HOW STATES ARE PROTECTING THE “SAFETY NET” IN HARD TIMES
Through a Variety of Measures, States Coast-to-Coast are Showing It Can Be Done

NEW YORK CITY – In a new report released this week, policy analysts at the National Center for Children in Poverty (NCCP), a research center based at Columbia University’s Mailman School of Public Health, explain how, even in a serious economic downturn, several states are protecting their safety nets for families and children in those states.

“Because of state balanced-budget requirements, policymakers are generally compelled to cut spending, seek new sources of revenue, or undertake both actions when revenues fall below projections,” writes Curtis Skinner, PhD, director of Family Economic Security at NCCP. “Raising taxes and fees on individuals and businesses during an economic downturn may dampen consumer and business spending and prolong the downturn. Nevertheless, from the economic security perspective of low-income Americans, it is far preferable to cutting social safety net spending.”

A number of states have taken bold and creative revenue initiatives that have helped them protect critical safety net spending, explains Skinner. Unless otherwise noted, the measures listed below are those successfully enacted by states in fiscal year 2012.

Raise personal income tax rates progressively:
- **Connecticut** raised marginal personal income tax rates. The state expects to collect almost $2 billion more in personal income tax receipts in fiscal year 2012 compared to 2010.
- In FY 2011, **Illinois** enacted a temporary, four-year increase in the marginal personal income tax rate from 3 to 5 percent.
- In **California**, Governor Brown proposes a 2 percent surtax on the top 1 percent of wage earners for five years, netting (along with a temporary sales tax increase), $7 billion to be spent exclusively on education and public safety. This proposal is expected to be a ballot initiative for voters in November 2012.
- In 2009, **New York** enacted a three-year income tax surcharge on individuals earning more than $200,000. This tax was allowed to expire in 2011, but a surcharge was extended for individuals earning more than $2 million that is expected to raise about $2 billion in revenues.

Eliminate or cap itemized deductions from state personal income taxes:
Itemized deductions preferentially benefit households with high incomes, resulting in tax regressivity. Ten states do not allow any itemized deductions, and an additional six states limit these deductions.

- **Hawaii** capped itemized deductions on higher-income taxpayers.
Raise income and other taxes on corporations:
- **Illinois** raised the corporate income tax rate from 4.8 percent to 7 percent, for a four-year period. As a result of this hike and the increase in the personal income tax rate, the state projects revenues to rise by an extraordinary three quarters or $7 billion in fiscal year 2012 compared to FY 2011.
- **Connecticut** raised a corporate tax surcharge (levied on companies with at least $100 million in gross annual revenue) from 10 to 20 percent for tax years 2012 and 2013.

Raise more general sales tax revenues by raising rates and extending the tax to selected uncovered goods and services:
Although sales taxes are regressive (a uniform tax rate takes a bigger bite out of the budget of a low-income household, compared to a high-income household), raising new revenues by increasing sales tax rates or extending tax coverage to a broader range of goods and services is often preferable to an alternative of damaging spending cuts. Sales tax initiatives can be structured so as to include progressive features, such as relatively higher tax rates on luxury goods and services purchased more often by higher-income households.

- An initiative in **California** for the November 2012 ballot would expand the sales tax to professional services and other services.
- **California** increased enforcement of sales and use tax collections on online and out-of-state retailers.
- **Connecticut** raised the general sales tax rate from 6 to 6.35 percent across the board and raised the rate to 7 percent for certain luxury items.
- **Connecticut** created a new Internet sales or “Amazon tax,” and extended the tax to certain previously exempted services.
- **Illinois** enacted a measure to collect sales taxes by online retailers with a physical presence in the state, including affiliates.

Raise more selective taxes and fees:
- **Connecticut, Maryland, New York and Vermont** enacted tax increases on alcohol and/or tobacco products.
- **Connecticut** raised $521.8 million in “other taxes” in FY 2012, including changes to the inheritance and estate taxes, and taxes on insurance companies, utilities, and health providers.
- **California, Connecticut, Hawaii** and **Maryland** enacted motor fuel and/or vehicle taxes or fee increases.
- A number of states have raised taxes on health care providers, which generates additional federal matching Medicaid funds. **Idaho, Kansas, Tennessee** and **Wisconsin** imposed such taxes in FY 2011. These tax increases can be offset in part by granting Medicaid rate increases to providers. From a safety net perspective, such taxes are preferable to cuts in services to Medicaid beneficiaries or cuts in provider reimbursement rates.

