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FEDERAL GRANTS TO STATES AND LOCALITIES CUT DEEPLY IN FISCAL YEAR 2008 FEDERAL BUDGET

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Grants to state and local governments have long been an important way in which the federal government supports and administers programs efficiently. The new budget, however, continues to significantly erode those grants. This leaves states and localities the option of either curtailing services or increasing their own taxes to compensate for declining federal funds.

- Under the President's budget, grants to state and local government for all programs other than Medicaid would decline by $12.7 billion or 5.1 percent from fiscal year 2006 to 2008, after adjusting for inflation.[1]

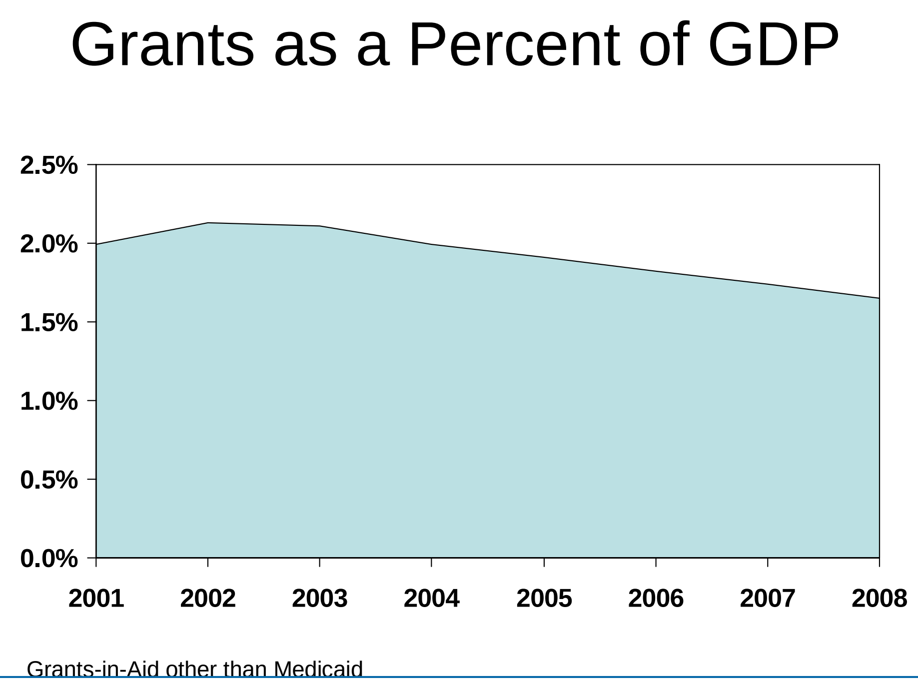
  Note that fiscal year 2008 is being compared to 2006. Most appropriation bills for fiscal year 2007 have not been enacted. As a result, the Administration's budget reflects the levels in a temporary continuing resolution. These levels are not the same as the levels in the permanent continuing resolution currently being considered by Congress. It was not possible to adjust the grants-in-aid items to reflect the pending Congressional legislation, so the 2007 figures are omitted from this analysis.

- The proposed 2008 grants would be significantly lower as a percent of the economy than they were at any time since at least 2001. For 2008, the budget proposes grants to state and local government for all programs other than Medicaid that total just 1.65 percent of GDP. In 2001, such grants were 1.99 percent of GDP. Considering grant levels relative to the economy provides a somewhat better measure of whether the grants would be adequate to maintain the current level of state and local services they support, because the cost of providing services tends to grow in tandem with the economy.

- If grants for all programs for 2007 were at their 2001 to 2006 average level relative to the economy (1.99 percent), they would be $49 billion, or 21 percent, higher than their proposed 2008 level.

[1] Medicaid is traditionally excluded from this analysis because changes in Medicaid grants largely reflect inflation in health-care costs in the public and private sectors alike. Considering grants other than Medicaid gives a more accurate picture of the relative level of federal funding for state and local services. There are, however, cuts in Medicaid relative to the amounts required to maintain the program. See box on page 4.

FIGURE 1



- These shortfalls are difficult for states and localities to handle. Although states are no longer in a fiscal crisis and revenues are growing, some state and local services still have not returned to their pre-recession levels. They also continue to struggle with growing costs of education and health care. With few exceptions, state and local governments would not be able to absorb the proposed continuing reductions in federal aid without instituting program cuts or tax increases.

Discretionary and Mandatory Grants

The President's 2008 budget proposes cuts both in discretionary grants that are appropriated annually and in entitlement programs.

- Discretionary grants to state and local governments would decline by $3.9 billion from 2006 to 2008. The decline would be $11.2 billion, or 6.3 percent, after adjusting for inflation.

- If discretionary grants had remained at their 2001 to 2006 average level relative to the economy, they would be $37.2 billion, or 22 percent, higher than the proposed level for 2008.

- On the entitlement or "mandatory" side of the budget, grants to state and local governments other than for Medicaid would increase by $1.4 billion from 2006 to 2008. After adjustment for inflation, they would decrease by $1.5 billion, or 2.1 percent.

