



IMPACT ON STATE BUDGETS: A CLEAR AND PRESENT DANGER

The looming federal entitlement crisis is a national challenge. But states and local communities aren't immune to its consequences. Budget pressures stemming from entitlement programs will increasingly impact every level of government and force state and local policymakers to make some tough choices on tax levels and spending priorities.

At the federal level, rapid growth in entitlement spending poses a grave danger to the nation's fiscal and economic health. But it also poses special problems for state and local governments.

- Tight caps on federal spending, among other factors, are squeezing various federal programs involving the states. The most obvious involves highway funding, but these pressures are felt all across appropriated intergovernmental transfer programs, threatening a steady decline in federal transfers to state and local governments.
- Absent strong and imminent action, this pressure will only intensify. Government projections show that by 2030 the three major entitlement programs plus net interest will consume almost every dollar of tax revenue normally collected, leaving nothing for defense spending, social programs, or intergovernmental transfer programs, such as Medicaid.
- Medicaid is a joint federal/state program. It is not only helping drive the federal government's fiscal woes, but it is also putting stress on state budgets, crowding out resources for priorities such as economic development.
- Medicaid claims an increasing share of state and local resources. The program's share of total state and local spending rose from 5.9% to 7.6% from 2000 to 2012.

- This burden on state and local resources is sure to grow rapidly in the near future. The federal government projects total federal, state, and local Medicaid spending to increase by 12.2% from 2013 to 2014 and to average 7.5% growth each year for the next decade compared to just 4.5% for the overall economy.

These federal threats to state and local finances come at a time when states have their own serious internal budget issues to address.

- Many states have not adequately replenished their rainy day funds.
- Many states are unable to make necessary investments in infrastructure because federal funding streams are uncertain.
- Many states face mountainous fiscal threats from woefully underfunded state employee pension and health care benefits programs.

Unless and until our national leaders act to address the most predictable crisis in our nation's history, ruinous fiscal challenges will sweep across our states and cities—jeopardizing the safety of our roads, the quality of our schools, the security of the nation, and our competitive standing.

Across the country, state and local governments and business leaders, as well as citizens who are rightly concerned about the future, must demand that our leaders in Washington make a change. We must stand up, join our voices, and call for urgent and meaningful action.