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WHAT DO CURRENT FEDERAL FUNDING LEVELS IN THE WAKE OF SEQUESTRATION MEAN FOR STATE BUDGETS?

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State and federal budgets are inextricably linked; in 2011, federal grants to state and local governments totaled $607 billion, or roughly 25 percent of spending by state and local governments that year (CBO 2013). Through grants and loans, the federal government aids states' efforts to provide infrastructure, education, and health and social services, and to ensure public safety (OMB 2012). Economic and fiscal policy choices at the federal level can thus have substantial impacts on state budgets. With many states' fiscal situations still grim in the wake of the Great Recession, recent federal policy decisions have put even greater pressure on state budgets.

This brief documents how recent federal fiscal policies have impacted state budgets through affecting funding levels for federal grants provided to states.[1] It begins by analyzing the effects of the $85.3 billion in spending cuts for fiscal 2013 known widely as sequestration. It then examines the combined effects of sequestration and additional funding changes made in the current continuing resolution (CR), or stopgap federal funding bill—thereby providing the fullest picture of how recent federal fiscal policies have affected state budgets for the current fiscal year. This CR, which was signed into law on March 26, funds government agencies through the end of fiscal 2013 (Sept. 30) and ensures funding levels comply with legislated spending levels.[2]

Principal findings include:

- The sequestration cuts that went into place March 1 decreased federal funding for state grants in fiscal 2013 by $5.1 billion (relative to the continuing resolution in place when sequestration hit).

- The five states with the largest federal grant funding cuts (in percentage terms) due to the March 1 sequestration were Wyoming, Utah, North Dakota, Montana, and South Dakota (relative to the continuing resolution in place when sequestration hit).
- Taking into account both sequestration cuts as well as different funding levels passed under the current continuing resolution, federal grant funding for 25 states (including the District of Columbia) will decline in fiscal 2013 relative to fiscal 2012.
- The five states with the largest percentage funding cuts for federal grants due to both the March 1 sequestration as well as the passage of the current continuing resolution are Louisiana, Indiana, Maine, Connecticut, and Massachusetts. On average, those states face an estimated fiscal 2013 federal grant funding loss of 4.5 percent, or $402 million per state, relative to fiscal 2012. On average those same states experienced positive growth in grants from the federal government over both fiscal 2010–2011 and fiscal 2011–2012.

Background on sequestration and current government funding levels

The levels of federal grant funding made available to states in fiscal 2013 are affected by the sequestration spending cuts that went into effect on March 1 and by the passage of the current continuing resolution, which was signed into law on March 26.

Sequestration resulted from the Budget Control Act of 2011 (BCA), which was signed after House Republicans refused a traditionally *pro forma* increase in the statutory debt ceiling in 2011 and forced negotiations with the Obama administration over spending cuts. The BCA created a Joint Select Committee on Deficit Reduction (or "Super Committee") tasked with coming up with $1.2 trillion in deficit reduction over 10 years ($984 billion not including interest savings). To ensure deficit reduction would occur even if the Super Committee failed to agree on specific measures, the backup sequestration procedure was created. This process mandated cuts to defense and nondefense spending, split equally, totaling $109.3 billion annually over fiscal 2014–2021 (Kogan 2013).[3] Because the Super Committee did indeed fail to agree on specific spending cuts or tax increases that would have achieved the legislated deficit reduction, the mandated sequestration cuts were triggered for fiscal 2013. They took effect on March 1 after being both postponed by two months and marginally reduced (to $85.3 billion) by the American Taxpayer Relief Act of 2012 (the lame-duck budget deal).

In addition to sequestration, Congress agreed to a new CR to fund government activities, which was signed into law on March 26, 2013. The current CR funds government agencies through September 2013 (the end of the fiscal year). It sets spending levels at $984 billion, a level that complies with limits on discretionary spending legislated by the BCA.

Impact of federal legislation on states

Sequestration and the current CR will affect the amount the federal government contributes to state grants, which provide roughly one-third of total state revenues (Pew Center on the States 2012).[4] Though sequestration spares some programs, including Medicaid—which accounts for a large portion of grants to states—many programs operated at the state and local level will feel the effects.[5] Each state will experience different impacts, and many will face tough choices concerning how to respond to fiscal contraction.

