States Will Feel the Pinch of Sequestration, but a Bigger Budget Bite is Coming

By Jennifer Ginn [1]  
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States will feel it when sequestration takes effect tomorrow, but there could be worse things down the road.

“For states, I would say the hit (from sequestration) is significant, but it’s not catastrophic,” said Chris Whatley, director of CSG’s Washington, D.C., office.

When Congress passed the Budget Control Act in 2011, it put into place mandatory budget cuts for both domestic and defense spending if Congress could not agree on a way to reduce the national deficit. Originally set to take effect Jan. 2, the American Taxpayer Relief Act of 2012 extended that deadline to March 1.

Whatley said things aren’t as bad financially as they could be for the states, with defense spending facing a 7.3 percent across the board cut and domestic spending facing a 5.9 percent cut.

“If this was a matter of a single pipeline feeding money to the states and squeezing it by 6 percent, that would be felt,” Whatley said. “These (cuts) are spread out over 28 accounts. It’s like a highway and one of the lanes is huge and it’s Medicaid, and you’ve got a bunch of narrow lanes beside it. The big lane, Medicaid, isn’t affected at all. The total effect is spread out over those 28 lanes.”

Whatley said the budget cuts most likely won’t even take effect for a few weeks.

“It’s all up to the Office of Management and Budget,” he said. “We’ve got a vote to fund the federal government coming by the end of March. There’s a couple of actions up there on the Hill that may take away sequester or change the contours of it.

“There’s one sense that OMB may choose not to make big, immediate cuts. On the other hand, that means if there isn’t any solution to all of this, we’ll have to make even deeper cuts early in the summer and that would be even more difficult to implement. OMB is in the driver’s seat for all of this.”

Whatley said state policymakers are more frustrated by Congress’ inability to get anything done than they are by the impact of looming budget cuts due to sequestration.

“I think in some ways, there’s a bit of detachment with what’s going on in Washington, in part because this is the fourth major deadline within 18 months,” he said. “There was the debt ceiling
deadline, there was the late fall deadline of the super committee, there was the fiscal cliff deadline in December, now it’s the sequestration deadline March 1. ... You can only say the sky is falling so much.”

That frustration was evident last weekend as governors were in Washington for the National Governors Association winter meeting.

“It seems like we go from one crisis to the next,” Louisiana Gov. Bobby Jindal was quoted in a story in The Town Talk. “It’s the debt ceiling and then it’s the fiscal cliff and today’s sequestration. In a couple of months, it will be fiscal Armageddon and then it’ll be fiscal apocalypse. There’s always some new manufactured crisis here in Washington, D.C.”

“It’s tough for any of us, of we governors, to prepare because we all know ... our budgets all operate on more federal dollars than state dollars,” Vermont Gov. Peter Shumlin said in a story published in the Times Argus.

Whatley said more fiscal pain could be headed to the states. While sequestration evenly divides $1.2 trillion in budget cuts between domestic and defense spending through 2021, an additional $1 trillion in cuts included in the Budget Control Act of 2011 can be shifted between domestic and defense spending beginning next year.

Congress can “through appropriations, move more cuts in the fiscal year 2015 to the non-defense side,” he said. “Basically that means the real cut may be 6 percent now, but planning for fiscal year 2015, fiscal year 2016, think more in terms of 10 percent.

“The bottom line it to make it (deficit reduction) work, (states) are going to get squeezed no matter what. You would need to squeeze the biggest lane on the highway; you would have to cut $100 billion in Medicaid over the next 10 years. There’s no getting around it. There’s no option of solving this that doesn’t squeeze basic grant funding to states.”

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