WHY FEDERAL INVESTMENTS MATTER: STABILITY FROM CONGRESS TO STATE CAPITALS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, D.C., JANUARY 15, 2020

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COMMITTEE ON THE BUDGET

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WHY FEDERAL INVESTMENTS MATTER: STABILITY FROM CONGRESS TO STATE CAPITALS

WEDNESDAY, JANUARY 15, 2020

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 10:02 a.m., in room 210, Cannon House Office Building, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Moulton, Higgins, Boyle, Price, Schakowsky, Kildee, Panetta, Morelle, Horsford, Scott, Jackson Lee, Lee, Jayapal, Sires, Peters, Cooper; Womack, Woodall, Johnson, Smith, Flores, Norman, Hern, Roy, Meuser, Crenshaw, and Burchett.

Chairman YARMUTH. It is possible that we will have votes during the hearing, so I ask unanimous consent that the Chair be authorized to declare a recess at any time.

Without objection, so ordered.

I want to welcome our witnesses here with us today. This morning we will be hearing from Dr. Tracy Gordon, a senior fellow with the Urban-Brookings Tax Policy Center; Dr. Jeanne Lambrew, the commissioner of the Department of Health and Human Services for the state of Maine.

I am going to yield to the gentleman from New York to introduce our third witness.

Mr. Higgins, you want to introduce the witness?

Mr. HIGGINS. Mark Poloncarz is a county executive from Erie County, a great, great county executive, a former youth hockey coach, an aspiring musician—plays the guitar—and the son of a steelworker and a nurse who worked at Mercy Hospital. Mark is a native of Lackawanna, New York. He is a source of great pride for all of us in western New York. He is a great leader with a great vision, and I am pleased to have Mark Poloncarz here today with us.

Chairman YARMUTH. Thanks. I now yield to the Ranking Member to introduce another witness.

Mr. WOMACK. Well, very briefly, Mr. Chairman, thank you. It is a delight to have the chief financial officer for the state of Arkansas in our midst today, Secretary Larry Walther of out of the Little Rock area.

Obviously, you know, before the restructuring of state government that Governor Hutchinson most recently took care of, he was a director of finance and administration. And there you will have to help me. Secretary now of? OK, so just added secretary to the list, and remarkable talent, and very articulate, and I think will speak well to the connections, the fiscal connections that we have between state and federal funding. And we welcome Secretary Walther.

Chairman YARMUTH. Thank you. I now yield to the gentleman from Ohio, Mr. Johnson, to introduce our final witness.

Mr. JOHNSON. Well, thank you, Mr. Chairman, and our Ranking Member, my colleague from Arkansas, Mr. Womack, for giving me this time, because this is really an honor for me, and a pleasure and a privilege to welcome one of our witnesses here today, Ms. Kimberly Murnieks.

She is the director of the Office of Budget and Management for the state of Ohio. Director Murnieks has dedicated her life to public service. And, as Ohio's budget director, she works hard every day to ensure the state government operates efficiently and effectively for all Ohioans. That is what we should be doing here. She is doing it there, and that includes the roughly 721,000 people that I represent.

It is great to have a Buckeye and a graduate of Marietta College, which is right there in my neighborhood. I can throw a rock and hit the president's house from my front yard.

[Laughter.]

Mr. JOHNSON. So, yes—well, he is a former Marine, so he can dodge the—he is good at it.

But we are glad to have her here, testifying before the House Budget Committee. I look forward, Director Murnieks, to hear your testimony and to the testimony of each of our panel members, because these issues are really important. I know they don't get a lot of media play, but they are really important.

Thank you, Mr. Chairman. I will yield back.

Chairman YARMUTH. Absolutely. Thank you.

And just because it is unusual for us to have five witnesses—so we, in this hearing, because we wanted as much diversity as we could have when we are talking about state and local governments, we decided to add another minority witness, and I am glad you all are here.

With that, I will yield myself five minutes for an opening statement.

Welcome back, everyone. I am looking forward to this new year in the House Budget Committee, and I hope you are, as well.

Last year, with the support of both Republican and Democratic members of this Committee, Congress put in place bipartisan budgets for 2020 and 2021, complete with discretionary top lines and committee allocations, including accommodations for initiatives that are fully offset.

The Committee held hearings addressing some of the biggest economic issues facing our nation, including the benefits of immigration reform, the cost of climate change and aging infrastructure, the potential costs of debt, the federal government's vital role in mitigating economic downturns, and more.

The federal budget has a direct impact on Americans' everyday lives, but it also affects the abilities of state and local governments to operate and serve their constituents. State and local governments touch the lives of nearly every American and, in many cases, they have been on the forefront of major policy innovation.

But the reality is many of these great advancements, like Medicaid expansion, infrastructure revitalization, and investments in our public schools, would not be possible without critical support from the federal government. From public parks to private—to public libraries, renewing a driver's license, or driving kids to school, every day millions of Americans interact with institutions and infrastructure made possible with the help of federal investments.

The impact of federal funding across the country cannot be overstated. On average, federal funding makes up nearly one-third of a state's budget. As a result, federal funding decisions, unpredictability, and, of course, national economic downturns have a major impact on states and their budgeting, and their plans for strategic investments.

The same is true for local governments. With many state legislatures and city councils headed into session to plan for the upcoming fiscal year, it is an important time to examine the role of federal investments in our communities.

Most federal grants going to states are for Medicaid, which provides insurance coverage to 65 million Americans, and allows states to customize their programs to meet the specific needs of their population. Under the Affordable Care Act, 37 states, including the District of Columbia, have expanded Medicaid, helping vulnerable Americans gain affordable and quality health care coverage. Now Kansas is on deck to actually become the 38th.

In my home state of Kentucky, nearly a half-million people obtained health coverage through Medicaid expansion. That is in a state of just over 4 million. I wish the people of Kansas similar success.

Federal support also keeps the doors open at many community health centers and public health clinics, helping those struggling with addiction and others trying to break free from violent or abusive situations. Other federal investments that Americans rely on every day include programs that help Americans meet their basic needs; transportation projects to construct highways, transit systems, and airports; and other infrastructure investments that can revitalize communities and encourage economic growth.

Meanwhile, education grants such as Title I are making sure our schools are equipped to serve our nation's youth. Using these investments, local officials can tailor programs to best meet the unique needs of their communities.

These are vital programs. And while it may be easy for some of our colleagues or others in the White House to look at a dollar amount in a column on a page in the federal budget and say, "Yes, slash it," it is important to remember that cuts carry serious consequences for states and localities and the people we all serve. Most states and local governments operate on the thinnest of margins, and would be unable to backfill any major loss of federal funding. Their budgets would take a massive hit, but it is the people, our constituents, who would suffer most.

During economic downturns, the loss of federal support would be especially harmful. In a recession, states face a one-two punch of declining tax revenues and increasing demand for services. Federal investments help states, most of which are required to balance their budgets to avoid painful cuts and still provide crucial services.

Between 2008 and 2012 the American Recovery and Reinvestment Act and a later extension were responsible for closing 24 percent of state budget gaps, as states nationwide grappled with the lingering effects of the Great Recession.

Today the Committee will hear from witnesses who know firsthand just how important federal investments are to state and local budgets. I look forward to discussing with our witnesses and my colleagues ideas that will help keep the federal government—be an even better and more reliable partner to state and local governments and the Americans they serve.

[The prepared statement of Chairman Yarmuth follows:]

Chairman John A. Yarmuth
Hearing on Why Federal Investments Matter:
Stability from Congress to State Capitals
Opening Statement
January 15, 2020

Welcome back everyone. I am looking forward to this new year in the House Budget Committee, and I hope you are as well.

Last year, with the support of both Republican and Democratic members of this Committee, Congress put in place bipartisan budgets for 2020 and 2021, complete with discretionary toplines and committee allocations, including accommodations for initiatives that are fully offset. The Committee held hearings addressing some of the biggest economic issues facing our nation, including the benefits of immigration reform, the cost of climate change and aging infrastructure, the potential costs of debt, the federal government's vital role in mitigating economic downturns, and more.

The federal budget has a direct impact on Americans' everyday lives, but it also affects the abilities of state and local governments to operate and serve their constituents. State and local governments touch the lives of nearly every American. In many cases, they have been on the forefront of major policy innovation. But the reality is, many of these great advancements – like Medicaid expansion, infrastructure revitalization, and investments in our public schools – would not be possible without critical support from the federal government. From public parks to public libraries, renewing a driver's license or driving kids to school, every day, millions of Americans interact with institutions and infrastructure made possible with the help of federal investments.

The impact of federal funding across the country cannot be overstated. On average, federal funding makes up nearly one-third of a state's budget. As a result, federal funding decisions, unpredictability, and, of course, national economic downturns have a major impact on states, their budgeting, and their plans for strategic investments. The same is true for local governments. With many state legislatures and city councils headed into session to plan for the upcoming fiscal year, it's an important time to examine the role of federal investments in our communities.

Most federal grant dollars going to states are for Medicaid, which provides insurance coverage to 65 million Americans and allows states to customize their programs to meet the specific needs of their population. Under the Affordable Care Act, 37 states, including D.C., have expanded Medicaid, helping vulnerable Americans gain affordable and quality health care coverage. And now Kansas is on deck to potentially become the 38th. In my home state of Kentucky, nearly a half a million people obtained health coverage through Medicaid expansion. That's in a state of just over 4 million. I wish the people of Kansas similar success.

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Other federal investments that Americans rely on every day include programs that help Americans meet their basic needs, transportation projects to construct highways, transit systems, and airports, and other infrastructure investments that can revitalize communities and encourage economic growth.

Meanwhile, education grants, such as Title I, are making sure our schools are equipped to serve our nation's youth. With the help of federal grants, localities can support their most impoverished schools and ensure students with disabilities get a full education. Using these investments, local officials can tailor programs to best meet the unique needs of their communities.

These are vital programs. And while it may be easy for some of our colleagues or others in the White House to look at a dollar amount in a column on a page of the federal budget and say, "yes, slash it" – it is important to remember that cuts carry serious consequences for states and localities and the people we all serve. Most states and local governments operate on the thinnest of margins and would be unable to backfill any major loss of federal funding. Their budgets would take a massive hit, but it's the people, our constituents, who would suffer.

During economic downturns, the loss of federal support would be especially harmful. In a recession, states face a one-two punch of declining tax revenues and increasing demand for services. Federal investments help states – most of which are required to balance their budgets – to avoid painful cuts and still provide crucial services. Between 2008 and 2012, the American Recovery and Reinvestment Act and a later extension were responsible for closing 24 percent of state budget gaps as states nationwide grappled with the lingering effects of the Great Recession.

Today, the Committee will hear from witnesses who know first-hand just how important federal investments are to state and local budgets. I look forward to discussing with our witnesses – and my colleagues – ideas that will help the federal government be an even better and more reliable partner to state and local governments and the Americans they serve.

Chairman YARMUTH. And before I yield to the Ranking Member for his opening statement, I would like to ask unanimous consent to submit a letter from the American Federation of State, County, and Municipal Employees.

Without objection, so ordered.

[The letter submitted by Chairman Yarmuth for the record follows:]

Statement for the Record by the
American Federation of State, County and Municipal Employees (AFSCME)
on
"Why Federal Investments Matter: Stability from Congress to State Capitals"
Committee on the Budget
U.S. House of Representatives

January 15, 2020

Thank you for the opportunity to submit this statement for the official record on behalf of the members of the American Federation of State, County and Municipal Employees (AFSCME) on "Why Federal Investments Matter: Stability from Congress to State Capitals." We are pleased the Budget Committee is holding this hearing on such an important topic.

AFSCME members work in hundreds of different occupations across the country – from nurses to corrections officers, child care providers to sanitation workers – providing the vital services that make America happen. Our members understand the critical role federal funding has on state and local communities. Federal assistance constitutes more than 30% of state budgets. This assistance supports state and local governments in their vital roles providing health care, public education, job training, nutrition assistance, housing assistance, transportation, and other critical government functions. Without adequate funding, state and local governments cannot provide necessary services for their communities and citizens.

Now is not the time to reduce domestic federal spending. If anything, now is the time to increase our investments in vital public services. As health care costs increase, job industries change, and infrastructure deteriorates, investments in public programs help stabilize the economy and strengthen the workforce. This will ultimately avoid a recession, layoffs and job dislocation.

In many ways the American economy no longer works for working people. Years into a strong economic recovery corporations and the 1% are doing well, while incomes for ordinary Americans have stagnated. Working people face challenges caring for their families, arranging affordable child care, getting time off when sick, and paying for a college education. And after a lifetime of work, current workers face an uncertain retirement. At a time when many citizens must rely on public services more than ever these services have been underfunded and are struggling to meet the challenges our communities face.

These problems are not the result of immutable economic forces. They are the result of policies enacted over the past four decades that tilt the balance of power to those at the top. Economic and political elites sold these policies and continue to defend them by claiming they promote growth and jobs. But that's not the case. The evidence of the last 35 years and the lessons of stagnation and low-wage recovery since the 2008 financial crisis show that we cannot prosper if our economic system does not create shared prosperity.

We have an opportunity to reverse these trends and reinvest not just in the American economy broadly, but in American workers and the public services they rely on. To help create an economy that works for all of us, AFSCME believes we must:

- Restore and protect the rights of workers to negotiate better wages, benefits and working conditions;
- Support working families by increasing support for child care, early childhood education and higher education, ensuring workers can take paid sick and family leave, and ending pay and employment discrimination against women and people of color;
- Expand retirement security by protecting public pension systems, protecting and expanding Social Security, and increasing opportunities for retirement savings without having to pay exorbitant fees.
- Reinvest in public services by restoring funding to the neglected public workforce, institutions and infrastructure; and
- Create a tax system where everybody pays their fair share.

