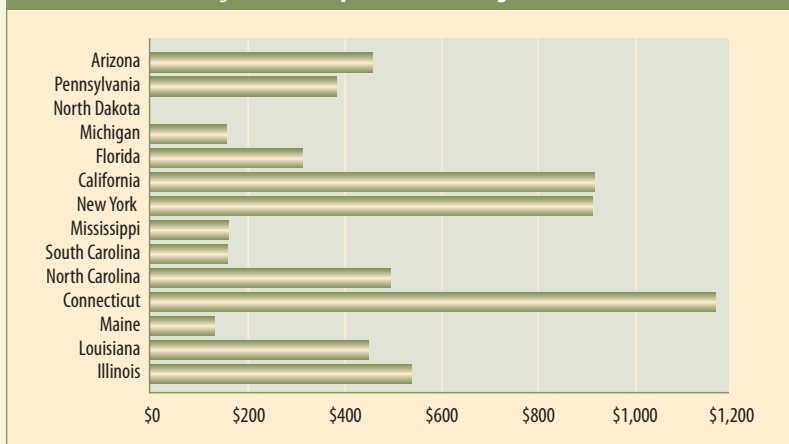


Table 2: State Stimulus Funds per Capita

Top 10 States in Stimulus Monies per Capita	Per Capita	Bottom 10 States in Stimulus Monies per Capita	Per Capita
Alaska	\$1,808	Florida	\$370
North Dakota	\$1,089	Nevada	\$380
Montana	\$907	Pennsylvania	\$364
Washington	\$828	Wisconsin	\$429
South Dakota	\$874	Virginia	\$443
South Carolina	\$851	Texas	\$439
Idaho	\$803	Georgia	\$433
Vermont	\$758	Ohio	\$440
Wyoming	\$894	Arizona	\$437
New Mexico	\$814	New Jersey	\$445

fiscal year by a cumulative 30 percent to 40 percent. In FY 2010, ARRA assistance allowed states to reduce their total deficit by \$68 billion, though leaving a “paltry” \$122 billion in deficit remaining.³ Just imagine the impact of *no* stimulus dollars on nonprofits and their constituents. If your state is in the bottom rung of stimulus dollars per capita, you might guess that your state is lacking the access to the stimulus funds it needs to fill its budget holes.

According to the October 30, 2009, Track the Money database at Recovery.gov, the average per-capita stimulus take of the states was \$595 (not

governors considered rejecting parts of the stimulus program? The reasons for the numbers may be political or simply serendipitous, but they mean something to state economies and budgets. It’s also worth noting that ARRA-funded solutions to state fiscal problems are temporary. When the ARRA money runs out, the states will face budget cliffs in FY 2011 and FY 2012.

Several organizations have tried to boil down various economic indicators into formulas for ranking and forecasting state fiscal and economic problems. The Associated Press recently released the AP Economic Stress Index to measure the economy’s impact on counties by a formula that simply adds unemployment, foreclosure, and bankruptcy percentages (Imperial County, California, with an unemployment rate of more than 30 percent, tops the AP list, even surpassing Wayne County, Michigan, where Detroit suffers).⁴ The Pew Center on the States generated a top 10 list of states in fiscal peril. In rank order, starting with the worst, they are California; Rhode Island; Michigan; Arizona, Nevada, and Oregon in a three-way tie; Florida; New Jersey; and Wisconsin and Illinois in a two-way tie. This list is based on six factors: high foreclosure rates; increasing joblessness; loss of state revenue; the relative size of budget gaps; legal obstacles to balanced budgets—specifically, a supermajority requirement for some or all tax increases or budget bills—and poor money-management practices.⁵

In the W.C. Fields movie *The Fatal Glass of Beer*, Fields plays a man stuck in a blizzard in a

When the American Recovery and Reinvestment Act money runs out, many states will face budget cliffs.

counting ARRA flows to the District of Columbia, Puerto Rico, Guam, and the Virgin Islands). Obviously, how the states applied for and deployed stimulus money is important, but the per-capita averages are thrown off by the \$1,089 per capita that went to North Dakota and the amazing \$1,808 that went to Alaska (see table 2).

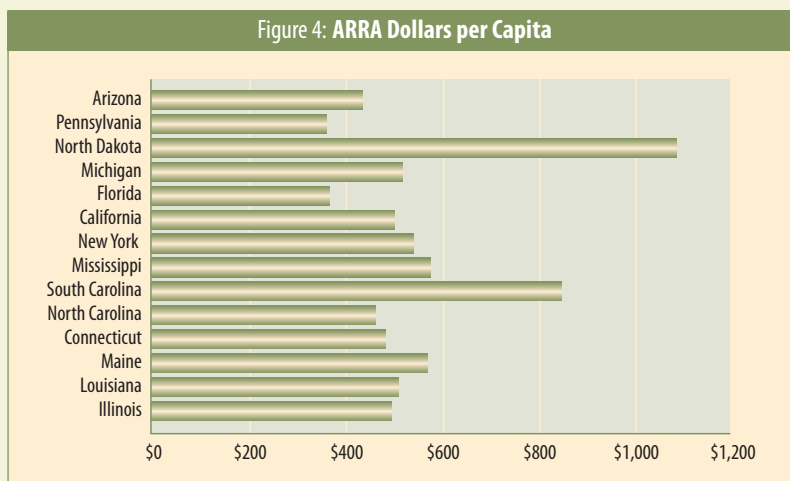
These imbalances may reflect political reasons rather than true need. Before she resigned from the governorship earlier this year, was Sarah Palin all that persuasive on behalf of Alaska? Was Kent Conrad’s role in saving the president’s health-care reform package one of the linchpins of North Dakota’s ARRA number? Does it matter that Max Baucus of Montana chairs the Senate Finance Committee? How could South Carolina’s number be so high and Texas’s be so low when both states’

tiny cabin. Every time he opens the door, another blast of snow and wind enters. He laments, “Ain’t a fit night out for man nor beast.” Some nonprofits may feel similarly impossibly buffeted by the blasts from the environment. But some groups are more protected from the unpredictable and sometimes-cruel elements because their state has been less affected by the downturn or because their field has received a reprieve, possibly through stimulus dollars.

In this issue of *NPQ*, we have explored the weather conditions of nonprofits in several states as a result of a combination of state budget deficits and unemployment. To flesh out the picture further, nine-state nonprofit association members of the National Council of Nonprofits have described the budget conditions in their states, and we have included a few stories from the front lines that highlight the state of their state environments. In our estimation, the various indicators compiled in the charts and graphs interspersed throughout this special section, plus the stories from the state associations, paint a difficult picture of what most nonprofits face in their state capitals. Together, they signal the need for increased nonprofit advocacy so that social-safety net programs, K–12 education, and other program areas don’t become budget-balancing fatalities.

ENDNOTES

1. According to the Bureau of Labor Statistics (BLS), “Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job market-related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.” BLS makes available a four-quarter rolling average of this “labor underutilization” measure. As of the third quarter of 2009, the four-quarter average for the United States was 15.2 percent, which was exceeded by the following states: Idaho (15.7 percent), Illinois (15.7 percent), Alabama (15.8 percent), Georgia (16.0 percent), Ohio (16.1 percent), Kentucky (16.4 percent), North Carolina (16.5 percent),



Indiana (16.6 percent), Arizona (17.2 percent), Florida (17.2 percent), Tennessee (17.4 percent), Nevada (17.5 percent), Rhode Island (18.3 percent), South Carolina (18.4 percent), California (19.6 percent), Oregon (20.1 percent), and Michigan (20.9 percent).

2. Puerto Rico (with 16.2 percent unemployment) and the District of Columbia (with 11.4 percent unemployment) also fit this category.

3. Iris J. Lav, Nicholas Johnson, and Elizabeth McNichol, *Additional Federal Fiscal Relief Needed to Help States Address Recession’s Impact*, the Center on Budget and Policy Priorities, November 19, 2009, 5.

4. AP Economic Stress Index, November 2, 2009 (http://hosted.ap.org/specials/interactives/_national/stress_index/index.html).

5. *Beyond California: States in Fiscal Peril*, the Pew Center on the States, November 2009.

ARIZONA Fiscal Health Checkup

ARRA per Capita \$437
Unemployment rate, Nov. '09 ... 9.3%
Budget Deficit per Capita \$462

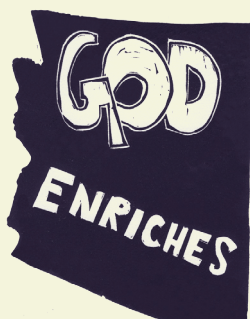
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ARIZONA

An Unwelcome Alternate Universe

by Patrick McWhortor

Imagine if nearly half your state services vanished—poof! Over the course of three years, you witness the disappearance of the basics: fewer highway patrol cars responding to emergencies; no more rest areas for weary drivers; parks with locks on the gates; children without day care; families with no access to health care; even new businesses unable to file for incorporation.



