CENTER ON BUDGET AND POLICY PRIORITIES

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May 12, 2004

FEDERAL POLICIES WORSENING STATE FISCAL PROBLEMS

The full report can be viewed at http://www.cbpp.org/5-12-04sfp.htm

A new Center report, *Passing Down the Deficit,* provides state-by-state data on the damage that federal policies are causing state budgets during the state fiscal crisis. In all, states are losing $175 billion over fiscal years 2002-2005, or an average of 8.4 percent of total state general fund budgets, as a result of federal policies. This has deepened the fiscal crisis and forced state and local governments to make much larger spending cuts and tax increases than otherwise would have been necessary.

- **Federal policies impose new costs on states and reduce state revenues.** They include:

  - ✓ *Recent federal tax cuts,* such as changes in the federal estate tax, that are reducing state revenues because of linkages between the federal and state tax codes.

  - ✓ *Federal restrictions on state sales taxing authority.* For example, federal law bars states from taxing the access fees that people pay for Internet service. Also, two Supreme Court rulings prevent state and local governments from collecting sales taxes on most catalog and Internet purchases.

  - ✓ *Unfunded mandates,* or requirements the federal government has placed on state and local governments (such as the No Child Left Behind education law) without adequately funding them.

  - ✓ *The gradual shifting of health care costs for low-income elderly and disabled individuals* from Medicare (which is federally funded) to Medicaid (where states pay nearly half of all costs).

Federal Policies Costing States	
Tax cuts that reduce state revenue	$9 billion
Restrictions on state sales taxes	$65 billion
Unfunded mandates	$73 billion
Shifting of costs from Medicare to Medicaid	$28 billion
TOTAL	**$175 billion**

- **Poorest states are among those hardest hit.** Federal policies have hurt some states much more than others. (The net cost of federal policies ranges from 1.4 percent to 13.3 percent of state general fund budgets. In 11 states — **Florida, Nevada, Missouri, Mississippi, Louisiana, Arkansas, Colorado, South Carolina, Texas, Oklahoma,** and **South Dakota —** the net cost is at least 10 percent of the general fund budget.) Among the hardest hit are many of the poorest states, states that rely heavily on federal grants to fund education and other programs, and states in which sales taxes are the predominant revenue source.

- **Cost of federal policies far outweighs fiscal relief.** The federal government provided states with $20 billion in fiscal relief in 2003. While this helped states avoid some budget cuts and tax increases, it pales in comparison to the $175 billion in costs over the 2002-2005 period that are attributable to federal policies.