Reinvesting in Public Services

We must rebuild quality public services by restoring funding to the neglected public workforce and institutions. This can be accomplished by investing in public infrastructure for transportation, power, water and sewer systems and ports, while increasing existing federal grant-in-aid funding to ensure the federal government equitably supports state efforts in education, health care, public safety, and vital safety net programs that protect our most vulnerable. Now is the time to invest to lift families out of poverty, feed hungry children, provide vital job training, expand access to affordable college, rebuild schools and so much more.

We urge you to use the Fiscal Year 2021 budget to address our nation's most pressing and long neglected needs.

Avoiding and Limiting Recessions

State and local governments and their employees play an important role in keeping the economy strong and prosperous. They provide vital public services which all Americans depend upon. During a recession, state and local governments typically face significant budget shortfalls. These shortfalls are often exasperated by the slow and inadequate response of the federal government. This forces state and local governments to make painful budget cuts that exacerbate and lengthen recessions.

In fact, in times of downturn, recent recessions have shown few policies can match the stimulative benefits of state and local budget relief. One of the most effective pieces of the Obama Recovery Act was the $144 billion in state budget relief, provided mainly in the form of Medicaid and education funds. Budget relief prevents tax hikes and spending cuts, and the layoffs of teachers, firefighters, police officers, and bus drivers. Most of all it prevents depriving individuals of needed public services like education, safety, and transportation. In addition, spending cuts disproportionally impact low-income households, adding to economic inequality.

We appreciate the committee for holding this hearing on how federal funding impacts state and local governments.

Chairman YARMUTH. With that I yield five minutes to the Ranking Member, the gentleman from Arkansas, Mr. Womack.

Mr. WOMACK. I thank the Chairman for holding this hearing, and welcome to each of our witnesses here today.

Late last year we heard firsthand from experts several times right here in this room that our economy is historically strong by numerous metrics, thanks to pro-growth policies enacted under this Administration. A strong American economy yields positive results for all of us. From the largest state's government to the smallest local authority, everyone feels the benefits of a good economy.

We are experiencing historic economic prosperity. A recession is not imminent. Rather, the true threat to state and local governments is the dire status of the federal government's finances. The federal debt recently eclipsed $23 trillion, and annual deficits are projected to exceed a trillion dollars each year over the next 10 years. We may be facing a sovereign debt crisis which will affect every state, regardless of size, and negatively impact every American.

When the federal government does provide support to state and local governments, federal overreach often stifles flexibility and innovation. Many well-intended federal requirements hinder states' efforts to address domestic priorities. Such requirements impose unfunded costs, hours of additional paperwork, and prescriptive measures that prevent state and local governments from tailoring programs to suit the needs of their constituents.

Let me give you an example. In my home state of Arkansas, the Department of Energy gave a company called Clean Line Energy Partners a waiver to develop the plans in Eastern Clean Line—Plains and Eastern Clean Line project after our state rejected the proposal. For years, the Arkansas delegation fought for our state's right to prior approval before an agency exercises eminent domain. This was a high wire line that Arkansas did not need and did not benefit from enough to justify the amount of land and resources taken from Arkansans.

Thankfully, after multiple meetings and letters from the Arkansas delegation, and under a new Presidential administration, the Department of Energy terminated its contract with Clean Line. This action effectively stripped their waiver to circumvent local and state approval, placing the authority where it belongs, with Arkansans.

Republican lawmakers have offered many proposals to promote state flexibility in key domestic spending priorities, such as implementing a Medicaid per capita allotment, or an optional block grant, and dialing back burdensome infrastructure regulations imposed by the National Environmental Policy Act of 1969.

The point is that state and local governments, along with private-sector innovation, are best equipped to address domestic needs. The federal government should focus on finding more opportunities to stay out of its way.

The size and scope of the federal government have vastly increased throughout our country's history. The power dynamic between the federal government and state and local governments has become greatly skewed, overly dominated by federal control, and far out of line from what the founding fathers envisioned.

Today's hearing presents an opportunity for us to have a serious conversation about the need to restore the principles of federalism in the budget process. It is in the best interest of all to promote policies that reduce the federal imprint on state and local governments and encourage these institutions to address an increasing number of our nation's domestic policy concerns. One-size-fits-all policies from bureaucrats sitting here in Washington do little to solve problems or address the needs in Arkansas's Third congressional District or any other location far outside the Beltway.

Today's hearing also provides us yet another opportunity to discuss the fact that the current congressional budget process isn't working. Congress has frequently relied on continuing resolutions to fund the federal government. The dysfunction and uncertainty in the federal budget process not only negatively impacts state and local governments, but it also causes significant damage to our national defense efforts.

The way we are doing business today is irresponsible. While under Republican control, this Committee reported a budget resolution every year. On the other hand, the Democrat majority failed to do a budget resolution last year and will not be doing a budget resolution this year. In order to truly capitalize on this historic moment of economic prosperity for the benefit of state and local governments and all Americans, we must finally come together to put our nation's finances on a sustainable path.

As a former mayor, I look forward to hearing from the hardworking and dedicated state officials here with us today.

[The prepared statement of Steve Womack follows:]

HOUSE BUDGET REPUBLICANS

BUDGET

Rep. Steve Womack
Ranking Member

Ranking Member Steve Womack (R-AR) Opening Remarks at Hearing Entitled:

Why Federal Investments Matter: Stability from Congress to State Capitals

Remarks as prepared for delivery:

Thank you, Chairman Yarmuth, for holding this hearing. It is my distinct pleasure to welcome my friend, Larry Walther, the Chief Fiscal Officer for the State of Arkansas. Larry, thank you for being here with us today.

Before I begin, I would like to yield a minute of my time to my colleague from Ohio, Mr. Johnson, to introduce one of our witnesses.

Late last year, we heard firsthand from experts several times right here in this room that our economy is historically strong by numerous metrics thanks to pro-growth policies enacted under this Administration.

A strong American economy yields positive results for us all – from the largest state's government to the smallest local authority, everyone feels the benefits.

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When the federal government **does** provide support to state and local governments, federal overreach often stifles flexibility and innovation. Many well-intended federal requirements hinder states' efforts to address domestic priorities. Such requirements impose unfunded costs, hours of additional paperwork, and prescriptive measures that prevent state and local governments from tailoring programs to suit the needs of their constituents.

For example, in my home state of Arkansas, the Department of Energy gave Clean Line Energy Partners a waiver to develop the Plains and Eastern Clean Line Project **after** the state **rejected** the proposal.

For years, the Arkansas delegation fought for our state's right to prior approval before an agency exercises eminent domain. This was a highline that Arkansas did not need, nor benefit from enough to justify the amount of land and resources taken from Arkansans.

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The point is that state and local governments, along with private sector innovation, are best equipped to address domestic needs. The federal government should focus on finding more opportunities to stay out of the way.

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The way we're doing business is irresponsible. While under Republican control, this Committee reported a budget resolution every year. On the other hand, the Democrat Majority failed to do a budget resolution last year, and it is my understanding that they do not plan to write one this year either.

In order to truly capitalize on this historic moment of economic prosperity for the benefit of state and local governments and all Americans, we must finally come together to put our nation’s finances on a sustainable path.

As a former mayor, I look forward to hearing from the hard working and dedicated state officials here with us today. Thank you. I yield back the balance of my time.

Mr. WOMACK. Thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman YARMUTH. I thank the Ranking Member for his opening statement.

If any other Member has an opening statement, you may submit those statements in writing for the record.

Once again, I want to thank all of our witnesses for being here this morning. The Committee has received your written statements, and they will be made part of the formal hearing record. Each of you will have five minutes to give your oral remarks.

Dr. Gordon, you may begin when you are ready. You are recognized for five minutes.

STATEMENT OF TRACY GORDON, PH.D., SENIOR FELLOW, URBAN-BROOKINGS TAX POLICY CENTER; JEANNE LAMBREW, PH.D., COMMISSIONER, DEPARTMENT OF HEALTH AND HUMAN SERVICES, STATE OF MAINE; THE HON. MARK POLONCARZ, COUNTY EXECUTIVE, ERIE COUNTY, NEW YORK; THE HON. LARRY WALTHER, CHIEF FISCAL OFFICER AND SECRETARY, DEPARTMENT OF FINANCE AND ADMINISTRATION, STATE OF ARKANSAS; AND KIM MURNIEKS, DIRECTOR, OFFICE OF BUDGET AND MANAGEMENT, STATE OF OHIO

STATEMENT OF TRACY GORDON, PH.D.

Dr. GORDON. Thank you. Chairman Womack, Ranking Member—excuse me, Chairman Yarmuth, Ranking Member Womack, and Members of the Committee, thank you for having me here today to talk about the importance of the federal budget to state and local governments. The views I express today are my own, and should not be attributed to the Tax Policy Center, the Urban Institute, the Brookings Institution, their boards, or their funders.

In this short testimony I would like to make three main points: first, state and local governments are key economic players and service providers; second, both of these roles are severely tested in recessions and other economic shocks; third, the federal government often steps in to help state and local governments, but it could do more.

On the first point, state and local governments spend $3 trillion a year. They employ one out of every seven workers, more than any other industry, including manufacturing, retail, health care, and the federal government by a factor of seven to one. Since World War II they have contributed an average of .3 percentage points to real annual GDP growth. States and localities fund more than 90 percent of and deliver nearly all public K to 12 education. They undertake nearly 80 percent of all government spending on roads, bridges, water, and other infrastructure, not including their spending from federal funds. Together with the federal government, states administer the social safety net, including programs like Medicaid, unemployment insurance, and Temporary Assistance to Needy Families.

States and localities are often hard hit in recessions. states, in particular, tend to rely on pro-cyclical revenues, ones that rise and fall with the economy. But state spending is counter-cyclical, meaning that it generally rises in a downturn because of greater demands for public programs, especially those targeted to the low-income and unemployed. This mismatch creates problems for state and local elected officials, who must generally balance their budgets each year. It also poses problems for the larger economy, because tax increases and spending cuts undertaken to close projected budget gaps can undermine a national economic recovery.

Policy makers have long recognized these potential harms from state and local budget tightening. In the 1970's they experimented with various forms of counter-cyclical assistance. However, aid was often poorly targeted, slow to arrive, and not spent quickly. In the early 2000's Congress appropriated $10 billion in one-time population-based grants to states, plus $10 billion in Medicaid funds through a temporary increase in the federal matching rate.

The American Recovery and Reinvestment Act was the next major experiment with counter-cyclical fiscal assistance, directing nearly $290 billion to the nation's state and local governments. The Recovery Act worked faster than the 2003 bill, and many would argue it was more effective. Aid started to flow almost immediately, and it was retroactive. In addition, the Recovery Act was better targeted to places that were affected in the downturn.

The federal government should do more to help prepare for regional economic shocks, and help places that are left behind in the current recovery. The federal government allocates roughly $700 billion a year, or about 3.5 percent of GDP, in grants to states and localities each year. The federal government also helps states and localities through the tax code, allowing federal taxpayers to deduct state and local taxes, and generally excluding municipal bond interest payments from individual taxable income.

Federal money isn't a bailout, it is a quid pro quo. The federal government recognizes that states and localities have certain advantages when it comes to customizing programs to their populations, geographies, and costs. It wants to encourage them to spend more on valued goods and services whose benefits may extend across jurisdictional lines, or that are important to all Americans. That is why the federal government has long distributed grants to state and local governments, almost always with strings attached.

However, the U.S. intergovernmental grant system falls short in two key respects.

First, federal grants do a poor job responding to divergent regional fortunes. Federal policymakers should re-examine funding formulas that may be out of step with current social and economic conditions. Examples include Medicaid, Title 1 education grants, highway grants, and community development block grants.

Second, federal grants often are not as responsive as they could be to economic shocks or recessions. To address this problem, policymakers ought to consider making permanent and automatic a feature of the Recovery Act that allocates more places to—more money to places experiencing drops in unemployment.

At a minimum, the federal government could help states and localities by reducing uncertainty associated with late appropriations, short continuing resolutions, and threatened shutdowns. It could also minimize the use of expiring tax provisions.

In summary, the U.S. federal, state, and local partnership did not come easily. It evolved over a 200 years that included defaults, bailouts, a civil war, the introduction of new revenue sources, and major social insurance programs, and lots of trial and error. It is an enduring and robust partnership, but it is a work in progress. There are several ways in which the federalist system could be made stronger, especially in a crisis.

Thank you. I look forward to your questions.

[The prepared statement of Tracy Gordon follows:]

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STRENGTHENING THE FEDERAL-STATE-LOCAL PARTNERSHIP
IN RECESSION AND RECOVERY

Statement of
Tracy Gordon*
Senior Fellow, Urban Institute

before the
Committee on the Budget,
United States House of Representatives

WHY FEDERAL INVESTMENTS MATTER: STABILITY FROM CONGRESS TO STATE CAPITALS

January 15, 2020

*** The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.**

500 L'Enfant Plaza SW
Washington DC 20024
urban.org

I thank Donald Marron, Mark Mazur, and Kim Rueben for helpful comments and Nikhita Airi for help in preparing this testimony.

Chairman Yarmuth, Ranking Member Womack, and members of the committee, thank you for having me here today to talk about the importance of the federal budget to state and local governments. The views I am going to express today are my own and should not be attributed to the Tax Policy Center, the Urban Institute, the Brookings Institution, their boards, or their funders.

