

**AS THE PRESIDENT AND CONGRESS
LOOK TO REDUCE FEDERAL SPENDING,
WHAT DOES THAT MEAN FOR STATES?**

“It might mean that we have even more budget problems than we have now. It’s probably not a good sign for states.”



—KANSAS SENATE
PRESIDENT STEPHEN MORRIS

“How they’re going to make the hard decisions without rolling it down onto the states is always a worry. When we start hearing about block grants and other lexicon of that sort it usually means that something bad is coming down to the state level.”



—RHODE ISLAND HOUSE
SPEAKER GORDON FOX

“I hope it means we will have less burden passed on to the states from the federal government. We’ve seen a lot of pressure on our state budgets from programs like Medicaid. I hope the federal government will take seriously the need to re-examine and reduce spending.”



—FLORIDA HOUSE SPEAKER
DEAN CANNON

“It could actually present some very significant challenges for us. They’re proposing to cut heating assistance for low- and middle-income people and community development block grants. If we’re not given enough time, we’re not going to be able to deliver those services to people in need.”



—VERMONT HOUSE
SPEAKER SHAP SMITH

WHAT IT MEANS FOR STATES

The President’s Budget



BY MICHAEL BIRD

Valentine’s Day opened the federal budget season with President Obama releasing his 2,402 page, 8-pound, \$3.7 trillion FY 2012 budget book.

Reaction has varied based on political perspective, and it’s an annual ritual for many to label any president’s budget as “dead on or before arrival.” That has predictably happened this year. The proposal, however, like its predecessors, does become a focal point for congressional deliberations, spending tugs of war and resolution of differences that already are well underway.

More important to state lawmakers, it sends several messages that might be lost in the usual partisan jockeying. Here are some of the most important aspects of the president’s budget for those concerned about state-federal relations.

Discretionary spending. Domestic discretionary non-security spending, home to a world of state-federal programs, would be frozen for five years under the president’s proposal. This mirrors recommendations from some deficit

reduction study groups, but House Republicans will likely view it as a minimum down payment for curbing the federal government’s spending appetite.

Reductions. The president wants to eliminate or reduce spending on more than 200 programs. That will be just the starting point for Congress as it attempts to exceed the president’s target in its own budget resolution and appropriation bills. Several popular state-federal programs are on the “reduction” list. These include the Clean Water and Drinking Water State Revolving Funds, the Low Income Home Energy Assistance Program, the State Criminal Alien Assistance Program and several block grants. Even with these reductions, the president proposes giving states flat funding when compared to FY 2010 and FY 2011.

Competition. Competitive grants are emphasized throughout the budget, particularly for education, labor and transportation programs. These grants take a page from the approach the administration used in its Race to the Top program, under which states applied for competitive grants to help spur education reform. The budget suggests competitive challenges for states in the areas of workforce innovation, early learning,

Michael Bird tracks state-federal issues for NCSL.

improving college access and transportation. These will play to mixed reviews and an uncertain fate in congressional deliberations.

Block grants. The president's budget offers up a "win some, lose some" scenario for state lawmakers. The losers: The Preventive Health Block Grant, which is eliminated along with sizeable reductions in Community Services Block Grant, Community Development Block Grant, and Substance Abuse Block Grants. Faring better are the Temporary Assistance for Needy Families, Child Care and Development, and Social Services block grants.

Investments. The president kept his State of the Union pledge to combine spending cuts with a flurry of key recommended "investments." Notable on the list are high-speed rail, wireless Internet and broadband, energy and health information technology. His wireless Internet initiative would make spectrum for state and local public safety use a priority. Education, technology, research and development, and transportation are areas where the president wants to increase spending. Beyond these, the vestiges of state fiscal assistance from the American Recovery and Reinvestment Act are history. One exception would be the president's recommendation to give states two additional waiver years for repaying interest on money they borrowed from the unemployment insurance program.

Entitlements. The entitlement and mandatory programs are pretty much on automatic pilot, promising states nearly a 7 percent boost to cover the costs of such programs as Medicaid and Food Stamp administration, foster care and adoption assistance, and child nutrition. There are numerous tweaks to both the Medicaid and Medicare programs. The most notable of these would phase down the state Medicaid provider tax threshold over three years starting in 2015. Perhaps the biggest spending battles in 2011 will be over how to rein in future costs for Medicaid, Medicare and Social Security. While the president's budget does not map a distinct path on how to curtail these costs, he and congressional leaders have acknowledged they must tackle this budget challenge to shrink annual deficits and manage the national debt.

Deficit reduction. The president's budget purports to reduce deficits by \$1.1 trillion over 10 years. The budget adopts recommendations made by several deficit reduction studies, including the President's National Commission on Fiscal Responsibility and Reform. These include a three-year federal civilian pay freeze, a call for corporate income tax reform, the previously mentioned domestic discretionary spending freeze, pre-emption of state medical malpractice and tort reform laws, stabilization of the Pension Benefit Guaranty Corporation, and a 2-to-1 mix of spending cuts and revenue increases. ■■■