Impact of sequestration

The March 1 sequestration reduced grant funding from the federal government in each state, as it required across-the-board spending reductions in programs that receive funding in all states (though some programs were exempt

About the data used in this report

This analysis relies on data from the Federal Funds Information for States (FFIS). Founded by the National Governors Association and the National Conference of State Legislatures, this group both tracks and reports on the fiscal impact of federal budget and policy decisions on state budgets and state-level programs. FFIS data are available to subscribers only, and are maintained in a database of over 200 federal grant-in-aid programs. The programs in this database account for more than 90 percent of all federal funds that flow to state and local governments.

from funding cuts).[6] The March 1 cuts resulted in a $5.1 billion decline in fiscal 2013 funding for state grants (relative to grant funding in the continuing resolution in place when sequestration hit). When comparing the size of the funding cuts for these grants relative to grant funding in the CR in place March 1, Wyoming, Utah, North Dakota, Montana, and South Dakota experienced the largest percentage declines due to sequestration (**Table 1**). In addition to presenting the cuts from sequestration as a percentage of grant funding in the CR in effect March 1, Table 1 shows the cuts as a share of 2007 gross state product.[7] By this measure, Wyoming, New Mexico, Alaska, Montana, and North Dakota were most heavily affected.

Combined impact of sequestration and the current continuing resolution

The March 1 sequester reduced all states' federal grant funding (relative to prior funding levels). However, the current CR, which was signed into law on March 26 and funds government for the remainder of the fiscal year, resulted in some states receiving total grant funding greater than fiscal 2012 levels, and some states receiving less. Taking into account passage of the CR and the March 1 sequester—thereby providing the fullest picture of how recent federal fiscal policies have affected state budgets in fiscal 2013—25 states' grant funding (including the District of Columbia's) is estimated to decline relative to fiscal 2012 levels, while 26 states' grant funding is estimated to increase. The changes for each state relative to fiscal 2012 funding are presented in **Table 2** both as a total loss or gain and as a percent change.

Many factors explain why some states experienced decreases and others increases. In regard to grant funding cuts, states can experience different levels of decreases based on both how grants are allocated, and which programs states choose to, or are able to, operate. For instance, some programs only exist in certain states. The WIC Farmers' Market Nutrition Program, which provides fresh produce to low-income women with young children in the Women, Infants, and Children supplemental nutrition program, is one such example. Funding for states participating in this program declined by 26.4 percent between fiscal 2012 and fiscal 2013 post–sequester and CR passage. Because the 14 states not participating in this program receive no funding for it, they experienced no cuts in funding for the program.

Similarly, other programs are region-specific and thus only exist in certain states. One example is grant funding for the Appalachian Regional Commission, a federal-state partnership that fosters community and economic development in Appalachia. The 13 states that receive grant funding through the program experienced program-specific cuts of 5.03 percent under sequestration, ranging from $7,000 for Maryland to $46,000 for New York. Another example is grant funding provided to 29 states (those bordering oceans and the Great Lakes) for coastal

TABLE 1

Change in states' fiscal 2013 federal grant funding resulting from the March 1 sequestration

State	Sequestration cuts to state grants as a share of continuing resolution funding in place March 1 (percent)*	Sequestration cuts as a share of 2007 gross state product**
Wyoming	-3.36%	-0.52%
Utah	-1.37%	-0.10%
North Dakota	-1.35%	-0.12%
Montana	-1.26%	-0.14%
South Dakota	-1.24%	-0.12%
Alaska	-1.18%	-0.16%
New Mexico	-1.15%	-0.17%
Colorado	-1.15%	-0.06%
New Hampshire	-1.15%	-0.06%
Nevada	-1.11%	-0.05%
Nebraska	-1.07%	-0.07%
Kansas	-1.04%	-0.06%
Illinois	-1.04%	-0.06%
Hawaii	-1.00%	-0.06%
Virginia	-0.98%	-0.04%
New Jersey	-0.94%	-0.05%
Washington	-0.93%	-0.06%
Georgia	-0.92%	-0.07%
Idaho	-0.92%	-0.09%
Alabama	-0.91%	-0.09%
Rhode Island	-0.90%	-0.09%
Texas	-0.90%	-0.07%
Delaware	-0.90%	-0.06%
Louisiana	-0.90%	-0.09%
Maryland	-0.90%	-0.05%
Vermont	-0.88%	-0.10%
California	-0.87%	-0.06%
Wisconsin	-0.86%	-0.06%
South Carolina	-0.86%	-0.08%
Maine	-0.85%	-0.09%