In this short testimony, I'd like to make three main points:

1. States and localities are key economic players and service providers.
2. Both these roles are severely tested in recessions and other economic shocks.
3. The federal government often steps in to help states and localities, but it could do more.

States and Localities Power Much of the American Economy and Public Sector

The nation's 50 states and more than 90,000 local governments (counties, cities, towns, school districts and special-purpose districts such as water or transit authorities) spend nearly $3 trillion a year on goods, services, and transfers.[1] They employ one of every seven workers—more than any other industry including health care, retail trade, and manufacturing and seven times as many as the federal government.[2] Since World War II, they have contributed an average of 0.3 percentage points to real annual GDP growth.[3]

States and localities fund more than 90 percent of and deliver nearly all public elementary and secondary education.[4] They administer public colleges and universities, which enroll three-quarters of the nation's higher education students.[5] States and localities undertake nearly 80 percent of all government spending on roads, bridges, water utilities, and other infrastructure—excluding their spending from federal grants or subsidized loans.[6]

Together with the federal government, states and localities provide subsidized health insurance to low-income individuals and families and cover about half of all long-term care expenses through the joint-federal-state

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[1] "Table 3.3, State and Local Government Current Receipts and Expenditures," National Income and Product Accounts (NIPA), US Bureau of Economic Analysis (BEA), last updated December 20, 2019, https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&nipa_table_list=5&categories=survey%20-%20reqid=19&step=3&isuri=1&nipa_table_list=5&categories=survey.

[2] "Table B-1a. Employees on Nonfarm Payrolls by Industry Sector and Selected Industry Detail, Seasonally Adjusted," Current Employment Statistics–CES (National), US Bureau of Labor Statistics, last updated December 6, 2019, https://www.bls.gov/web/empsit/ceseeb1a.htm.

[3] "Table 1.1.2, Contributions to Percent Change in Real Gross Domestic Product," NIPA, BEA, last updated December 20, 2019, http://apps.bea.gov/iTable/iTableHtml.cfm?reqid=19&step=3&isuri=1&Select_all_years=0&NIPA _Table_List=2&SERIES=A&FIRST_YEAR=1945&Scale=-99&LAST_YEAR=2019&Categories=survey&TheTable.

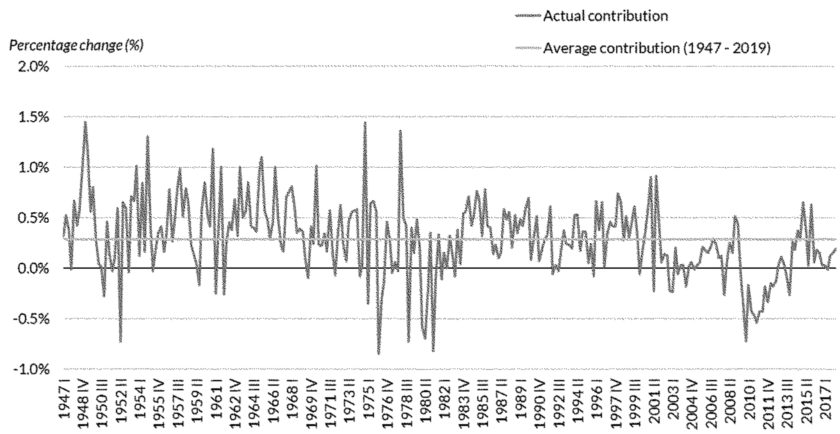
[4] Stephen Q. Cornman, Lei Zhou, Malia R. Howell, and Jumaane Young, *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2015–16 (Fiscal Year 2016)* (Washington, DC: US Department of Education, National Center for Education Statistics, 2018).

[5] "Table 303.10. Total Fall Enrollment in Degree-Granting Postsecondary Institutions, by Attendance Status, Sex of Student, and Control of Institution: Selected Years, 1947 through 2028," Digest of Education Statistics, US Department of Education, National Center for Education Statistics, Institute of Education Sciences, accessed January 11, 2020, https://nces.ed.gov/programs/digest/d18/tables/dt18_303.10.asp?current=yes.

[6] Nathan Musick, *Public Spending on Transportation and Water Infrastructure, 1956 to 2017* (Washington, DC: Congressional Budget Office, 2018).

Medicaid program.[7] They administer critical parts of the social safety net including unemployment insurance, Temporary Assistance to Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program), and public housing.

State and Local Government Contribution to Real GDP Growth



Source: Bureau of Economic Analysis URBAN INSTITUTE

States and Local Governments Are Often Hard Hit in Recessions

States and localities get roughly half their combined general revenue from taxes, another quarter from federal grants (mostly Medicaid), and the remainder from charges (including public college and university tuition, parking meter fees, public hospital payments, and highway tolls) and other sources.[8]

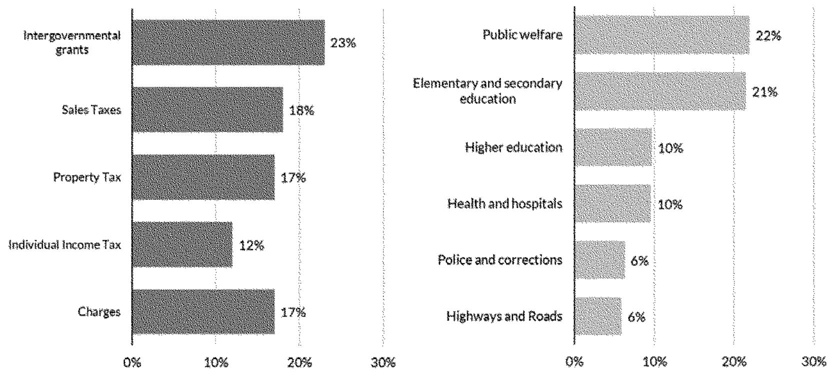
Sales taxes, including business gross receipts taxes and separate taxes on motor fuel, cigarettes, and alcohol, are the single largest source of state and local tax revenue (18 percent of general revenue), followed by property taxes (17 percent) and individual income taxes (12 percent).

State and local governments spend roughly two-thirds of their budgets on programs in education, health, and public welfare (a broad functional category defined by the US Census Bureau that includes Medicaid as well as TANF and other cash assistance and services for low-income residents).

[7] Marybeth Musumeci, Priya Chidambaram, and Molly O'Malley Watts, "Medicaid Home and Community-Based Services Enrollment and Spending" (San Francisco: Kaiser Family Foundation, 2019).

[8] Federal grants are a higher share of state (33 percent) than local general revenue (4 percent), although local governments receive a substantial share (36 percent) of funds from states that pass through federal grants. See Megan Randall, Tracy Gordon, Solomon Greene, and Erin Huffer, *Follow the Money: How to Track Federal Funding to Local Governments* (Washington, DC: Urban Institute, 2018).

State and Local Government General Revenue by Source and Direct Expenditure by Function
Share of total, 2017



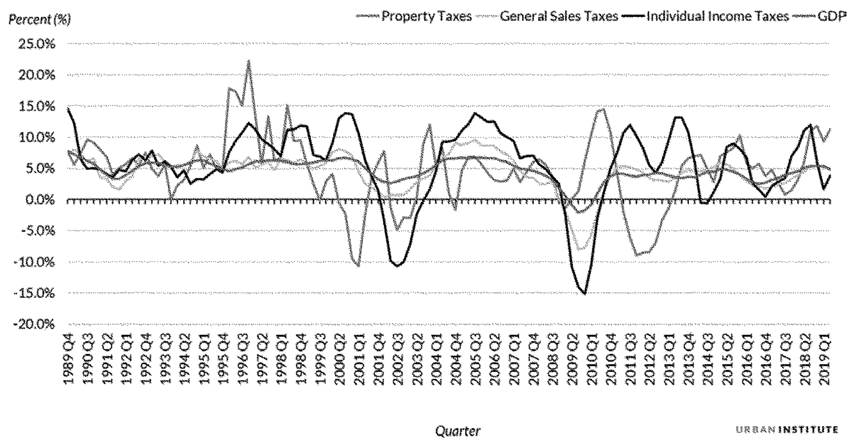
Source: State & Local Government Finance Data Query System. http://www.taxpolicycenter.org/slf-dqs/pages.cfm. The Urban Institute-Brookings Institution Tax Policy Center. Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments. Date of Access: (09-Jan-20 4:30 PM).
Note: Sales taxes include selective sales taxes (e.g., cigarette taxes). Expenditures excludes spending on government-run liquor stores, utilities, and insurance trusts. Medicaid spending is divided between the public welfare and health and hospitals functional categories, with the majority allocated to the former.
URBAN INSTITUTE

States in particular tend to rely on procyclical revenues—ones that rise and fall with the economy. However, their spending is countercyclical, meaning that it generally rises in a downturn because of greater demands for public programs, especially those targeted to people who are low income or unemployed.[9]

[9] Glenn Follette and Byron Lutz, "Fiscal Policy in the United States: Automatic Stabilizers, Discretionary Fiscal Policy Actions, and the Economy" (Washington, DC: Federal Reserve Board, 2010); US Government Accountability Office (GAO), "Knowledge of Past Recessions Can Inform Future Federal Fiscal Assistance" (Washington, DC: GAO, 2011).

State Government Revenue

Four-quarter moving average of year-over-year percent change



Source: Bureau of Economic Analysis: National Income and Product Accounts

This potential mismatch between revenues and spending in their responsiveness to the business cycle creates problems for state and local elected officials, who must generally balance their budgets each year.[10] It also poses problems for the larger economy because tax increases and spending cuts undertaken to close projected budget deficits can undermine a national economic recovery.

Economists have long noted the potential for such "fiscal perversity" at the state and local level, blaming it for prolonging the Great Depression and Japan's Lost Decade of the 1990s, among other episodes.[11] A related concern is regional downturns, such as the oil price shocks of the late 1970s, which may not be highly or even positively correlated with each other or national economic conditions.[12]

Federal Policymakers Have Long Recognized Potential Harms from State and Local Belt Tightening

In the 1970s federal policymakers experimented with various forms of countercyclical state and local fiscal assistance starting with the Local Public Works Capital Development and Investment Act of 1976 and continuing

[10] Kim Rueben and Megan Randall, "Balanced Budget Requirements: How States Limit Deficit Spending" (Washington, DC: Urban Institute, 2017).

[11] Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in the National Economy* (New York: W. Norton & Co., 1944); E. Cary Brown, "Fiscal Policy in the 1930s: A Reappraisal," *American Economic Review* 46 (December 1956): 857–79; Kenneth N Kuttner and Adam S. Posen, "The Great Recession: Lessons for Macroeconomic Policy from Japan," *Brookings Papers on Economic Activity* 32 (2001): 93–186.

[12] Edward M. Gramlich, "Subnational Fiscal Policy," in *Perspectives on Local Public Finance and Public Policy* edited by John M. Quigley, 3–27 (Greenwich, CT: JAI Press, 1987).

through to extensions to the Comprehensive Employment and Training Act of 1973 and the Antirecession Fiscal Assistance program. However, aid was often poorly targeted, slow to arrive, and not spent quickly.[13]

Countercyclical fiscal assistance then fell out of favor until the early 2000s, when the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) appropriated $10 billion in one-time, population-based grants to states as well as $10 billion in Medicaid funds through a temporary increase in the federal matching rate. This aid was also criticized for slow delivery and grants that failed to reflect current economic conditions or underlying state fiscal capacity.[14]

The American Recovery and Reinvestment Act (ARRA) of 2009 was the next major experiment with countercyclical fiscal assistance, directing nearly $290 billion to the nation's state and local governments. In all, nearly half of ARRA spending dollars would flow through state capitols, city halls, county seats, school districts, and other local entities.[15] ARRA also made substantial resources available to states and localities as general fiscal relief, or with few federal strings attached.

TABLE 1

Federal Outlays for Recovery Act Provisions Affecting State and Local Governments

Billions of dollars

	2009	2010	2011	2012	2013	2014	2015-2019	Total
Flexible fiscal relief								
State Fiscal Relief (Medicaid FMAP)	33.9	43.9	11.8	0.1	0.0	0.0	0.3	90.0
State Fiscal Stabilization Fund	6.5	28.4	16.1	2.4	0.3	0.0	0.0	53.6
Other non-infrastructure purposes								
Education (beyond SFSF)	2.0	13.3	11.8	1.6	0.2	0.0	0.0	28.9
Economic recovery payments, TANF, and child support	14.9	2.1	0.7	0.2	0.0	0.0	0.0	18.0
Unemployment compensation	17.0	20.5	0.5	0.3	0.1	0.1	0.8	39.2
State and local law enforcement	0.4	0.8	0.6	0.4	0.6	0.0	0.0	2.8
Infrastructure								
Highway construction & other transportation	5.0	9.4	8.8	7.0	6.1	5.4	6.4	48.1
Clean water drinking water revolving fund	0.2	1.4	1.8	1.2	0.6	0.3	0.3	5.8
Public housing capital fund	0.1	1.2	1.2	0.8	0.6	0.0	0.0	4.0
Total	80.0	121.0	53.2	14.0	8.4	6.0	7.7	290.4

Source: Congressional Budget Office, 2009.
Note: "Other" education sums include funds for Facilities Modernization, Renovation, and Repair, Other Education, and Other as classified by the CBO.

