



AFSCME Facts

The Truth About State and Local Budgets

America continues to struggle with the worst economy in generations. State and local governments grapple with challenging budgets. Some politicians are senselessly attacking the public sector workers who provide the vital public services our communities rely on, blaming them for budget shortfalls they didn't create. Now is not the time to undercut and underfund public services — services that are desperately needed when times are tough. Now is the time to focus on creating good jobs.

The last few years have been a categorical disaster for state and local budgets.

- Since December 2007, the U.S. economy has suffered the longest and deepest recession since World War II.
- More than 8 million jobs have been lost, housing and retail sales have suffered a profound slump and business profits have eroded, all of which impact public budgets.

While academic economists may say that the recession ended in the summer of 2009, Americans continue to suffer, and state and local governments still face daunting budget shortfalls over the next several years.

- The Center on Budget and Policy Priorities (CBPP) reports that through fiscal years (FY) 2009 to 2011, states closed cumulative budget shortfalls of \$430 billion.
- CBPP estimates that states face additional aggregate budget shortfalls of \$140 billion as they enact their FY 2012 budgets. There is less complete data on local governments, but all indications are that their problems are equally severe.

The recession caused a historic decline in revenues and the stock market crash caused huge losses in savings. The nation's fiscal and economic challenges are the cause of state and local government budget problem, not overspending.

- State tax revenue data going back to 1962 demonstrates that the five consecutive quarters of state tax revenue decline between late 2008 and 2009 is unprecedented.¹ State tax collections are now 12 percent below pre-recession levels, when they are adjusted for inflation.²
- This unprecedented drop in revenue has inevitably led to major spending cuts by state governments. State general fund expenditures declined in real dollars in both FY 2009 and FY 2010. That happened only once before in the 32 years this data has been tracked.³
- States and local governments have cut spending dramatically during the last several years and still face large budget deficits because of dramatic declines in revenue that are only recovering very slowly.

Unfortunately, state and local revenues typically lag behind the economy. So even if the current recession has ended, revenues are unlikely to fully recover for some time.

- With expiration of the American Recovery and Reinvestment Act, which pumped billions of much-needed stimulus dollars into the economy, the anticipated decline in federal support will likely mean that FY 2012 will continue to be difficult.
- States' FY 2011 enacted budgets were forecasted to rise by 5.3 percent over FY 2010⁴. But several states are now contemplating mid-year budget cuts which may curtail that increase. Even if general fund expenditures rise the 5.3 percent they are projected to, FY 2011 expenditures would still be \$42.2 billion or 6.1 percent below FY 2008 general fund expenditures.

The solution to state and local budget challenges is to be smart about recovery, not just to cut vital public services blindly.

- Historic cuts have already been made. At least 42 states have cut their state workforces by imposing layoffs, furloughs, pay and benefit cuts, or other measures. Public service job cuts have been so severe that employment in state and local government has fallen by 400,000 since mid-2008. In addition, 45 states have cut services to residents, including health care, care for the elderly and disabled, and K-12 and higher education.
- Spending on sometimes inefficient contractual services continues to grow in many states, even as the rest of the budget is shrinking. Tax breaks for special interests still eat up millions before the first dollar of revenue comes in the door. And in some states, excessive layers of management remain even after the employees they supervised have been terminated.
- At that same time, demand for public services has skyrocketed among Americans struggling with the economy. Whether it's food stamps, heating assistance or public libraries, citizens harmed by the recession need public services more than ever.
- Rejecting short-sighted anti-tax rhetoric, a majority of states have passed tax measures during this fiscal crisis.

State and local governments must find balanced solutions to budget challenges, recognizing that state employees and services have already taken big cuts and further reductions will cause the most harm – both to state residents and to the state's economic recovery. It's time to have smarter government that best meets the needs of our communities.

1 Dadayan, Lucy and Boyd, Donald J. State Revenue Report. The Nelson A. Rockefeller Institute of Government, October 2010.

2 McNichol, Elizabeth; Oliff, Phil and Johnson, Nicholas. State's Continue to Feel Recession's Impact. Center on Budget and Policy Priorities, December 16, 2010.

3 The Fiscal Survey of the States. National Association of State Budget Officers. December 2010.

4 The Fiscal Survey of the States. National Association of State Budget Officers. December 2010.