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PRESIDENT'S CLAIM OF NINE PERCENT INCREASE IN AID TO STATES IS HIGHLY MISLEADING

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President Bush this week countered criticism that he is not helping the states with their fiscal crises by pointing to increases in grants-in-aid to state and local governments that are included in his fiscal year 2004 budget. He stated on February 24 that his budget provides a nine percent increase in these grants. "One of the interesting things about the '04 budget I've submitted is that there's \$400 billion worth of grants to states. That's a 9 percent increase," the President said.¹

This claim of nine percent increase is, however, highly misleading.

- The numbers in the President's budget show that funding for grants to state and local governments would increase by less than one-third of that amount — or 2.9 percent — between fiscal years 2003 and 2004.
- Moreover, the 2.9 percent figure does not take inflation into account and is skewed upward by the inclusion of Medicaid. To track whether changes in federal funding for states are responding to state and local needs during the economic downturn and the resulting state fiscal crises, the changes in federal Medicaid funding need to be set to the side. Increases in both federal and state funding for Medicaid primarily reflect the rapid increases in health care costs that are affecting the private and public sectors alike, not expansions in who is eligible for Medicaid or in the health services that Medicaid covers.
- Under the President's budget, grants to state and local governments for all programs other than Medicaid would *decline* by 2.8 percent, after adjusting for inflation.

The President also stated that the nine percent increase in grants-in-aid to state and local governments exceeds the four percent overall increase in his budget for spending for discretionary (or annually appropriated) programs.² This statement, as well, is misleading. Under the President's budget, grants provided to state and local governments through discretionary programs would *decline by 0.6 percent* between 2003 and 2004, after adjusting for inflation. The President's two statements are examined below.

¹ Address to the Governors, February 24, 2003, available at <http://www.whitehouse.gov/news/releases/2003/02/20030224-1.html>.

² The President said: "Of the 4 percent increase in discretionary spending, \$400 billion, or a 9 percent increase, goes directly to the states. That's a bigger increase than 4 percent, I guess is the point I'm trying to make to you."

The Nine Percent Increase

Regarding the President's claim of a nine percent increase in grants to state and local governments:

- The numbers printed in the President's budget show that funding for all grants to state and local governments (including Medicaid) would increase by 2.9 percent between fiscal years 2003 and 2004.³ This 2.9 percent figure needs two adjustments. First, for technical reasons, the printed numbers need to be adjusted to provide a more accurate reflection of the President's proposals, and doing so raises the funding increase from 2003 to 2004 to 4.5 percent. (For an explanation of the technical adjustments, see the note under Table 2 on page 4.) The 4.5 percent increase, however, does not take inflation into account. After adjustment for inflation, funding for total grants to state and local governments would rise by 2.8 percent from 2003 to 2004.
- Many analysts believe that in tracking changes in these grants from year to year, adjustment also should be made for population growth. Many grant programs need to keep pace with population growth, as well as inflation, if service levels are to be maintained; for example, if education grants do not grow along with the number of students, per-pupil assistance will drop. Funding for grants to state and local governments would rise by 1.9 percent between 2003 and 2004 under the President's budget, after adjustment is made for both inflation *and* population growth. (See Table 1.)
- Yet even these figures are artificially high. They are pushed up by a substantial increase in federal Medicaid funding to states, which primarily reflects the current high rate of inflation in health-care costs in the public and private sectors alike. Federal grants to state and local governments other than Medicaid would *decline* by 2.8 percent between 2003 and 2004, after adjusting for inflation, and by 3.7 percent after adjusting for both inflation and population growth. (See Table 2.)

In short, far from helping states balance their budgets, the President is proposing to *reduce* the average purchasing power of aid that states and localities receive for purposes other than Medicaid.

Would Grants to States Do Better Than the Rest of the Budget?

The President's remark that under his budget, state and local governments would receive a bigger funding increase (nine percent) than the increase he is proposing for discretionary programs overall (four percent) also is misleading. As just noted, the President's 2004 budget does not include anything close to a 9 percent increase in grants to state and local governments. The nine percent figure that the President cited turns out to represent something else — the average annual rate of growth between *fiscal year 2000* and *fiscal year 2004* in total grants to

³ Office of Management and Budget, *Analytical Perspectives, United States Budget, Fiscal Year 2004*, February 2003, Table 10-3

state and local governments, including Medicaid.⁴ This rate of increase reflects, among other things, the increase between fiscal year 2000 and fiscal year 2001, which was the final Clinton budget year. (The first Bush budget was the FY 2002 budget.) This nine percent average rate of growth between 2000 and 2004 is not especially relevant to determining what level of increased assistance is being proposed *now* to help states weather the current fiscal crisis.