ARRA worked faster than JGTRRA and many would argue it was more effective. Aid started to flow in the first quarter of 2009, retroactive to six months earlier. With JGTRRA, aid did not start until after the recession was already over—because of delays enacting the legislation, but also because the 2001 recession was relatively brief. In addition, ARRA was better targeted to places affected in the downturn.[16]

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[13] Advisory Commission on Intergovernmental Relations (ACIR), *Countercyclical Aid and Economic Stabilization* (Washington, DC: ACIR, 1978); GAO, "Antirecession Assistance: An Evaluation" (Washington, DC: GAO, 1977).

[14] GAO, "Federal Assistance: Temporary State Fiscal Relief" (Washington, DC: GAO, 2004).

[15] ARRA created individual income tax credits, expanded business tax incentives, and launched federal initiatives in high speed rail, health information technology, and an energy "smart grid." At its peak (2009–12), it provided a fiscal impulse of about $700 billion (excluding the so-called "AMT patch," which is best thought of as continuation of long-standing policy).

[16] However, unemployment was a better indicator of Medicaid enrollment pressures than the across-the-board FMAP increase or hold-harmless provision. See Tracy Gordon, "Harnessing the U.S. Intergovernmental Grant System for Place-Based Assistance in Recession and Recovery," Hamilton Project Policy Proposal 2018-12 (Washington, DC: Brookings Institution, 2018).

The Federal Government Should Do More to Prepare for State and Regional Economic Shocks and Help Places Left Behind in the Current Recovery

The federal government allocates roughly $700 billion, or 3.5 percent of GDP, annually to states and localities using a combination of formula grants and competitive awards. The federal government also helps states and localities through the tax code—by allowing federal taxpayers to deduct state and local property and income or sales taxes (up to a $10,000 annual limit after the Tax Cuts and Jobs Act). In addition, the federal income tax generally excludes state and local municipal bond interest payments from individual taxable income.[17]

Federal money isn't a bailout; it's a quid pro quo. The federal government recognizes that state and local governments have certain advantages when it comes to tailoring programs to their populations, geographies, and costs. It wants to encourage them to spend more on valued goods and services whose benefits may extend across jurisdictional lines. Examples include roads, bridges, and investments in human capital or help for struggling families.

Another consideration is equity or fairness. Some states and localities may start out with less income, wealth, and other resources to tax. Alternatively, they may have populations that are older, sicker, geographically dispersed, or otherwise more expensive to serve at a given level of quality.[18] Americans who care about providing struggling families with a basic level of assistance might be willing to subsidize these states and localities to do more.

The federal government has long distributed grants and had state and local governments provide goods and services using these funds, almost always with strings attached. However, the US intergovernmental grant system falls short in both static and dynamic terms. In the static sense, federal grants do a poor job responding to divergent regional economic and fiscal fortunes and in equalizing differences in fiscal and economic capacity. In a dynamic sense, federal grants typically are not as responsive as they could be to the regional effects of economic shocks or recessions.

To make grants better economic equalizers, federal policymakers should reexamine funding formulas that may be out of step with current economic and social conditions. Federal highway grants should be based on need and performance rather than only highway lane miles, vehicle miles traveled, population, and tax payments to the federal Highway Trust.[19] Medicaid, Title I education, and Community Development Block Grant formulas should also be better targeted to local need, capacity, and cost.[20] Where possible, the federal government should

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[17] "What Types of Federal Grants Are Made to State and Local Governments, and How Do They Work?" Tax Policy Center Briefing Book, Urban-Brookings Tax Policy Center, accessed January 10, 2020, https://www.taxpolicycenter.org/briefing-book/what-types-federal-grants-are-made-state-and-local-governments-and-how-do-they-work.

[18] See Tracy Gordon, Richard Auxier, and John Iselin, Assessing Fiscal Capacities of States a Representative Revenue System–Representative Expenditure System Approach Fiscal Year 2012 (Washington, DC: Urban Institute, 2016).

[19] See Robert Puentes, *A Bridge to Somewhere: Rethinking American Transportation for the 21st Century* (Washington, DC: Brookings Institution, Metropolitan Policy Program, 2008); and Congressional Budget Office, "Approaches to Making Federal Highway Spending More Productive" (Washington, DC: Congressional Budget Office, 2016).

[20] Thomas B. Jabine, Thomas A. Louis, and Allen L. Schirm, "Case Studies," in *Choosing the Right Formula: Initial Report,* 12–36 (Washington, DC: The National Academies Press, 2001); GAO, "Community Development Block Grant Formula: Targeting Assistance to High-Need Communities Could Be Enhanced" (Washington, DC: GAO, 2005).

reexamine hold-harmless provisions, caps, and small-state minimums and other floors and ceilings that limit responsiveness to local economic conditions.[21]

To make federal grants better economic shock absorbers, policymakers ought to consider making permanent and automatic a feature of ARRA that allocates more money to places experiencing large drops in employment.[22] Beyond Medicaid, federal highway grants are another good candidate for restructuring to address regional economic decline. As it did with ARRA, the federal government could attach conditions for states to spend infrastructure funds quickly and emphasize "state of good repair" improvements over system expansion in awarding funds.[23]

At a minimum, the federal government could help states and localities by reducing uncertainty associated with late federal appropriations, short continuing resolutions, and threatened shutdowns.[24] It could also minimize the use of expiring tax provisions that complicate efforts at federal income tax conformity and that provide less effective incentives for desired behaviors than permanent policy.[25]

In summary, the US federal-state-local partnership did not come easily. It evolved over 200 years that included defaults, bailouts, a civil war, the introduction of new revenue sources and social insurance programs, and lots of trial and error. It is an enduring and robust partnership, but it is a work in progress. There are several ways in which the US federalist system can be made stronger, especially in an economic crisis. Thank you for the opportunity to share these three points with you. I welcome the opportunity to take questions and to continue to work with you in the future.

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[21] GAO, "Formula Grants: Funding for the Largest Federal Assistance Programs Is Based on Census-Related Data and Other Factors" (Washington, DC: GAO, 2009).

[22] See, for example, Matthew Fiedler, Jason Furman, and Wilson Powell III, "Increasing Federal Support for State Medicaid and CHIP Programs in Response to Economic Downturns," in *Recession Ready: Fiscal Policies to Stabilize the American Economy,* 93–127 (Washington, DC: Brookings Institution, The Hamilton Project, 2019); and Gordon, "Harnessing the U.S. Intergovernmental Grant System."

[23] Therese J. McGuire, Jay Alexander, William D. Dupor, Randall W. Eberts, Ronald L. Epstein, Andrew Haughwout, Benjamin F. Jones, Nancy Richardson, and Jay C. Shambaugh, *Transportation Investments in Response to Economic Downturns* (Washington, DC: The National Academies Press, 2014). As noted in McGuire and colleagues (2014, 43), some discretionary funds (e.g., TIGER and $750 million in an existing discretionary transit capital grant program) were awarded to projects judged capable of spending additional funds quickly. See also Andrew Haughwout, "Infrastructure Investment as an Automatic Stabilizer," in *Recession Ready: Fiscal Policies to Stabilize the American Economy*, 129–52 (Washington, DC: Brookings Institution, The Hamilton Project, 2019).

[24] Philip G. Joyce, *The Costs of Budget Uncertainty: Analyzing the Impact of Late Appropriations* (Washington, DC: IBM Center for the Business or Government, 2012).

[25] See, for example, Richard Auxier and Frank Sammartino, *Tax Debate Moves to the States: The Tax Cuts and Jobs Act Creates Many Questions for States That Link to Federal Income Tax Rules* (Washington, DC: Urban-Brookings Tax Policy Center, 2018).

Chairman YARMUTH. Thank you for your testimony.

I now yield five minutes to Dr. Lambrew.

STATEMENT OF JEANNE LAMBREW, PH.D.

Dr. LAMBREW. Great. Thank you, Chairman Yarmuth, Ranking Member Womack, and Members of the Committee. It is an honor to be invited to discuss how federal investments affect the state of Maine.

We enter Maine's bicentennial year celebrating our strengths. This includes a good economy: Maine's unemployment rate has been below 4 percent 47 consecutive months. And Governor Mills's first budget responsibly invested in health care, education, economic development, clean energy, and a rainy day fund.

But Maine faces economic challenges, as well. These include fewer workers and slow GDP growth. We are hard at work on actions to implement a recently released, strategic, statewide economic development plan. But we cannot do it alone. Federal grants represent 34 percent of the Maine State budget, above the national average. In the biennial budget, federal funds represented 58 percent of the Maine Department of Health and Human Services' $9.6 billion budget.

As you are aware, Congress has not recently significantly changed federal funding for discretionary health and human services programs, except for opioid response. We are grateful for that funding, but urge it to be allocated based on up-to-date information on this rapidly changing crisis.

We also receive federal funding for entitlement programs. The majority of federal funding to DHHS is for Medicaid, called MaineCare. Governor Mills's first executive order was to direct its expansion. The MaineCare expansion has cumulatively covered 57,000 people, providing over 16,000 mental health treatments. The program is essential to our fiscal, as well as our public, health.

Because of this, I would like to focus on the triple threat to federal funding for Medicaid.

The first threat is congressional proposals to cap or block grant Medicaid. Last year's president's budget would shift from the federal government paying a percent of cost to a pre-set dollar limit. This would leave states largely, if not fully, at financial risks of high costs due to unexpected events such as recessions or natural disasters. Maine will be particularly vulnerable to unaffordable cost shifts, given its high percentage of older and low-income residents. Additionally, it is not clear whether the proposal would include the costs of recent expansions.

The second threat is through executive actions that limit federal funding by constraining state options. This fall the Centers for Medicare and Medicaid Services, or CMS, proposed a Medicaid financial accountability regulation called MFAR. It would change longstanding policies on taxes, intergovernmental transfers, and other sources of state financing. CMS has told me that one type of tax implicated by this proposal, a $58 million service tax on providers, would have to be repealed, replaced, and returned to providers who paid it back to 2016. Even in a good economy, there will be a challenge. This may be why, unlike most rules, CMS did not quantify MFAR's impact on states.

Perhaps most importantly, CMS proposes to give itself the power to make subjective determinations on what does and does not constitute permissible sources of state financing. In so doing, the proposal—proposed rule shifts the balance of powers decisively away from states.

The third threat is through the courts. Republican-led states, backed by the Trump Administration, seek to strike down the Affordable Care Act in the case of Texas versus the U.S. Should the plaintiffs prevail, the uninsured rate in Maine would increase by an estimated 65 percent. Maine would lose an estimated $495 million each year in federal Medicaid and marketplace funding. Uncompensated costs—care costs would rise, straining our hospitals.

Governor Mills signed into law LD 1, which codifies the Affordable Care Act consumer protections. It would protect up to 230,000 people in Maine who have pre-existing conditions under a narrow ruling in the case. But under a broad ruling, another 360,000 people will be at risk of denial. This level of damage cannot be reversed by states.

Opportunities to strengthen federal-state partnerships are also under discussion. Last fall you heard testimony on creating federal funding formulas that would help states deliver services effectively and efficiently. For example, setting the federal matching rate for Medicaid to automatically increase with the state's unemployment rate would sustain local economies during downturns. And the House-passed bill this—last year will provide $200 million for state-based marketplaces, like the one that Kentucky ran that was incredibly successful—until recently.

Governor Mills and legislative leaders recently introduced legislation for that purpose. This would strengthen state resiliency.

In closing, federal-state partnerships are essential to how we provide services in Maine and nationwide. But it indeed needs to remain that—mutual and accountable—rather than an imbalanced and uncertain relationship.

Thank you.

[The prepared statement of Jeanne Lambrew follows:]

Why Federal Investments Matter: Stability from Congress to State Capitols
Testimony to the U.S. House of Representatives Budget Committee on January 15, 2020
Statement of Jeanne Lambrew

Thank you Chairman Yarmuth, Ranking Member Womack, and Members of the Committee. It is an honor to be invited to discuss how Federal investments affect the State of Maine.

The year 2020 is Maine's Bicentennial so we are celebrating statehood and what makes us special. Maine is the most rural state east of the Mississippi, with tremendous natural resources in our forests, lakes, rivers, and coast line. By most counts, we are the oldest state in the nation – a point of pride as we tap into our older residents' experience and talent.

Maine's economy has strengths. In 2019, the number of unemployed people in Maine decreased by 5,000 people or about 20 percent. Maine's unemployment rate has been below 4 percent for 47 consecutive months. We increased the minimum wage to $12 on January 1, 2020.

And Governor Mills budget responsibly invests in health care, education, economic development, clean energy, and saving for a rainy day. She increased the Budget Stabilization Fund to $236.9 million, which represents 6.6 percent of total General Fund revenues for state fiscal years 2020 and 2021. She paid off debts of the previous Administration, including the balance of an $84 million disallowance in Medicaid.

That said, Maine faces economic challenges: specifically, fewer workers, slow GDP growth, and a relatively high poverty rate. As such, the Governor launched a ten-year Strategic Statewide Economic Development Plan in December. We aim to attract 75,000 people to Maine's talent pool, increase the value of products sold per worker by 10 percent, and grow average wages by 10 percent. We are hard at work on State actions to put us on this trajectory.

But we cannot do it alone. Federal grants represented 34 percent of the Maine State budget in fiscal year 2017, above the national average. In this biennial budget, Federal funds represent 58 percent of the Maine Department of Health and Human Services' $9.6 billion budget.

As you are aware, Congress has not significantly changed Federal funding for discretionary health and human services programs in recent years – with one major exception. Grant funding for opioid and substance use disorders has increased. We are hopeful that this funding will be allocated based on up-to-date information on this rapidly changing crisis – Maine has been disadvantaged in the past due to data lags.

