



HOUSE COMMITTEE ON THE BUDGET

Chairman John Yarmuth

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Strengthening the Federal-State-Local Government Partnership

State and local governments are often referred to as “laboratories of democracy.” In many cases, they have been on the forefront of major policy innovation, breaking new ground in areas from health care to infrastructure to education. But the reality is that many of these great advancements would not be possible without support from the federal government. “From public parks to public libraries, renewing a driver's license or driving kids to school, every day millions of Americans interact with institutions and infrastructure made possible with the help of federal investments,” Chairman John Yarmuth said at a hearing earlier this month.

During the [hearing](#), “Why Federal Investments Matter: Stability from Congress to State Capitals,” the House Budget Committee heard testimony from expert witnesses on the critical role that federal investments play in supporting communities across the country. Committee members and witnesses also discussed how the federal government can be a better and more reliable partner to state and local governments and the Americans they serve.

States and Localities Provide Crucial Public Services and Power the Economy

“It's the kind of things that people don't necessarily think about government doing, but they want government to ensure that it's there.” — Mark Poloncarz, County Executive of Erie County, New York, provided examples of the often-unnoticed ways that state and local governments touch the lives of his constituents. From Main Street improvements to clean water initiatives to large affordable housing projects, state and local governments help ensure the health and well-being of each resident, even if that work often happens behind-the-scenes.

“State and local governments spend about two-thirds of their budgets on health care and education.” — Drawing on her research, Dr. Tracy Gordon, Senior Fellow at the Urban-Brookings Tax Policy Center, explained recent trends in state and local government spending on public services. States and localities deliver nearly all public elementary and secondary education and are responsible for funding more than 90 percent of it. States split health care costs with the federal government through Medicaid, but states implement the program and tailor it to meet the needs of their residents. Other federally-funded programs that help people meet their basic human needs are also administered by states and localities, such as the Supplemental Nutrition Assistance Program (SNAP), unemployment insurance, public housing, and Temporary Assistance for Needy Families (TANF).

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In addition to their role as service providers, Dr. Gordon discussed how state governments are economic engines: “[**State governments**] **employ one out of every seven workers, more than any other industry including manufacturing, retail, health care and the federal government by a factor of seven to one.**” She noted that state and local governments spend \$3 trillion per year and have contributed an average of 0.3 percentage points to real annual GDP growth since World War II.

States and Localities Do Not Do It Alone – Federal Investments Are Critical

States and localities rely heavily on the federal government to help support the programs outlined above – and hundreds of others. In fact, [one out of every six](#) federal dollars spent each year are directed to state and local governments for this purpose. In many cases, states and localities would not be able to provide these services without federal support. Representative Seth Moulton, Vice Chair of the Budget Committee, noted that this applies to places across the political spectrum: “**Every member here, on both sides of the aisle, represents communities that count on federal dollars.**”

[Most federal funding for states](#) is for Medicaid, and the share has risen recently as more states have expanded their programs under the Affordable Care Act (ACA). Dr. Jeanne Lambrew, Commissioner of the Department of Health and Human Services for the State of Maine, shared some initial findings from her state’s recent implementation of the Medicaid expansion.

“**[Medicaid expansion] is essential to our fiscal as well as our public health.**” — Commissioner Lambrew estimated that Maine would receive approximately \$700 million in federal funding to support the Medicaid expansion over the 2020-2021 period, a sizeable chunk of the state’s health budget. In addition, Commissioner Lambrew noted that Maine hospitals have experienced declines in uncompensated care because more people are enrolled in Medicaid, which could lead to lower health insurance premiums for all citizens in the state.

Commissioner Lambrew also highlighted some of the ways that Medicaid expansion has affected the health of the 57,000 Mainers who have enrolled since expansion began less than two years ago. One out of ten expansion enrollees received treatment for opioid use disorder; 16,000 people received mental health treatment; and 3,100 received cancer screening.

“**More people would have died without the significant financial assistance received from the federal government**” — Mr. Poloncarz described Erie County’s response to the opioid epidemic and underscored how critical federal dollars were to the success of that effort. For example, the City of Buffalo recently created a specialized opioid court which includes immediate linkage to treatment and daily visits with the judge or treatment team. This first-of-its-kind project would not have been possible without grants from the U.S. Departments of Justice and Health and Human Services, according to Mr. Poloncarz. “[Today] I’m proud to say that our overdoses are down, our deaths are substantially down, there’s more people in treatment and less people are

becoming addicted in the first place...And a lot of the assistance that we receive from the federal government has made the difference.”

“We'd not be able to do it without coming up with some other revenue source to pay for it or cutting the other services that exist.” — In addition to opioid funding, Mr. Poloncarz emphasized the importance of federal investments in infrastructure. Due to harsh winters in upstate New York, Erie County’s more than 2,400 lane miles of roads require more maintenance and need replacement more frequently than roads in other regions. Erie County relies heavily on federal transportation grants to ensure roads are safe and well-maintained.

Federal Aid to States Matters Even More During Economic Downturns

During a recession, state and local governments are often hit hard by declining revenues – and may need to lean on the federal government even more. In her testimony, Dr. Gordon explained why this is the case:

“States in particular tend to rely on procyclical revenues, ones that rise and fall with the economy. But state spending is countercyclical, meaning that it generally rises in a downturn because of greater demands for public programs, especially those targeted to the low income and unemployed. This mismatch creates problems for state and local elected officials who must generally balance their budget each year. It also poses problems for the larger economy because tax increases and spending cuts undertaken to close projected budget gaps can undermine a national economic recovery.”