Arizona

Envisioning an alternate universe is not a fanciful exercise. As a result of the worst budget crisis in our history, this is a very possible emerging reality in the state of Arizona.

Many of the services funded by state agencies are contracted out to providers, many of which are nonprofit organizations. And for many of these nonprofits, state funds are core to the survival of their missions. The fates of state-funded nonprofits, therefore, are intertwined with the travails of state-budget policy making.

The organizations most in peril are those providing health and human services.

Last month, Governor Jan Brewer required all state agencies to submit plans to trim another 15 percent of their budgets for the remainder of the 2010 fiscal year, which ends on June 30, 2010. That's a 15 percent cut of the total budget, and we're only two-thirds into the year. That's an effective 23 percent cut for the remainder of the year. Worse, this reduction comes on top of reductions already made in the winter of 2009 as the economic crisis unfolded. According to Protecting Arizona's Family Coalition, more than 300,000 people in Arizona have suffered losses or reductions in services because of cuts that have already been made.

The Department of Economic Security, which is the primary state agency funding nonprofits in human services, already experienced a 31 percent decrease in general funds. The additional proposed reductions will decrease the department's state funding by 42 percent, slashing it to 2004 levels. In two years, that's a decline from \$808 million to \$471 million. Keep in mind that this is in a state that, until the economic engine stopped running last year, was the fastest growing in the nation. High growth also means high demand for services. And with the onset of recession, Arizona leads the nation in percentage of jobs lost. Yes, its joblessness rate is even higher than that in Michigan; need is skyrocketing.

Health services have been particularly hard hit. If the proposed cuts are enacted, 47,000 children will lose their KidsCare health coverage. Hospitals have already reported budget problems from cuts made last year. This latest round of reductions will have devastating consequences on their bottom

lines. And we will all feel the effect of the associated costs, with higher hospitalization charges and higher insurance premiums.

This says nothing about the future, when federal stimulus funds will not be able to plug part of the giant hole in our state budget. In 2011 and 2012, another 20 percent of state funding will have to be cut to fill the void. In the next round, some experts predict that public schools—still protected from severe cuts this year—will see reductions to core support, and teachers will be laid off en masse.

Out of Balance

So far, there has been no political will to raise taxes to close the gap created by the budget shortfall. Governor Brewer's plan called for a three-year 1 cent temporary sales tax hike to mitigate cuts to basic services. Our legislators are not even willing to send this proposal to voters. Key lawmakers have crushed every attempt to ask voters to raise the funds to support basic services provided by state government.

Politicians have been willing to let state agencies raise fees. So the Arizona Department of Health Services has proposed outrageous increases to licensing fees for child-care centers. They could go up as much as 8,800 percent. That is not a typo; that is a comma, not a decimal point. These would become the highest child-care licensing fees in the nation.

Struggling nonprofit child-care centers cannot afford to absorb these fees. And they certainly cannot consider passing them along to the parents they serve. If these fees are approved, we expect to see the closure of many child-care providers and more jobs lost. And, as reported by Children's Action Alliance, "Without safe childcare, parents who are lucky enough to have a job today may have to reduce their work hours or quit" their jobs to stay home with children if these parents have no affordable alternative care outside the home.

This is the state of affairs in Arizona today. It is extremely challenging. But even as I witness these alarming events, I have hope.

At the Alliance of Arizona Nonprofits, we are inspired by the resilience and spirit of our nonprofit leaders. I have spoken to many executives

and board members who remain committed to finding creative ways to endure this financial firestorm. They have collaborated and explored new ways of doing business to sustain their missions. Also, the need for advocacy could not be more clearly defined than it is in 2009. Hundreds of families rallied at the state capitol last month to oppose the child-care fee hike, and nonprofits organized that protest.

The Arizona state budget crisis is not over. But if we as nonprofits have a strong voice and use that voice for the people we serve, we can prevail.

PATRICK MCWHORTER is the president and CEO of the Alliance of Arizona Nonprofits.

CONNECTICUT

Nonprofit Employers the Linchpin of Connecticut's Economic Recovery

by Liza Andrews

It's been a year unlike any in recent memory. Connecticut's budget impasse effectively lasted nearly nine months. The debate kicked off in January 2009, with the state facing an \$8 billion deficit over two years (FY 2010–FY 2011)—this with an annual budget of approximately \$18 billion—and would not ultimately be settled until October 2009. Nonprofit executives and activists cannot recall the last time Connecticut had such a large deficit or the last time they encountered such difficulty agreeing on how to fix it. It was an excruciatingly long session filled with uncertainty and frustration.

In Connecticut, at least \$2 billion is spent annually on health and human services provided by nonprofits on behalf of the state. During the course of the budget battle, nonprofits were subject to budget rescissions and deficit mitigation reductions for FY 2009. When the start of FY 2010 came and went on July 1 without a budget in place, nonprofits were then subject to the governor's executive orders and reduced monthly budget allotments. Nonprofits' payments decreased from

99 percent of their monthly contract amount to 40 percent and, in some cases, to 0 percent. And now that the budget has finally passed, our governor has already begun making budget rescissions to deal with a projected FY 2010 deficit between \$388 million and \$624 million.

Time and time again, nonprofit providers in Connecticut are asked to do more with less. Throughout the process, nonprofits that contract with the state have stood no chance of receiving a cost-of-living adjustment on their contracts for FY 2010 or FY 2011, even though the state did not give them one in 2009 either. As a result, nonprofits have been asked to provide services with the same amount of money they received the year prior even though inflation has increased the cost of providing these services significantly. And along with so many other states, as the economy fell deeper and deeper into recession, service demand shot up.

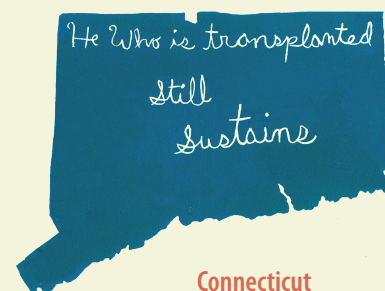
Unfortunately, increased demand with less funding has not been the only challenge for nonprofits in Connecticut. The sinking economy caused a whole new group of consumers—the middle class—to appear. Families with advanced degrees living in the suburbs began seeking nonprofit services ranging from heating assistance to food stamps to mental health and addiction services. Nonprofit providers were not prepared for this level of demand.

But, as with any situation, challenges are what you make of them. Over the past year, nonprofits in Connecticut have shown their true strength and resilience. It was not easy; along the way, nonprofit directors had to make difficult decisions, from laying off staff to closing down programs. But through it all, they demonstrated true leadership. They worked with one another, forming new partnerships and collaborations that will result in better opportunities for those they serve. Nonprofits in Connecticut showed its residents what it means to be true to a mission, holding the safety and well-being of communities above all else.

Nonprofits in Connecticut offer high-quality, efficient, and cost-effective services to residents at a great savings to taxpayers. Over the next year, as more difficult budget decisions

CONNECTICUT Fiscal Health Checkup

ARRA per Capita	\$485
Unemployment rate, Nov. '09 ...	8.8%
Budget Deficit per Capita	\$1171



are made, it will be critical for nonprofits to be more vocal about cost-effectiveness. We need to be a leading voice in advocating smart spending, showing that \$1 spent on nonprofit services can save \$2 down the line.

Nonprofits employ approximately 11 percent of Connecticut's workforce, and we need to highlight our role as an employer for many residents. Nonprofits are not only a partner with the state in providing for the health and well-being of its citizens but also a vital contributor to Connecticut's economy. We deserve to be recognized and treated as a significant economic force. Nonprofits are a part of the solution to Connecticut's continued budget woes, and Connecticut Association of Nonprofits stands ready to ensure that the public and elected officials recognize the value of the nonprofit sector.

LIZA ANDREWS is the public policy director of Connecticut Association of Nonprofits.

nonprofit service-provider payments, and a "carryover" deficit from 2009.

While some nonprofit programs that rely on federal funding—early intervention and child-care assistance, for example—have been spared cuts and received increased funding, most nonprofits that rely on state funding have experienced declines. The state's FY 2010 budget includes cuts ranging from 2 percent for elementary and secondary education to 5 percent for children and family services and 19 percent for public aid, including health care and family support. As compared with the previous fiscal year, health and human-service programs for addiction prevention, homeless youth services, and delinquency were cut 22 percent, while prenatal case management and Teen REACH after-school programs were cut 15 percent.

These declines are especially devastating for nonprofits that deliver services via state contracts. From 1993 to 2002, the state of Illinois—to meet court mandates and legislative requirements—dramatically increased its contracts with nonprofits to provide human services. When a budget crisis slows these payments from the state or stops them altogether, the very existence of these nonprofit service providers is threatened.