We also receive Federal funding for entitlement programs like SNAP and Medicaid. The vast majority of Federal funding to DHHS is for Medicaid, called MaineCare. Governor Mills' first executive order was to implement a ballot initiative to expand Medicaid under the option available under the Affordable Care Act. The MaineCare expansion has cumulatively covered over 57,000 people in Maine, with 43,289 covered on January 2. Over 16,000 mental health treatments, over 3,100 cancer screening. The expansion has been a critical tool in addressing the State's opioid crisis. About one in ten expansion enrollees received treatment for opioid use disorders.

Because of its implications for Maine and other states, I'd like to focus on the triple threat to Federal funding to states via Medicaid.

The first threat is Congressional proposals to cap or "block grant" Federal Medicaid spending. In 2017, the House of Representatives passed legislation – embraced by the Trump Administration through its 2020 budget proposal – that would fundamentally change how the Federal government contributes toward Medicaid. It would shift from a paying a percent of costs to a pre-set dollar limit. This would leave states largely if not fully at financial risk of unexpectedly high costs due to events such as recessions, natural disasters, disease outbreaks, and expensive medical breakthroughs.

Maine would be particularly vulnerable to unaffordable cost-shifts under a Medicaid block grant due to its high percentage of older and low-income residents. Additionally, it is not clear whether the proposal would account for the cost of the recent Medicaid expansion. As a title of an Urban Institute analysis of this proposal declared, "The uncertainties and complexities for states are enormous."

The second threat is through executive actions that undermine state funding for Medicaid. This fall, the Centers for Medicare and Medicaid Services (CMS) published the Medicaid Financial Accountability Regulation (MFAR) for public input. It is wide ranging in scope, changing long-standing policies on taxes, intergovernmental transfers, provider donations, and other sources of state funding for the program. Experts agree that every state would be affected. CMS has told Maine that one type of tax, our service tax whose revenue totals $58 million annually, would have be repealed, replaced, and returned to providers who paid it back to 2016 – which even in a good economy would be prohibitively expensive. MFAR puts even more funding at stake for Maine.

CMS goes beyond questioning specific sources of state funding. It proposes to give itself the power to make subjective determinations on what does and does not constitute permissible state sources of Medicaid financing. CMS would be allowed to strike down a state financing source based on a vague test – effectively, CMS will know a problem when it sees it. In so doing, this proposed rule substantially shifts the balance of powers decisively away from states.

The third threat is through the courts. Republican-led states backed by the Trump Administration seek to accomplish through the judicial system what they failed to achieve in Congress: striking down the Affordable Care Act. A petition is before the Supreme Court to take up the case of *Texas versus the United States*. Plaintiffs claim that the individual mandate, without the tax which was repealed in 2017, is unconstitutional and, without a severability clause, the whole law should be struck down. The Trump Justice Department is not defending current law.

Should the plaintiffs prevail, the uninsured rate in Maine would increase by an estimated 64.8 percent or 83,000 people – largely due to the loss of Medicaid coverage. Maine would lose an estimated $495 million each year in federal Marketplace and Medicaid funding. Uncompensated care costs in Maine, which fell by $44 million through 2015 – even before the Medicaid expansion – would increase significantly, straining our hospitals particularly in the rural parts of

Maine. Two rural hospitals are already in bankruptcy. One of our insurers is a COOP created by the ACA: its existence would be jeopardized by an ACA injunction.

Governor Mills signed into law LD 1 which codifies the Affordable Care Act consumer protections. It would protect up to 230,000 people in Maine who have a pre-existing condition under a narrow ruling in this case. However, another 360,000 people with pre-existing conditions would be at risk for being charged unaffordable premiums or denied coverage altogether under a full injunction of the ACA. Maine nor any other state could reverse this damage.

Opportunities to strengthen Federal-state are also under discussion. At your fall hearing on a similar topic, you heard testimony on ideas such as creating Federal funding formulas that would help, not hurt, states as they strive to deliver services efficiently and effectively. Setting the Federal matching rate for Medicaid to increase with a state's unemployment rate would sustain local economies and revenues during economic downturns. Evidence is clear that the Medicaid matching rate increase in 2010 helped – and should be made permanent, automatic, and ready-to-go policy.

And the House-passed bill to improve the Affordable Care Act would provide $200 million to support State-based Marketplaces. Governor Mills and the leaders of the Maine House and Senate recently introduced legislation toward this goal. This would strengthen state resiliency.

In closing, the Federal-state partnership is fundamental to how we provide services in Maine and nationwide. But it indeed needs to remain that: mutual rather than an imbalanced and uncertain relationship.

Chairman YARMUTH. Thank you for your testimony.

I now recognize Mr. Poloncarz for five minutes.

STATEMENT OF MARK POLONCARZ

Mr. POLONCARZ. Thank you. Good morning, Chairman Yarmuth, Ranking Member Womack, and to all the Members of the Committee.

I am glad to be here this morning to share my unique perspective as county executive on the vital role federal investments play in stabilizing America's local communities, especially during difficult economic times.

First, I would like to share a little background on the community I represent. Erie County is a microcosm of our—America. It has an urban core in Buffalo, many suburbs, and hundreds of square miles of family farms and rural communities. There is 920,000 people that live in my county, making it larger than five states, and it is approximately the same size, geographically, as the state of Rhode Island.

Like other Great Lake areas, Erie County struggled at the end of the 20th century, with the loss of population and jobs. However, in recent years we have seen our population increase, and an economic resurgence as we have transitioned from a blue collar economy to one based on financial services, health sciences, education, and advanced manufacturing.

As executive, I manage an annual budget of $1.8 billion, dozens of departments, and a work force of 5,000 employees. Despite having such a large budget, only $125 million is truly discretionary in nature. The vast majority of county spending is for programs mandated by federal and state government, but administered at the county level.

For example, Erie County is the primary provider of health and human services for the region. Programs like Medicaid, TANF, SNAP, WIC, Meals on Wheels, and so many other programs are delivered by the county. As part of the delivery of those services, the county often has a substantial local share. Erie County's share of Medicaid in 2020 alone is more than $200 million.

Our departments of health and human—and mental health have led the effort in combating the opiate epidemic, with substantial grant assistance provided by various federal agencies. I am proud to say the Justice Department's Bureau of Justice Assistance considers Erie County to be the model county on how to respond to the opioid crisis.

However, we would not be in that position—meaning more people would have died—without the significant financial assistance received from the federal government. Any reductions in federal funding in the above-discussed programs would have an immediate and significantly negative impact on our ability to deliver services promoting our residents' health and wellness.

We have closely reviewed and monitored every budget proposed by the Trump Administration, determining that many of the President's proposals would have a disastrous impact locally.

For example, New York, already facing a multi-billion-dollar Medicaid shortfall, would be severely punished under the block grant system previously proposed by the President. If implemented, we would be forced to significantly raise taxes to make up for the lost assistance, or cut other popular programs like libraries and parks.

Furthermore, the county administers the Department of Housing and Urban Development's Community Development Block Grant Program for 34 municipalities, including our entire rural area. These grants, which require a local match, support everything from mainstream improvements to clean water projects. These grants are a vital lifeline to help our smaller communities address specific needs, just as they helped the city of Buffalo build affordable, safe housing. Should the CDBG program be eliminated as the Trump Administration has repeatedly proposed, all areas of our county—urban, suburban, and rural—would be negatively impacted.

Another key area that has been impacted from a lack of federal assistance is our infrastructure. Erie County owns and maintains more than 2,400 lane miles of roads. That is more than the states of Delaware, Hawaii, and Rhode Island each have. Federal dollars used to play an important role in completing many projects a year. Unfortunately, with no major federal infrastructure bill in recent years, we have been only able to complete a few large projects with the limited federal assistance we received.

That is why I strongly support legislation introduced by Congressman Higgins. It would provide a major investment in our roads, bridges, and other infrastructure, support good-paying, middle wage—or middle America jobs, and will be desperately needed during any future recessions.

Finally, let me give you an example of how the failure to pass the federal budget on time can have a significant impact on our local economy. Our Buffalo and Erie County Workforce Investment Board is a local organization supported by federal aid appropriated through the Workforce Innovation and Opportunity Act, WIOA. The employees of the board work with local employers and job seekers to sustain and grow our economy.

However, when the federal government shuts down, those employees are furloughed as well, because their salaries are paid for by federal WIOA dollars. The last thing any region could afford in a recession is furloughing the people whose job it is to help other people find jobs and employers fill jobs. This is just one small but important example of how targeted federal assistance helps—grows local economies, and how reducing aid or the shutdown of the federal government during economic downturn would negatively impact a region.

Erie County's economy is growing, but I can't imagine what our fiscal picture would be if some of the President's prior budget proposals had been enacted, nevertheless during a recession.

I thank Congress for bipartisanly rejecting the proposed cuts in the past. And if they are included in the 2021 budget, I would urge you to reject them again.

Thank you for your time, and I look forward to your questions.

[The prepared statement of Mark Poloncarz follows:]

Why Federal Investments Matter: Stability from Congress to State Capitals
Testimony to the House Budget Committee on January 15, 2020
Hon. Mark C. Poloncarz, Erie County (New York) Executive

Good morning Chairman Yarmuth, Ranking Member Womack, and to all the members of the committee. My name is Mark Poloncarz, the current Erie County (New York) Executive and formerly its elected chief financial officer.

I am glad to be here this morning to share my unique perspective on the vital role Federal investments play in stabilizing America's local communities, especially during difficult economic times.

First, I would like to share a little background on the community I represent.

Erie County is a microcosm of our country with an urban core in Buffalo, many suburbs, and hundreds of square miles of family farms in our rural communities. 920,000 people live in the county, making it larger than five states, and it is approximately the same geographic size as Rhode Island.

Like other Great Lakes areas, Erie County struggled at the end of the 20th Century with a loss of population and jobs.

However, in recent years we've seen our population increase and an economic resurgence as we have transitioned from a blue collar economy to one based on financial services, health sciences, education, and advanced manufacturing.

As Executive I manage an annual budget of 1.8 billion dollars, dozens of departments, and a workforce of 5,000 employees.

Despite having such a large budget, only 125 million dollars is truly discretionary in nature. The vast majority of county spending is for programs mandated by federal and state government, but administered at the county level.

For example, Erie County is the primary provider of health and human services for the region. Programs like Medicaid, TANF, SNAP, WIC, Meals on Wheels, and so many others are delivered by the county.

As part of the delivery of those services the county often has a substantial local share. Erie County's share of Medicaid in 2020 alone is more than 200 million dollars.

Our Departments of Health and Mental Health have led the effort in combatting the opioid epidemic, with substantial grant assistance provided by various federal agencies. I am proud to say the Justice Department's Bureau of Justice Assistance considers Erie County to be the model county on how to respond to the opioid crisis. However, we would not be in that position, meaning more people would have died, without the significant financial assistance received from the Federal government.

Any reductions in Federal funding to the above discussed programs would have an immediate and significantly negative impact on our ability to deliver services promoting our residents' health and wellness.

We have closely reviewed and monitored every budget proposed by the Trump administration, determining that many of the President's proposals would have a disastrous impact locally.

For instance, New York, already facing a multi-billion dollar Medicaid shortfall, would be severely punished under the block grant system previously proposed by the president. If implemented we would be forced to significantly raise taxes to make up for the lost assistance, or cut other popular programs, like libraries and parks.

Furthermore, the county administers the Department of Housing and Urban Development's Community Development Block Grants for 34 municipalities, including our entire rural area. These grants, which require a local match, support everything from main street improvements to clean water projects.

The grants are a vital lifeline to help our smaller communities address specific needs; just as they help the City of Buffalo build affordable, safe housing.

Should the CDBG program be eliminated as the Trump administration has repeatedly proposed, all areas of our county – urban, suburban and rural – would be negatively impacted.

Another key area that has been impacted from a lack of federal assistance is our infrastructure. Erie County owns and maintains more than 2,400 lane miles of road. That is more lane miles than the states of Delaware, Hawaii and Rhode Island each have.

Federal dollars used to play an important role in completing many projects a year.

Unfortunately, with no major federal infrastructure bill in recent years, we have only been able to complete a few large projects with the limited federal assistance we received.

That is why I strongly support legislation introduced by Congressman Brian Higgins. It would provide a major investment in our roads, bridges, and other infrastructure, support good-paying union jobs, and will be desperately needed during any future recessions.

Finally, let me give you an example of how the failure to pass the Federal budget on time can have a significant impact on our local economy.

Our Buffalo and Erie County Workforce Investment Board (the "Board") is a local organization supported by Federal aid appropriated under the Workforce Innovation and Opportunity Act ("WIOA"). The employees of our Board work with local employers and job-seekers to sustain and grow our economy.

However, when the Federal government shuts down, those employees are furloughed as well because their salaries are paid for by federal WIOA dollars. The last thing any region could afford in a recession is furloughing the people whose job it is to help other people find jobs, and employers fill jobs.

This is just one small, but important example of how targeted Federal assistance helps grow local economies, and how reducing aid or the shutdown of the Federal government during an economic downturn would negatively impact a region.

Erie County's economy is growing but I cannot imagine what our fiscal picture would be if some of President Trump's prior budget proposals had been enacted, nevertheless how we would then fair in a recession.

I thank Congress for rejecting the proposed cuts in the past, and if they are included in the 2021 budget I would urge you to reject them again.

Thank you for your time and I look forward to your questions.

Chairman YARMUTH. Thank you for your testimony.

I now yield five minutes to Secretary Walther for his testimony.

