



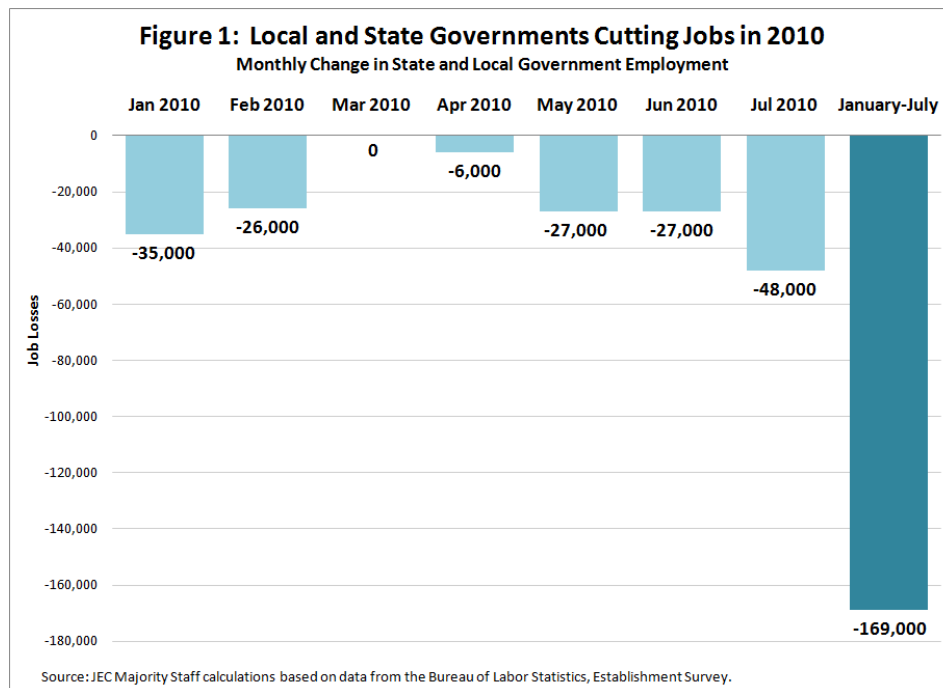
## Trends from the 2010 Job Reports Underscore Need for Aid to States and Localities

The Great Recession caused the steepest decline in state and local tax receipts on record as nearly every revenue source took a hit. Rising unemployment and plummeting business profits drove down state income tax receipts. Sales tax receipts declined as consumer spending slowed and property taxes dropped as the housing market collapsed and housing valuations fell. Fewer home sales translated into lost revenues from property transactions. Even after making deep spending cuts over the last two years, state and local governments continue to face severe budget gaps. These spending cuts have led to unprecedented reductions in state government spending for two consecutive fiscal years.<sup>1</sup>

At least 46 states will face shortfalls in the coming fiscal year, while 48 are contending with shortfalls in their current budgets.<sup>2</sup> Since every state (except Vermont) has some form of a balanced-budget law, states must offset budget shortfalls with a limited set of tools at their disposal – spending cuts, withdrawals from reserve funds, revenue increases, and stimulus funds from the Federal government. The end result of these budget constraints is job losses at precisely the time when demand for state services is rising. State and local governments lost 316,000 jobs from the peak in August 2008; 123,000 of those jobs were in education.

