THE ECONOMIC CRISIS AND ITS IMPACT ON STATE AGING PROGRAMS

11/2009

Results of All-State Survey

National Association of State Units on Aging

The Economic Crisis and Its Impact on State Aging Programs

RESULTS OF ALL-STATE SURVEY

Introduction

The ongoing economic crisis continues to force many state aging directors to grapple with difficult decisions on budget cuts and reductions in services. These are challenging times and most states are facing declining revenues at the same time that they are facing an increasing demand for state planning, budgeting, and monitoring of services that are delivered at the community level, including assistance with heating bills and providing home delivered meals, as well as all types of home health supports.

Beginning in June 2008, the National Association of State Units on Aging (NASUA) has periodically surveyed its members to gauge the impact of the economic downturn on aging services. The members of NASUA are the nation's 56 officially designated state and territorial agencies on aging, often referred to as State Units on Aging (SUAs). This is the fifth survey on the economy conducted by NASUA. This most recent and more extensive survey was conducted in late October and November 2009. Forty-two states, the Northern Mariana Islands and the District of Columbia responded to the most recent survey. [1]

This survey focuses primarily on the outlook for the FY10 budgets which most of the states began on July 1, 2009[2].

Role of State Units on Aging

The State Units on Aging (SUAs) were originally developed in response to the Older Americans Act (OAA) legislation signed into law nearly 45 years ago.[3] As a condition of receipt of OAA funding, each state is

[1] The states not participating in the survey include: Alabama, Alaska, Indiana, Mississippi, Nebraska, Pennsylvania, South Dakota, and Wyoming.

[2] The states that do not have fiscal years beginning on July 1, include Alabama, Michigan, New York, and Texas.

[3] Official agency names and organizational arrangements vary from state to state. For example, states may call their SUA a Department, Office, Bureau, Commission, Council, or Board. "State Unit on Aging" is a single term intended to encompass all

required to designate a single state agency responsible for implementing a statewide aging plan that addresses the needs of older residents of the state. SUAs evolved significantly over the ensuing 45 years. SUAs have taken on the task of designing and implementing a nationwide system for home and community based services and supports. In 46 states, these services are planned and delivered in collaboration with Area Agencies on Aging, while ten states have opted to function as single planning and service areas.[4] SUAs work to ensure that all federal and state resources available to serve this population come together using a systemic statewide approach to planning in every state, region, and county across America.

Today SUAs administer billions of dollars from a broad array of federal and state funding sources, with approximately a third of the total derived from the federal OAA appropriation. Increasingly over the years, nearly all issues affecting the well being of older persons and their families, and in many states of late, individuals with physical disabilities, have come under the purview of the SUA.

In many states the SUA is now also responsible for the delivery and support of Medicaid Home and Community Based Services (HCBS) Waivers.[5] Over half of the SUAs administer the Medicaid HCBS elderly waiver program and nearly one-third also administer the Medicaid HCBS disabled waiver program.

States[6] rely on a number of financing strategies to deliver their services. In addition to Medicaid waivers, states combine funding from the Older Americans Act, Social Services Block Grant, the Low-Income Home Energy Assistance Program, the Community Services Block Grant, and other federal sources to deliver a package of benefits for their eligible seniors and individuals with disabilities. Further, the majority of states provide some funding for programming that is solely financed by the state. The Social Services Block Grant (SSBG) has become an important source of funding for nearly half of the SUAs. States are using the SSBG funding to provide home delivered meals, transportation, adult protective services, adult daycare, housing, and foster care services among many others.

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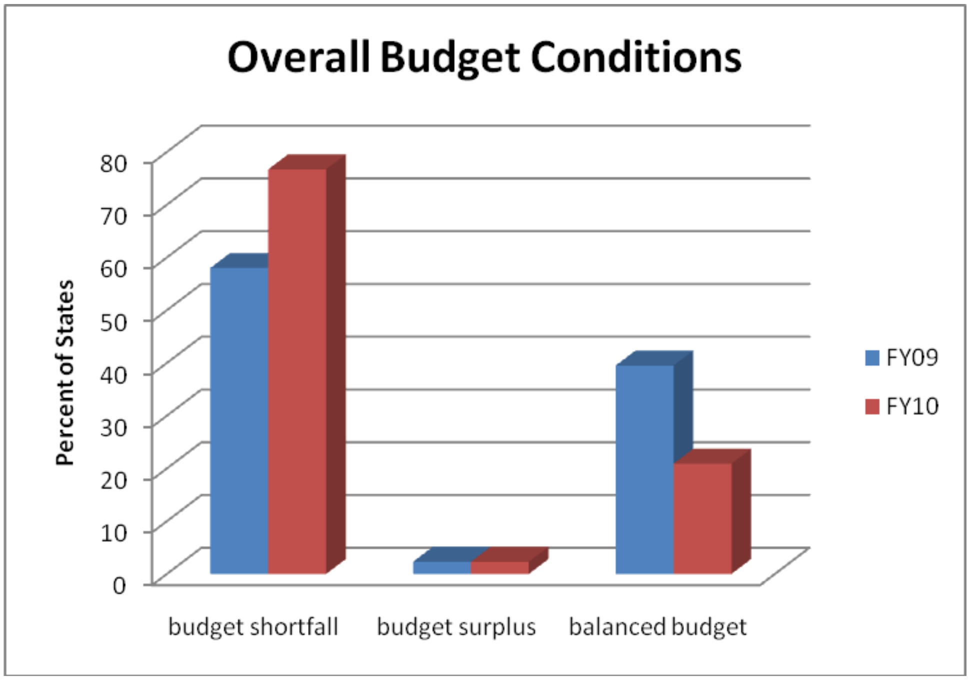
of these variations. See "State of Aging: 2009 State Perspectives on State Units on Aging Policies and Practices" October 2009

4 Id., page 8. Alaska, Delaware, District of Columbia, Guam, Nevada, New Hampshire, Northern Mariana Islands, North Dakota, Rhode Island, South Dakota, Utah, and Wyoming are single planning and service areas.