STATEMENT OF LARRY WALTHER

Mr. WALTHER. Chairman Yarmuth, Members of the Committee, thank you for the opportunity to speak to you today. Thank you to Ranking Member Womack for the invitation.

I would like to share with you a brief overview of the budgeting and planning process in Arkansas. To do this we must go back to the late 1920's and early 1930's.

Arkansas was experiencing the great flood of 1927, a significant road debt that was transferred to the state from the counties, and the overall Great Depression. As a result, Arkansas was struggling to maintain state services, and defaulted on its debt.

A variety of new taxes were implemented around this time to address the state's budget needs. However, this didn't solve the issue, and the state needed a long-term solution. This was established through amendment 20 to the Arkansas Constitution. In simple terms, we are constitutionally barred from borrowing money without a vote of the citizens.

Arkansas maintains a true balanced budget approach to funding state programs. We do not commit state dollars until we have those dollars in hand and available to spend. Under Arkansas law it is my duty to see that the funds on hand and estimated to be available to each state agency are sufficient to maintain state services on a sound, fiscal basis, without incurring a deficit.

Our annual budgeting process doesn't just allocate dollars to state programs, it prioritizes the spending. Through this process, agencies make tough decisions, but also have a clear understanding of what will take place in all the budget scenarios.

Another consequence of barring—of being barred from taking on debt is our need to build fund balances in support of the most important programs. In order to safeguard state programs in the case of a recession and to allow us to remain competitive when opportunities arise, Arkansas has recently invested a series of reserve funds. Under Governor Asa Hutchinson we maintain three such funds: a restricted reserve fund, a long-term reserve fund, and a rainy day fund. Each of these play a unique role.

Since Governor Hutchinson took office in January 2015, three of the largest individual tax cuts in the state's history have been implemented. This includes a middle-income tax cut in 2015, a cut for low-income Arkansans in 2017, and an upper-income tax cut that became effective January of this year. These historic cuts reduced income taxes for each state tax-paying Arkansan. However, all of these tax cuts were absorbed without any change or reduction in the state services, due to responsible budgeting and an economy that continues to expand.

Federal funds remain a significant component of the day-to-day operation of the state services. In Fiscal Year 2019, which ended in June 2019, federal dollars accounted for 29 percent of our expenditures. The largest portion, approximately $6 billion, supports our Department of Human services, which administrates—administers the state's Medicaid program.

We must also acknowledge federal funds' crucial role in addressing natural disasters and emergency. In 2019 Governor Hutchinson and President Trump declared an emergency in the state due to immense flooding on the Arkansas River. While Arkansas maintains both a balanced budget and several reserve funds that can significantly help with—in these scenarios, a disaster of this scale requires immediate support from the federal funds. Due to President Trump's declaration and the work of FEMA, federal funds were made available at the time, and remain available today for those recovering from the damage caused by the event.

I believe that the state-federal partnership is at its best in these times of need. From Washington, DC. to those in Arkansas impacted by these events, it simply becomes people helping people.

We are grateful for the decision that was made that allowed for this to—partnership.

Before taking—before making any request at the federal level, it is up to the state to determine specifically what we hope to accomplish, and the amount needed to responsibly address these needs. Understanding the importance of making this type of ask of the federal government and the state, we always carefully consider the need that go along with our—plus our resources before we bring them to you.

Again, thank you for the honor of speaking to you today, and I look forward to any questions.

[The prepared statement of Larry Walther follows:]

REMARKS
SECRETARY LARRY WALTHER
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE OF ARKANSAS
JANUARY 15, 2020

Chairman Yarmuth, Members - Thank you for the opportunity to speak to you today. Thank you to Ranking Member Womack for the invitation.
I would like to share with you a brief overview of the budgeting and planning process in Arkansas.

To do this, we must go back to the late 1920s and early 1930s. Arkansas was experiencing the great flood of 1927, a significant amount of road debt that was transferred to the state from counties and the overall Great Depression.

As a result, Arkansas was struggling to maintain state services and defaulted on its debt.

A variety of new taxes were implemented around this time to address the state's budget needs.

However, this didn't solve the issue and the state needed a long-term solution. This was established through Amendment 20 to the state constitution.

Amendment 20 states: Except for the purpose of refunding the existing outstanding indebtedness of the State and for assuming and refunding valid outstanding road improvement district bonds, the State of Arkansas shall issue no bonds or other evidence of indebtedness pledging the faith and credit of the State or any of its revenues for any purpose whatsoever, except by and with the consent of the majority of the qualified electors of the State voting on the question at a general election or at a special election called for that purpose.

In simple terms, we are constitutionally barred from borrowing money without a vote of our citizens. Arkansas maintains a true balanced-budget approach to funding state programs. We do not commit state dollars until we have those dollars in hand and available to spend.

Under Arkansas law, it is my duty as Secretary of the Department of Finance and Administration to see that the funds on hand and estimated to become available to each state agency are sufficient to maintain state services on a sound financial basis **without incurring a deficit.**

As a consequence, we have developed programs and practices which build strength and financial reserves when times are good and safeguard our more important programs when times are bad. We must be prepared for whatever the future may bring.

Our annual budgeting process doesn't just allocate dollars to state programs – it also prioritizes spending. Agencies define spending priorities by applying an A, B, C or D to each category to represent its importance. Through this process, agencies make tough decisions but also have a clear understanding of what will take place in all budget scenarios.

If the economy fails or revenues drop, we have a plan in place – in law actually – which will safeguard our most vital programs and cut those which can afford to be cut.

Our state's highest priority remains K-12 public education. It is funded first. That's why, during the Recession in 2008-2009, Arkansas not only did not cut state funding for public schools, we actually increased funding for our schools.

Lower priority programs – such as capital projects or major program expansions – are funded in Arkansas last and only if funding is available. If funds dry up, these programs are simply not funded.

Another consequence of being barred from taking on debt is our need to build fund balances in support of our most important programs. Today, Arkansas maintains trust funds to support public education, Medicaid, employee pay raises and other programs. These trust funds exist to delay or avoid the need to cut budgets to these programs if revenues fall short. They roll forward from year to year, growing when times are good to help mitigate damage when times are bad.

One concern that I would like to share with you is the increasing amount of federal funding for state programs being granted through a competitive process with a limited number of grant awards. This approach to distribution of funds often places smaller states like Arkansas at a disadvantage as some formulas are based on population. Additionally, the time frame in which a response is required may limit ability to formulate a plan that truly reflects the needs of the state.

In order to safeguard state programs in the case of a recession and allow us to remain competitive when opportunities arise, Arkansas has recently invested in a series of reserve funds. Under Governor Asa Hutchinson, we maintain three such funds – the Restricted Reserve Fund, the Long-Term Reserve Fund, and the Rainy Day Fund. Each has a unique role to play.

Since Governor Asa Hutchinson took office in January 2015, three of the largest individual income tax cuts in the state's history have been implemented. This includes a middle-income tax cut in 2015, a cut for low income Arkansans in 2017 and an upper income cut that was effective January 1, 2020. These historic cuts, which reduced income taxes for each tax paying Arkansan, also reduced state revenue by hundreds of millions of dollars. Under Governor Hutchinson, income tax was also eliminated on military retirement and the grocery tax was reduced from 1.5 percent to slightly more than one tenth of a percent.

However, all these tax cuts were absorbed without any changes or reductions to state services due to responsible budgeting and an economy that continues to expand.

While the Arkansas economy remains in expansion, every year we are prepared for all scenarios in the economy. These scenarios consider reduced growth rates in key economic assumptions as we also check for model weaknesses in national forecasts.

Federal funds remain a significant component of the day to day operation of state services. In Fiscal Year 2019, which ended in June 2019, federal dollars accounted for 29% of our total expenditures. The largest portion, approximately $6 billion, supports our Department of Human Services, which administers the state's Medicaid program.

While the largest portion of Federal funds are directed to Medicaid, the state Department of Education also receives a significant amount, approximately $539 million in Fiscal 2019. The Arkansas Department of Transportation followed with $506 million.

The Arkansas budget is presented each biennium. As we prioritize programs and projects, we do our best to anticipate any potential changes in Federal funding as this does account for almost one third of our overall budget. However, with the federal government operating on a continuing resolution, we do feel a responsibility to dedicate resources to the ongoing development of contingency plans. A shutdown can have an immediate impact on our budget and more importantly, the day to day services we provide to Arkansans. Federal funds are critical to the stability of our budget over both the short term and the long term.

We remain in close contact with our delegation and this is an issue we have shared with them.

Leaders of Arkansas' departments that administer our Federal funds report strong working relationships with Federal agencies.

From education to health to highways, we appreciate and value the positive impact of Federal funds throughout the state.

We must also acknowledge Federal Funds' crucial role in addressing natural disasters and emergencies. In 2019, Governor Hutchinson and President Trump declared an emergency in the state due to immense flooding of the Arkansas River. While Arkansas maintains both a balanced budget and several reserve funds that can significantly help in these scenarios, a disaster of this scale requires immediate support in the form of Federal funds. Due to President Trump's declaration and the work of FEMA, federal funds were made available at the time and remain available today for those recovering from the damage caused by this event. I believe the State-Federal partnership is at its best in these times of need. From Washington D.C. to those in Arkansas impacted by these events, it simply becomes people helping people. We are grateful for the decisions made here that allow for this partnership. It was Federal funding that allowed the establishment of the McClellan Kerr Navigation System in the early 1970s which has prevented a repeat of Arkansas' 1927 flood, the worst in the state's history and among the worst in the United States.

As a result of the 2019 flooding, Governor Hutchinson established a Levee Task Force to study the state's 92 levees and provide recommendations. Those recommendations were released in December. While several of the recommendations may be incorporated without outside assistance, we know Federal funds will be required to effectively maintain safe levees. Before making any request at the Federal level, it is up to the state to determine specifically what we hope to accomplish, and the amount needed to responsibly address this need. Understanding the importance of making this type of an ask of the Federal government, as a state we always carefully consider every need along with our own resources before bringing this before you.

Again, thank you for the honor of speaking to you today. I look forward to answering any questions.

Chairman YARMUTH. Thank you very much, Secretary. I appreciate your testimony.

And, last but not least, I yield five minutes to Director Murnieks.

STATEMENT OF KIM MURNIEKS

Ms. MURNIEKS. Thank you, Chairman Yarmuth, Ranking Member Womack, and Members of the Budget Committee. I am honored to be with you here today.

As Ohio's Budget Director I serve as a Chief Financial Officer for our state under the leadership of Governor Mike DeWine.

Federal funding supports Ohio citizens in crucial areas, and Ohio's biennial state budget supports these initiatives, as well. To understand our budget picture it is important to first discuss our economic outlook.

Ohio's economy is strong and likely to continue expanding in 2020. Ohio's non-farm payroll employment has increased by 6,700 jobs, just in November. Our unemployment rate is down. Our labor participation rate is up. Ohio manages $28 billion in federal grant funds each year, which is roughly 40 percent of our budget. Federal grants in Ohio are administered by 36 different state agencies, aligned with federal agencies, utilizing 58 different systems and tools, with approximately 800 state employees dedicated to grants administration and compliance.

As Governor DeWine has said, our focus is on people, not bureaucracy. We need regulatory flexibility to address the individual needs of our citizens instead of continuing to focus hundreds of employees on simply meeting burdensome federal strings.

In the 1-year and 1 day since becoming Ohio's Budget Director, I have been traveling throughout the state to visit with local officials. I have learned that our local governments find it difficult to navigate the grants administration process. And I am concerned that the communities with the most needs do not have the resources to apply for grants. So Ohio is taking steps to break down these silos by creating a grants department within the budget office to coordinate across agencies.

Today I would like to share with you one example of where Ohio has cut through bureaucracy to directly improve the lives of our citizens using state and federal funding together: our focus on multi-system youth, the children who are involved in two or more child-serving systems.

As Governor DeWine has stated, too many families lack access to the care that their children need to be happy and healthy. For some families, this results in parents making the unfathomable choice to relinquish custody of their child to help them get the care that they need. As a result of Governor DeWine's leadership, four executive-branch departments, three county-level associations, and many nonprofit organizations are now working together to coordinate care.

Ohio has dedicated $31 million in new state funding, which is being used to support individual children with extremely complex needs who are eligible for federal Medicaid and Title IV-E funding. When combined in a coordinated fashion, these layers of funds can produce better outcomes for our children and families. Investing in our children is investing in our future, and we welcome even more federal flexibility to allow us to do even more.

In Ohio we are leading by example, eliminating burdensome and unnecessary regulations through initiatives like our Common Sense Initiative, which reviews business-impacting roles, and the one-in/two-out rule, which requires business—which requires the repeal of two regulations at the state level each time we adopt a new regulation.

One of Governor DeWine and Lieutenant Governor Husted's main priorities is building a better Ohio through job training and work force innovations. Ohio has more than 75 job-training programs across 12 state agencies. Many align with various federal agencies and regulations.

In the past, the biggest impediment for businesses seeking to locate or expand in Ohio was our tax structure. We have addressed that. Ohio's business climate has now reached the top three in site selection magazine state rankings, making us the top state in the Midwest.

Today our employers' biggest challenge is hiring qualified, skilled workers for high-paying jobs. Ohio currently has over 65,000 open jobs that pay more than $50,000 per year. So now is the time for us to work together to streamline work force development programs to ensure that our states can compete and win in the global economy.

Many of the examples that I talked about today and that are in my written testimony required Ohio to obtain waivers from federal rules. Each waiver requires extensive paperwork and precious time, time that could be better spent in direct service of the needs of our citizens. Flexibility should be the rule, and not the exception. We ask that you continue your efforts toward reducing the burdens so that we can maximize taxpayer dollars together.