The revenue shortfalls are made worse by the reality that nonprofit providers are not entitled to the same protections under the Illinois Procurement Code as are for-profit vendors. Instead, nonprofits seeking late payments must pursue a claim under the Prompt Payment Act, which has never been enforced. So while nonprofits serve as vendors to the state in providing critical services, they lack the power that for-profits have to collect sorely needed late-payment penalties to help replenish reserves and offset debt service expenses.

Moreover, the cuts, slow payments, and absence of payments follow years of level funding because of state structural deficits. And these reductions come despite the new costs that nonprofits have had to bear because of mandates for data collection and software requirements as well as increases in the cost of doing business. Even before the national economic downturn, for example, human-service organizations had begun to freeze salaries, eliminate benefits, and

ILLINOIS

Fiscal Health Checkup

ARRA per Capita \$498

Unemployment rate, Nov. '09 11%

Budget Deficit per Capita \$543



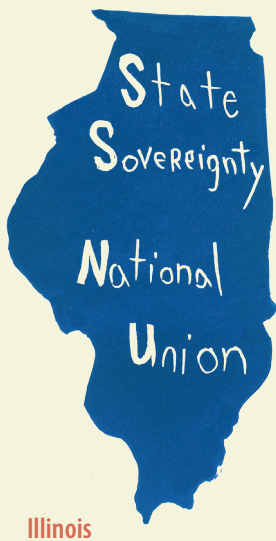
ILLINOIS

Nonprofit Dependence on State Revenue Exacerbates Downturn

by Valerie S. Lies

Like many other states, Illinois faces a budget crisis that has had devastating effects on nonprofit organizations, especially those with which the state contracts to provide human services.

Exacerbated by a recession-led decline in revenue, the state has a \$12 billion deficit. Some of the contributing factors precede the recession. Of the nine states with flat tax rates, for example, Illinois has the lowest—at 3 percent—ranking as the sixth most regressive system in the nation. Sales tax has also declined, as manufacturing—the majority of the state's sales tax base—has contracted. Even after budget cuts of \$3.9 billion, an infusion of \$1.4 billion in federal dollars, and an issuance of \$3.4 billion in pension bonds, Illinois will face a \$3.3 billion deficit. That deficit consists of a backlog of delayed Medicaid, state retirement,



Illinois

Program Success amid Economic Struggle

By Ruth McCambridge and Chris Finney

Chicago, Illinois—based CJE SeniorLife, which last appeared in the *Nonprofit Quarterly's* Nonprofits in the Age of Obama series in the Spring 2009 issue, has a budget of \$54 million and some 600 full-time and 150 part-time employees. The organization provides a range of services to the elderly throughout Chicago, including residential care, in-home support, and cultural activities. CJE's budget is made up of a veritable tangle of approximately 100 sources, including state and federal money, fees for service, foundation grants, and individual contributions. Its operating environment encountered several problems that preceded the downturn in terms of how the state does business with nonprofits. Illinois, for instance, is 49th out of 50 states in terms of nursing-home reimbursement rates, and it is notorious for making late payments on contracts.

Thus, even in "normal" times, CJE must run a tight administrative ship. With so many revenue sources in play, however, CJE has had to work at break-neck speed. "What occurred over the last number of months has been complicated," says CJE President and CEO Mark Weiner. "First, the state of Illinois' inability to pass its budget brought serious threats of funding decimation in social and human services. Two of our programs were significantly at risk, but because we lobbied heavily, we were able to get that funding restored." When the state budget was passed—two weeks after the fiscal year had begun—Illinois relied heavily on borrowing. And the borrowing may be from unwilling banks, such as state contractors. According to a November 2009 article in the University of Illinois' *Illinois Issues*, "Illinois has fallen as far as \$1.3 billion behind in paying providers of Medicaid, the state-federal program for the poor, disabled, elderly and youth. But the program also has become a lending source. Illinois lawmakers repeatedly have delayed payments to Medicaid providers to free up cash for other expenses."¹

CJE is, of course, one such contractor, but it has been spared some of the impact of these delays because it gets Medicaid dollars from stimulus dollars, and there is a prompt-payment rider on that money. Penalties for violating that rider, which requires payment within 30 days, would cost the state \$2 million a day. But according to the *Illinois Issues* article, for those organizations not receiving American Recovery and Reinvestment Act money, "The wait is expected to climb again this fall and winter as the state's cash flow slows from declined tax revenues, as well as increased demand for public aid during the aftermath of the national recession."

Meanwhile, CJE's innovative Managed Community Care Program, which is run on an annual budget of more than \$5 million, is threatened with complete elimination. CJE's Managed Community Care Program supports more than 600 elderly who live in Chicago and the surrounding

communities by providing community-based personal care and home-maker assistance, which is the kind of service often provided in an assisted-living residence. CJE considers the program core to its mission and emblematic of its approach (CJE supplements the state's \$4 million—plus contribution to the program with more than \$1 million it raises elsewhere). It is also widely viewed as highly successful in its outcomes. CJE saves the state of Illinois millions of dollars by assisting older adults to remain in their own homes.

Weiner describes a standard site visit. "The state program auditors came in yesterday, did a review, said to us that we have a Cadillac program: it's absolutely superb, it should be a national model. But because they cannot replicate it throughout the state, they're going to stop funding. I can't see how this makes any sense. These are frail, older adults who otherwise would have to be in nursing homes if we were not providing their services." When asked about future plans, Weiner rejects the possibility of closing the treasured program and says the plan is to fight the decision with more advocacy.

So too, CJE has experienced a significant decline in foundation grants, and the decrease has prompted the organization to consider eliminating programs that are more peripheral to its mission and less able to cover their own costs. "Programs that are really dependent upon grants in particular are going to be threatened," Weiner predicts. "There are a lot of foundations that historically have been good sources of dollars for us now saying, 'We're not doing anything this year, or if we do something, it's going to be very minimal.' So we have begun the process of looking at our special programs that we might define under areas of lifelong learning and creative arts and Jewish life and seeing how we can protect them the best we can but also recognizing that we're probably going to have to make some cuts."

Weiner is unruffled by the angst involved in CJE's juggling act. "I'd rather talk to you about what we're doing in terms of Parkinson's disease right now, which I believe is going to have national implications, and I can talk about our five adult-day service programs forever. So we have lots of very exciting stuff going on—lots of moving parts—and we will—somehow, some way—figure out how to minimize the damage."

Ruth McCambridge is *NPQ's* editor in chief. **Chris Finney** is a writer for *NPQ*.

Endnotes

1. Bethany Jaeger, "Pay Delay," *Illinois Issues*, October 2009 (<http://illinoisissues.uis.edu/archives/2009/10/paydelay.html>).

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cut programs funded by unrestricted dollars.

By all measures, the state's finances are likely to get worse before they get better. In the first quarter of the fiscal year, revenue has already run \$387 million below forecasts. If this trend continues, sometime in fiscal year 2010 the administration and legislature will be forced to reduce payments, cut programs, borrow money, and/or delay payments even longer. Some forecasts predict that Illinois will need more than \$10 billion in new revenue just to maintain current funding levels.

While generous and an important driver of innovation and community vitality, Illinois philanthropy cannot make up the gap. In Illinois, philanthropies contributed \$280 million for human services in 2007, compared with the state's \$6 billion. Unless the state raises or borrows the revenue it needs, nonprofits will confront mounting debt, depleted or nonexistent reserves, and diminished options for cutting costs.

For too long, too many political leaders have failed to acknowledge the fundamental role of nonprofit service providers in helping the state meet its obligations to those in need. Donors Forum remains hopeful and determined that its Public/Nonprofit Partnership Initiative will correct this long-standing problem by redefining the relationship between nonprofits and their government funders so that community needs can be met—even in times of crisis.

VALERIE S. LIES is the president and CEO of Donors Forum in Illinois.

New York State gets the flu” has been changed to “When Wall Street gets the flu, New York State gets the swine flu.”

The state has projected a \$3.2 billion deficit midway into the current fiscal year and will literally be out of cash by January 2010. This immediate problem will be addressed through budget cuts and gimmicks, such as the “spinning up” of \$391 million of federal stimulus money earmarked for next year's education programs to the current year, leaving next year's budget in similar, if not worse, condition.

New York has more than 5,000 contracts with more than 2,000 nonprofits, and these contracts are valued at \$3.2 billion. In considering the potential impact of the budget crisis on the nonprofit sector, one need only remember this past fiscal year, when a similar crisis occurred.

At midyear, most nonprofit contracts with the state were slashed 7 percent to 10 percent—and often with no corresponding adjustment in nonprofits' expected performance outcomes or deliverables. To conserve cash, the governor also called for all payments to be “thoroughly examined.” The intention of this move worked. It extended already unacceptable and chronic delays in approving payments and contracts and made a shambles of the state's prompt-payment law. With the availability of credit for working capital disappearing, cash-strapped but high-performing nonprofits face financial instability as they try to do business with the state in good faith.