TABLE 1 (CONTINUED)

State	Sequestration cuts to state grants as a share of continuing resolution funding in place March 1 (percent)*	Sequestration cuts as a share of 2007 gross state product**
West Virginia	-0.85%	-0.12%
Indiana	-0.85%	-0.06%
Florida	-0.84%	-0.06%
Minnesota	-0.84%	-0.05%
Kentucky	-0.84%	-0.09%
Michigan	-0.83%	-0.07%
Pennsylvania	-0.83%	-0.07%
Connecticut	-0.82%	-0.04%
Oregon	-0.81%	-0.07%
North Carolina	-0.80%	-0.06%
Massachusetts	-0.79%	-0.05%
Mississippi	-0.79%	-0.12%
Oklahoma	-0.79%	-0.08%
Ohio	-0.78%	-0.07%
Arkansas	-0.77%	-0.09%
Iowa	-0.76%	-0.06%
Missouri	-0.76%	-0.06%
District of Columbia	-0.76%	-0.03%
Arizona	-0.73%	-0.07%
New York	-0.71%	-0.07%
Tennessee	-0.68%	-0.07%

* The continuing resolution in place March 1 is the stopgap federal funding bill in effect when sequestration hit.

** Cuts are presented as a share of 2007 gross state product because states' economic situations were likely more volatile during and immediately after the recession.

Source: Author's analysis of Federal Funds Information for States and Bureau of Economic Analysis data

zone management. Post–sequestration and CR passage, these states experienced program-specific cuts of 6.6 percent relative to fiscal 2012 funding levels. Ten states' grant funding for this program declined by $163,000, while other states experienced smaller cuts.

Another factor explaining why some states experienced increases and others decreases is the nature of mandatory spending programs, such as entitlements and need-based aid. Spending for many mandatory programs is open-ended, meaning the relevant agency disburses funds as required by the conditions set forth in authorizing legislation, with unlimited authority (CBO 2013). In other words, anybody who qualifies will receive funds; such spending is thus sensitive to factors such as economic con-

TABLE 2

Change in states' fiscal 2013 federal grant funding resulting from sequestration and the current continuing resolution

State	Total loss or gain relative to fiscal 2012 funding (millions)	Percent cut or increase relative to fiscal 2012 funding
Louisiana	-$896	-8.5%
Indiana	-$466	-4.2%
Maine	-$116	-4.0%
Connecticut	-$225	-3.5%
Massachusetts	-$308	-2.4%
Missouri	-$250	-2.1%
New Mexico	-$115	-1.9%
Kentucky	-$162	-1.7%
Illinois	-$320	-1.6%
Washington	-$159	-1.5%
Minnesota	-$135	-1.4%
Michigan	-$248	-1.3%
District of Columbia	-$35	-1.2%
South Carolina	-$99	-1.2%
Pennsylvania	-$295	-1.2%
South Dakota	-$18	-1.2%
North Dakota	-$16	-1.1%
Alabama	-$62	-0.7%
Nebraska	-$18	-0.6%
Rhode Island	-$14	-0.6%
Kansas	-$22	-0.5%
Hawaii	-$12	-0.5%
California	-$252	-0.4%
Delaware	-$2	-0.1%
Georgia	-$7	0.0%
Utah	$2	0.0%
Wyoming	$1	0.1%
Montana	$8	0.4%
Maryland	$44	0.5%
North Carolina	$95	0.6%

TABLE 2 (CONTINUED)

State	Total loss or gain relative to fiscal 2012 funding (millions)	Percent cut or increase relative to fiscal 2012 funding
Wisconsin	$69	0.7%
Iowa	$55	1.0%
Colorado	$79	1.2%
Texas	$499	1.2%
Oregon	$90	1.2%
Ohio	$284	1.3%
New Jersey	$171	1.3%
Nevada	$46	1.4%
West Virginia	$76	1.7%
Florida	$571	2.0%
Arkansas	$139	2.2%
New Hampshire	$36	2.2%
Alaska	$64	2.5%
Mississippi	$189	2.5%
Virginia	$271	2.7%
New York	$1,575	2.9%
Arizona	$411	3.2%
Tennessee	$429	3.2%
Oklahoma	$289	4.1%
Idaho	$147	5.3%
Vermont	$91	5.6%

Note: These totals do not include funding for Federal Highway Administration programs whose funding was reduced or zeroed out due to the reclassification of program funding under MAP-21.