Mr. Chairman, Members of the Committee, thank you for holding this important hearing today, and for allowing me the honor to be with you for this discussion. I am happy to answer any questions that you have.

[The prepared statement of Kim Murnieks follows:]

Ohio | Office of Budget and Management
Mike DeWine, Governor
Jon Husted, Lt. Governor
Kimberly Murnieks, Director

Testimony Of

Kimberly Murnieks

Director, Ohio Office of Budget & Management

Before the Committee on the Budget

United States House of Representatives

On

"Why Federal Investments Matter: Stability from Congress to State Capitals"

January 15, 2020

Chairman Yarmuth, Ranking Member Womack, and members of the Budget Committee, my name is Kimberly Murnieks, and I am Director of the Ohio Office of Budget and Management. I am honored to be with you today to discuss why federal investments in states, like Ohio, matter.

As Director, I serve as the Chief Financial Officer for the great state of Ohio under the leadership of Governor Mike DeWine, overseeing the office that develops, coordinates, and monitors the individual budgets of state agencies, provides the Governor and administration with policy analysis, and accounts for and reviews state financial transactions made with public funds.

The Federal-State Relationship and Our Economic Outlook

I would first like to express Ohio's appreciation for this Committee's work on the Bipartisan Budget Act of 2019, which provides stability and certainty for states regarding federal budget partnerships through September 30, 2020. Discretionary federal funding supports Ohio's citizens in crucial areas including health, education, housing, public safety, community development, job training, transportation, mental health and addiction, and many other programs that are vital to the citizens of Ohio. As I will discuss today, Ohio's biennial state budget, signed into law by Governor DeWine in July 2019, supports these initiatives as well; however, without discretionary federal funding, many of these areas would be drastically cut or become unfunded.

To understand our budget picture, it is important to first discuss our state and national economic outlook. According to our forecasts and economic indicators, Ohio's economy is likely to continue expanding in 2020. Nationally, inflation is tame, the Federal Reserve has reduced its policy interest rate, credit remains widely available at moderate cost, and the price of oil is near the middle of its range of the last two years. Nonfarm payrolls across the country increased by 145,000 jobs in December. The October and November increases were strong, 156,000 and 256,000, respectively. In Ohio, nonfarm payroll employment increased by 6,700 jobs in November. Our unemployment rate is down to 4.2 percent, from 4.6 percent in December 2018, and our labor participation rate, those in the workforce or actively seeking work, increased from 62.3 percent to 62.9 percent.

During Ohio's Fiscal Year 2019, economic expansion led our General Revenue Fund (GRF) to again surprise on the upside, with revenues outperforming estimates, Medicaid spending falling well below estimate, and a year-end fund balance that was $756 million above estimate. Ohio's budget surplus allowed us to transfer $312 million to various state funds to pay for executive and legislative priorities such as school bus purchases, tobacco use prevention, opioid treatment, and clean water programs. After those transfers, the state GRF had $665 million left to carry into Fiscal Year 2020 in support of a significant income tax cut – a four percent cut in all tax rates on top of extending the zero tax rate bracket up to $21,750 in income – and to fund other priorities.

Ohio values the federal-state relationship and the impact that we make by working together. The State of Ohio manages $28 billion in federal grant funds each year, which is roughly 40 percent of our state budget. $7.5 billion of these funds come from discretionary grant programs. Federal grants in Ohio are administered by 36 different state agencies, utilizing 58 different systems and tools, with approximately 800 state employees dedicated to grant administration and compliance. Ohio recognizes the need to become more efficient and streamline state grant processes, but we cannot do this alone. Ohio plans to leverage the federal grant reporting standardization made possible by the recently-signed Grant Reporting Efficiency and Agreements Transparency (GREAT) Act, which will assist Ohio in reducing redundancy of staff and local government efforts by limiting the burden of compliance reporting and making sure key dollars translate to program delivery rather than administrative overhead.

Our partnership with the federal government is important as we work every day to ensure that Ohio is a great state to live, work, and raise a family. As Governor DeWine said in his first State of the State address, our focus is "on people, not on bureaucracy". We need the regulatory flexibility to address the individual needs of our citizens instead of continuing to focus hundreds of state and local employees on simply meeting the requirements of burdensome, duplicative and sometimes conflicting, federal strings.

What Ohio is Doing

In the one year and one day since becoming Ohio's budget director, I have been traveling throughout the state to visit with local officials and discuss ways to better collaborate to serve the citizens of Ohio. I have learned that our local governments find it difficult to navigate the grants administration processes. Right now, we do not have a single, common state source that identifies federal pass-through funding opportunities because grants are currently handled differently by each respective state agency. We also encounter challenges with duplicating work effort, especially at the onset of applying for funding opportunities. Applications for funding vary by state agency, usually due to federal requirements, but largely require similar information. This information must be entered each time an applicant applies for a grant. Our local partners have expressed these challenges to be a drain on their resources and a hinderance to seeking potential funds which could help their community.

I am concerned that the communities with the most need do not have the resources to apply for grants. Ohio is breaking down these silos to maximize efficiencies, streamline processes, and improve funding transparency by creating a grants department within the budget office to coordinate across agencies. Ohio provides over $4 billion a year in federal funds directly to subrecipients and it is imperative that we make sure these funds connect to those with the greatest need. Our plan will ensure that Ohio is a leader in streamlining and coordinating grants and we will improve upon our ranking of 24th when it comes to federal revenue as a percent of state-local general revenue (see State Policy Reports V37, Issue 21, Nov 2019).

Today, I would like to share a few examples of programs where Ohio has brought together state and federal budget resources to address pressing problems facing our citizens.

Multi-System Youth

A great example of why the federal-state-local partnerships matter is illustrated by Ohio's focus on assisting families with multi-system youth – children who are involved in two or more child-serving systems, including children services, developmental disabilities, mental health and addiction, and juvenile justice. As Governor DeWine stated, "too many families lack access to the care that their children need to be happy and healthy. For some families, this results in parents making the unfathomable choice to relinquish custody of their child to help them get the care they need." When parent's relinquish custody, "it's tragic that Ohio's children can end up across the state or country from their homes." As a result of Governor DeWine's leadership, four executive branch departments, three county-level associations, and many non-profit organizations are now working together to coordinate care and provide funding for services for these children and their families. In state Fiscal Year 2020, Ohio dedicated $31 million in new state funding to break down the existing barriers. In many cases, the new state funding is being used to support individual children with extremely complex needs eligible for federal Medicaid and Title IV-E. When combined in a coordinated fashion, these layers of funds can produce better outcomes for children and families. The investments include:

- The Department of Mental Health and Addiction Services, through the Ohio Family and Children First Councils, focus on cross-system collaboration and identifying best practices across the state for serving children and their families that are involved in multiple state systems.

- The Departments of Medicaid and Job and Family Services have jointly developed a state-level program to provide financial support to youth and families with complex needs who are at risk of custody relinquishment or have already been relinquished to the foster care system to help return these children to their families.

- The Department of Job and Family Services works with county Public Children Service Agencies who work with families to prevent further custody relinquishments and supports the costs of those in congregate care.

- The Department of Developmental Disabilities is using their portion of funds to provide grants to numerous organizations to provide training for providers to identify multi-system youth and recognize their special needs, planned respite care for families, and developing telepsychiatry for youth statewide.

Ohio is focused on providing children the services they need while avoiding custody relinquishment whenever possible. Investing in our children is investing in our future and we welcome more flexible federal funding to allow us to do even more for these children and their families.

Lead Exposure

Governor DeWine and his administration are focused on protecting children from lead exposure by coordinating the efforts of six state agencies to create a multi-pronged approach that better leverages our shared priorities with our federal partners. As Governor DeWine has said many times, "it is unconscionable…that in 2019, there are still children whose opportunities are stifled because they live in a home where they are exposed to lead paint. No child should be poisoned in their own home." We are appreciative of the $44 million Ohio received from the U.S. Department of Housing and Urban Development for lead hazard control and have invested over $20 million of state dollars to complement this partnership. Ohio is the third state in the nation to have completed a state plan amendment to the Centers for Medicare & Medicaid Services (CMS) which allows Ohio to direct $5 million per year to lead hazard control and the establishment and maintenance of a Lead-Safe rental registry statewide. Over 150 homes have had their lead hazards abated and Ohioans can now locate lead-safe rental housing.

- Every year, thousands of Ohio children under the age of six are found to have blood lead levels above CDC's reference value of five micrograms per deciliter. Undoubtedly, there are countless more who have never been tested at all and would test positive for lead exposure.
- In 2019, Ohio created a new lead abatement income tax credit with a maximum of $10,000 for eligible individuals who have incurred expenses to test for lead and make their homes lead-safe.
- To assist those children who have dangerously high levels of lead in their blood, Ohio invested an additional $24 million for the Department of Developmental Disabilities' Early Intervention Program to help provide physical, speech, and occupational therapy services.
- In addition to existing funding streams, Ohio has increased direct state funding for lead poisoning prevention by $22 million for state Fiscal Year 2019-2020.
- The new approval from CMS includes significant changes that will greatly improve the effectiveness of the Medicaid/Health program. In the past, some types of home owners were required to provide a financial contribution toward the total cost of lead abatement projects, and all homeowners were required to provide proof of homeowners' insurance and copies of birth certificates documenting the age of children living in the home. These requirements were removed to provide additional flexibility for property owners and their tenants.

RecoveryOhio

Ohio's mental health and addiction crisis impacts every county, city, town, and village. Immediately after taking the Oath of Office, Governor DeWine signed an Executive Order creating the RecoveryOhio Initiative to address critical matters concerning mental illness and substance use prevention, treatment, and recovery support services. Ohio's operating budget reflects Governor DeWine's commitment to helping those with mental health and substance use disorders. The budget also reflects his dedication to assisting local schools, law enforcement, businesses, and other agencies that are also facing the consequences of this public health crisis. The flexible use of federal dollars is critical to addressing the wide array of issues as illustrated by the 23 executive branch departments and numerous others that are working together in Ohio to tackle this issue that affects so many different aspects of people's lives. Recent progress has been made through the Consolidated Appropriations Act, 2020, which will ultimately allow states much needed flexibility to continue combatting the ever-evolving drug epidemic. Ohio has been proactively working to leverage our state opiate response and state treatment response grants with other sources of funding to expand services and bridge gaps in our existing treatment and recovery systems.

- In Fiscal Year 2019, the Ohio Department of Job and Family Services (ODJFS) began issuing State Opiate Response (SOR) funds to its local workforce areas and OhioMeansJobs centers to supplement their opiate-related grant dollars from U.S. Department of Labor, and a state investment from our Bureau of Workers Compensation funds. The SOR dollars enabled the state workforce authority to enhance services for employers of people with opioid use disorder, and to serve new populations who may not qualify for other programs. Six of the 20 local areas completed the SOR and federal reporting requirements training and two areas increased for career services, training, and supportive services provided to the SOR target population.

- In Ohio, local Departments of Health can choose to operate overdose prevention training and distribution of naloxone kits to high risk populations. The programs are called Project DAWN (Deaths Avoided with Naloxone). The state opiate response and state treatment response grants were used to expand and enhance these overdose prevention efforts. The projects are currently working to implement 118 different distribution strategies with 27,750 kits to be distributed by September 2020.

- The Ohio Board of Pharmacy operates the state Prescription Drug Monitoring Program, called Ohio Automated Rx Reporting System (OARRS). Ohio has been working to increase the capacity to provide Ohio Department of Mental Health and Addiction Services with detailed reports regarding opiate and Medication Assisted Treatment (MAT) prescribing throughout the state. Using state opiate response dollars, the Board of Pharmacy was able to expand their investigation team to provide regarding co-prescription of MAT and other medications including narcotics and benzodiazepines.

- Leveraging state opiate response funding, the Medical School Curriculum project brings together all the medical schools in Ohio to develop a pain management and opioid use disorder curriculum across Ohio. The finished project contains lecture notes, power points, videos, exams and other resources and is scheduled for implementation in year two of the SOR project.

- The Maternal Opiate Medical Supports (MOMS) program was developed with the Ohio Departments of Medicaid and Mental Health and Addiction Services, using both state and federal funding. This program serves pregnant and post-partum women with opioid use disorder. This program successfully increases access to MAT and other wrap around services. The MOMS program served 490 women across twelve sites. Statistics indicate that fewer infants are being born with Neonatal Abstinence Syndrome (NAS) and more infants are experiencing shorter neonatal intensive care stays as a result of the MOMS project. This program successfully develops the workforce of providers who work with the MOMS programs.

- State opiate funds were used in conjunction with funds from the Ohio Attorney General's office to create the OhioSTART Program (Sobriety, Treatment and Reducing Trauma). Ohio START is an intervention program providing intensive trauma counseling to children who have suffered maltreatment with substance use of a parent being the primary risk factor. The program also assists parents of children referred to the program with their path to recovery from addiction. Family peer mentors are paired with a child welfare caseworker to provide intensive case management services. The pilot is in 46 counties which will each serve approximately twelve families at once. It served 900 individuals in the first year of operation.

Reducing Bureaucracy

In Ohio, we are leading the nation in eliminating burdensome bureaucracy and unnecessary regulations. We are making progress through initiatives like:

- The Common Sense Initiative (CSI), which reviews business-impacting rules, helps businesses navigate regulatory obstacles, and leads initiatives to improve Ohio's regulatory climate. Since its launch, CSI has reviewed nearly 15,000 state agency regulations, and has identified 60 percent of those regulations as potential obstacles to Ohio businesses. All of those identified regulations were either amended or rescinded.