5 See Appendix A for a chart detailing the responsibilities of the state units on aging.

6 Unless otherwise indicated from context, "state" or "states" refers to state unit on aging in the states and territories.

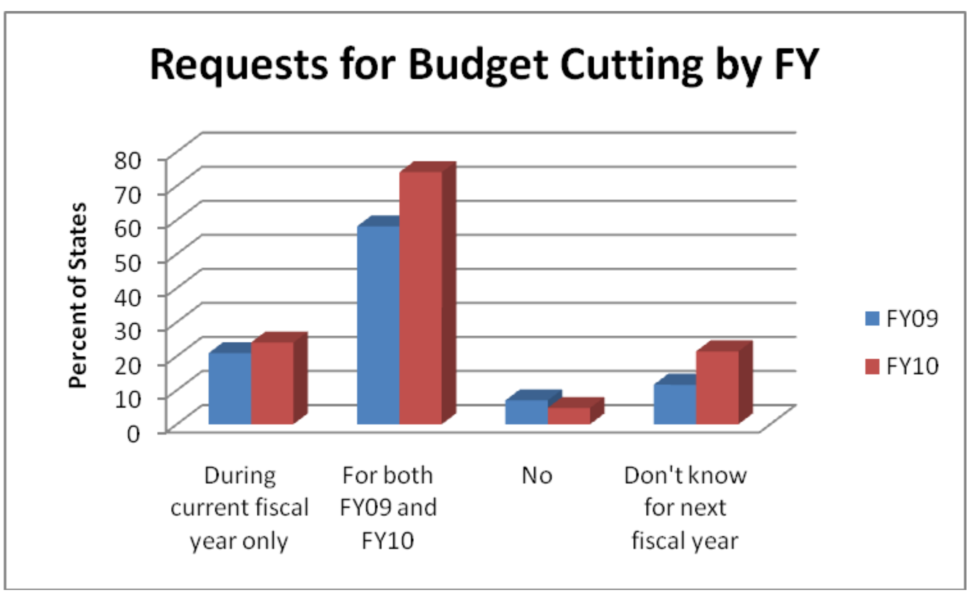
State Units on Aging FY 2010 Budgets



According to the most recent economic survey, the overall budget conditions in the states continued to decline.

In NAUSA's June 2009 economic downturn survey, states were asked to anticipate their fiscal situation in FY 2010. At that time, 57 percent of state units anticipated a shortfall, and 41 percent predicted a balanced budget. In response to the same question in NASUA's November economic downturn survey, 77 percent of states reported a state budget shortfall, and only 21 percent reported balanced budgets. When the state unit's fiscal expectations for FY 2010 are contrasted with their budget realities in FY 2009, during which 58 percent of states had budget shortfalls and 40 percent were operating with balanced budgets, states clearly expected their FY 2010 fiscal conditions to remain consistent with those of FY 2009. However, such economic maintenance was unattainable for many states.

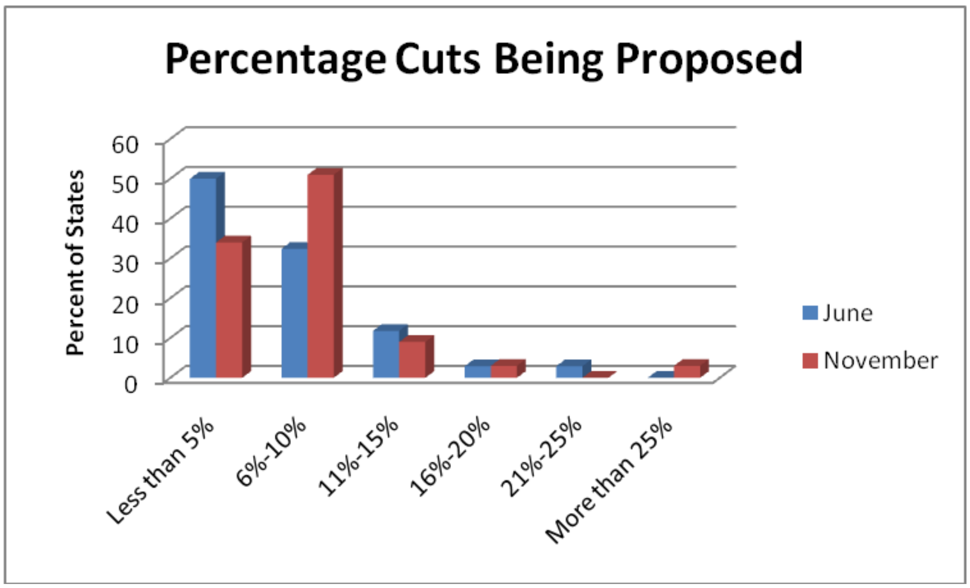
In November, 96 percent of state units on aging located in states with state budget shortfalls reported that their aging budgets have been reduced, and 95 percent reported that similar cuts are occurring within other state agencies, often across the board. Additionally, less than 20 percent of the state units reported that their states have balanced budgets for the current fiscal year, which means that they will be facing decisions about cutting services, cutting or eliminating programs, or raising revenue, in order to attain their statutorily mandated balanced state budget requirement.



