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HOUSE GOP LEADERS' PLAN WOULD SLASH FUNDS FOR STATE AND LOCAL SERVICES, SLOW ECONOMIC RECOVERY

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Summary

A proposal by House Republican leaders to cut non-security discretionary spending by more than 20 percent in fiscal year 2011 could reduce federal funding for programs operated by state and local governments by $32 billion, substantially reducing the ability of those governments to provide crucial services to millions of Americans. (See page 6 for state-by-state estimates of the potential reductions.) Such a cut would prove harmful at any time, but this would be an extremely ill-advised time to take such a drastic step. Adding $32 billion to the unprecedented budget shortfalls that states already face, and doing so just as fiscal relief for states and localities under the 2009 Recovery Act is expiring, would damage the already weak economic recovery by forcing states and localities to lay off more workers and make even deeper cuts in education, job training, public health, child care, law enforcement, and other services.

The proposal, which House GOP leaders featured in their "Pledge to America" campaign document and have since said they plan to pursue, would provide $105 billion, or 21.7 percent, less for all non-security discretionary programs than the $483 billion President Obama proposed in his 2011 budget and $101 billion, or 21.1 percent, less than what was provided for those programs in 2010, adjusted for inflation.[1] Although House GOP leaders say the funding available under their plan would be the same as Congress provided for non-security programs in fiscal year 2008, it actually would fall short of that level by more than $8 billion.[2]

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[1] These calculations are based on the Congressional Budget Office's estimate of the President's 2011 budget request and CBO's August 2010 baseline projections of discretionary spending. Funding for emergencies and military activities in Iraq and Afghanistan is excluded, and the President's request and the 2011 baseline projection are adjusted to include funding for the Pell Grant basic award at the 2010 level.

[2] Republican leaders propose to limit total discretionary funding for fiscal year 2011 (excluding funding for military activities in Iraq and Afghanistan and any emergency needs) to $1.029 trillion. As outlined originally by soon-to-be Speaker of the House, John Boehner, security programs (those within the jurisdiction of the appropriations subcommittees on Defense; Military Construction, Veterans Affairs, and Related Agencies; and Homeland Security) would be funded at the levels President Obama requested in his 2011 budget. Boehner pointed out that the amount remaining under the plan for non-security programs in 2011 would be the same as the estimated cost of the non-security appropriations bills enacted for 2008 (excluding the cost of emergency appropriations), but the Boehner estimates included $8.4 billion in *savings* from *mandatory* programs that resulted from provisions included in those appropriation bills. Actual 2008 funding for discretionary programs was $8.4 billion higher than the estimated total cost of those bills,

To be sure, the proposal does not force Congress to cut all non-security programs by the same percentage; in fact, lawmakers could exempt some programs from cuts altogether while eliminating others. Having said that, lawmakers would be hard-pressed to implement this proposal without cutting deeply into grants in aid for state and local governments. Those grants represent roughly a third of all non-security discretionary funding. To fully protect this state and local aid, lawmakers would have to cut the funding available for *all* other non-security programs by nearly a third. Moreover, many of those other programs, such as National Institutes for Health biomedical research and Federal Bureau of Investigation law enforcement activities, are very politically popular and, thus, would be very hard to cut by even 21.7 percent. (The more that lawmakers protect such programs as those from cuts, the more pressure they would face to cut state and local grants.)

If lawmakers were to cut appropriations for state and local governments by 21.7 percent (that is, if lawmakers reduce those appropriations in proportion to the overall reduction that would be required for non-security programs), those appropriations would be $31.6 billion below what President Obama proposed for 2011. Moreover, House GOP leaders have not specified whether they would include transportation programs in the category of programs subject to the reduction.[3] If obligations for those programs faced the same 21.7 percent reduction, that would mean an *additional* $11 billion in cuts for state and local government activities related to highways, mass transit, and airports. If Congress merely limited transportation obligations for 2011 to what was allowed in 2008, the reduction would be less than $1 billion.

These cuts would come as states and localities are facing their largest deficits in recent history, and as their actions to lay off workers and eliminate and reduce contractor and vendor payments are serving as a drag on the economic recovery.

- If Congress cut federal funding for each state- and local-run program by 21.7 percent in 2011, K-12 education would be cut by $8.7 billion, housing programs by $6.9 billion, children and family services by nearly $2.2 billion, and the nutrition program for at-risk pregnant women, infants, and young children (WIC) by $1.6 billion, to name just a few examples.

- The cuts that Congress would make would add to already-unprecedented state deficits. By the time that state fiscal year 2011 is over (on June 30, 2011 in most states), 46 states are expected to have taken steps to close $101 billion in deficits for that year — equal to nearly 16 percent of their budgets. At least 39 states already project deficits for their fiscal year 2012; total deficits will likely reach $134 billion — higher than the deficits states faced in 2010 or 2011, because federal fiscal relief to help close budget shortfalls will largely end after state fiscal year 2011.

