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Charities Expect Money Worries Into 2013 Due to States' Shortfalls

By Ben Gose

Charities nationwide are again facing financial strain because of state budget crises—and many states expect their woes to continue into 2012 and 2013.

Nearly every state expects revenue in the 2011 fiscal year, which started in July, to exceed collections from 2010, but state officials worry that revenue growth won't be enough to replace lost federal stimulus dollars, according to the National Council of State Legislatures. Two-thirds of the states predict a budget gap in 2012.

The budget problems come at a time when charities that depend heavily on state spending—including programs that care for the elderly, the disabled, the mentally ill, and victims of domestic violence—are facing greater demand for their services. Other charities that receive little or no state support, including arts and environmental groups, are nonetheless feeling the impact of state budget crises, as foundations shift more of their spending toward basic needs.

Many charities that do receive state funds are facing a second year of steep budget cuts, and coping with reduced state support is only part of the challenge. The National Council of Nonprofits recently posted a list titled "five worst government contracting abuses" that outlines other ways it says that states are shortchanging charities.

Topping the list is "late payments," which is an especially severe problem in Illinois, where human-service organizations routinely wait six months or more to be paid by the state.

"What we're finding is that there are many ways of giving nonprofits a haircut," says David Thompson, vice president of public policy at the National Council of Nonprofits.

An $84-Billion Gap

States are projecting a collective budget gap of nearly $84-billion in 2011. The largest gaps were reported by Nevada (45 percent), New Jersey (28 percent), Arizona (27.2 percent), and Maine (26 percent).

The gaps could worsen, depending on what happens to Medicaid spending in Congress. The states and the federal government share the cost of Medicaid, the health program for the poor, but under the stimulus legislation, Congress agreed to pay a higher share of Medicaid's cost through December 2010.

If Congress doesn't act to extend the extra federal Medicaid payments through June 2011, something that 29 states had built into their budgets, those states would face an additional gap totaling $12-billion.

Meanwhile, most states are not counting on an extension of a federal emergency program that reimburses states for 80 percent of the cost of providing subsidized jobs or short-term assistance to families. That program, also enacted as part of the stimulus legislation, expires at the end of September.

But one requirement for receiving those federal funds was that states had to maintain their own spending to help families. Some experts fear that states will begin to cut such programs more deeply if the federal emergency program goes away.

“If this is not extended, I really worry that we’ll see ugly cuts to cash assistance and work support,” says Elizabeth Lower-Basch, a senior policy analyst at Clasp, an advocacy group in Washington that is pushing for an extension to the emergency program.

California’s Troubles

In California, Gov. Arnold Schwarzenegger’s budget proposal calls for the elimination of CalWorks, which provides cash assistance and job help to low-income families.

Such threats, in California and elsewhere, are leading humanservice organizations to put more money toward advocacy.

Five nonprofit groups that focus on basic needs came together in December to form the Health and Human Service Network of California. The group, which says 400 organizations have asked to join its mailing list, is calling for what it believes is a more balanced approach to cutting the state’s deficit, including raising revenue through taxes.

“Many people think the governor is just playing chicken,” says Kim McCoy Wade, coordinator of the network, “but whenever you have this kind of proposal, you have to take it seriously.”

A Tax on Tobacco

In Arizona, legislators are asking voters to help balance the budget by eliminating a state program that has provided millions of dollars to charities focused on childhood development and health.

The program, First Things First, was created by a statewide vote in 2006, and is paid for with a tax on tobacco. First Things First has raised at least $130-million per year since it was started, and a total of $284-million has been allocated to charities and other providers through a grant-making process, says Rhian Evans Allvin, the program’s executive director. Conservative Republicans have complained that First Things First adds a layer of bureaucracy, hoards money, and hasn’t spent enough on programs for children.

If voters approve Proposition 302 in November, the program’s $300-million balance will be swept into the general fund and First Things First will cease to exist.

“It’s very much threatened, and that’s a direct consequence of the budget shortfall in the state,” says Judy Jolley Mohraz, president of the Virginia G. Piper Charitable Trust.

The Piper trust is one of 11 foundations that have banded together to contribute a total of more than $1-million in each of the past two years to charities that meet basic needs, in large part to make up for gaps left by a crippled state budget. Ms. Mohraz says she has heard the concern that such grants could prompt the state to cut even more services, but she says the foundation has made clear in its communications that foundation grant making is “simply a drop in the ocean” compared to the state and federal funds going to humanservice organizations.

Meanwhile, arts and environmental groups in the Phoenix area are suffering as foundations and individuals shift funds to charities that provide essential services.

“There has been a crowding out effect,” says Patrick McWhortor, president of the Alliance of Arizona nonprofits.

In March, for example, the Metro Phoenix Partnership for Arts and Culture, a five-year old organization that pushed for greater support for the arts, closed its doors. Mr. Mohraz says the Piper trust has actually increased its grants to arts organizations in the past year, in part by redirecting a $750,000 grant that had been slated to go to the Metro Phoenix Partnership, but she concedes that the pain for arts organizations overall "has been real."

Enduring Cuts

Large organizations are better able to endure budget cuts. In December, Astor Services for Children & Families, a Rhinebeck, N.Y., charity that provides residential programs and other services for children, learned that the county would no longer support a program that helps identify children and toddlers with mentalhealth problems and connects their families with services. (In New York, many state funds for charities are routed through counties.)

Instead of eliminating the program, the charity sharply cut its budget, and that of a similar program for older children, and consolidated both programs under a single director. The cuts reduced the combined budget from $250,000 to $125,000 and allowed the group to continue to serve youngsters with mentalhealth problems.

Astor, which has a $50-million annual budget and a $4-million endowment, has expanded its number of employees through the recession, according to James McGuirk, its executive director, thanks in part to federal stimulus dollars flowing to other programs like Early Head Start.

"Having a diverse source of revenues allows you to absorb some cuts," Mr. McGuirk says.

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