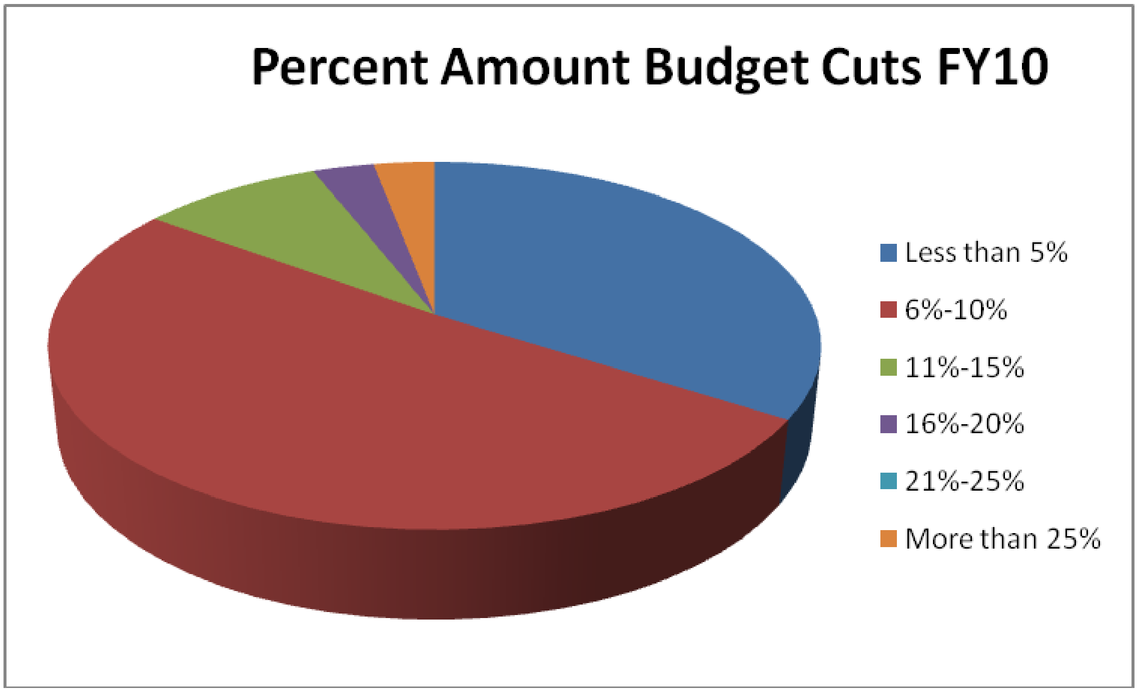
Repeated budget cuts are deeply concerning to the states, and state budget outlooks are consistently grim. Nearly 80 percent of the states are now reporting that they will have cuts in both FY 2009 and FY 2010, and only a very small percentage of states indicated that they would not have any cuts in FY09 or FY10. In June, 58 percent of states responded that they were asked to reduce their agency's budget in both FY 2009 and FY 2010 as a result of the economic downturn, and another 40 percent reported agency budget cuts for either FY 2009 or FY 2010. In the most recent survey, nearly 75 percent of responding states reported being asked to reduce their agency budgets in both FY 2010 and FY 2011, and another 23 percent are being asked to reduce their budgets during FY 2010 only.

Interestingly, in both surveys, 95 percent of those being asked to implement reductions reported similar budget reduction requests being made of other state agencies, indicating a consistent practice of statewide agency budget reduction efforts for at least two fiscal years.

Perhaps it is not surprising that state budget cuts are continuing beyond FY 2010, with nearly 75 percent of states reporting anticipated cuts for FY 2011. There seems to be little chance of reprieve at the state level from budget cuts; that this outlook is expected to continue for yet another fiscal year is significant when considered both contextually and comprehensively. The budget cuts that states are currently making are additive, meaning that this fiscal year cut is in addition to the cut that occurred in the last fiscal year. Thus, the operating budgets of many state units, and agencies throughout the states, represent a series of budget reductions. Since these budget cuts are cumulative, their impact is increasingly devastating; one responding state reported that in addition to a 38 percent cut in their budget last year, they are now being asked by the governor to further reduce their budget by 20 percent for FY 2010.



Alarmingly, the percentage state units are being asked to cut from their budgets is increasing, having the net effect of reducing a consistently dwindling budget by a consistently increasing percentage. In June, regarding their FY 2010 budget cuts, 50 percent of states reported being asked to cut their budget by less than five percent, with 32 percent being asked to make cuts totaling six to ten percent of their budgets. The remaining state unit reductions ranged from 11 to 25 percent. The most recent data, collected in November 2009, indicates that over 50 percent of reporting states are now being asked to cut between six and ten percent from their FY 2010 budgets, and only 34 percent are now being asked to cut less than five percent. The remainder of the reporting state unit's cuts lie somewhere in between 11 and 20 percent, with the exception of one state, who reports being asked to cut more than 25 percent of its budget for the FY 2010.



