We Make America Happen

Testimony of

Kerry Korpi
Director of Research and Collective Bargaining Services

Of the

American Federation of State, County and Municipal Employees

Before the

Subcommittee on Commercial and Administrative Law
Committee on Judiciary

U.S. House of Representatives

On

State Taxation – The Impact of Congressional Legislation on
State and Local Government Revenues

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Mr. Chairman and Members of the Committee, my name is Kerry Korpi. I am the Director of Research and Collective Bargaining Services at the American Federation of State, County and Municipal Employees (AFSCME). As the representative of 1.6 million working and retired public service employees, AFSCME is all too familiar with the topic of your hearing – State Taxation – The Impact of Congressional Legislation on State and Local Government Revenues.

It's been a rough couple of years for public services. In fact, it's been a pretty rough decade. The economic downturn and fiscal crisis we experienced from 2002-2005 was, at that time, the worst we had seen in decades. State shortfalls totaled $250 billion over that period.

Little did we know that those numbers would pale in comparison with the problems we're now experiencing. Forty-eight states faced shortfalls, averaging 29% of their budgets, in fiscal year (FY) 2010. State shortfalls in FY 2009 and 2010 totaled over $300 billion. Another $300 billion in shortfalls is projected for FY 2011 and 2012.[1]

Some may blame "out of control" state spending for this problem. This is not the case. Unlike the federal government, every state except Vermont is required by constitution or statute to balance its budget. While states can and most do borrow for capital expenses, such as new roads and schools, they do this by selling bonds to investors, which states must then repay over a period of time with interest. In fact, state spending never fully recovered from the 2001 recession. By FY 2008, state spending reached 4.8% of GDP which was still below the pre-recession peak of just over 5% in FY 2001.[2] And, as we all know, there have been major cuts since 2008.

The problem is clearly an unprecedented drop in state revenues. State revenues dropped in every quarter of 2009 in relation to the corresponding quarter of the prior year. In the January-March 2009 quarter, state tax revenues dropped by 11.6%. This was the largest drop in 50 years of recorded data. The April-June quarter saw an even worse state revenue drop of 16.4%. This was followed by a 10.9% revenue drop in the July-September quarter and finally a

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[1] Center on Budget and Policy Priorities.
[2] State Expenditure Growth Slowing; Center on Budget and Policy Priorities, July 31, 2007.

4.1% drop in the last quarter of 2009. Combined with a 3.9% revenue decline in the fourth quarter of 2008, this period marks an unprecedented five straight quarters of revenue declines for state government.[3]

At the same time, the economy is creating skyrocketing demand for the safety net services that states provide. According to the Centers for Medicare and Medicaid Services' figures for June 2009, there was a nationwide increase of 3.3 million individuals enrolled in Medicaid since June 2008. This is the biggest one year increase in enrollment in the program's 45 year history. The story for the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) is similar. The SNAP program saw an increase of 7.2 million individuals from January 2009 to January 2010. As of January 2010, 12.8% of the U.S. population was receiving food stamps.[4] Nationally there has been a 10% increase in the number of families receiving cash assistance since the start of the recession.[5]

Instead of staffing up to meet this demand, at least 42 states have cut spending, some by a substantial amount. In the 18 months between August 2008 and February 2010, 192,000 state and local government jobs were lost.[6] That doesn't include the furloughs that states and local governments around the country are imposing on our members. AFSCME members have taken as many as 24 days of furlough in a year, representing a cut in pay of over 9%. The combination of job reductions and unprecedented furloughs has created increased danger and stress for state and local government workers. Correction and mental health facilities that were chronically understaffed prior to the recession are now dangerously understaffed. Caseworkers now have caseloads that rise into the hundreds and potholes that developed during this long winter will take longer to repair.

At the same time, states understand that simply cutting their way out of this problem is more harmful to economic recovery than a balanced approach. Thirty-three states have increased taxes, increasing state revenues by a net of almost $30 billion.[7] And while there is ample information about state finances, cities are also experiencing unprecedented problems, which are less well-documented and receive less attention. We represent members in many of our largest cities, and many of those had lost jobs, housing, stock and much of their tax base before the current Great Recession. Research by the National League of Cities estimates that the municipal sector will face shortfalls of between $56 and $83 billion from 2010-2012. Over 90% of cities responding to a survey in 2009 reported making cuts that year and over 80% expected to make further cuts in 2010. This is the worst outlook the report has found in 24 years.[8]

Congressional legislation has had a tremendous impact in mitigating the damage caused by these shortfalls. As I mentioned, states must balance their budgets, so only Congress can take the action needed to avert fiscal disaster. The $225 billion provided for state fiscal relief by the

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[3] The Nelson A. Rockefeller Institute of Government, State Revenue Flash Report, February 23, 2010. The Nelson A. Rockefeller Institute of Government, "Recession, Recovery, and State and Local Finances" by Donald J. Boyd, January 28, 2010.
[4] Food Resource and Action Center, Source USDA.
[5] Center on Law and Social Policy.
[6] Center on Budget and Policy Priorities.
[7] Center on Budget and Policy Priorities.
[8] National League of Cities, Research Brief, December 2009.

