HOUSE COMMITTEE ON THE BUDGET
Chairman John Yarmuth

January 9, 2020

Hearing: Why Federal Investments Matter

Stability from Congress to State Capitals

State and local governments touch the lives of nearly every American. Every day, millions of Americans drop their children off at public schools, check out a library book, renew a driver's license, travel on local roads, and walk their dog in a clean, safe public park — all of which are made possible by the work of state and local governments. Many may not realize, however, the role the federal government plays in making those activities and investments possible. The federal government spent nearly $700 billion supporting services provided by state and local governments in 2018 – accounting for approximately one-sixth of the entire federal budget.

On January 15th, the House Budget Committee will hear from five witnesses on the importance of federal investments in state and local communities. Witnesses will also discuss the challenges faced by state and local governments in times of federal budget uncertainty, and how the federal government can better support states and localities during economic downturns.

Federal investments in states and localities are crucial — State governments are funded through a variety of sources, including state taxes, federal grants, highway tolls, and public university tuition. However, federal grants make up nearly one-third of state budgets, on average. The share can vary substantially: in some states, like Montana, federal grants represent almost half of the state's budget, but in Hawaii, the share is only one-fifth. In 2017, seven states brought in more revenue from federal grants than from state taxes.

Federal investments help provide services that keep Americans healthy and safe — The majority (nearly two-thirds) of federal grants to states are for Medicaid, which provides health insurance coverage to 65 million Americans. While each state administers its own Medicaid program and tailors it to meet the needs of its population, the federal government picks up at least half of the cost. Federal Medicaid grants to states have increased substantially over the last few decades, as enrollment in the program has increased and health care costs have risen. In addition, 36 states and the District of Columbia opted to expand Medicaid to help low-income adults gain health care coverage under the Affordable Care Act, and the federal government is responsible for the vast majority of the health care costs for that population.

Examples of other, non-Medicaid grants to states include: income security programs such as Temporary Assistance for Needy Families (TANF) and certain housing assistance; transportation projects that support construction of highways, transit systems, and airports; education grants, such as Title I funding for high-poverty schools and grants to help schools teach students with disabilities; and other categories, including federal support for community health centers, substance abuse programs, crime prevention, and Violence Against Women Act funding.

These federal investments are particularly important during recessions — During recessions, states face a one-two punch of declining tax revenues and increasing demand for services. Enrollment in Medicaid and other programs that help Americans meet their basic human needs is *countercyclical*, meaning that it generally rises when the economy is weak and falls when the economy is strong. But because most states are required to balance their budgets, economic downturns can lead to budget strains that force states to cut costs by laying off teachers, police officers, and other government employees – making recessions even more painful for individuals and communities. Federal support to states for Medicaid and other automatic stabilizers rises when the economy is weak, but gaps remain.

For this reason, federal economic stimulus packages often include temporary aid to state and local governments. Most recently, the American Recovery and Reinvestment Act of 2009 and a later extension were responsible for closing 24 percent of state budget gaps between 2008 and 2012, primarily through enhanced federal funding for Medicaid and education.

Federal budget uncertainty is especially harmful to states and localities — Because states and localities rely on federal grants, unpredictability surrounding federal investments is especially challenging. Continuing resolutions make it difficult for states to plan and implement strategic, long-term investments. The federal government has begun the fiscal year with enacted full-year appropriations just four times since 1977 – and it has not happened in the last 20 years.

Federal government shutdowns are an extreme example of how this uncertainty affects communities. During federal funding lapses, responsibilities of the federal government temporarily fall to states and localities – which may not be equipped to handle them. Shutdowns reduce GDP across the country, constraining state and local governments that will be forced to spend less on other priorities. Furloughed federal workers – most of whom work outside the Washington, DC area – are acutely affected by shutdowns.

Trump Administration budgets have included massive cuts to states and localities — Instead of strengthening federal investments in state and local communities, the President's proposals have done the opposite. They have included massive reductions in Medicaid, TANF, infrastructure funding, education, environmental protections, and economic development. Congress rejected these proposals and must do so again if the President includes similar proposals in his 2021 budget request. Instead, we must focus on strengthening the investments that support states and localities when they need it most.

The Budget Committee will hear from witnesses with first-hand experience navigating state and local budgets during times of uncertainty, including:

- **Tracy Gordon, Ph.D. –** Senior Fellow, Urban-Brookings Tax Policy Center
- **Jeanne Lambrew, Ph.D. –** Commissioner, Department of Health and Human Services, State of Maine
- **Mark Poloncarz –** County Executive, Erie County, New York
- **Larry Walther –** Chief Fiscal Officer; and Director, Department of Finance and Administration, State of Arkansas
- **Kim Murnieks –** Director, Office of Budget and Management, State of Ohio