- If mandatory grants other than Medicaid were at their 2001 to 2006 average level relative to the economy, they would be $12.1 billion, or 17.6 percent, higher than the proposed level for 2008.

TABLE 1: GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS IN THE FY 2008 BUDGET, EXCLUDING MEDICAID BUDGET AUTHORITY (FUNDING) IN BILLIONS OF DOLLARS			
	FY 2005	**FY 2006***	**FY 2008**
Discretionary Funding	$130.7	$132.2	$124.7
Mandatory Funding	112.2	97.9	111.6
Total Funding	242.9	231.1	236.3
Total Funding adjusted for technical anomalies**	234.5	237.9	235.4
In 2008 dollars (i.e., adjusted for inflation)	253.6	248.2	235.5
Percent change after adjusting for inflation- 2006 to 2008			**-5.13%**
Funding as a percent of GDP	**1.91%**	**1.82%**	**1.65%**

* FY 2007 numbers from the budget are excluded because most appropriations bills have not been enacted. The federal budget reflects the levels in the temporary continuing resolution, which differ from the likely funding levels Congress is currently considering.
** Adjustments were made to exclude disaster relief funding in all years and fiscal relief in 2004, to reflect funding for highways and mass transit as the level of obligations for those programs rather than the level of "contract authority," and to remove distortions that can occur when the level of "advance" appropriations changes from year to year. The TANF grant reflects "obligations" rather than Budget Authority. Up to 30% of states' 2006 TANF block grants were made available to states in 2005 because of Katrina; as a result, using BA would create a misleading picture of trends.

- *Total* discretionary and mandatory grants combined, other than Medicaid, would decline by $2.5 billion. After adjustment for inflation, grants would decline by $12.7 billion or 5.1 percent.

- If all grants other than Medicaid were at their 2001 to 2006 average level relative to the economy, they would be $49 billion, or 21 percent, higher than the proposed level for 2008.

What is Being Cut?

The reductions in grant funds are spread throughout a wide range of budget categories and programs. In some cases nominal funding is slated for a cut. In others, the proposed funding fails to keep pace with the cost of the program. Examples of grants that are being cut include:

- **HOPE VI** grants, which help to revitalize public housing and nearby communities and promote resident involvement, as well as housing programs for people with disabilities and for the elderly;

- The **Social Services Block Grant**, which provides funding for a range of social services and other types of assistance to low-income families and elderly and disabled individuals;

- The **Preventive Care Block Grant**, which is operated by the Centers for Disease Control and Prevention and provides grants to states for preventive health services for underserved populations;

- The **Commodity Supplemental Food Program**, which provides nutritional food packages for less than $20 a month to more than 400,000 low-income elderly people; and

Medicaid Cuts

This analysis of grants-in aid excludes the Medicaid program. But the budget also contains new legislative and administrative cuts in Medicaid, which provides health insurance to low-income children, parents, seniors, and people with disabilities. At least four-fifths of these Medicaid spending cuts would be achieved by shifting costs from the federal government to the states.

The budget proposes legislative changes in Medicaid that would reduce federal Medicaid funding by $25.7 billion over the next five years, of which $20.9 billion would be achieved by shifting costs to states. The cost shifts include a reduction of the federal matching rates for all administrative activities (including management information systems and survey and certification), and for targeted case management services. The cost shifts also include an effective reduction of the federal matching rate for Medicaid administrative costs relating to families and children. Some proposed legislative increases, such as extending for one year the current Medicaid coverage for low-income families that are transitioning from welfare to work, could partially offset the shift to states.

The regulatory changes would reduce federal funding by an additional $12.7 billion over five years. 100 percent of those federal savings would be achieved by shifting costs to the states. They include changes relating to payments to government providers, payments for school-based services, payments for rehabilitation services, and payments for graduate medical education.

- **Energy Assistance** to help low-income households pay heating bills;
- Education programs, including funding for **special education**, the **Safe and Drug Free Schools** grant and **School Improvement Programs**.
- The **Child Care Development Block Grant**, which is not adjusted for inflation and which the Administration's figures show would be able to assist 300,000 fewer children between 2006 and 2010;
- **Community Oriented Policing Services**, **State and Local Law Enforcement Assistance**, and **Juvenile Justice** programs.
- The Environmental Protection Agency's **State and Tribal Assistance Grants**, which helps states implement air and water quality standards; and
- **Violence against women prevention** and prosecution.

Reductions by State

Table 2 provides an illustration of what cuts of this magnitude would mean for each state. It distributes the reduction in grants other than Medicaid by the percentage of grants (other than Medicaid) that each state is expected to receive in 2008. This analysis does not take into account the distribution by state of the specific program cuts proposed in the budget. It does, nevertheless, provide a reasonable approximation of the amount by which each state might have to reduce services or raise revenues in order to achieve the level of federal deficit reduction the President seeks from cutting grants-in-aid.