Source: Author's analysis of Federal Funds Information for States data

ditions and demographic changes. Therefore, Congress does not exercise direct control over mandatory spending levels on a yearly basis. Examples involving grants to states include the following:

- Pell Grant funding for each state increased between fiscal 2012 and fiscal 2013 post–sequestration and CR passage, but some states experienced slightly larger percentage increases than others. Financial need for Pell Grants is determined by a formula used by the Department of Education, and anyone who meets the eligibility criteria can receive a grant. Pell Grants are funded partly from discretionary funding and partly from mandatory funding. Federal Funds Information for States (FFIS) data indicate that Pell Grant funding increased in each state relative to fiscal 2012, though that increase ranged from 1.5 percent to 2.3 percent. Ohio received the largest percentage increase (2.3 percent) relative to fiscal 2012, or an increase of $32 million. Florida had the smallest percentage increase (1.5 percent), translating to an increase of almost $35 million.

- Grant funding for the Children's Health Insurance Program, a mandatory program, increased by large amounts in some states and decreased by sizable amounts in others, relative to fiscal 2012. New Mexico, for instance, experienced a program funding cut of almost $98 million, while Vermont had an increase of over $13 million (a 38 percent decrease and a 218 percent increase from fiscal 2012 levels, respectively).
- Funding for Medicaid administration and vendor payments, which is also classified as mandatory spending, was another area where some states experienced increases while others experienced decreases. While 36 states' Medicaid administration funding increased relative to fiscal 2012 (led by Vermont, whose funding increased by over 600 percent), 15 states' funding decreased. These declines ranged from less than 1 percent in Georgia to 37 percent, or almost $40 million, in Maine. (Of these 15 states experiencing funding decreases for Medicaid administration, 10 experienced grant funding increases between fiscal 2011 and fiscal 2012.) Grant funding for Medicaid vendor payments also exhibited variation. At one end of the spectrum, Idaho's funding increased almost 16 percent ($173 million), while at the other end, Washington state's remained unchanged from fiscal 2012.

Many other programs experienced uniform funding increases. A few examples include various child nutrition and school lunch programs, the Commodity Supplemental Food Program (which provides nutritious food from the U.S. Department of Agriculture to low-income pregnant women, new mothers, infants, children, and the elderly), and the fish and wildlife hunter safety program. However, the majority of programs examined for this analysis experienced funding cuts relative to fiscal 2012.

A look at the five hardest-hit states

On net, the states experiencing the largest percentage funding cuts for federal grants in the wake of sequestration and the current CR are Louisiana, Indiana, Maine, Connecticut, and Massachusetts (Table 2). On average, those states face an estimated funding loss of 4.5 percent, or $402 million per state, relative to fiscal 2012. Those same five states, on average, experienced positive growth in federal grants over fiscal 2010–2011 and fiscal 2011–2012.

What follows is a look at the programs where the largest cuts occurred (in percentage terms, relative to fiscal 2012 funding levels) in the five heaviest-hit states:

Louisiana

- The WIC Farmers' Market Nutrition Program, a discretionary program, was cut 26 percent (a decrease of $2,000).
- The Juvenile Accountability Block Grant, a discretionary program promoting greater accountability in the juvenile justice system, was cut 23 percent (a decline of $80,000).
- The Children's Health Insurance Program, a mandatory program exempt from sequestration, was cut 21 percent (a decrease of just over $40 million).

Indiana

- The public works program within the Economic Development Administration (an agency that helps promote sustainable job growth and competitive, innovative regional economies), funded through discretionary spending, was cut about 36 percent (a decrease of around $1.8 million).
- The WIC Farmers' Market Nutrition Program was cut 26 percent (a decline of around $67,000).
- The Juvenile Accountability Block Grant was cut 23 percent (a decrease of just under $105,000).