Administrative Strategies

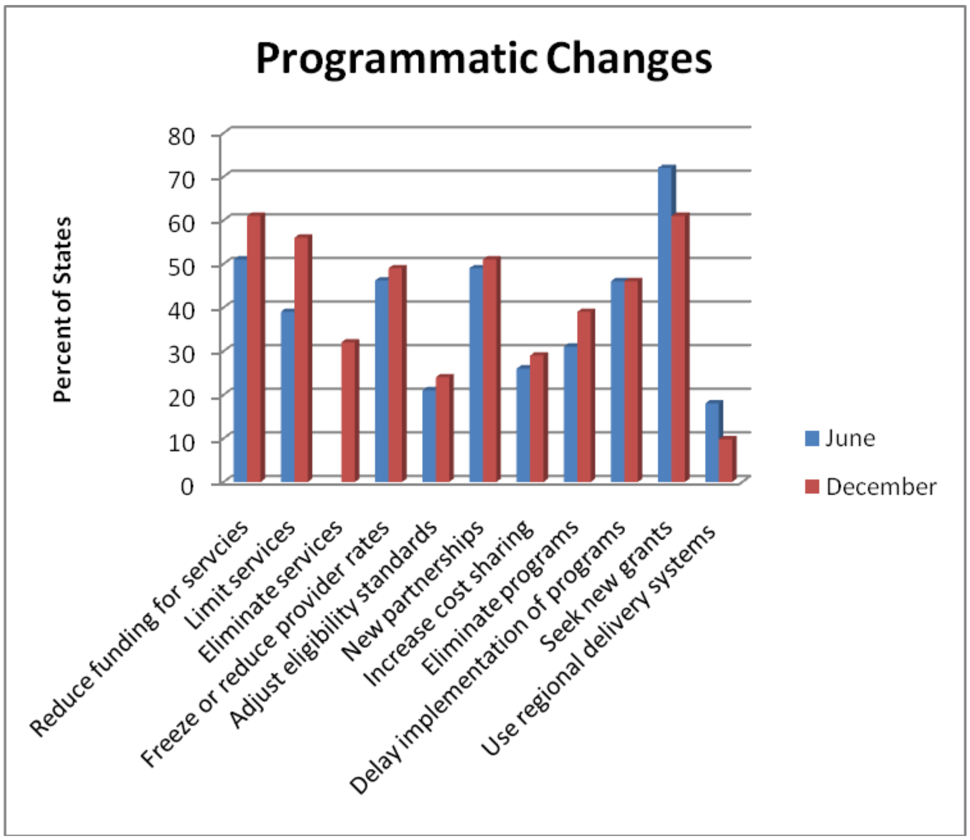
As state units implement these reductions, they continue to search for ways to minimize the impact of the economic crisis on their direct services, which will affect the consumer. In order to avoid this causal chain, states are absorbing much of the impact internally and trying, where possible, to balance their budgets through administrative reductions.

In accordance with such efforts, states are becoming increasingly flexible in their administrative strategies. One aspect of the state's forced flexibility is their adaptability to the success and practicability of previously utilized administrative actions. In June 2009, 83 percent of states were looking to the increased use of technology to accomplish their operational goals in the wake of decreased funding. While this trend appears to be slowing, 74 percent of states still cite increasing use of technology as one of the means for addressing their budget shortfalls. Similarly, the trend of state efforts to implement cost reductions by reducing or eliminating contracted services has also stalled, with a 12 percent drop in this approach since June. Instead, agencies are moving away from the renegotiation of contracted services and towards the renegotiation of leases for equipment or office space, with states reporting a nearly 22 percent increase in this shortfall management strategy since June.

Despite their best efforts to absorb funding deficiencies internally, the impact of the budget cuts is not contained within the state unit. Unfortunately, the economic crisis is negatively affecting the operations of the local agencies on aging (AAA), with 56 percent of states reporting that AAAs will be forced to cut their budgets as a result of state budget cuts. The AAA budget cuts, similar to those at the state unit level, affect the consumer by further decreasing available services. By addressing budget cuts through administrative cost reduction strategies, as well as incorporating an increased reliance on waiting lists, the AAAs will work to meet the increased demand for their services despite consistently decreasing funding.

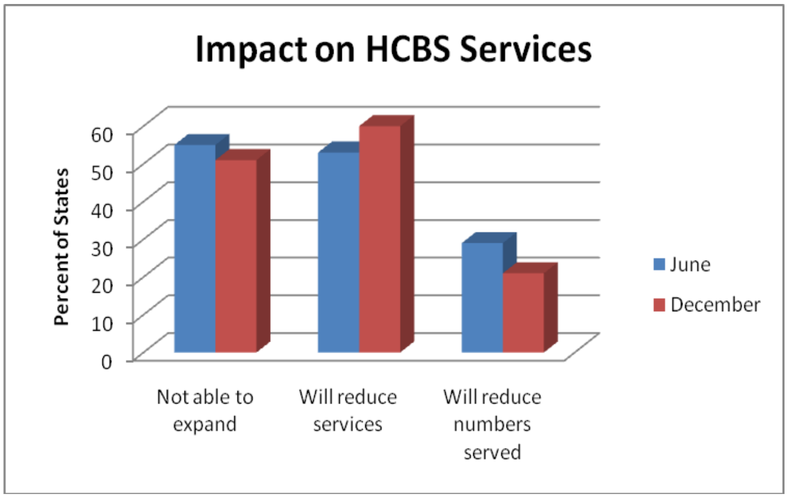
Program Strategies

While states continue to try to manage their tough fiscal conditions through further reductions in administrative cuts, nearly 80 percent of the states are now reporting that they will look at cutting state funded only programs as a method of balancing tight budgets. In facing this most recent fiscal year budget cut request, states are forced to become even more flexible with their internal absorption and budget cut management practices. One example of this adaptability is that compared to the results gathered in June 2009, more states are now looking to personnel changes such as hiring freezes, furloughs, layoffs, staff reductions and training reductions to absorb the financial strain.



