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## The State and Local Fiscal Crisis

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### The State and Local Fiscal Crisis

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#### AFL-CIO Executive Council statement

America's economic downturn is causing painful budget problems for state and local governments. The economic slowdown has reduced state and local tax revenues at the very time the need for public services is growing. In recent years, federal funding to states and localities has not kept pace with inflation, population growth or unmet needs. Moreover, the 2008 stimulus bill exacerbated state budget difficulties as it included federal tax breaks for businesses, which will cost states \$1.7 billion. As a result, most states and many localities are suffering budget deficits. Because many states have laws that require balanced state budgets, the only ways those states can reduce their deficits is to cut public services or raise taxes. These actions not only reduce spending and investment and weaken the safety net at a time when people need more help, but contribute to further contraction in the economy.

State budget problems are already serious and getting worse. Twenty-nine states have projected budget deficits in fiscal year 2009 with cumulative deficits totaling at least \$48 billion. The average state deficit projected for fiscal year 2009 was about 10 percent of these states' general fund budgets. Experts are predicting increased deficits and more states in deficit in FY 2010. At least 18 states have cut or proposed cutting vital public services. Ten states have cut or proposed cutting K-12 education, exacerbating the massive federal underfunding of NCLB and IDEA despite increasing requirements under each law; 16 are considering tuition increases or cuts to higher education. Another 12 states have cut or proposed cuts to reduce access to health care services or health insurance. At least 11 states have proposed state employee layoffs, reductions in force, hiring freezes or forced unpaid leave. Several states have proposed cutting aid to localities.

In 2003, Congress enacted a \$20 billion fiscal relief package for states, including \$10 billion for Medicaid and \$10 billion for flexible, counter-cyclical assistance to stimulate the ailing economy. Now, former Federal Reserve Chair Alan Greenspan has said, "The current financial crisis in the U.S. is likely to be judged in retrospect as the most wrenching since the end of the Second World War." Congress must address the crisis now to ensure states and localities do not cut vital public services and thereby exacerbate the downturn, make unemployment and poverty worse and weaken public assistance and infrastructure. There are several things Congress should do:

**Increase Federal Funds for Medicaid:** Medicaid represents the largest category (21.5 percent) of total state expenditures and is very effective for delivering federal funds to states. An increase can be quickly and easily implemented by raising Medicaid's federal medical assistance percentage (FMAP). For every 1 percent rise in the unemployment rate, 2.5 million people lose employer-sponsored health coverage and Medicaid enrollment rises by 2 million to 3 million. The best option to assist states and to protect health care among the newly unemployed is to increase federal funds for Medicaid.

The AFL-CIO strongly supports stimulus funding to states and localities for counter-cyclical fiscal relief, including: (1) revenue-sharing flexible grants, (2) enhanced federal match for state food stamp administration, (3) restoration of funding for child-support enforcement, (4) expanded unemployment insurance (UI) and modernization, (5) increased administrative support for UI and employment services, (6) housing crisis emergency needs, (7) funds targeted for the education of at-risk (Title I) and special needs children (IDEA), (8) efforts to ensure continued access to higher education (Pell Grants) and (9) funding for ready-to-go infrastructure improvement and repair projects.

The AFL-CIO supports enactment of H.R. 5268, introduced by Reps. Frank Pallone Jr. (D-N.J.), Pete King (R-N.Y.), John Dingell (D-Mich.) and Thomas Reynolds (R-N.Y.), which temporarily increases Medicaid funding by \$13 billion, and S. 2819, introduced by Sens. John D. Rockefeller (D-W.V.), Olympia Snowe (R-Maine) and Ted Kennedy (D-Mass.), which provides \$12 billion for state fiscal relief through a temporary increase in the Medicaid funding and flexible anti-recession grants to the states.