American Recovery and Reinvestment Act (Recovery Act) covered an estimated 30-40% of state shortfalls from FY 2009-FY 2012. The Recovery Act was a big success in our opinion. It did what it was supposed to do: save and create jobs. It immediately provided help to cash-strapped states and local governments so they could avoid job cuts and service reductions. In addition to increased Medicaid funding to the states, it increased funding for other health needs, school districts, child care, employment and training, child support enforcement, road and bridge modernization, public transit, Clean Water and Drinking Water State Revolving Funds, the Community Development Block Grant (CDBG) and Community Services Block Grant (CSBG), public housing, Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund and Supplemental Grants, the SNAP program, Community Oriented Policing Services (COPS), and the Byrne JAG grant program. All of these programs and services were in dire need.

But Recovery Act funds will essentially dry up at the end of this year. We thank the House and the Senate for passing the $26 billion six-month extension of enhanced federal Medicaid payments to the states and urge you to swiftly reconcile the two bills so that relief can get to the states.

We also urge you to continue Recovery Act funding for schools, which was also included in the House-passed Jobs for Main Street Act. Without new assistance, more than 300,000 education jobs will be lost in the coming year. Additional education assistance which will greatly help states and local school districts is also included in Representative George Miller’s bill, The Local Jobs for America Act (H.R. 4812), that would create or save a million local government and non-profit jobs. AFSCME strongly supports this legislation, which will continue the economic recovery that has started to take hold.

AFSCME historically has expressed concerns about and opposed legislation that preempts the taxing authority of state and local governments. For example, AFSCME opposes the “Business Activity Tax Simplification Act” (BATSA), H.R.1083. Estimates from the Congressional Budget Office (2006), National Governors Association (2005), and other analysts suggest BATSA would cumulatively cost states $1 billion - $6.6 billion annually. In 2008, New York State estimated BATSA would cost as much as $650 million in annual revenue in the short term. We oppose this legislation in coalition with the National Governors Association, National League of Cities, U.S. Conference of Mayors, National Association of Counties, Federation of Tax Administrators, Center on Budget and Policy Priorities, and other labor unions.

I would note that other similar legislation to preempt state and local taxing authority would benefit large telecommunications firms, rental car companies, and other industries and sectors. It’s not surprising that most corporations and entire industries prefer to pay less in taxes. But where would this stop? Enacting any such legislation merely encourages others to lobby for their own tax breaks. Worse, it shifts costs to other businesses and individuals by forcing states and localities to either reduce services or increase their taxes. AFSCME is opposed to any legislation that unfairly infringes upon the authority of state and local government to make decisions necessary to fund services. Rather than create new special interest tax breaks that affect state and local government, we feel strongly that Congress should support state and local government efforts to collect taxes rightly owed and to generate revenues needed to fund the services that allow individuals and communities to prosper.

Finally, also on the horizon is the National Commission on Fiscal Responsibility and Reform. That Commission has been appointed and is to vote on a report no later than December 1, 2010. Its charge is to propose recommendations to balance the federal budget, excluding interest payments on the debt, by 2015, and to propose recommendations to address the growth of entitlement spending and the projected gap between federal revenues and expenditures.

We hope that the Commission approaches its charge the way we would urge any decision-making body to approach a problem – decide what our needs are and figure out how to pay for them. We are concerned that a focus on the growth in entitlement spending obscures the good that that spending does. Discussion of entitlement spending in the abstract does not take into account the retiree whose only retirement income is his or her Social Security payment that averages about $14,500 a year.

AFSCME members and the public services they provide are a valuable asset to the communities they serve. While the economy has started to improve, we still have a long way to go, especially at the state and local level. State and local governments still are going through an unprecedented and prolonged period of fiscal crisis, and further cuts will only slow economic recovery. While the Recovery Act has been very helpful in the short run, the depth and severity of the problem requires additional fiscal assistance, particularly to meet increased demands for services such as Medicaid and education.

We have an important opportunity to take a closer look at the role revenues play in keeping our communities and citizens safe and prosperous and I applaud the Chairman for calling this hearing. It's very important that any federal legislation that impacts state and local revenues takes into account the precarious financial position state and local governments are in at this time as well as the impact federal action may have on state and local sovereignty. We look forward to working with the committee as it proceeds.

Thank you for the opportunity to testify. I would be happy to answer any questions you may have.