Maine

- Medicaid administration, a mandatory program, was cut about 37 percent (a decrease of about $40 million).
- The public works program within the Economic Development Administration was cut about 36 percent (a decline of just under $1 million).
- The WIC Farmers' Market Nutrition Program was cut 26 percent (a decrease of around $20,000).

Connecticut

- The public works program within the Economic Development Administration was cut about 36 percent (a decrease of $985,000).
- The WIC Farmers' Market Nutrition Program was cut 26 percent (a decline of just under $84,000).
- The Juvenile Accountability Block Grant was cut 23 percent (a decrease of just over $65,000).

Massachusetts

- The public works program within the Economic Development Administration was cut about 36 percent (a decline of $925,000).
- The WIC Farmers' Market Nutrition Program was cut 26 percent (a decrease of $114,000).
- The Juvenile Accountability Block Grant was cut 23 percent (a decline of $95,000).

Conclusion

States rely on grants from the federal government to help with the efficient provision of necessary services. However, federal spending cuts are hitting many states hard, and states were already hurting before this latest round of cuts. Harris and Shadunsky (2013) have documented that in contrast to prior economic recoveries, state and local governments have experienced an unprecedented decline in economic activity, with the state and local contribution to GDP remaining negative three years after the recession's nadir. The recession's lingering effects continue to cause budgetary problems at the state level. Though states' revenue levels have improved recently to help fill recession-induced shortfalls, states' revenue collection still remains about 6 percent below where it was five years ago, even as the need for state services has grown (Johnson and Leachman 2013).

In the coming months, Congress will work on appropriations bills to fund government agencies for fiscal 2014. Though current law dictates that discretionary funding levels drop to $967 billion in fiscal 2014, congressional Democrats will push to increase that cap to $1.058 trillion. As this budget battle unfolds, future grant funding for many programs hangs in the balance.

About the author

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Endnotes

1. In this analysis, "states" refers to the 50 states plus the District of Columbia.

2. A continuing resolution is passed by Congress to fund government agencies in the event that a formal appropriations bill is not passed into law. To prevent the interruption of government services, Congress can pass a continuing resolution to fund agencies until the resolution expires. The current continuing resolution funding government for the remainder of fiscal 2013 (P.L. 113-6) was passed into law on March 26, 2013. It adheres to caps on discretionary spending enacted under the Budget Control Act of 2011.

3. Along with creating the Joint Select Committee on Deficit Reduction, the BCA also put into place discretionary spending caps through fiscal 2021. Instead of automatic, proportional cuts to discretionary programs—as are

occurring with the 2013 implementation of sequestration—in future years the congressional appropriations committees must decide how to fund discretionary programs (both defense and nondefense), taking into account the levels set by these funding caps.

4. This analysis relies on Federal Funds Information for States (FFIS) data. One FFIS dataset details state-level impacts of sequestration on grants from the federal government, while a more recent dataset details state grant funding in the wake of the March 26 passage of the continuing resolution funding the government through fiscal 2013. This paper looks at the impact of sequestration relative to the continuing resolution in place when sequestration took effect to demonstrate what the impacts were at the point when sequestration hit. The analysis then looks at impacts on state grants after the passage of the most recent continuing resolution in order to provide the most up-to-date analysis of how recent federal fiscal policies have affected state budgets for the current fiscal year. In this part of the analysis, funding levels are compared with fiscal 2012 funding due to data availability.

5. Due to the exemption of Medicaid (see endnote 6), grants to states are less negatively affected than they would be if sequestration were administered purely across-the-board. However, as this analysis demonstrates, many states will be affected by cuts to non-exempt programs.

6. Both discretionary and mandatory programs were affected by sequestration, though in regard to state grants, significantly more mandatory programs than discretionary programs were exempt. Exempted mandatory programs include Medicaid, the Children's Health Insurance Program, Social Security, Supplemental Security Income (SSI), and the Supplemental Nutrition Assistance Program (SNAP).

7. The cuts are presented as a share of 2007 GSP because states' economic situations were likely more volatile during and immediately after the recession.

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