Furthermore, the nine-percent average figure for the 2000-2004 period includes both discretionary programs, which are appropriated annually, *and* entitlement programs such as Medicaid. The President compares this nine percent average rate of growth over four years in entitlement and discretionary grants *combined* to the overall four percent increase in his budget just for discretionary programs in 2004. Through this apples-to-oranges comparison, he makes it appear as though his budget treats grants to state and local governments much more favorably than it treats the rest of the budget.

In reality, the President is proposing to treat state and local governments *worse*, not better, than his budget treats programs generally.

- Funding for grants to state and local governments through discretionary programs would grow by only 1.1 percent between 2003 and 2004 under his budget — substantially less than the overall figure of four percent for discretionary programs in general.
- Moreover, after adjusting for inflation, discretionary grants to state and local governments would *decline* by 0.6 percent. These grants are losing purchasing power.⁵ After adjusting for population as well, the decline would be 1.4 percent.
- On the entitlement or “mandatory” side of the budget, federal funding for Medicaid would rise substantially from 2003 to 2004. But other mandatory grants to state and local governments would decline by 8.6 percent from 2003 to 2004, after adjustment for inflation (and by 9.4 percent after adjustment for both inflation and population growth).
- Total discretionary and mandatory grants combined, other than Medicaid, would decline by 2.8 percent after adjusting for inflation, and by 3.7 percent after adjusting for population growth as well.

⁴ In his statement, the President said: “One of the interesting things about the ’04 budget I’ve submitted is that there’s \$400 billion worth of grants to states. That’s a 9 percent increase. And as a matter of fact, the grants to states have been growing by 9 percent since I’ve been President of the United States.” The President’s first use of the 9 percent figure is incorrect. The second use of the 9 percent figure is correct but, as explained above, somewhat misleading.

⁵ Over the past two years, since FY 2002, discretionary grants to state and local governments show an average decline of 5 percent per year, after adjustment for inflation. Comparing 2004 levels with 2002 levels may be more indicative of the actual situation, since the FY 2003 figures shown in the budget the President submitted on February 3 represent the President’s FY 2003 budget *request*, rather than the actual 2003 funding levels included in the recently enacted FY 2003 omnibus appropriations bill. The overall funding level for fiscal year 2003 in the omnibus bill is a little higher than the President’s 2003 budget request. As a result, the decline from 2003 to 2004 in grants to state and local governments may be somewhat greater than is reflected in the text of this analysis.

Table 1			
Grants-In-Aid to State and Local Governments in the FY 2004 Budget, <i>Including Medicaid</i>			
Budget Authority (funding) in billions of dollars			
	FY 2002	FY 2003	FY 2004
Discretionary Funding	\$133.1	\$124.7	\$125.0
Mandatory Funding	<u>244.8</u>	<u>262.1</u>	<u>273.2</u>
Total Funding	377.9	386.8	398.2
Total Funding adjusted for technical anomalies*	377.1	380.1	397.3
In 2003 dollars (i.e., adjusted for inflation)	389.4	386.5	397.3
In 2003 dollars per capita (i.e., adjusted for both inflation and population growth)**	\$1,392	\$1,370	\$1,396
Percent change, after adjusting for inflation		-0.7%	+2.8%
Percent change in real per-capita grants (i.e., after adjusting for both inflation and population growth)		-1.6%	+1.9%

Table 2			
Grants-In-Aid to State and Local Governments in the FY 2004 Budget, <i>excluding Medicaid</i>			
Budget Authority (funding) in billions of dollars			
	FY 2002	FY 2003	FY 2004
Discretionary Funding	\$133.1	\$124.7	\$125.0
Mandatory Funding	<u>97.5</u>	<u>99.5</u>	<u>90.6</u>
Total Funding	230.5	224.1	215.6
Total Funding adjusted for technical anomalies*	229.7	217.4	214.8
In 2003 dollars (i.e., adjusted for inflation)	237.2	221.1	214.8
In 2003 dollars per capita (i.e., adjusted for both inflation and population growth)**	\$848	\$783	\$755
Percent change after adjusting for inflation		-6.8%	-2.8%
Percent change, real per-capita grants (i.e., after adjusting for both inflation and population growth)		-7.7%	-3.7%

* Adjustments were made to exclude disaster relief funding in all years, to reflect funding for highways and mass transit as the level of obligations for those programs rather than the level of "contract authority," to remove distortions that can occur when the level of "advance" appropriations changes from year to year, and to remove the proposed funding for "personal re-employment grants," which the President has proposed for 2003 only. These adjustments make only a small net difference while making the funding increase from 2003 to 2004 appear *larger* than if the adjustments had not been made.

** The dollar figures in these lines are the actual dollar figures, not figures in billions of dollars.