According to the results of the November 2009 survey, direct services were experiencing the most widespread funding reduction with 61 percent of states planning to reduce funding in this area. This concentration is mainly because there is an increased demand for services without an increased number of eligible participants. States are being forced to make programmatic changes in order to balance their budgets. Further supporting this trend is the response from over 50 percent of the states that they will reduce funding for direct services and limit services as cost containment strategies. This is a slight increase in the number of states looking to scale back on direct services from the last survey, and nearly as many states indicate that they will freeze or reduce provider rates to further contain costs.

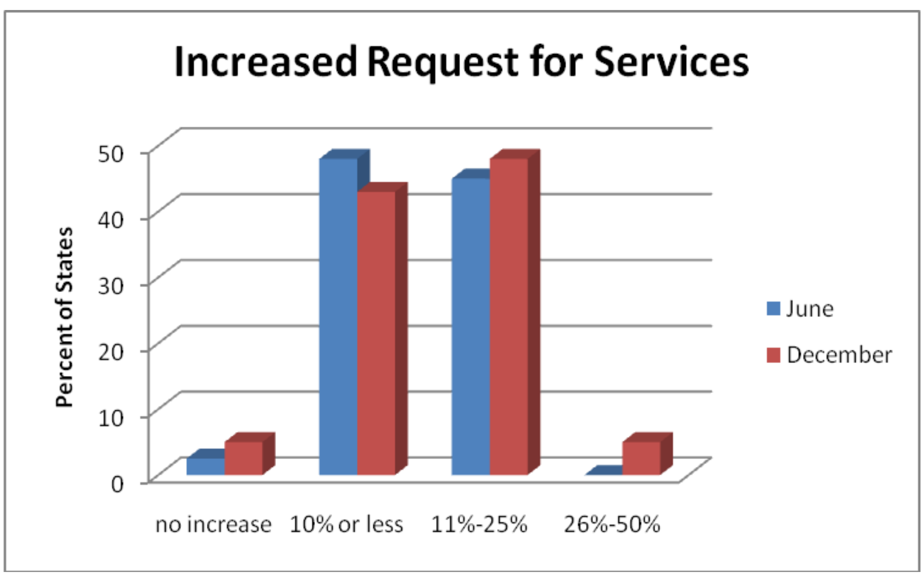
States are increasingly reporting that budget cuts are causing them to reduce home and community based services, with nearly 60 percent of states taking this approach, according to the most recent data. This represents a slight increase in similar data gathered from previous surveys.



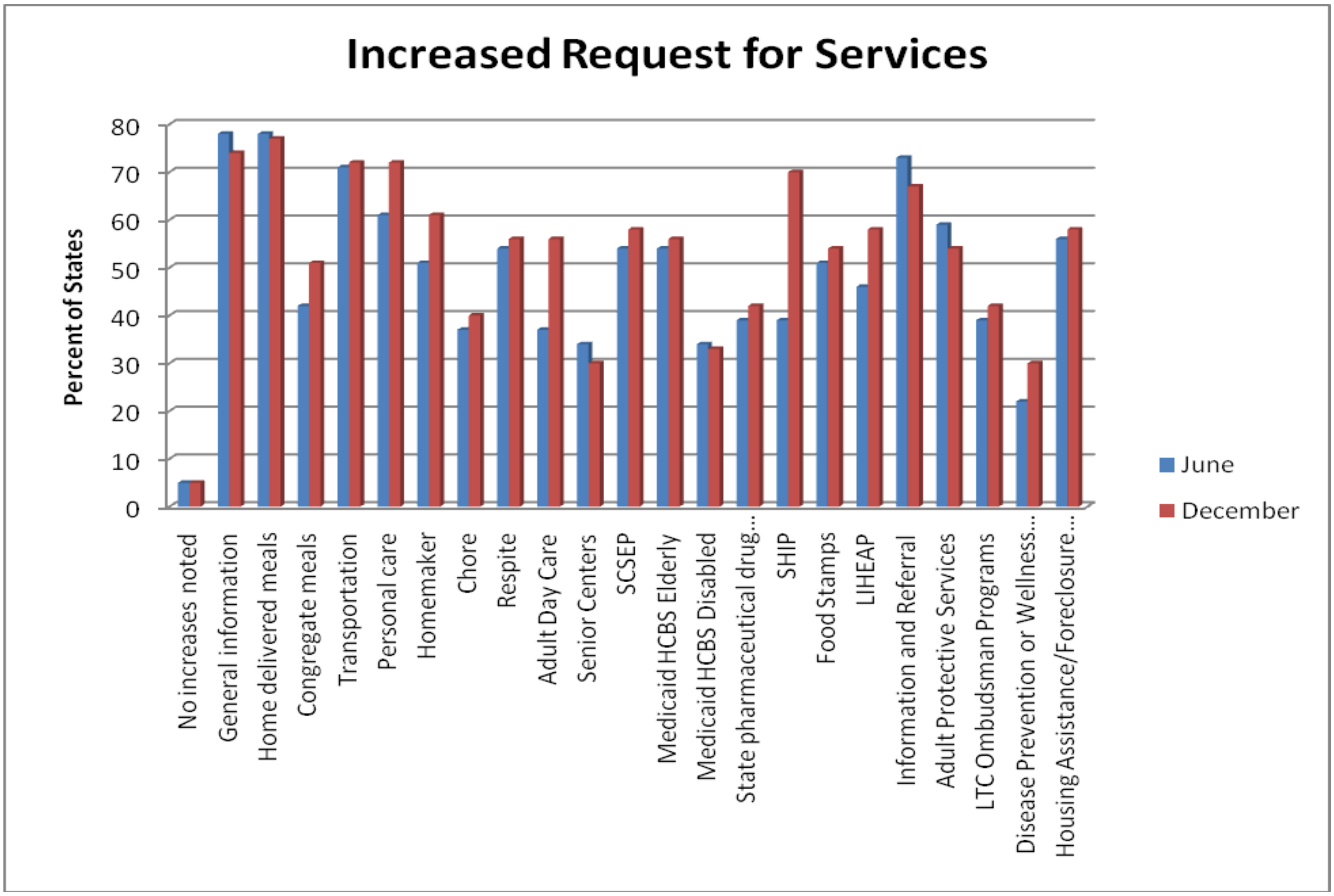
In June, the most pervasive approach states were taking to supplement their decreased funding was to actively search for additional grant opportunities, with nearly 72 percent of states doing so. The November 2009 survey indicates that states continue to seek new funding opportunities, with over 60 percent actively seeking new grant opportunities. This approach has slowed since June, primarily due to the states reporting a lack of the administrative staff necessary to find, and apply for, new grant opportunities. Also contributing to this decline in grant seeking is that some state units are no longer applying for grants unless the grants have no state match requirement, as the states simply do not have the often required matching funds available to them.

