



CENTER ON BUDGET AND POLICY PRIORITIES

NEWS RELEASE

FOR IMMEDIATE RELEASE:
Monday, May 12, 2004

CONTACT: Henry Griggs
202-408-1080

FEDERAL POLICIES HARMING STATE BUDGETS New Report Gives State-by-State Data on Cost of Federal Policies

Federal policies that impose new costs on states and restrict state revenues have deepened the state fiscal crisis, a new report from the Center on Budget and Policy Priorities finds. The report is the first to provide state-by-state data on the budgetary damage these policies have caused. In all, added costs and lost revenue total \$175 billion over fiscal years 2002-2005, or an average of 8.4 percent of total state general fund budgets.

As a result, states and localities have been forced to impose much larger spending cuts and tax increases than otherwise would have been necessary to balance their budgets. This extra burden has fallen primarily on low- and middle-income families. Not only do many such families rely on services that are being cut (such as child care and public universities), but most of the recent state tax increases have come in regressive taxes such as sales and excise taxes.

“At the same time the federal government has been passing \$175 billion in costs on to states, it has enacted tax cuts that provide huge benefits to high-income families,” said Iris Lav, co-director of the Center and the report’s lead author. “In essence, low- and middle-income families are paying for the tax cuts for affluent families in the form of higher state taxes and reduced state services.”

Policies Include Unfunded Mandates and Restrictions on State Taxation

The report describes four types of federal policies that are harming states:

- **Recent federal tax cuts.** Some of the federal tax cuts enacted in 2001, 2002, and 2003 are reducing *state* revenues because of linkages between the federal and state tax codes.
- **Federal restrictions on state sales taxing authority.** Federal law bars states from taxing access fees for Internet service. Also, two Supreme Court decisions prevent states and localities from collecting sales taxes on most catalog and Internet purchases.
- **Unfunded mandates.** In areas such as the No Child Left Behind education law, the federal government has imposed new requirements on state and local governments without providing adequate funding.
- **Shifting health care costs.** In recent decades, some of the cost of caring for low-income elderly and disabled people has shifted from Medicare

820 First Street, NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Robert Greenstein
Executive Director

Iris J. Lav
Deputy Director

Board of Directors

David de Ferranti, Chair
The World Bank

John R. Kramer, Vice Chair
Tulane Law School

Henry J. Aaron
Brookings Institution

Ken Apfel
University of Texas

Barbara B. Blum
Columbia University

Marian Wright Edelman
Children's Defense Fund

James O. Gibson
Center for the Study of Social Policy

Beatrix Hamburg, M.D.
Cornell Medical College

Frank Mankiewicz
Hill and Knowlton

Richard P. Nathan
Nelson A Rockefeller Institute of Government

Marion Pines
Johns Hopkins University

Sol Price
Chairman, The Price Company (Retired)

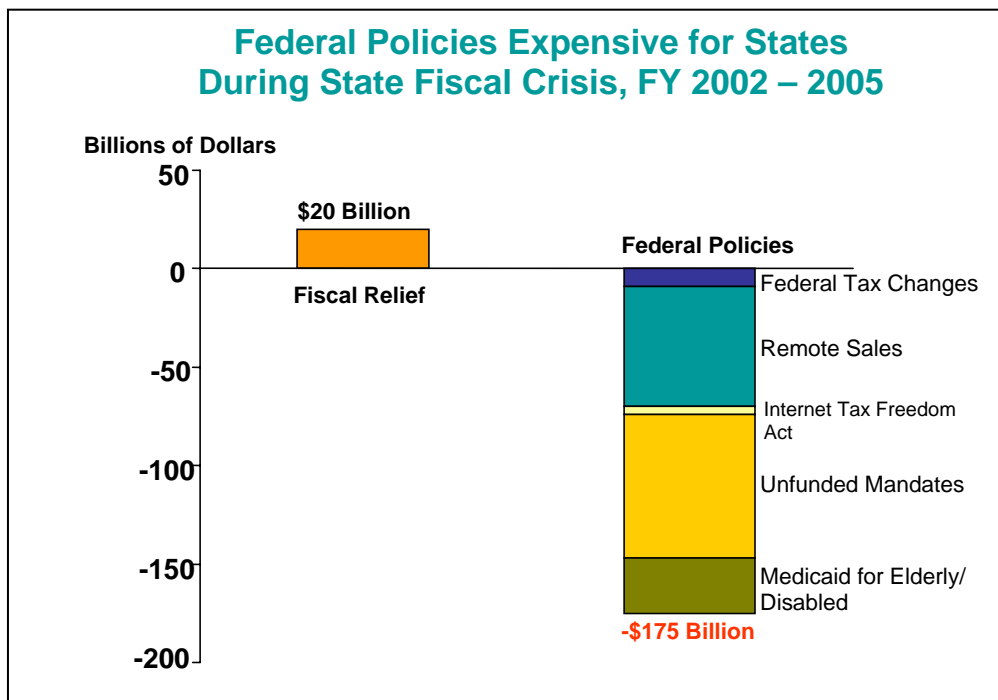
Robert D. Reischauer
Urban Institute

Audrey Rowe
ACS, Inc.