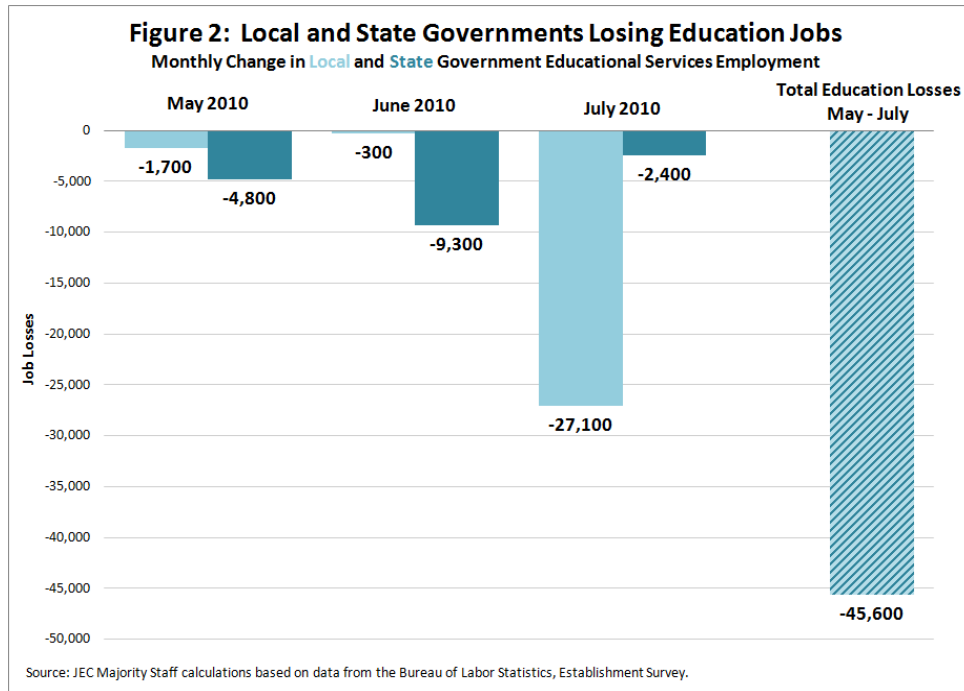
### **Job Losses Among State and Local Workers Have Accelerated...**

The July jobs report from the Bureau of Labor Statistics, released last week, underscores the need for additional support for state and local governments. In the first seven months of 2010, state and local governments shed 169,000 jobs. More than half (102,000) of those job losses occurred in the last three months. (See Figure 1.)



## ...And K-12 Educators Are Bearing the Brunt of Recent Losses

The acceleration in job loss has been fueled by layoffs of educators on state and local government payrolls and comes with the start of the new school year just a few short weeks away. From May to July, 16,500 state educators and 29,100 local educators lost their jobs – a total of 45,600 education jobs. (See Figure 2.)



Almost half of the recent job losses within state and local governments (44.7 percent) have been in educational services. As a result of these layoffs, school systems are poised to begin the new school year with higher student-teacher ratios, more limited selection for subjects on school course lists, and fewer support services for students in need. Without assistance, more layoffs in state and local education are likely, which will only exacerbate the situation.

## Congressional Action Needed To Save Jobs for K-12 Educators

On Tuesday, August 10, the House will consider legislation providing \$10 billion to local school districts to prevent further layoffs. The Department of Education estimates that this funding will save 161,000 teacher jobs next year. In addition, this legislation increases the federal government's share of Medicaid payments or Federal Medical Assistance Percentage (FMAP). This increase in FMAP works out to an additional \$15-16 billion in aid to states.<sup>3</sup> The Recovery Act temporarily increased FMAP assistance in February 2009 but the increase is scheduled to expire on December 31, 2010 without further action by Congress. This legislation continues the assistance for six months although the level of assistance is phased down. State budgets have been strained by sharp increases in the number of people on Medicaid and state spending on the program due to the recession.<sup>4</sup> The enhanced FMAP will help prevent further layoffs in state governments. (See Appendix for state-by-state table on education and FMAP funding.)

These increases in state and local government aid are fully paid for by other provisions in the bill. In particular, the legislation curtails abuses of the U.S. foreign tax credit. This credit was created to prevent U.S. companies from having to pay both foreign income tax and U.S. income tax on the same income.

However, U.S. multinationals have used these credits to keep income offshore and avoid paying any applicable U.S. taxes. Because the existing rules encourage U.S. companies to earn income offshore and ship American jobs overseas, removal of this rule will not hurt domestic job creation.

Federal Reserve Chairman Ben Bernanke observed earlier this month that cuts in state and local programs and employment are weighing on economic activity.<sup>5</sup> These cuts are due to historically large decreases in state revenues during the recession. High rates of unemployment and plummeting business profits drove down state income tax receipts. Lackluster consumer spending and the continuing problems in the housing market have translated into lost revenues from sales and property taxes. At the same time, states have had to increase their spending on Medicaid due to increased Medicaid rolls. According to Chairman Bernanke, the recession and weak job market are the reasons for this expansion in Medicaid participation.<sup>6</sup>

The unprecedented decline in revenues and increase in Medicaid have squeezed other categories of state and local government spending, causing these layoffs. Tuesday's vote by the House of Representatives will help these struggling state and local governments meet the temporary shortfalls caused by the Great Recession.

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<sup>1</sup> National Governors Association and National Association of State Budget Officers. (June 2010). "Fiscal Survey of States."