For these reasons, the federal government often steps in to help states fill budget gaps during economic downturns – to be the “umbrella on a rainy day,” as Representative Sheila Jackson Lee put it. Because the federal government can run budget deficits, Dr. Gordon noted that it is better positioned to absorb shocks, whether from natural disasters or economic uncertainty. However, witnesses suggested that Congress consider strengthening federal support for states during downturns.

“Federal grants are often not as responsive as they could be to economic shocks or recessions” — Dr. Gordon recommended that policymakers look to tools included in the American Recovery and Reinvestment Act (ARRA) of 2009, such as allocating more money to places experiencing high unemployment. Medicaid is an “economic shock absorber,” according to Dr. Gordon, but increasing the federal share of Medicaid spending during downturns would make it an even stronger anti-recessionary tool. Commissioner Lambrew agreed in her written testimony: “Evidence is clear that the Medicaid matching rate increase in 2010 [in ARRA] helped – and should be made permanent, automatic, and ready-to go policy.”

President Trump’s Budget Cuts Would Be Disastrous for States and Localities

Instead of strengthening these critical federal investments, the Trump Administration’s three previous budgets have included [massive cuts to states and localities](#). Witnesses described the devastating impact these reductions would have had on their communities if Congress had enacted them.

“Should the [Community Development Block Grant] program be eliminated as the Trump administration has repeatedly proposed, all areas of our county – urban, suburban, and rural – would be negatively impacted.” — Mr. Poloncarz explained why Community Development Block Grants (CDBGs) are a vital lifeline for Erie County. In the City of Buffalo, CDBG funding has been used to build affordable, safe housing and make improvements to streets and sidewalks. In other parts of Erie County, CDBG funding has helped residents create a “cleaner, greener community” by repairing sewage treatment facilities and pursuing other clean water projects. Mr. Poloncarz noted that for smaller communities, a CDBG award of \$100,000 can have a “huge impact on actually their entire budget.”

“[The President’s Medicaid proposal] would leave states largely, if not fully, at financial risk of high costs due to unexpected events such as recessions or natural disasters.” —

Commissioner Lambrew discussed how the President’s proposal to implement a Medicaid block grant or per-capita cap would affect low-income people in Maine. Under this proposal, federal Medicaid funding would be capped at a certain amount and grow at the rate of inflation, which is generally lower than historical Medicaid spending growth and would likely be insufficient. If states spend more than that cap, they would be fully responsible for covering those costs – a profound departure from the federal-state partnership underpinning Medicaid for decades.

Commissioner Lambrew provided examples of unexpected costs that Medicaid programs have faced recently: New drugs that cure Hepatitis C were approved, and their high price tags pushed up Medicaid prescription drug spending. Hurricane Katrina and other natural disasters have put enormous pressure on state health systems. Recessions generally lead to higher Medicaid enrollment, as incomes fall and fewer people can rely on employer-sponsored insurance.

If a Medicaid block grant or per-capita cap were implemented, states would likely be forced to absorb these unexpected costs on their own, which many states simply may not be able to do. According to Commissioner Lambrew, a block grant or per-capita cap would mean that “we couldn’t provide the services to older Mainers, or children, the way we do now,” and could result in “benefits that would have to be scaled back.” Mr. Poloncarz agreed, saying that his state would be “severely punished” by a block grant, and Erie County might need to “cut other popular programs like libraries and parks” if the proposal were implemented.

Strengthening the Federal-State-Local Partnership Moving Forward

Dr. Gordon summarized the relationship between federal, state, and local governments as “an enduring and robust partnership,” but also “a work in progress.” Besides rejecting President Trump’s budget cuts, witnesses recommended ways to strengthen the federal-state-local partnership.

“The federal government could help states and localities by reducing uncertainty associated with late appropriations, short continuing resolutions, and threatened shutdowns.” —

Dr. Gordon noted that the costs of federal budget uncertainty can be high for states and localities. Mr. Poloncarz concurred: because Erie County budgets run from January to December, federal funding changes part-way through their fiscal year presents a challenge.

Mr. Poloncarz described how federal government shutdowns harm Erie County’s economy. The Buffalo and Erie County Workforce and Investment Board is a local organization that connects employers and job seekers with the goal of promoting economic vitality in the region. This work is funded by federal grants, meaning these employees are furloughed if the federal government shuts down. “The last thing that any region could afford in a recession is furloughing the people whose job it is to help other people find jobs and employers fill jobs,” Mr. Poloncarz said.

Witnesses recommended that the federal-state-partnership could be strengthened by **re-examining the ideal amount of flexibility** that states and localities have when spending federal grants. Dr. Gordon explained the trade-offs: on one hand, the federal government seeks to limit budget exposure and restrict states from gaming, or manipulating, federal resources. For this reason, many federal grants to states include maintenance of effort requirements or requirements that states match federal dollars with their own resources. But Dr. Gordon also noted that there can be a cost of these requirements: “[they] inhibit states from innovating and also might get in the way of the aims of the program in the first place.”

Commissioner Lambrew argued that the debate over flexibility can be confused with program integrity, which ensures that the program’s objectives are met. She provided the ACA’s State Innovation Waivers as an example of a program that achieves both. Under these waivers, states can propose new approaches if they meet four simple criteria: proposals must cover “as many people with as affordable coverage, as comprehensive coverage, with no increase in the federal budget.” Commissioner Lambrew added: **“Can states do it better? In many cases, yes. But so long as they maintain that program integrity, what is the program meant to do, I think that's a way for federal government to guide states.”**

Finding the ideal balance of flexibility in the federal-state-local partnership may not be easy, but the task of strengthening the partnership has never been more important. As we enter a new decade, the Budget Committee will continue to explore options to support state and local governments and the Americans they serve.