Susan Sechler
German Marshall Fund

Juan Sepulveda, Jr.
*The Common Experience/
San Antonio*

William Julius Wilson
Harvard University



(which is fully federally funded) to Medicaid (where states pay nearly half of all costs) because Medicaid includes prescription drug coverage but Medicare does not. Under the recent Medicare bill, Medicare will begin providing drug coverage to these individuals in 2006, but states are required to return the bulk of their savings to the federal government.

The combined cost of these policies — \$175 billion over fiscal years 2002-2005 — dwarfs the \$20 billion in federal fiscal relief that was enacted in 2003.

Poorest States Among Those Hardest Hit

Federal policies have hurt some states much more than others. (The attached table from the report lists the impact on each state.) 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.

Extending Tax Cuts for Wealthy the Top Priority?

The 2001-2003 tax cuts are scheduled to phase out over the next several years. If they are extended, as the Administration and some in Congress favor, the federal government will face large budget deficits for the foreseeable future. That would effectively prevent Washington from adopting more equitable policies toward the states.

“It comes down to a choice between continuing all of the large tax cuts for high-income households and moderating those tax cuts so the federal government can fix the policies that harm state budgets,” said Lav. “At bottom, this is a question of which is the higher national priority.”

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

**Total Costs and Net Costs of Federal Policies
In Millions of Dollars**

	Total Costs	% of Budget	Net Costs	% of Budget
Florida	\$12,177	14.4%	\$11,229	13.3%
Nevada	1,207	13.8%	1,102	12.6%
Missouri	3,721	13.4%	3,345	12.0%
Mississippi	1,835	13.2%	1,625	11.7%
Louisiana	3,058	11.6%	2,749	10.4%
Arkansas	1,634	11.6%	1,458	10.4%
Colorado	2,568	11.4%	2,329	10.3%
South Carolina	2,300	11.4%	2,044	10.1%
Texas	13,345	11.2%	12,067	10.1%
Oklahoma	2,122	11.2%	1,904	10.0%
South Dakota	433	12.0%	361	10.0%
Wyoming	353	12.1%	286	9.8%
Alabama	2,391	10.7%	2,126	9.5%
Vermont	413	11.6%	330	9.2%
Tennessee	3,426	10.4%	3,003	9.1%
North Dakota	390	11.0%	318	9.0%
West Virginia	1,190	9.9%	1,065	8.9%
Kansas	1,693	9.6%	1,539	8.8%
Arizona	2,569	9.9%	2,224	8.6%
Nebraska	955	9.0%	847	8.0%
Kentucky	2,546	8.8%	2,270	7.9%
New Hampshire	480	9.5%	396	7.8%
New York	14,827	9.1%	12,663	7.8%
New Mexico	1,433	8.5%	1,297	7.7%
Washington	3,810	8.3%	3,409	7.4%
Georgia	4,997	8.1%	4,479	7.3%
Utah	1,148	7.9%	1,031	7.0%
Michigan	6,200	7.7%	5,545	6.9%
California	23,426	7.6%	20,987	6.8%
Illinois	6,890	7.5%	6,120	6.7%
North Carolina	4,416	7.6%	3,864	6.7%
Idaho	599	7.5%	514	6.4%
Indiana	3,093	7.2%	2,718	6.3%
Pennsylvania	6,228	7.3%	5,328	6.3%
Maine	764	7.3%	649	6.2%
Virginia	3,290	6.6%	2,875	5.8%
Iowa	1,222	6.6%	1,037	5.6%
Ohio	5,767	6.2%	4,996	5.4%
Oregon	1,284	6.5%	1,068	5.4%
Wisconsin	2,738	6.1%	2,385	5.3%
Maryland	2,539	5.9%	2,206	5.2%
Rhode Island	665	6.0%	564	5.1%
Hawaii	849	5.5%	768	5.0%
Minnesota	3,048	5.6%	2,686	4.9%
Montana	323	6.2%	250	4.8%
New Jersey	4,720	5.0%	4,159	4.4%
Connecticut	2,352	4.8%	2,102	4.2%
Delaware	441	4.3%	367	3.5%
Massachusetts	3,780	4.1%	3,231	3.5%
DC	597	3.9%	504	3.3%
Alaska	206	2.2%	129	1.4%
Territories and Unallocated Funds	3,019	N/A	3,008	N/A
U.S.	\$175,479	8.4%	\$155,386	7.4%