Then there is the Medicaid system. The state significantly ramped up efforts to “root out fraud, waste, and abuse” within the system through auditing and recovery. Interestingly, there is a predetermined mandate for how much money must be recovered: \$322 million in 2009, \$429 million in 2010, and \$644 million in 2011. As a result, auditors descend on nonprofits to identify petty everyday billing errors—where the i's haven't been dotted and the t's crossed—as a justification for recoupment of dollars for services already rendered. Of course, if auditors find that these errors result in money being owed to nonprofits, that is ignored. The mandate addresses recouped dollars only.

And let's not forget taxes. For the first time, the state levied a midyear tax on all health insurance

NEW YORK

Fiscal Health Checkup

ARRA per Capita	\$544
Unemployment rate, Nov. '09	9%
Budget Deficit per Capita	\$918

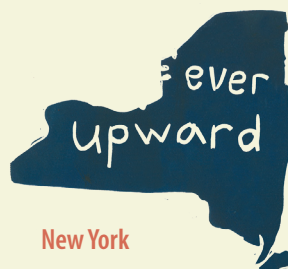


NEW YORK

Nonprofits Brace for Further Cuts

by Doug Sauer

Like other states, New York's nonprofit sector has been battered by the recession. New York's budget is particularly vulnerable because 20 percent of its tax revenue is dependent on Wall Street, including bonuses. Lately, the popular metaphor “When Wall Street sneezes,



premium payments; an unbudgeted item for those nonprofits that offer employer contributions.

The future looks to include more of the same, but with deeper program cuts. Nonprofits—particularly Medicaid providers—have braced themselves for midyear across-the-board cuts.

Next year, as the budget takes shape and the cushion of federal stimulus money evaporates, several funding streams will undoubtedly be on the chopping block. The nonprofit sector will divide into subsector protectionist lobbying efforts. And again, let's not forget taxes. Some legislators and hard-pressed municipalities have pushed for taxing exempt properties. The state senate has established a select committee to consider an overhaul of the law.

The story line for nonprofits is no longer new. We need to transcend the hunkering-down mentality and subsector divisions to create a unified voice that supports what has historically been a healthy and strong state-nonprofit sector partnership.

DOUG SAUER is the CEO of the New York Council of Nonprofits.

NORTH CAROLINA

Immediate Cuts and Long-Term Solutions

by David Heinen and Jane Kendall

Many North Carolinians began 2009 by celebrating the inauguration of the state's first female governor. But the excitement soon gave way to the sobering reality of North Carolina's largest budget gap in history and no easy solutions in sight.

In February 2009, Governor Beverly Perdue spoke to 400 nonprofit leaders at the North Carolina Center for Nonprofits' Public Policy Forum. During a lively question-and-answer session, Perdue warned that people from all walks of life would "feel the pain" of the difficult budget decisions that she and the state legislature would have to make.

Just to achieve the balanced budget required

by the state constitution, Governor Perdue had to cut \$1.7 billion from a \$21.4 billion budget before the fiscal year ended in June. She eliminated 7 percent in already-appropriated funds and tapped \$445 million in trust funds previously set aside for other purposes. The Clean Water Trust Fund, for example, lost \$100 million of committed funding and had to put on hold 190 contracts to conserve land in threatened watersheds that nonprofit land trusts had spent years negotiating.

Ultimately, the North Carolina General Assembly had to close a \$4.6 billion budget gap for 2009–2010. Appropriations committees challenged nonprofits to justify the state's investment in their work—from health and human services to education and public safety. Although they told powerful stories of their impact on people's lives, the message from legislators reflected the governor's dire warning: nonprofits should expect across-the-board cuts in state funding.

After months of public hearings and deliberations, the legislature passed a budget, and the governor signed it. Its gap closers included \$1.7 billion in broad spending cuts, \$1 billion in new revenue from temporary tax changes, and \$1.4 billion in onetime federal "stimulus" assistance through the American Recovery and Reinvestment Act (ARRA).

The cuts have already affected nonprofits with a wide variety of missions in terms of direct state grants and contracts for services. The 13 percent cut in health and human services, for example, has particularly hurt those served by nonprofit mental-health service providers. Many of the estimated 4,000 mental-health service workers losing their jobs come from the nonprofit sector. These cuts make it even harder for those with mental illness—among the most vulnerable people in our communities—to get adequate treatment from the nonprofits that understand their needs and that can provide the best-quality assistance.

Already, nearly \$16 million has been cut from a \$205 million budget for Smart Start, an early-childhood education program. These cuts ensure that fewer children will begin school healthy and be prepared to succeed. This nationally recognized program is operated by the nonprofit North



North Carolina

NORTH CAROLINA Fiscal Health Checkup

ARRA per Capita	\$464
Unemployment rate, Nov. '09...	12.1%
Budget Deficit per Capita	\$499

Growing Needs, Reduced Funds

By Jon Shure

The longest, deepest economic downturn since the Great Depression brings a cruel irony. Just as people's needs increase dramatically, the money states have to pay to meet these needs plummets. Nearly every state has been affected—48 states faced shortfalls this year—and so has every organization that provides or receives important services. These deficits, of course, include the nonprofit community.

The growing needs of struggling families include health care, nutrition assistance, job training, and other services for vulnerable people. Traditionally, many of these needs are met through state funding of nonprofits that today have been forced to cut payroll and seek new sources of income and that, in some cases, have failed to survive.

Unfortunately, the states' fiscal situation won't improve anytime soon. More than half the states that started their budget year on July 1 have already seen their budgets slip out of balance. As revenue continues to fall below even pessimistic forecasts, more deficits are sure to follow. Organizations that track state revenue trends say they have never seen a collapse in tax receipts of this proportion. The why isn't hard to figure. Much of states' revenue comes from income and sales taxes. When people lose their jobs, see their pay cut, or have their capital gains evaporate, they pay less income tax. When people have less money on hand or their confidence is shaken, they buy less and pay less sales tax.

Unlike the federal government, states can't print money or run deficits. Their options are not pleasant. In this crisis, states have drawn on—and, in some cases, depleted—reserves, used the unprecedented federal stimulus money, cut spending, and raised revenue. Cuts in spending have been especially deep. Proposals to reduce spending on everything from K–12 education to public safety to health coverage for low-income families and seniors have been on the table. The most vulnerable residents—often those who depend most on the services nonprofits provide—have been the hardest hit. Many have lost access to health care and assistance for the elderly and disabled.

Relying too heavily on spending cuts does more than hurt people who need services today. It also damages the economy and poorly positions a state for the moment when prosperity returns. Most state spending goes to salaries, purchases, contracts—often distributed to nonprofits and the like. That's money that goes into the economy quickly and close to home—in a word: *stimulus*. Taking too much of it away can undermine a recovery.

That's why a balanced approach that includes state revenue is so important. More than 30 states increased taxes this year, recognizing that this is too big a problem to solve with any one approach. Across the nation, coalitions have formed to ensure that revenues are part of the budget-balancing debate. The situation is too dire to think that any organization fighting for its piece of the state budget is the answer. There is so little money to go around that success with this approach means only that some other worthy cause loses its funding.

Instead of fighting among themselves for the crumbs of a shrinking pie, those who care about maintaining services and providing a decent quality of life have united to make the pie bigger. In this effort, nonprofits have a key role to play. They know the hardships that declining state budget cuts have caused for vulnerable families in their state and are credible advocates for a balanced approach. Two places to look for this kind of comprehensive thinking are the Center on Budget and Policy Priorities (www.cbpp.org) and the network of 38 state organizations in the State Fiscal Analysis Initiative (www.statefiscal.org) that can provide research, analysis, and strategic advice on how to meet this difficult challenge.

Jon Shure is the deputy director of the State Fiscal Project at the Center on Budget and Policy Priorities, an organization that works at the federal and state level on fiscal policy and public programs that affect low- and moderate-income families and individuals.

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Carolina Partnership for Children and its 77 local nonprofit affiliates. Similarly, elimination of direct state funding for Boys and Girls Clubs means that more young people face a bleaker future.

North Carolina's revenues are not expected to return to pre-recession levels for several years. This could mean even deeper cuts in 2011. To compound the problem, most of the 2009 tax changes—including a temporary sales tax

increase and a surcharge on high-income individuals and corporations—will expire in 2011. And, as mentioned, the ARRA funding is a onetime disbursement. And as redistricting and the 2012 election loom, it may be politically difficult to extend these tax increases.

But nonprofit leaders have collaborated to try to help lead the state toward a viable solution for fiscal sustainability. As legislators chipped away

at the state's investments in education, health and human services, transportation, the environment, justice, and public safety, more than 90 nonprofits united in 2009 to form the Together NC coalition.