According to the November survey, more states are targeting program changes directly affecting the consumer, such as the reduction of direct services. Other programmatic changes states are increasingly employing include: putting limitations on services, or eliminating them altogether, changing eligibility criteria for services to decrease the total number of the eligible population, and eliminating various programs. One surprising finding in these shortfall containment efforts is that while nearly 50 percent of the states indicate that they will exempt some services from budget cuts, nearly 40 percent of the states now indicate that they will not exempt any programs or services from budget cuts. This disparity is most likely the result of a consistently worsening economic outlook coupled with the statewide pressure that state units are facing. When the budget cuts reach the levels that they currently have in the states, frequently the only option that states have is to implement across the board cuts to all programs.

It is frequently during times of economic turmoil that state funded services are most needed, and, tragically, also the least accessible. In previous economic downturn surveys, many states reported increased information requests about specific programs, and they attributed this increased number of requests to the economic downturn.



Consumers are increasingly affected by the continuing budget cuts, as states are finding it difficult to operate at the service levels required to meet the need generated by the increase in service requests in other areas. Compounding the problems resulting from this disconnect is that as the economy worsens, the requests for services continue to grow in most program areas. In the November survey, the largest increase in request for services was for the SHIP program, which is most likely because currently, the states are in the open enrollment period for Medicare recipients. Other areas where demand increased between the June and November surveys include: requests for adult day care, homemaker services, and personal care services. Also in November, states were asked to estimate these increased requests for services in percentage terms; five percent of the states indicated that the requests for services were increased by between 26 and 50 percent, and 40 percent of the states indicated that the requests for services had increased between 11 and 25 percent.

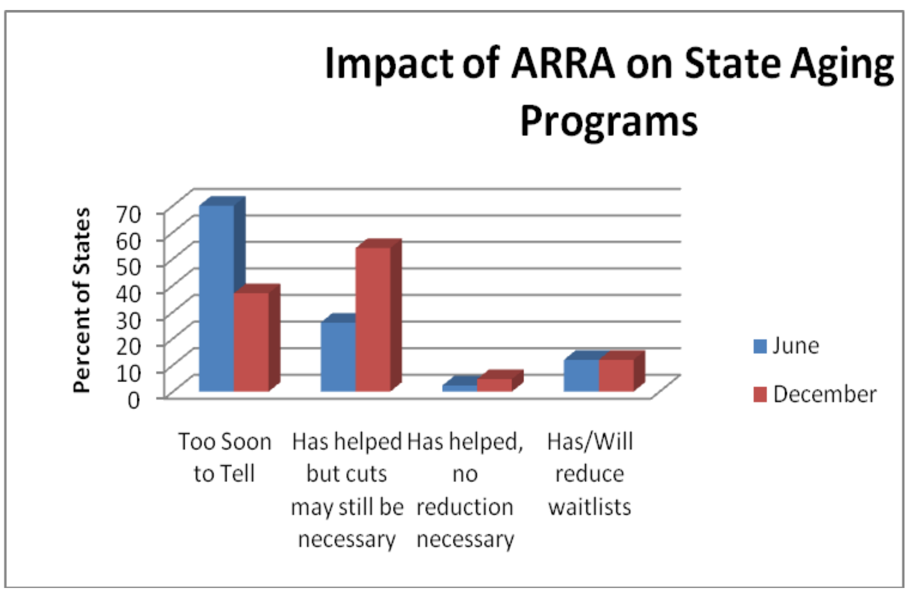


> *"We are attempting to not reduce core* program *and services—delivered meals, personal care, case management, congregate meals but it is becoming more challenging every day."*