<sup>2</sup> Center on Budget and Policy Priorities. (2010a). "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery." June 10, 2010.

<sup>3</sup> The Center on Budget and Policy Priorities (CBPP) estimates that enhanced FMAP funding will cost \$15 billion dollars. The Congressional Budget Office estimated that the cost of enhanced FMAP would be \$16 billion. According to CBPP, the differences are due to either differences in methodology or underlying data related to Medicaid spending and projected state unemployment rates.

<sup>4</sup> See The Kaiser Commission on Medicaid and the Uninsured. (Aug. 2010). "State Medicaid Agencies Prepare for Health Care Reform While Continuing to Face Challenges from the Recession." See also Federal Reserve Chairman Ben Bernanke (Aug. 2, 2010). "Challenges for the Economy and State Governments," Speech at the Annual Meeting of the Southern Legislative Conference of the Council of State Governments, Charleston, South Carolina.

<sup>5</sup> Federal Reserve Chairman Ben Bernanke (Aug. 2, 2010). "Challenges for the Economy and State Governments," Speech at the Annual Meeting of the Southern Legislative Conference of the Council of State Governments, Charleston, South Carolina.

<sup>6</sup> *Ibid.*

## Appendix: State-by-State Table on Education and FMAP Funding

<b>TOTAL TO STATES</b>	<b>Medicaid \$14,981 (in millions)</b>	<b>Education \$9,989 (in millions)</b>	<b>Total \$24,970 (in millions)</b>	<b>Estimated Education Jobs Funded 161,000</b>
Alabama	\$133	\$149	\$282	2,700
Alaska	\$64	\$24	\$88	400
Arizona	\$351	\$212	\$563	4,000
Arkansas	\$125	\$91	\$216	1,800
California	\$1,869	\$1,201	\$3,070	16,500
Colorado	\$159	\$159	\$318	2,600
Connecticut	\$199	\$110	\$309	1,500
Delaware	\$48	\$27	\$75	400
District of Columbia	\$54	\$18	\$72	200
Florida	\$784	\$555	\$1,339	9,200
Georgia	\$228	\$322	\$550	5,700
Hawaii	\$86	\$39	\$125	700
Idaho	\$51	\$52	\$103	900
Illinois	\$545	\$415	\$960	5,700
Indiana	\$227	\$207	\$434	3,600
Iowa	\$128	\$96	\$224	1,800
Kansas	\$100	\$92	\$192	1,800
Kentucky	\$155	\$135	\$290	2,300
Louisiana	\$375	\$147	\$522	2,800
Maine	\$86	\$39	\$125	700
Maryland	\$273	\$179	\$452	2,500
Massachusetts	\$506	\$204	\$710	2,900
Michigan	\$380	\$318	\$698	4,700
Minnesota	\$346	\$167	\$513	2,800
Mississippi	\$151	\$98	\$249	2,000
Missouri	\$292	\$190	\$482	3,300
Montana	\$38	\$31	\$69	700
Nebraska	\$69	\$59	\$128	1,100
Nevada	\$79	\$83	\$162	1,400
New Hampshire	\$54	\$41	\$95	700
New Jersey	\$399	\$268	\$667	3,900
New Mexico	\$126	\$65	\$191	1,100
New York	\$2,228	\$607	\$2,835	8,200
North Carolina	\$343	\$298	\$641	5,700
North Dakota	\$29	\$22	\$51	400
Ohio	\$492	\$361	\$853	5,500
Oklahoma	\$188	\$119	\$307	2,400
Oregon	\$156	\$118	\$274	2,000
Pennsylvania	\$667	\$388	\$1,055	5,900
Rhode Island	\$72	\$33	\$105	500
South Carolina	\$138	\$144	\$282	2,600
South Dakota	\$27	\$26	\$53	500
Tennessee	\$240	\$196	\$436	3,700
Texas	\$858	\$830	\$1,688	14,500
Utah	\$57	\$101	\$158	1,800
Vermont	\$47	\$19	\$66	300
Virginia	\$289	\$249	\$538	3,800
Washington	\$338	\$208	\$546	3,300
West Virginia	\$81	\$55	\$136	1,100
Wisconsin	\$229	\$180	\$409	3,000
Wyoming	\$22	\$18	\$40	300

Sources: FMAP and Education allocations are in millions of dollars and are from the Center on Budget and Policy Priorities. Education jobs created in each state are from the Department of Education.