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State-Federal Relations in the Age of Austerity

By Chris Whatley [1]
Friday, August 12, 2011 at 11:46 AM

Author David Osborne wrote the core focus of state government is to "educate, medicate and incarcerate." In this new age of austerity, however, the state-federal funding mechanisms that have underpinned these priorities for nearly half a century are beginning to fray.

The Budget Control Act of 2011 may be just one week old, but with the stock market in free-fall, it's going to have to grow up fast. Washington pundits are tripping over themselves to handicap the deliberations of the newly formed "supercommittee" and pouring through vintage 1980s news articles to learn how the Gramm-Rudman inspired "sequestration" process may play out.

While it is too early to tell what bold entitlement cuts or revenue measures will be brought to the table, it is abundantly clear state funding is set for a significant squeeze. The $917 billion in cuts included in the deal will shave more than 10 percent from baseline discretionary spending during the next 10 years. While the cuts will fall equally on security and nonsecurity spending in the first two years, Congress will have the flexibility in the following years to raid nondefense discretionary accounts, nearly 40 percent of which consists of state and local grants-in-aid, to cushion the blow to defense spending. When the choice comes down to carrier battle groups or community development block grants, you can guess where the axe will fall.

The supercommittee is tasked with identifying an additional $1.2 trillion to $1.5 trillion in cuts. The political headwinds against deep entitlement cuts or revenue measures will ensure the bulk of the reductions will come from discretionary spending. If Congress fails to reach agreement, the automatic sequestration process would render even deeper cuts to the core grant programs states depend on in education, justice and other sectors, as the process exempts virtually all mandatory-spending programs from cuts. Cumulatively, the initial $917 billion in cuts and the results of the supercommittee or sequestration could easily shave 15 to 20 percent off baseline spending projections.

Even modest cuts in funding for federal agencies often result in dramatic reductions in state grants. Rather than laying out specific cuts, the Budget Control Act sets parameters for spending during the next 10 years. The 2012 fiscal year appropriations bills working their way through the House offer a glimpse of how these types of cuts may play out. For example, the House-passed Commerce, Justice and Science Appropriations Bill trims funding for the Department of Justice by 3.8 percent, but reduces state grant programs by more than 20 percent.

The cuts to Medicaid and education accounts, however, would have the most dramatic impact on state budgets. State leaders can assume the committee will recommend at least $100 billion in Medicaid cuts, which the president himself suggested in the failed negotiations to strike a grand $4 trillion bargain. In addition, House leaders included steep cuts to Title I education funding in their 2011 fiscal year budget reduction proposal--House Resolution 1. State leaders can expect to see these cuts carried forward into future budgets as discretionary spending is trimmed to meet the new
parameters.

With Washington looking to reduce its share of the bill for the "educate, medicate and incarcerate" programs that define state budgets, calls to reduce maintenance of effort requirements and other federal funding restrictions are sure to be at the top of the list in the state-federal dialogue for years to come.

**CSG Resources**

- [Chris Whatley](mailto:cwhatley@csg.org) [2], CSG Washington Office Director
- [The Debt, the Deal and the States](http://r20.rs6.net/tn.jsp?llr=km8k7ybab&et=1107065905536&s=14709&e=001ruLIwchrJJg1_XNq44TWJhSDVKpkekTgOAOPspjLfbWoMCXFdqmR5kew1_uwTGaExUWlleEk2cpfA4T94tPixhS3JfenpN71VRydaHXjAhSpOxy4fmmhDuct4PuetwOEx7K8gMFKAHzUy-MznRKp3gmCQarGIRCpVMcIbcTC_4NWyz9xIreWXQ==) [3]

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