Together NC advocates have worked to modernize the state's tax system, which was created for the economy of the 1930s, by developing revenue solutions that are stable, fair, and adequate.

Lawmakers are interested. In November, members of the finance committees in the North Carolina House and Senate held their first-ever joint meeting to consider long-term solutions for more sustainable revenue. Under discussion are sales taxes on many services that did not exist when current tax laws were written; closing corporate tax loopholes, particularly for multi-state businesses; and developing a more progressive income tax system.

Despite major cuts in state funding, our nonprofits continue to make a daily difference in the lives of all North Carolinians. It won't be easy, but by working together we may also help lead our state to a more sustainable future.

DAVID HEINEN is the director of public policy and advocacy at North Carolina Center for Nonprofits. **JANE KENDALL** is the organization's president and founder.

NORTH DAKOTA

Despite Budget Surplus, North Dakota Faces Revenue Crunch

by Dana Schaar

Unlike most states experiencing severe budget deficits, North Dakota ended its 2007–2009 biennium with a \$1.1 billion budget surplus. This resulted primarily from increased tax revenue because of high energy (primarily oil) and agricultural prices. The state has also largely avoided the housing crisis affecting other areas of the country. The state's oil production continues to grow, and the oil industry is expected to contribute significant

revenue to the state's funds in the future.

The 2009 North Dakota Legislative Assembly opted to place most of North Dakota's surplus general funds into onetime projects instead of into long-term or new programs and a rainy-day trust fund. Although the state has experienced strong growth in recent years, state officials estimate future growth may not be as strong as in years past.

While the state's budget has benefited from oil development in western North Dakota, the state faces increasing challenges that typically accompany an oil boom, such as housing shortages, domestic violence, addiction, child-care issues and impact on infrastructure, such as roads and water. A nonprofit shelter in an "oil boom" community, for example, previously rented rooms from a local hotel at a significantly discounted rate to house overflow. Now, with an increased demand for housing and hotel rooms, the hotel can no longer accommodate the overflow from the shelter, which has no alternatives. While government and the public often look to nonprofits to help solve problems such as those associated with oil booms, significant additional government funding to deal with these problems has not been forthcoming. Further, as has been the case in the past, significant revenue leaves North Dakota with out-of-state companies working the oil fields. With few community ties, these companies may not be inclined to support local nonprofits.

Partly because of its dependence on extraction industries such as oil and coal, North Dakota continues in terms of in-state foundation assets to rank last among the 50 states and the District of Columbia. Few out-of-state companies establish in-state foundations to reinvest wealth back into North Dakota. Combined with the decreased foundation assets found everywhere in the country, these facts mean that North Dakota nonprofits now receive fewer and smaller grants.

Even with North Dakota's state budget surplus, the state has not been immune from the effects of the national recession. In communities throughout the state, corporate layoffs and closings have taken place, which has increased the demand on nonprofits providing services to the newly unemployed.

Finally, in 2009, North Dakota was hard hit

NORTH DAKOTA Fiscal Health Checkup

ARRA per Capita	\$1,089
Unemployment rate, Nov. '09 ...	4.1%
Budget Deficit per Capita	\$0



North Dakota

MAINE

Fiscal Health Checkup

ARRA per Capita \$573

Unemployment rate, Nov. '09 . . . 8.2%

Budget Deficit per Capita \$134

by natural disasters. An almost historic snowfall and statewide flooding has had significant impact on local government and nonprofit budgets. For example, child-care providers and other revenue-generating nonprofits lost significant revenue when they were forced to close because of spring flooding, along with the added expense of clean-up and recovery. Nonprofits providing emergency services during the disasters faced widespread increases in demand. A tornado in southwest North Dakota has strained the capacity of nonprofits that are already dealing with oil-boom and flood-related challenges. In an average year, these disasters would have had a major impact on nonprofits. But given the recession and slow recovery, decreasing or level individual and corporate giving, and increasing demands for services, nonprofits in communities affected by disaster have faced tough choices about how to balance their budgets and fulfill their missions.

Based on current state budget projections, North Dakota anticipates a surplus at the end of the 2009–2011 biennium. But it's not clear how our surplus will affect our nonprofits. Many agencies across the state have sought ways to cut costs and meet community needs. Still, North Dakotans recognize that our state's growth means that our circumstances are better than many others across the country, and nonprofits will continue to look for opportunities to partner with government to meet challenges and effect positive change.

DANA SCHAAR is the executive director of the North Dakota Association of Nonprofit Organizations.

Maine Department of Health and Human Services (DHHS), Brenda Harvey, has been charged with finding another \$64 million in savings to help balance the state's budget after having cut the state-funded portion of its budget every year since 2002. "We are doing business with 300 less employees and are serving 120,000 to 130,000 more people," Harvey notes. In 2008, Harvey's department was responsible for 47 percent of the state's \$6.4 billion budget.

"If there was any fat to cut, it was already cut long ago," reports Mary Beth Sullivan, an executive at the Bridgton, Maine-based Landmark Human Resources, which serves adults with disabilities. "Now the system of care we've built over the last 30 years is unraveling," Sullivan notes that the waiting list for services has grown and that many young people have "aged out" of youth services and have nowhere to go. For these young adults with disabilities, the loss of support services can have dire consequences.

To date, Maine has pursued a strategy that maximizes federal matching funds, allowing for decent public services in a state with below-average income and an above-average cost of living. As most human services in Maine are provided through contracts with nonprofit community-service providers, significant funding from the state is matched in some cases at a rate of 5 to 1 with federal dollars to provide those services. So \$64 million in new cuts in state DHHS funding will result in a \$300 million-plus reduction toward funding services for those most in need.

Nonprofits throughout the state have struggled to address the continuing reality of diminishing government resources, and an increasing number of organizations have begun to look outside government for creative ways to fund their services, as fewer now hold onto the notion that increased revenue will be identified to support the current system.

Some larger social-service providers that were once funded exclusively through contracts with the state or through direct Medicaid reimbursement have intentionally reduced their reliance on government funds. People's Regional Opportunity Program (or PROP), the state's largest anti-poverty agency—which is responsible for



MAINE

Growing Needs for the Disabled

by Brenda Peluso and Scott Schnapp

In the first quarter of 2009 in Maine, personal income decreased a whopping 17 percent, and one of the state's leading economists predicts that it will be several years before signs of recovery emerge in this large, rural state. With this dire economic backdrop, the commissioner of the

implementing Temporary Assistance for Needy Families, Women, Infants, and Children, fuel assistance, and other government-funded programs—has dedicated resources to creating new methods of attracting private donations to substantially supplement its government funding. Skills Inc., which provides programs and services for individuals with disabilities, has systematically increased its nongovernmental resources through a social enterprise-funded model. Currently, Skills Inc. has several for-profit businesses under its nonprofit umbrella, such as a sawmill, a dog kennel, and a cardboard and e-waste recycling businesses, which employ the disabled and produce revenue to replace diminishing governmental funding.

In addition, many organizations have examined ways to meet their social missions more efficiently in an environment of decreasing financial resources. Many have sought cost savings by combining back-office systems, and while that has proven easier said than done—though it could make the current system more affordable—these cost-cutting measures do little to address concerns that the current system is simply unsustainable. According to Jim Pierce, the director of external affairs for Independence Association, a provider of services for the disabled, “We built our current system to de-institutionalize people. What should we be building our future system to do?”

Several advocates and service providers for adults with disabilities are in the process of meeting with the state’s Office of Adults with Cognitive and Physical Disability to develop recommendations for the legislature to consider when it convenes in January. While this may provide a blueprint for other health and human-service subsectors, developing recommendations is also extremely difficult in a highly polarized political environment. Maine’s term-limited citizen legislature exacerbates the problem. Legislators are forced to make policy decisions based on information provided to them by lobbyists on both sides of the issue, and truly understanding the complexities of the system takes much longer than their terms in office provide.

Because the economic downturn has put

additional pressure on a system that was already in crisis, this legislative season in Maine looks to be a particularly contentious and difficult one. If necessity is the mother of invention, the entire mix should provide an opportunity to be very creative.

BRENDA PELUSO is the director of public policy at the Maine Association of Nonprofits. **SCOTT SCHNAPP** is the organization’s executive director.



MISSISSIPPI

It's All about Relationships

by Mark R. McCrary

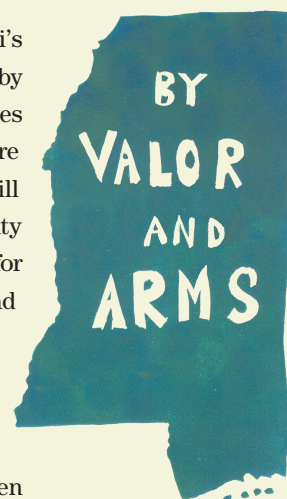
One might think that it’s the first time in Mississippi’s history that both political parties are on the same page regarding the budget. Republican Governor Haley Barbour and Democratic Speaker of the House Billy McCoy agree that there will be no tax increases this year to offset a dreary economic situation. Both have said that fee increases are likely, though which fees are yet to be determined.