- Some 46 states have balanced their budgets during this fiscal crisis by cutting funds for education, health programs, and/or services for vulnerable populations. In addition, state and local government employment has dropped by more than 400,000 jobs since mid-2008, and a

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a point Boehner's comment overlooked. See James R. Horney and Robert Greenstein, *Boehner Proposal Would Cut Non-Security Discretionary Programs 21 Percent, the Deepest Such Cut in Recent U.S. History*, Center on Budget and Policy Priorities, revised September 15, 2010.

[3] The dollar limit on funding specified in the House Republican proposal applies to discretionary budget authority. The major transportation programs are discretionary, but the funding for those programs is not counted as discretionary budget authority. If the intention is to cut all non-security discretionary spending, however, transportation spending could be subject to a cut as well.

survey by the National League of Cities and the National Association of Counties found that local governments alone plan to lay off another 500,000 workers in 2011. These layoffs raise the unemployment rate, and they reduce economic growth as laid-off workers cut back on their purchases. Moreover, these figures count only direct layoffs — not the further negative economic impact when states cancel contracts and cancel or delay payments to vendors, which further boosts unemployment. The tax increases that states have enacted to help close their budget gaps also reduce economic activity.

- The additional cuts likely to occur under the House GOP leaders' plan would come just as the fiscal relief that has enabled states and localities to avert even greater cuts and layoffs is expiring and would deepen the cuts that states and localities will have to make.

- Such state and local actions are reducing national economic growth, and the GOP leaders' plan would exacerbate that problem. Economists estimate that state and local actions are reducing growth in the gross domestic product (GDP) by one-half to three-quarters of a percentage point.

Federal Funding for State and Local Programs

Many non-security discretionary programs are administered or operated by states or localities, an arrangement that generally is considered more efficient than direct federal administration. Grants to state and local governments for these programs make up about one-third of the total funding for non-security discretionary programs, a part of the budget that the House GOP proposal would cut by 21.7 percent. As a result, it is virtually certain that these programs would be heavily affected.

Grants to states and localities help support a range of services and initiatives on which people depend, including education, environmental protection and conservation, economic development programs, various types of housing assistance for low- and moderate-income families, job training programs and employment services, public health services, nutrition assistance for at-risk low-income pregnant women and young children, low-income energy assistance, child care assistance, law enforcement programs, and others.

In addition to grants for the types of programs noted above, President Obama's budget proposed $54 billion in federal fiscal year 2011 funding for state and local grants for highways, mass transit, and airports. It is unclear whether these grants would be subject to cuts under the proposal. The level of spending for these programs is set in annual appropriation bills, as with other discretionary programs, and the outlays are recorded as discretionary spending. But, the funding for these programs is *not* counted as discretionary budget authority, which is what the limit specified by the proposal applies to. If the proposal is intended to reduce all non-security discretionary *spending*, however, these programs could also be subject to cuts.

Table 1

Cuts in Federal Fiscal Year Non-Security Discretionary Funding Required Under the House GOP Leaders' Proposal (in billions of dollars)

Subcommittees	President's Budget Request for 2011*	House GOP Proposal**	Required Cut
Defense	$530.9	$530.9	$0
Military construction/veterans	$76.0	$76.0	$0
Homeland Security	$43.6	$43.6	$0
Subtotal	$650.5	$650.5	$0
Non-Security	$483.2	$378.5	$-104.8
Total	**$1,133.8**	**$1,029.0**	**$-104.8**

Excludes funding designated as emergency funding or for Overseas Contingency Operations (Iraq and Afghanistan)
* CBO March 2010 reestimate, adjusted for basic Pell Grant award at same level as in 2010
** Total is from Boehner materials. Security funding is from CBO's reestimate of the President's 2011 budget request.

Reductions in Funding

The House GOP leaders' proposal would sharply reduce funding for non-security discretionary programs. It does this by limiting total discretionary budget authority for federal fiscal year 2011 (the fiscal year that began on October 1) to $1.029 trillion while assuming that overall funding for programs funded by the defense, homeland security, and military construction and veterans appropriation bills will be provided at the same level as President Obama proposed in his 2011 budget. This would limit the funding available for all other discretionary programs to $378.5 billion, requiring a 21.7 percent cut below the $483.2 billion that the President's budget requests for those programs.[4] (See Table 1.)

The $483.2 billion in "non-security" discretionary funding the President's budget seeks includes $139.5 billion in funding to support state and local programs (other than major transportation programs). If these programs absorb a 21.7 percent cut, their funding in federal fiscal year 2011 would be reduced by $31.6 billion. Table 2 shows the potential state-by-state reduction in funding for these programs.

As noted above, the President's budget also would make available $54.4 billion in funding to states and localities for transportation projects. If this funding, as well, is subject to a 21.7 percent cut, state and localities could lose another $11.8 billion on top of the aforementioned $31.6 billion loss. If, however, funding available for transportation programs in 2011 is limited to what was made available in 2008, the cut would be less than $1 billion.

[4] See Horney and Greenstein. The Horney-Greenstein report compares funding levels under the House GOP leaders' proposal to those in the CBO baseline, while this report focuses primarily on the cuts relative to the President's budget. The numbers and percentage cuts thus differ slightly between the two reports.