Other Impacts of Budget on States

In addition to the loss of federal grants for programs, states would face the loss of significant amounts of revenue as a result of the federal tax changes proposed in the Bush budget. Federal tax changes often affect state revenues, because most states use federal definitions of income, federal depreciation allowances, and other features of the federal tax code as the basis for their own taxation. The 2008 budget includes a number of tax initiatives that could result in the loss of significant amounts of state revenue, including making permanent the expensing for small businesses and doubling the amount that can be expensed, new savings incentives, expanded Health Savings Accounts, and certain incentives for charitable giving, among others.

Future Years

The federal budget only shows the grants-in-aid funding for 2008; it does not provide a five-year projection as is provided in other parts of the budget. Nevertheless, it is reasonable to assume that there would be additional reductions in future years, particularly in discretionary grants. The budget shows that by 2012, overall funding for domestic discretionary programs would be $34 billion, or 7.6 percent, below the level needed to maintain current programs and services.

Grants-in-aid make up about one-third of total discretionary spending, and are likely to get at least their share — if not more — of the proposed cuts.

TABLE 2: ILLUSTRATION OF POTENTIAL LOSS OF GRANTS-IN AID BY STATE GRANTS OTHER THAN MEDICAID IN MILLIONS OF DOLLARS FY 2008 Compared To FY 2006 In President's Budget					
State or Territory	**FY 2008 Percentage of Grants Other than Medicaid**	**Nominal Budget Cut**	**Budget Cut After Adjustment for Inflation**	**Per Capita Budget Cut after Adjustment for Inflation (in dollars)**	**Rank**
All States		**2,446**	**12,724**		
Alabama	1.5%	37.7	196.2	42.7	20
Alaska	0.5%	12.9	67.0	100.0	4
Arizona	1.1%	28.0	145.7	23.6	50
Arkansas	0.7%	18.0	93.5	33.3	38
California	14.0%	341.9	1,778.6	48.8	16
Colorado	1.2%	28.8	149.8	31.5	43
Connecticut	1.2%	29.5	153.3	43.7	18
Delaware	0.2%	6.1	31.7	37.2	31
District of Columbia	0.4%	10.8	56.2	96.7	5
Florida	5.7%	140.5	730.9	40.4	22
Georgia	2.8%	67.3	350.3	37.4	29
Hawaii	0.5%	12.0	62.5	48.6	17
Idaho	0.3%	8.5	44.0	30.0	47
Illinois	4.2%	101.8	529.7	41.3	21
Indiana	1.5%	37.1	192.8	30.5	46
Iowa	0.8%	19.1	99.2	33.3	39
Kansas	0.8%	19.0	98.7	35.7	34
Kentucky	1.3%	32.4	168.4	40.0	23
Louisiana	3.7%	91.2	474.3	110.6	3
Maine	0.6%	15.3	79.6	60.2	10
Maryland	1.5%	36.4	189.2	33.7	37
Massachusetts	1.9%	45.4	236.2	36.7	32
Michigan	3.2%	77.7	404.2	40.0	24
Minnesota	1.2%	28.8	150.0	29.0	48
Mississippi	2.5%	62.4	324.4	111.5	2
Missouri	1.4%	35.0	181.9	31.1	45
Montana	0.5%	11.3	58.9	62.4	8
Nebraska	0.6%	14.8	77.1	43.6	19
Nevada	0.7%	16.5	85.8	34.4	35
New Hampshire	0.3%	8.1	42.3	32.2	42
New Jersey	2.6%	64.1	333.5	38.2	25
New Mexico	1.0%	24.3	126.4	64.7	7
New York	8.6%	209.5	1,089.9	56.5	12
North Carolina	1.5%	35.5	184.7	20.9	51
North Dakota	0.3%	6.7	34.9	54.9	14
Ohio	3.3%	80.0	416.3	36.3	33
Oklahoma	0.9%	21.6	112.4	31.4	44
Oregon	1.0%	23.6	122.8	33.2	40
Pennsylvania	3.7%	91.1	474.0	38.1	26
Rhode Island	0.5%	11.6	60.6	56.7	11
South Carolina	1.3%	30.9	160.9	37.2	30
South Dakota	0.4%	9.7	50.6	64.7	6
Tennessee	1.8%	44.1	229.6	38.0	27
Texas	6.3%	154.5	803.7	34.2	36
Utah	1.2%	30.2	157.3	61.7	9
Vermont	0.3%	6.6	34.4	55.1	13
Virginia	1.5%	35.7	185.7	24.3	49
Washington	1.9%	46.3	240.9	37.7	28
West Virginia	0.8%	18.4	95.6	52.6	15
Wisconsin	1.4%	35.2	183.0	32.9	41
Wyoming	1.0%	23.9	124.2	241.1	1

Notes: Percentage of grants per state from Analytic Perspectives, Tables 8-6 and 8-16 (Use FY 2008 estimated)
Analysis is illustrative of cuts states would experience if the amount of grant reductions in the budget were distributed over all non-Medicaid grants.
Per Capita cut uses Census data on estimated state population for July 1, 2006