During the first four months of Mississippi’s fiscal year, tax revenue has already decreased by more than \$100 million. Colleges and universities already received substantial cuts this year and are expected to sustain further decreases, which will force restructuring of programs at the university level. The University of Southern Mississippi, for example, has axed its economics program and has warned Campus Compact—an on-campus organization that encourages volunteerism among college students statewide—that if outside funds cannot be located, the program will be eliminated. State agencies have been required to present 2011 budgets with a 20 percent decrease compared with 2010.

Some state budget problems are mitigated by the flow of stimulus funds into the state. The American Recovery and Reinvestment Act funds have been a boon to organizations that have existing relationships and proven success with state agencies to access such support. For

MISSISSIPPI Fiscal Health Checkup

ARRA per Capita	\$579
Unemployment rate, Nov. '09 ...	9.8%
Budget Deficit per Capita	\$163



Mississippi

example, drug-and-alcohol awareness groups have seen steady support in government contracts and grants.

Note that the size of the budget of the non-profit sector as a whole is about the same as that of state government. In 2008, for example, the total revenue of nonprofit organizations was \$6 billion—about the same as the state of Mississippi’s budget. Over the past six years, this relationship has held steady.

But the dynamic of charitable, corporate, and foundation resources for the nonprofit sector is a major challenge.

Corporate giving has decreased in Mississippi, as it has around the country. The irony is that Mississippi’s corporate and economic base is fairly dismal to begin with, so we’re used to going without. The economic impact of Nissan’s and Toyota’s shrinking presence is, however, less than it would have been had these companies been more established employers. Over the past two years, Nissan has significantly reduced its production, and Toyota has delayed building its plant in Tupelo. Given such a limited corporate presence, Nissan’s and Toyota’s cutbacks guarantee that the state’s economic recovery will lag well behind the rest of the nation’s once a recovery begins. The impact will be felt in the economy, in state government revenue, and in corporate giving to nonprofits.

Foundations in Mississippi have not been immune to the struggling economy. Mississippi’s foundation community ranks 46th in the country by size of assets. But true to Mississippi’s reputation for generosity, foundations in Mississippi typically give twice the national average.

Mississippi has a reputation for being the most generous state in individual giving too. Typically, this giving is faith based; we are in the Bible Belt, after all. Though individual giving has decreased in 2009, most nonprofits have sustained donor giving, albeit at lower levels.

The economy’s impact on nonprofits has been extensive. While Mississippi continues to face serious social and economic needs, the nonprofit sector has felt the hit of the economic downturn. When the dust settles, nonprofits that have

partnered with government agencies and have a deep individual donor base are those likely to prevail. In Mississippi we usually ask a new friend two things: “Who’s your mama?” and “Where y’all from?” Even in this economic climate, it’s all about relationships.

MARK R. MCCRARY is the executive director of the Mississippi Center for Nonprofits.

PENNSYLVANIA

The Great Budget Impasse of 2009

by David A. Ross, J.D.

On October 9, 2009, Pennsylvania passed its \$27.8 billion annual state budget, 101 days after its constitutional deadline. During the worst recession since the Great Depression, Pennsylvania became the last state in the country to pass its budget.

For three and a half months, the state legislature could not agree on a tax-and-spending plan. As unemployment continued to grow and as Republicans and Democrats vainly clung to their partisan agendas, the state had to fill a \$3 billion hole in its budget. The solution? Use nonprofits as leverage to force capitulation by the other side. On that day, the Great Budget Impasse was born, but its impact will be felt for years.

By July 1, 2009, Pennsylvania found itself with no budget and no way to pay its human-service providers, grantees, or contractors. An interim budget was eventually passed, but only to pay the state’s 71,000 government workers. Nonprofits were not included.

By August, most of the state’s 67 counties could no longer afford to fund their nonprofit agencies without state money. Suddenly, thousands of organizations that relied on billions of dollars in state funding to serve their communities were forced to make the impossible choice of cutting services to the needy, laying off staff, or closing their doors altogether. The nonprofit sector was devastated.

Alternative revenue sources were unavailable. Public contributions were down, foundation money was scarce, and government grants and

PENNSYLVANIA

Fiscal Health Checkup

ARRA per Capita	\$364
Unemployment rate, Nov. '09 . . .	8.8%
Budget Deficit per Capita	\$386



Pennsylvania

contracts had already been scaled back earlier in the year. So nonprofits sought private loans to continue operating. But in this economy, those with reserves had already spent them. Organizations with any remaining credit had reached their limits. Nonprofits were running out of options. So they approached Pennsylvania Association of Nonprofit Organizations (PANO).

At the request of its members, PANO rallied the nonprofit sector to call for an end to the budget impasse. With the help of key leaders from PANO's board, committees, and membership, the various coalitions of nonprofit service providers pulled together, unified their message, and for the first time moved forward in unison.

Nonprofits gathered their stories to demonstrate the impact, developed a single agenda, engaged state and national media, and lobbied the Pennsylvania General Assembly from all directions.

With PANO's momentum and unique neutrality, nonprofits held rallies at the courthouse, the capital, and every corner of the commonwealth. After 101 days, Pennsylvania's budget impasse finally ended.

As the dust settles, the sheer magnitude of the FY 2009–2010 budget cuts underscores the challenges that lie ahead. This year's budget was cut by \$524 million, compared with last year's budget, 142 line items were completely eliminated and hundreds more were slashed from nearly every department.

For nonprofits, it was not only about the size of line items but about the increased costs of operations during the impasse. Loans must be paid back with interest, furloughed workers may never return, and late fees add up. This experience demonstrates that nonprofits operate too close to their margins and without adequate reserves. If nonprofits continue contracting with the state, there must be some reasonable expectation that the contract terms will protect them too. Nonprofits, especially smaller ones, cannot absorb the cost of late government payments.

PANO and leaders of the coalitions are dedicated to working together to limit the impact of the budget impasse on the organizations and agencies that improve the quality of life in our communities. Moving forward, PANO and various

coalitions are working with a group of bipartisan lawmakers of the Pennsylvania Charitable Nonprofit Caucus. The caucus legislators, charities, and foundations are dedicated to advancing budget reform legislation to ensure that nonprofits are never again caught in the middle or dismissed as collateral damage.

DAVID A. ROSS, J.D., is the public policy officer at Pennsylvania Association of Nonprofit Organizations.



FLORIDA

A Race to the Bottom?

by the editors

According to the Pew Center on the States, Florida ranks among the 10 states in the worst financial condition based on a combination of distress indicators, including budget deficit, unemployment, and foreclosure rates. In other words, Florida faces California-like “fiscal peril.”

Like many states, the Florida legislature has not excelled in its handling of the budget, underscored by the disclosure that the former speaker of the Florida House of Representatives took a six-figure job at a small state college on the same day he was sworn in as speaker and after the school had scored \$35 million in accelerated state funding. Nonetheless, at least for the present, the legislature and the governor managed to erase an FY 2010 budget deficit with the judicious application of budget cuts, the insertion of stimulus funds, and revenue boosters, such as a hike in the cigarette tax (dedicated largely to helping the state meet its Medicaid bill).

But temporary use of funds for the budget means other potential supplicants lose out. In Florida, municipalities have complained that the state's control and use of American Reinvestment and Recovery Act funds to plug state budget holes simply deprived local governments of stimulus funding for local public-works projects and that budget cuts such as the \$224 million slash in the Department of Corrections means that localities

FLORIDA

Fiscal Health Checkup

ARRA per Capita	\$370
Unemployment rate, Nov. '09...	11.2%
Budget Deficit per Capita	\$316



will have to pick up the burden of ex-offender needs. The state legislature took half the money ostensibly dedicated to the State Housing Initiatives Partnership (funded by real estate transaction fees) to fill various other program gaps in the budget, which deprived localities and nonprofits of crucial subsidy dollars they might have used to help stabilize the housing market, which in terms of foreclosure rates is as bad as anywhere in the nation.

For FY 2010, the legislature had to make cuts regardless of the stimulus dollars, and many of the cuts will reverberate through nonprofits and their ability to provide resources. In 2009, Florida made cuts in the five program categories that the Center on Budget and Policy Priorities tracks as critical services affected by recession-era state budget deficits. Florida is one of 28 states that have cut public-health programs, one of 24 that have cut services to the elderly and disabled, one of 26 that have cut funds for K–12 and early-education programs, one of 35 that have cut programs or sharply raised tuition for higher education, and one of 42 states that have cut state employees. The impact of these cuts on nonprofits is palpable.