The decline in state service levels directly correlates with the decline in funding, and this correlation has forced states to develop creative solutions to address the widening gap between need and availability. One mechanism states have often used to address unmet consumer needs due to decreased service levels are waiting lists. In many states, when the demand for a service greatly exceeds the available supply, states maintain lists of those in need. Thus, the greater the difference is between supply and demand, the greater the service gap, and the longer, and more critical, the waiting list. Previously, the relationship between budget cuts and available service levels were tracking consistently, with the two measures corresponding to one another. However, the latest survey results have shown a reversal, in part, of this trend, suggesting an increase in service accessibility, given the relationship of waiting lists to service needs. That is, while budget cuts continue to decrease the funding available to the states to administer their programs, the number of waiting lists in several areas has actually decreased.

In the June 2009 survey, nearly 93 percent of states had waiting lists, while only 84 percent currently have them. Specifically, states reported a decrease in waiting lists for home delivered meals, congregate meals, personal care, homemaker, chore, respite, adult day care, Medicaid HCBS elderly and Medicaid HCBS disabled services. The November survey indicated that the service experiencing the most dramatic waiting list decrease since June were home delivered meals, with nearly 80 percent of states reporting that they maintained waiting lists for this service in June 2009, contrasted with less than 60 percent in November. Eighty-five percent of states continue to predict an increase in waiting lists over the next year.

ARRA's Impact



In dissecting the connection between steady funding declines and steady service level declines, one intervening variable is the funding released to states under the American Recovery and Reinvestment Act of 2009 (ARRA) and other stimulus measures. Since the ARRA funds were beginning to be released around the time of the June survey, states were unable to report on the efficacy of the ARRA funds at that time, as the resulting programs had yet to be implemented. With the November survey, the impact of the ARRA funds can now begin to be measured. According to a majority of states, ARRA has helped them maintain a certain level of services, but additional cuts may still be necessary. In June, about 25 percent of states said the funds were currently, or were expected to, improve conditions within the state. As of November, that number has more than doubled, with nearly 55 percent of states now reporting positive effects of this funding within their state.

> *"We are quite concerned about replacing state funds in our program once the ARRA funds are spent." reported several state unit directors.*

State unit utilization of additional ARRA funding sources has remained relatively constant, with states increasingly applying for additional funding under ARRA in the areas of weatherization, community services block grants, emergency food and shelter (Title VI Department of Homeland Security) and in Homelessness prevention (Title XII HUD). The biggest funding source application decline was under the Senior Community Service Employment Program (SCSEP), which experienced a nearly 10 percent decrease as reported from June to November.

While the ARRA funding is currently having a positive impact within the states by allowing them to provide services that would otherwise be unavailable, many states are concerned about the inevitable service level decline when the funding stops. Frequently referred to as "The Cliff," states anticipate that the abrupt expiration of these funds, and therefore the services they are currently enabling, could curtail services to vulnerable populations, especially if the state economies have not yet recovered at the time of ARRA's expiration. Some states have tried to implement strategies that will mitigate this anticipated impact, such as employing new delivery models, while other states urge caution in enhancing current nutrition programs without the ability to sustain those efforts.

Regarding the effect of the stimulus funds on meal delivery specifically, requests for both home delivered and congregate meal services remain strong even with the additional funding provided under ARRA. Compared with the June survey, the November data indicates a 12 percent increase in states that are not considering meal reduction or limitation as a viable budget reduction effort. Of those states that are considering this action as a means of budget shortfall mitigation, there was a nearly five percent increase in reduction considerations directed towards congregate meals, while the possibility of reducing home delivered meals experienced a mirror inverse five percent decline.

Issues and Concerns

> *"We are focusing on evidence-based strategies that show a strong return on investment including moving away from the use of costly nursing homes and emphasize keeping people at home," reported another state.*

The economic crisis has had a profound effect on states' ability to continue to provide the necessary services and supports to older adults and individuals with disabilities. As their funding continues to decline, so does their ability to maintain these services. In the last economic survey, administered in June, 2009, over half of the states reported the maintenance of their current service levels to be their top priority. Unfortunately, as of November 2009, that number has declined to 30 percent, with 25 percent of states currently reporting that their top priority is to scale back services.

The effects of this service level decline, and the efforts of states to mitigate the effects passed on to the consumer, can be seen in the flexible approaches states have adopted to weather the economic downturn. A significant aspect of this flexibility is the states' ability to constantly adapt by shifting their priorities and areas of focus in response to the changing fiscal climate and, therefore, in response to the changing needs of their consumers. For example, in the November survey, 50 percent of the states reported their top priority to be the creative use of technology. This finding is intriguing because in prior years, when facing budget shortfalls, states tended to cut technology investment as a budget management strategy. The current trend of states moving away from such cuts may indicate the states' increased awareness that investments in technology will eventually result in savings to the state.

Another high priority for the states, according to the November survey, is the development of home and community based services. In the face of the economic downturn, many state unit directors are focusing on the further development of these services. In November, over one-third of the states cited the development of sustainable home and community based services as a priority for their state. Despite this percentage representing a modest decline since June, that home and community based services remain a top investment priority during this crisis is a significant finding.[7] This consistent emphasis may reflect the states' reliance on evidence based practices, as many state unit leaders indicated that one factor in their prioritization was the well-documented evidence that serving individuals in their homes and communities simultaneously saves the state money while enhancing the quality of life of seniors and individuals with disabilities.