Adding to State and Local Deficits

States have faced an extremely difficult situation during this recession and its aftermath. Revenues have declined sharply. In addition, enrollment increases in programs such as Medicaid — as residents have lost jobs and income and newly qualified for these programs — have driven up costs. States have had to balance their operating budgets even as their revenues have fallen and their citizens' needs have grown.

Even after using Recovery Act funds to help narrow deficits, states had to close budget gaps of $124 billion in state fiscal year 2010 (which ended on June 30, 2010 in most states). They are projected to have closed $101 billion in budget gaps in state fiscal year 2011 by the time that the fiscal year ends. Yet states' problems are far from over; deficits are projected to climb still higher, to $134 billion, in fiscal year 2012. The 2012 deficits are expected to be larger than those in 2010 and 2011 because federal fiscal relief will have run out, while the economy — and state revenue collections — remain very weak.

Local governments, as well, increasingly are coping with sizeable deficits. Property tax collections — the major revenue source for local governments — generally adjust to changes in housing values with a two-year lag, so local governments have only recently begun to feel the full effect of declining property tax revenues. In addition, those local governments that also rely on sales taxes have faced continued shortfalls resulting from weak consumer expenditures. Although no good figures exist for total local government deficits, those deficits are expected to be very large this year and next.

The House GOP leaders' proposal would further enlarge these deficits at both state and local levels.

A Drag on the Economy

In the past few years, states have instituted deep budget cuts and some tax increases to help close their budget deficits. At least 46 states plus the District of Columbia have reduced programs and services since 2008, with 31 states cutting health programs, 29 states cutting services to the elderly and disabled, 33 states cutting K-12 education, and 43 states cutting higher education.[5] In addition to these program cuts, state and local government employment dropped by more than 400,000 jobs since mid-2008, and a survey by the National League of Cities and National Association of Counties finds that local governments alone plan to lay off 500,000 workers in 2011.

When states and localities cut expenditures, lay off employees, cancel contracts with vendors, eliminate or lower payments to businesses and nonprofit organizations that provide direct services, and cut benefit payments to individuals, it slows the already-weak economy. In all of these circumstances, the companies and organizations that would have received government payments have less money to spend on salaries and supplies, and individuals who would have received salaries

[5] Nicholas Johnson, Phil Oliff, and Erica Williams, *An Update on State Budget Cuts*, Center on Budget and Policy Priorities, updated August 4, 2010.

Table 2			
Cuts in Funding for State and Local Programs Under the House GOP Leaders' Proposal in Federal Fiscal Year 2011, If These Cuts are Proportional to Those Required of Non-Security Programs Overall (in millions of dollars)			
State	**Cut in Discretionary Funding**	**State**	**Cut in Discretionary Funding**
Alabama	$581	Montana	$141
Alaska	$151	Nebraska	$179
Arizona	$913	Nevada	$178
Arkansas	$329	New Hampshire	$115
California	$3,610	New Jersey	$788
Colorado	$427	New Mexico	$270
Connecticut	$314	New York	$2,574
Delaware	$92	North Carolina	$853
District of Columbia	$152	North Dakota	$103
Florida	$1,652	Ohio	$1,213
Georgia	$992	Oklahoma	$382
Hawaii	$130	Oregon	$355
Idaho	$162	Pennsylvania	$1,299
Illinois	$1,379	Rhode Island	$145
Indiana	$600	South Carolina	$453
Iowa	$355	South Dakota	$121
Kansas	$269	Tennessee	$628
Kentucky	$507	Texas	$2,377
Louisiana	$581	Utah	$249
Maine	$151	Vermont	$86
Maryland	$481	Virginia	$633
Massachusetts	$645	Washington	$548
Michigan	$1,106	West Virginia	$254
Minnesota	$483	Wisconsin	$487
Mississippi	$432	Wyoming	$115
Missouri	$592	**U.S. Total**	**$31,630**

Source: The cuts in funding are calculated as described in the text. The distribution of cuts among the states is based on states' proportional share of grants, based on data in Federal Funds Information for States.

or benefits have less money for their own purchases. This directly removes aggregate demand from the economy.

Tax increases remove demand from the economy as well, by reducing the amount of money that people have to spend. (To the extent that tax increases affect higher-income taxpayers, the economic impact is smaller, because much of the increase in tax payments comes from money that otherwise would have been saved rather than spent. To the extent that is the case, such tax increases do not diminish economic activity in the short run while the economy is weak.)

As federal fiscal relief to the states expires, state budget cuts will grow larger, and the drag on the economy will increase. Loss of an additional $30 to $40 billion in federal funding for programs that state and local governments operate would further increase that drag, resulting in more job losses and further impeding economic recovery.

A number of economists have pointed out the significant drag that state and local actions to close deficits are placing on the economy. Mark Zandi of Moody's Economy.com has estimated that the drag is reducing GDP growth by one-half of one percent.[6] Goldman Sachs has suggested the downward effect on economic growth is as much as three-quarters of one percent.[7]

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[6] Communication with author.

[7] U.S. Daily, July 21, 2010.