Even if the FY 2010 balancing act survives without additional infusions of revenue or cost reductions, Florida faces a projected FY 2011 deficit in the billions, and the state's economic nosedive has prompted the state's first population outflow in several decades. Its burgeoning unemployment, which would have been higher but for population outflows and labor force declines, stands in contrast to the legislature's rejection of \$444 million in supplemental unemployment compensation funding. In Florida, as in almost all the states, unemployment is connected to budget deficits, and vice versa.

can fill in the blank. Despite Troubled Asset Relief Program (or TARP) funds and cash-for-clunker incentives, the state's joblessness rate given the collapse of the auto industry has reverberated in communities throughout the state. The troubles are not confined to the southeastern Michigan region that surrounds Detroit.

If this spiraling economy cascades into persistent and deepening state budget cuts, what can legislators and nonprofits do? The options are limited, which is why so many state legislatures hack away at human services to plug budget holes. According to the head of Michigan's House Fiscal Agency, "If you were to completely eliminate the state legislature, the governor's office, the auditor general's office, the attorney general's office, the secretary of state's office, the department of management and budget, the treasurer and civil service—except for debt service—you wouldn't make a dent. If you want to cut the budget, you've got to cut health care. You've got to cut education."

Cuts have impact up and down the state. To make the FY 2010 budget work, legislators and Governor Jennifer Granholm slashed Medicaid, closed prisons and prison camps, and reduced revenue sharing for local government. The budget pain will filter through communities and nonprofits. One of the more emotional items on the chopping block is the future of the Michigan Promise Scholarship program (\$4,000 grants given to all Michigan high-school students who pass the Michigan Merit Exam and enroll in post-high school programs), which the legislature eliminated but Governor Granholm has fought to restore.

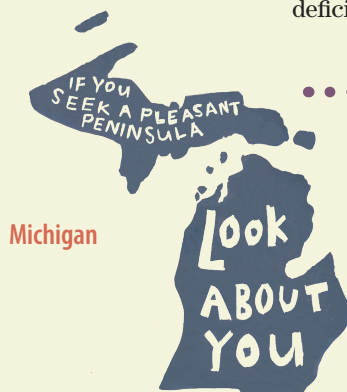
Plenty of other nonprofit program mainstays have also been hit by the legislature's budget cuts. The Great Start Readiness Program, for example, which focuses on four-year-olds, suffered sufficient cuts that resulted in the termination of programs such as the 20-year-old preschool program at the Jackson Child Care Center. Thinking ahead, the governor has asked state agencies to prepare across-the-board cuts of 20 percent for their FY 2011 budgets, hitting social-safety net programs as much as anything else.

And it will not stop. A recent gathering of

MICHIGAN

Fiscal Health Checkup

ARRA per Capita	\$521
Unemployment rate, Nov. '09...	15.1%
Budget Deficit per Capita	\$160



MICHIGAN

Is the Bleeding Over?

by the editors

The tailspin of the Michigan economy affects the state budget in various ways for which every *Nonprofit Quarterly* reader

economists who looked at Michigan's future concluded that the worst of the job losses are over. They estimate that only 85,000 jobs will be lost in 2010 and 36,000 more in 2011, compared with 300,000 this year. But that might be because most of the jobs that the state could lose are gone. A Wayne State University professor attending the gathering remarked, "Michigan's automotive, manufacturing-based economy is history—at least as a mass employer of millions. The old days are never coming back, and the state will continue to lose jobs for years to come." The result is long-term pain. The professors said that the state might be lucky to approximate national unemployment numbers in 30 years. Others note that the state's recent history of budget deficits is only a precursor to long-term fiscal problems, with state budget deficits likely to reach \$10 billion by 2010.

Good fiscal news in Michigan comes with the subtext of "It could always be worse." The Detroit public-school system, for example, celebrated an audit result that showed its budget deficit had shrunk from \$306 million to \$219 million: numbers that one would think are the size of an entire state's deficit, not a municipal school system's. For government agencies and nonprofits, it is hard to see much good news in the economic and fiscal conditions of this very hurting state.

LOUISIANA

Illusory Fiscal Stability

by the editors

Superficially and compared with other states, Louisiana's fiscal and economic situation doesn't look too bad. Given that the state was ravaged just four years ago, how could this be?

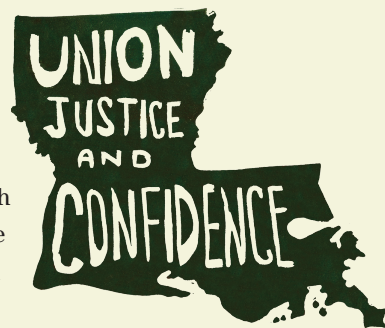
This rosy economic picture is partly because of the slow but steady impact of federal Hurricane Katrina relief dollars, funds that could hardly be called generous but that have nevertheless helped many families and communities whose lives were undone by the hurricanes in 2005. The state's

relatively low unemployment rate underscores how many people might have found jobs in Louisiana, at least on a temporary basis, as the state continues its recovery effort.

But Louisiana's relative fiscal strength may turn out to be an illusion. People are beginning to return to the state, which means that the period of reduced demand for public services may soon come to an end. Public-school enrollments this fall, for example, exceeded projections by 10,000 students, leaving the state \$52 million short of meeting its constitutional obligation to pay for public education. The midyear budget deficit in health and hospital programs comes to more than \$300 million, indicating greater demand for services in these arenas as well.

While these shortfalls constitute only a small portion of a state budget that totals \$29 billion, they come on top of cuts that were made at the outset of FY 2010 to balance the budget. Continued deficits and budget cuts will place more stress on nonprofit service providers and their constituents. In the plus column is the fact that the state is represented in the U.S. Senate by Mary Landrieu, a critically important moderate who was able to negotiate an infusion of \$100 million in federal Medicaid funds for Louisiana in return for her vote to allow Senate debate on national health-care reform legislation. But political favors here and there don't undo the structural issues that the state faces as a result of increasing demand and declining revenue.

Numbers are important. According to the policy director for the Louisiana Association of Nonprofit Organizations, the budget deficit is actually \$2 billion, or almost 10 percent of the general fund. Balancing the budget will almost certainly require new revenue, which means some combination of new or different taxes or fees. But the preferred remedy of Republican Governor Bobby Jindal is to search for \$802 million in cost savings by the end of the year. The state plans to lay off government employees (the treasurer wants to ax 15,000 from a workforce numbering a little more than 100,000), to "streamline the bureaucracy" in public universities, and then



Louisiana

LOUISIANA Fiscal Health Checkup

ARRA per Capita	\$512
Unemployment rate, Nov. '09 ...	7.4%
Budget Deficit per Capita	\$453

California Screamin'

By Ruth McCambridge and Chris Finney

With California's unemployment rate at 12.5 percent, its highest joblessness level in 70 years, there is little mystery in the fact that organizations dependent primarily on disposable income—whether directly or indirectly—have encountered problems. Over the past few years, California's economy in general has been something of a riches-to-rags story, and the effects have been felt in even the most unlikely of enclaves.

Between 2006 and 2008 in Orange County, for instance, the United Way campaign take has descended from \$29 million to \$23 million. In such an environment, excellent programming, strong board engagement, and good financial governance are no guarantee, especially for organizations that entered the recession in a weakened financial condition and with high fixed assets and declining revenue. In the spring of 2009, the *Nonprofit Quarterly* profiled the financial performance of the San Jose Repertory Theatre (the Rep), which between 2005 and 2006 had reduced its annual operating deficit by \$1.3 million while maintaining strong ticket sales for its unique programs. But when we spoke to Christa Stiner, the Rep's director of finance, in November 2009, the organization was coming to terms with the ramifications of unfortunate financial decisions on the part of staff and board no longer at the organization.

"This is not a story about a lack of focus or about slow responses to change," Stiner explains. "We have increased the number of tickets we sold; more people came to see us. It was great. We've done more interesting things with collaborations, with Afghan artists and South African artists, things that really expand the themes of our plays and really engage people

on different levels. We did a West Coast premiere of a South African play, and it just closed a couple weeks ago, and we had the American Leadership Forum doing a special talkback on apartheid and race relations. We had a local African drumming group come in and do a pre-show concert. There have been all kinds of really wonderful collaborations that we didn't do in the past. So, on a mission basis, we've really redoubled our efforts."

Similarly, the Rep's trouble cannot be traced to poor governance or a disengaged board. "On a governance basis, the board has been fabulous," Stiner reports. "They've called special meetings, they're paying attention, they're engaged, they're not just whistling in the dark." And the San Jose Rep continues to push itself for strong community outreach. "We're engaging people constantly. Our development department is having evenings with donors and long-term subscribers to see what they say, to talk to them and engage them. So we're not pulling back into our shell." Not incidentally, this outreach takes place in the heart of Silicon Valley, one of the wealthiest areas in the country.