As states rearrange their priorities in efforts to adapt to the constantly changing economy, new concerns and issues continue to present themselves. One such area of concern is the ARRA funding, and its eventual expiration. Specifically, one major issue facing the states is the deep cliff they anticipate when the ARRA funding expires, not only with respect to the AoA food and nutrition program, but also with respect to all Medicaid funding. Further complicating the ARRA funding expiration is the apprehension of many states

[7] In June 2009, 40 percent of states reported this as a priority.

regarding the effect this expiration will have on their budgets. Since many states were only able to balance their FY 2009 budgets by using ARRA funding as backfill, they are justifiably concerned about the shortfalls they are likely to face when the ARRA funding expires. Thus, once that funding is exhausted, the states will be left with an even larger gap to fill.

For more information:

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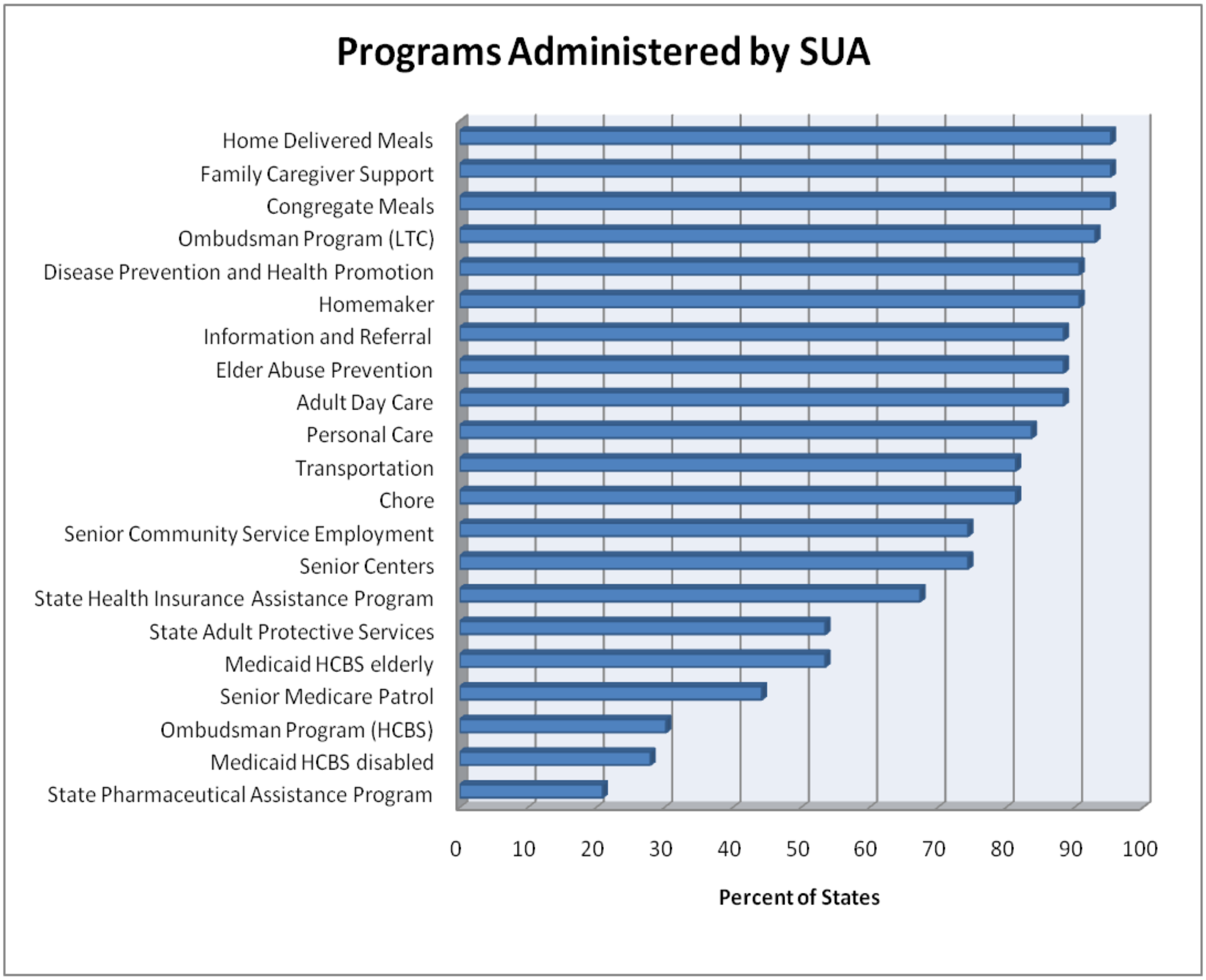
APPENDIX A


Programs Administered by SUA
Home Delivered Meals
Family Caregiver Support
Congregate Meals
Ombudsman Program (LTC)
Disease Prevention and Health Promotion
Homemaker
Information and Referral
Elder Abuse Prevention
Adult Day Care
Personal Care
Transportation
Chore
Senior Community Service Employment
Senior Centers
State Health Insurance Assistance Program
State Adult Protective Services
Medicaid HCBS elderly
Senior Medicare Patrol
Ombudsman Program (HCBS)
Medicaid HCBS disabled
State Pharmaceutical Assistance Program
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Percent of States