Maintain or expand coverage and benefit levels for key safety net programs:
Despite the very difficult budget climate, some states have found ways to not only maintain but to actually expand key social safety net programs. Strikingly, 41 states made positive eligibility and enrollment changes in their Medicaid programs in fiscal year 2010, followed by 31 states in FY 2011 and 22 states in FY 2012. Federal incentives under the Affordable
Care Act encouraged some of the state Medicaid program expansions. Although many of these changes had modest effects, some significant reforms include:

- **California, Minnesota, New Jersey, Washington, and Colorado** introduced new initiatives to cover childless adults under Medicaid in FY 2011 and FY 2012.
- **Delaware, Illinois, Nebraska, North Carolina, Texas** and **Vermont** opted to include legal permanent resident children and/or pregnant women with less than five years residence in the U.S. under their state Medicaid/CHIP programs, joining 20 other states with this coverage.
- **Colorado, Kansas, and Oregon** extended Medicaid/CHIP coverage to additional low-income children by raising income eligibility thresholds in 2010.
- **Rhode Island** and **Alaska** launched new state-funded pre-Kindergarten programs in 2010.
- **Connecticut** substantially increased its pre-Kindergarten spending per child in 2010.
- **Florida** increased its TANF cash assistance benefit level by 4.1 percent in FY 2012, the only state to do so. At $303 per month for a family of three, the Florida benefit had not changed in value since 1996 before this modest increase and still remains one of the lowest in the country.
- **Connecticut** introduced its first Earned Income Tax Credit providing a maximum of $1,700 for low-income families.
- **Virginia** strengthened the state’s EITC. The **Iowa** state legislature also passed a modest expansion of the state EITC in 2011, but the measure was vetoed by the state’s governor.
- **Illinois** signed legislation doubling the state’s Earned Income Tax Credit from five to 10 percent of the federal EITC over a two-year period.

**Use rainy day funds effectively:**

- **Massachusetts** draws down $185 million in rainy day funds in its enacted FY 2012 budget.
- **Maine, Michigan, Nebraska** and **Oregon** plan to use their rainy day funds to close anticipated budget gaps in FY 2012.
- The **Texas** governor and legislature agreed to draw down $3 billion from the state rainy day fund to help cover the 2010-2011 state budget shortfall and prevent further cuts. However, state lawmakers have ruled out using the rainy day fund in the 2012-2013 budget, despite a rainy day fund balance of more than $5 billion.

**Find Medicaid program savings in administrative efficiencies and improved services:**

- The **Wisconsin** Medicaid Rate Reform Project, composed of stakeholders including providers, patient advocates, insurance companies, and academics, has identified hundreds of millions of dollars in potential savings resulting from administrative efficiencies and negotiating better terms with Medicaid Home Maintenance Organizations.
- **New York** followed the Wisconsin model by convening a Medicaid Redesign Team including representatives from government, the health industry, businesses and consumers to make recommendations on improving program quality and reducing costs. Although a wide range of recommendations were made and adopted, the most
significant reforms enacted were conventional: capping overall Medicaid spending and moving more enrollees from fee-for-service to managed care. The state is also increasing enrollment of beneficiaries into medical homes and health homes to coordinate care for the chronically ill.

- **Ohio**’s enacted biannual budget anticipates substantially reducing Medicaid spending growth by improving care delivery systems and promoting primary care.

**Find savings in state agency consolidations and improved management:**

- **Colorado, Connecticut, Kansas, Oklahoma** and **Washington** all enacted measures in fiscal year 2012 to consolidate state agencies with the goal of gaining efficiencies and reducing costs.

**Reform prison sentencing and parole procedures:**

A modest silver lining to the fiscal crisis of the states is a long overdue re-examination in a number of states of costly incarceration and parole policies that many criminal justice experts judge both unduly punitive and ineffective in reducing crime and increasing public security.

- **Connecticut** enacted a measure reducing prison sentences for certain inmates who earn credits by pursuing educational programs and for good behavior.
- **Ohio** will make greater use of community-based corrections programs and allow certain inmates to reduce their sentences by pursuing education, job training, and drug treatment.
- In FY 2011, **South Carolina** approved a bill to reduce the population incarcerated for minor offenses and to increase the use of parole.
- **Arizona, Colorado, New York, Washington, and Wisconsin** have also enacted reforms in their incarceration and parole policies in recent years.

To see the full report, click on: “Protecting the Safety Net in Tough Times: Lessons from the States” or go to: [http://nccp.org/publications/pub_1061.html](http://nccp.org/publications/pub_1061.html).

- 30 -

*The National Center for Children in Poverty (NCCP) is one of the nation’s leading public policy centers and is dedicated to promoting the economic security, health and well-being of America’s low-income families and children. Part of Columbia University’s Mailman School of Public Health, NCCP uses research to inform policy and practice with the goal of ensuring positive outcomes for the next generation.*