Finally, the Rep doesn't overspend. "In fact, we cut and cut and cut to try to shore things up." Strikingly, Stiner has even suggested her own position be cut. "I should be the first one to have to leave, and I told the managing director, 'As soon as the 990 is complete, you can't afford to keep me.'" Pressed to explain how an organization in obvious financial turmoil can afford to lay off its director of finance, she says, "Really, I'm not an actor. People don't pay money to come see me. This is how tight it is."

CALIFORNIA Fiscal Health Checkup

ARRA per Capita	\$504
Unemployment rate, Nov. '09...	12.5%
Budget Deficit per Capita	\$922

somehow discover hitherto unknown savings from privatization.

But given the state's deteriorating fiscal condition—in which gambling revenue, while stable, won't be sufficient to make up for plunging sales as well as declining personal and corporate tax receipts—the governor's cost-cutting plan appears unlikely to erase the deficit on its own. That means either tax hikes or budget cuts or both are probably in Louisiana's future. Nonprofits have already prepared to defend their services against the budget cutters in Baton Rouge. As the state treasurer put it in a recent speech, "[The 2009] legislative session was pretty much a cakewalk compared with what is coming."

CALIFORNIA

A Poster Child for Crisis

by the editors

California has become the nation's poster child for state budget crises, and every Golden State nonprofit knows how to read the dismal fiscal news: lower revenue means more budget cuts. In November Mark Zandi, the chief economist at Moody's Economy.com, announced at a briefing sponsored by the Center on Budget and Policy Priorities that the two states with the biggest revenue declines in the five quarters ending with the second quarter of

But the Rep entered the recession in an already weakened financial state, and that kind of “preexisting condition makes this time much more risky. It’s kind of like having asthma in flu season. There is nothing damning about having asthma per se, but it just makes you more vulnerable.” As we described previously, the Rep has too many fixed costs in a declining revenue environment.

“If I had one change to make, I would try to change the fact that it costs us about \$1.8 million a year to run this building, and that’s not mission specific,” Stiner says. “The more I look around, the more I see people who have their own buildings really struggling because that’s not their core competency. Building maintenance is not why we all got into theater in the first place.” The long-term costs of building maintenance have had a major impact on the Rep’s finances. “If we didn’t have to maintain this building—the HVAC, the elevator, the emergency lighting system—and if we still had to pay theater rent when we performed and shop rent—which we pay anyway to build sets and costumes and props—if we had never had to pay for the depreciation of the lights and dimmers and seats and the carpet we just fundraised to replace . . . if the city were doing that for us . . . and we went back 12 years—which is the length of time that we’ve been in the building—12 years’ worth of balance sheets, we would have been in the black.”

The San Jose Rep has also experienced fundraising setbacks, which have compounded the financial trouble that predates the recession. Stiner explains that despite its best efforts, the board has had trouble with fundraising. The board launched a “fundraising campaign to reduce the debt and to build fundraising capacity, and it took off like a house on fire; it just really launched beautifully in August and then, boy, doors are shutting left, right

and center. Everybody says, ‘Yeah, this is a great idea, you’re doing the right thing, but I’m sorry, I can’t help you.’” The campaign is falling short of the organization’s needs. “They had a goal to bring in between \$200,000 and \$300,000 by October 15 but were able to raise just under \$100,000.” But the campaign is succeeding in bringing in more gifts at a time of traditionally low cash flow.”

The net result of these challenges will be reflected in an upcoming audit that will question the Rep’s ability to function as a “going concern.” This is not necessarily a huge problem, though most organizations would rather not be faced with such a finding. Stiner, a CFO who is proud of her skills as a financial analyst through what has been a very tough run, is resigned to it, believing that the Rep’s long-term relationships with funders will offer it a good deal of protection. “I don’t think it’s really going to do anything to us,” Stiner predicts. “Anybody who knows us—the foundations and other major donors have known soup to nuts about our situation because we have been very forthcoming—and this just says, ‘Oh, there’s a nose on their face.’ It just states the obvious.”

Through all this, Stiner has absolute faith that the Rep will survive because there are so many people and other institutions who value it, and she and her colleagues remain justifiably proud of the artistic work they have produced through the past year amid California’s outlandish economic straits.

Ruth McCambridge is NPQ’s editor in chief. **Chris Finney** is a writer for NPQ.

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2009 were California and New York.

On a per-capita basis, California spends more than any other state in every budget category except two: highways and, notably for nonprofits, public welfare. But the state’s deepening structural deficit has repeatedly devastated the budget with every downturn in the state’s famous boom-and-bust economy. As of November, a state budget analyst concluded that California had a current deficit of \$20 billion. That’s a deficit larger than the entire budget for many states. The analyst went on to warn that the state would face the same baseline budget deficit every year through 2015 unless permanent changes were made to the overall revenue and expenditure structure, as opposed to the collection of onetime budget

Band-Aids that were used to balance the front end of the FY 2010 budget this past July. (That \$24 billion deficit was “fixed” by cutting health and welfare programs and the state college system, closing state parks, and putting state workers on furlough.)

According to the *Economist*, California’s sorry finances threaten the entire nation’s economic recovery. In September the *Sacramento Bee* termed the state’s budget “a mess.” And in November, the Pew Center on the States ranked California’s fiscal peril as the nation’s worst, based on a formula that combined its gigantic budget deficit with the state’s rampant unemployment and astounding rate of home mortgage foreclosures.

The good news is that, according to the November



2009 budget update from the National Conference of State Legislatures, California's revenue appears to be improving as the national economy straightens out. But of course, the depth of California's fiscal morass means that an uptick in revenue doesn't mean the end of pain for nonprofit contractors.

The current round of budget cuts has the word *nonprofit* written all over it. In December the state barred new enrollments for free screenings for breast and cervical cancer for poor, uninsured women. Also in December, word emerged that another round of fee hikes at public universities and community colleges was in the cards. Over the summer, the legislature authorized moving adult education funding back into schools' general funds to pay for general education expenses. Lawsuits by community-service advocates successfully fended off the legislature's plan to cut Medicaid reimbursement rates and limit adult day-care services to three days a week, but in-home services for the disabled were ultimately cut back. Even California's bottle-and-can recycling programs have been hobbled by budget cuts.

Perhaps the best gauge of the predicament of California Governor Arnold Schwarzenegger comes from a fellow governor, David Paterson of New York. When the *New York Amsterdam News* asked Paterson about the Empire State's budget situation, he answered, "It's tough, but at least it's not California."

Not the largest of states or state budgets, South Carolina has a current deficit, which the South Carolina Budget and Control Board recommended remedying with a 4 percent across-the-board cut. In December the board will consider a 2 percent revenue reduction. These cuts follow others as large as 15 percent in recent months. With cut after cut, the state's support of programs and services for South Carolinians has moved backward. The state budget is now some \$1.5 billion lower than it was in 2007. To generate new revenue, South Carolina has considered imitating its North Carolina neighbors with an Internet sales tax.

As a result of budget cuts, several small and large programs have taken a hit. In November, for example, the legislature announced plans to cut spending on colleges and universities, which must be added to cuts in 2008 and 2009 that reduced state funding for higher education to 1995 levels. Local school districts have made budget cuts because of a 4 percent cut by the Department of Education in K-12 education spending; the Commission on Indigent Defense will no longer be able to appoint lawyers as guardians ad litem for children; the state's cultural tourism program through the South Carolina Arts Commission has been suspended; mental-health centers around the state have been compelled to cut back on their services; child-care centers have closed; and the state's program allowing parents to purchase pre-paid college tuition (pre-paying for college tuition in the future at today's rates) contracts is short of the money it needs to pay current demands.

Higher education is one thing, but state-funded safety-net services are something else. When asked whether South Carolina's safety-net programs are sustainable, the state's comptroller general responded, "That's not even a question" because "so much of that spending is financed by the stimulus act now that once it goes away, we're sunk." It's hard to imagine that the state faces an immediate improvement in its fiscal conditions, if only because its unemployment rate is among the nation's top 10.

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SOUTH CAROLINA Fiscal Health Checkup

ARRA per Capita \$851
Unemployment rate, Nov. '09 12%
Budget Deficit per Capita \$162

SOUTH CAROLINA

Unsustainable and Unfunded

by the editors

Most of what the public reads about South Carolina concerns the governor's unannounced trip to Argentina to visit his paramour. This past summer—after it was revealed that the trip was not work related and the governor had taken three other trips to Buenos Aires on the South Carolinian taxpayers' tab—he reimbursed the state for the trip. The corruption represented yet another state budget situation that threatens nonprofits and the communities they serve.



South Carolina