- The "one-in-two-out" initiative, which requires the repeal of two old regulations each time a new regulation is adopted. The rule, similar to an executive order signed by President Trump in 2017, was signed into law this summer as part of the state operating budget.

How States and the Federal Government Can Work Better Together

One of Governor DeWine and Lt. Gov. Husted's main priorities is building a better Ohio through job training and workforce innovations, streamlining regulations and modernizing the way government operates, while encouraging research, investment, and development. Ohio has more than 75 job training programs across twelve state agencies, many aligned with various federal agencies and regulations. We are focused on better coordinating these efforts to find economies of scale and maximize our resources, while also making the system easier for workers and employers to navigate. We know Ohio's average working age is skewing older than the nation's and we need to train today for tomorrow's jobs. In the past, the biggest impediment for businesses seeking to locate or to expand in Ohio was our tax structure – we have addressed that. Ohio's business climate reached the top three in *Site Selection Magazine*'s state rankings, making Ohio the top state in the Midwest. We continue to jump in several annual state business rankings: from 23 in 2011 to number ten today in CNBC rankings; from number 41 in 2011 to ninth today in *Chief Executive's* annual CEO Survey; and a first-ever Top Ten in *Area Development* magazine's ranking. Our capital city, Columbus, is the fastest-growing city in the Midwest, and our "three Cs" – Columbus, Cincinnati, and Cleveland – are all in Glassdoor's Top 25 Best Cities for Jobs.

Today, our employers' biggest challenge is hiring qualified, skilled workers for high-paying jobs. Ohio currently has over 65,900 open jobs that pay over $50,000 per year. Another encouraging sign is that more U-Haul trucks are coming into Ohio than are leaving, making us the company's number seven net growth state for 2019. Dean Haske, president of the U-Haul Company of Ohio, said recently, "For years, we were part of the 'Rust Belt' and people were moving away. Now, we're rebounding with jobs in the tech sector. Ohio has migrated from being a blue-collar state to offering some of the best white-collar jobs there are."

Ohio is strong and can be stronger without burdensome regulations. Now is the time for federal, state, and local partners to work together to streamline the various workforce development programs and funding sources to ensure that Ohio and other states can compete – and win – in the global economy. Doing so will allow us to direct valuable state and federal dollars directly to Ohio's workforce, instead of to administration. In all the examples I have provided today, Ohio has worked within the regulations to get things done. Many of the examples required Ohio to obtain waivers from federal rules. Each waiver requires extensive paperwork and precious time – time that could be better spent in direct service of the needs of our citizens.

Serving our citizens should not require waivers. *Flexibility* should be the *rule* and not considered an exception. We ask that you continue your efforts towards reducing the burdens on states so we can maximize the taxpayer dollars that we are all investing in our shared priorities.

Mr. Chairman, Members of the Committee, thank you for holding this important hearing and for allowing me the honor to be here for this discussion. I am happy to answer any questions that you have today.

Chairman YARMUTH. Thank you very much for your testimony, and thanks again to all the witnesses. We will now start our question-and-answer period. And, as is customary, the Ranking Member and I will defer our questions until the end.

So I now yield five minutes to the gentleman from New York, Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman. County Executive Poloncarz, in your introductory information you said that the Erie County budget is $1.8 billion, annually, 87 percent of which is unreimbursed, New York state-mandated spending.

New York is one of only a handful of states that require counties to provide a local match, which eats up a significant portion of your revenue base. Despite this, you have become a national leader on efforts to combat opioid addiction and its associated deaths.

While this is a continuing battle, a continuing struggle, what is it that Erie County has done under your leadership to achieve results that make Erie County and their efforts to combat opioid addiction an outlier?

Mr. POLONCARZ. Well, thank you, Congressman Higgins, for those kind remarks.

When we started realizing we had a significant crisis at the end of 2015, I brought together my health commissioner, mental health commissioner, to co-chair a task force, like many other communities have done with task forces. But I told them to try everything and anything.

I looked at dealing with the opioid epidemic because it was so widespread. It was affecting individuals in the city of Buffalo, just as much as it was affecting individuals in the town of Concord and Sardinia, which are your rural communities, or some of our rural communities. And I tried—in the back of my mind I thought of what FDR did when he entered the Great Depression, which is try something, try everything, try anything. If it doesn't work, move it to the side, try again.

So I have had the pleasure to work with also partners from across the country through the National Association of Counties to basically share information.

This is not a partisan issue. And we have come together as Democrats and Republicans to address the opioid epidemic. And what we found out is there is no one answer. It is about education. It is about medication-assisted treatment, and ensuring you have more treatment availability. It is about changing prescriber guidelines. It is about getting people when they are young, because, unfortunately, a number of the individuals who are dying are teenagers, and they became addicted at very young ages, which you would hope never happens, but does.

But it literally was we have to try everything. If it doesn't work, toss it aside, try something else. But by all means, as FDR said, try something. And, as a result, we have had significant success.

But we would not have had that success without the assistance from the federal government of grants that we have received from the Department of Justice, Department of Health and Human Services, because they gave us the opportunity to try some of those things that I would not have otherwise. I would not have had the local dollars to do it, if I had not received the grant opportunities from the federal government to do an opioid court.

Everyone hears of drug court, but we are doing a specialized opioid court in the city of Buffalo, in which the judge or the judge's staff meets with the individual on a daily basis, compared to most drug courts, where they may meet with them on a monthly basis. We would have not been able to do that without the assistance we received from the Department of Justice's Bureau of Justice Assistance. And I thank you for helping procure that grant, which has shown tremendous success, especially when you compare it to traditional drug courts, where the individual may meet with the judge or the judge's assistance monthly. It has had a tremendous success.

Every death is one death too many. And I have had to attend too many funerals during my tenure as county executive, or wakes for individuals who died, including people that I know. But what we have done is we have said we are going to continue to fight this until there is no longer an epidemic.

We have rolled up our sleeves. We work with our partners. It really doesn't matter what your political party is. All that matters is, are you willing to help? And if you are, can you make a difference? And that is why our community has come together to address it. And I am proud to say that our overdoses are down, our deaths are substantially down. There is more people in treatment, and less people are becoming addicted in the first place. And that is how you are going to end this crisis in the long run, by ensuring that less people are addicted in the first place. And a lot of the assistance we receive from the federal government has made the difference.

Mr. HIGGINS. Just a final thought on the issue of federal investments and how they impact local communities.

The recent tax cut plan primarily to corporations—for every dollar that you give away in a tax cut, most economists, even the most conservative, say that you can hope to retain or get back about $.32. So the loss on investment is 68 percent.

But if you look at federal programs like the Great Lakes Restoration Initiative, showing that for every dollar you spend you get $4 in economic growth at the local level, the Community Development Block Grant Program, the infrastructure spending, historic tax credits, which have played a primary role in the revitalization of Buffalo and Erie County, those are good, solid investments into the growth of the American economy, and they help county executives like Mark Poloncarz, because there are more sales tax revenues when you have growth, there are better property tax revenues, as well.

Chairman YARMUTH. The gentleman's time has expired. Before I yield to the gentleman from Ohio, as a reminder, Members can submit written questions to be answered later in writing. Those questions and the witnesses' answers will be made part of the formal hearing record. Any Members who wish to submit questions for the record may do so within seven days.

As we usually do—never mind, that is all. I now yield five minutes to the gentleman from Ohio, Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman. You know, the purpose of today's hearing is to discuss why federal investments matter.

And, as the representative of rural eastern and southeastern Ohio, I can tell you I understand the importance of providing stability and certainty to our state and local governments.

But I am deeply concerned by the premise that stability requires significant increases in federal spending or federal funding. If Congress wants to provide stability and certainty, we can start in this very Committee by enacting legislation to reform the congressional budget process. In fact, I believe Congress should embrace biennial budgeting, and prepare a budget every two years, rather than every year.

Director Murnieks, I know biennial budgeting has a long history at the state level, and Ohio currently operates with a two-year cycle. Based on your experience, do you believe that biennial budgeting would allow for better long-term planning at the federal, state, and local levels?

Ms. MURNIEKS. Thank you, Congressman Johnson. I do believe that federal budgeting would benefit by a more planful process. Biennial budgeting does provide that opportunity. It requires the government to look in advance to forecast revenues and expenditures over a longer period of time, which, by—you know, just by definition, is more planful.

It would also allow states to have more certainty in what the future funding for individual programs and priorities would be. So, yes, absolutely, I think that would be beneficial.

Mr. JOHNSON. OK, thanks. You know, there is no question that the economy is strong. And you talked about how Ohio's economy is strong. And I certainly agree with that. The economy in my district is very strong. Last month marked the 126th consecutive month of economic growth, and the national unemployment rate is at a 50-year low.

We are also seeing the effects of a strong economy in our state, across the state, where we have had historic unemployment rates and—or historically low unemployment rates. In fact, over the last 12 months Ohio has added 20,600 jobs, and 96,831 Ohioans found jobs, according to the U.S. Congress Joint Economic Committee.

So, Director Murnieks, in your testimony you mentioned that the biggest challenge for employers today is hiring qualified, skilled workers for high-paying jobs. Can you get a little bit more specific about what Ohio is doing to grow the work force and continue the strong economy, given that we have low unemployment rates and thousands of openings, jobs across the state?

Ms. MURNIEKS. Yes, Congressman Johnson. We are focused on preparing our work force for the jobs of the future. We are looking at a program that was just signed into law by Governor DeWine a couple of days ago as the TechCred program. And at the state level that is focusing our resources and providing employers with the opportunity to upskill their work force, to improve their skills, to gain credentials for the jobs that we—that are in high demand in Ohio.

And I mentioned in my testimony that the Federal Workforce Development Programs are spread across several different departments, and we are looking at how we can bring those together through our Office of Workforce Innovation. We are focused on the future, but more flexibility would help us to get there.

Mr. JOHNSON. Good, good. You know, I—one of the things that I love about our state, we have built, over time, a—great working relationship with our labor groups across the board. And they have been proactive in working with us on work force development.

In my district there is a growing demand for highly trained and skilled workers, for example, in the construction trades. And many unions and employers rely on apprenticeship programs to meet this demand. Very briefly, in the last half-a-minute that we have got, what is Ohio doing to promote these apprenticeship programs?

Ms. MURNIEKS. We are working with employers to promote apprenticeship programs, job training programs. We have initiatives that were funded through our state budget to focus both state and federal resources on apprenticeship programs. And we are focused on areas like your district.

And I am from southeast Ohio, as we talked about earlier, and it is important that we improve the skill set of the workers in our area so that they can be ready for those jobs. We have opened jobs in Ohio; we need the workers to fill those.

Mr. JOHNSON. OK. Thank you, Mr. Chairman. I yield back. Thank you.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Pennsylvania, Mr. Boyle, for five minutes.

I am sorry, Mr. Boyle is gone. Now I will recognize the gentleman from North Carolina, Mr. Price, for five minutes.

Mr. PRICE. Thank you, Mr. Chairman, and thank you for organizing this important hearing on the impact of federal dollars on our states and localities.

I am chairman of the Appropriations Subcommittee on Transportation HUD. So I am, naturally, acutely aware of the shortfalls in housing funding across virtually all HUD accounts and the shortfalls in our communities, in terms of people who need and would benefit greatly from some support for their housing, and they don't have it. It is simply not there.

So we have a couple of ways of dealing with this. The direct funding is what our subcommittee deals with. But I want to ask you today—and I will start with you, Dr. Gordon, and ask others to chime in who have experience in this area.

Today I want to focus on the tax code. The direct funding is important, and we have block grants, of course, like CDBG and HOME. They are often used as gap financing. They are combined with other funding sources. We know how important those are, and we have been able to increase them incrementally in recent years. We know we need to keep on that path.

But the tax credits are less known, but maybe, in some circumstances, even more important. I think particularly of addressing gentrification, the kind of efforts we make in our cities to identify tracts of land to encourage development, to bring in the private sector. My experience has been that these tax credits, especially the 9 percent tax credits, are extremely important. But these cities are lucky if they get one of those per year.

And so, the supply of tax credits, especially the 9 percent credits, the distribution of tax credits—as you see how this works across the country, I would appreciate your commenting on the importance of this incentive to housing development, affordable housing development, and also any comments you have about not just the quantity, the availability of these credits, but also how they are distributed and how they work.

Dr. GORDON. Thank you, Congressman. I think, as an economist, the issue with any kind of subsidy for state and local governments to undertake activities that are valued by the federal government is what should the rate of the subsidy be.

So you mentioned the 9 percent credits. I think the issue that economists would point out is that there are often other types of credits at other subsidy rates, and the same thing is true with grant programs. And, for that matter, things like the home mortgage interest deduction, which are intended to spur housing consumption, there is no reason to think that the marginal tax rate of a high-income taxpayer is necessarily the right subsidy rate.

So I think the concern that I would have is, just looking across the board at all of these programs, and trying to determine whether you are encouraging the activity in a way that you want to encourage it, and whether it is the appropriate subsidy.

Mr. PRICE. But isn't—what is your experience with 9 percent versus 4 percent? Of course, 4 percent sounds attractive, as well. But the—what I keep hearing is that there is a big difference, and that the—to really spur the kind of diversity of housing development that we need, that there is just no substituting for the 9 percent credits, and that they are very scarce.

Dr. GORDON. Right. So clearly, you know, having a richer subsidy would encourage more activity.

I think the question is always about tradeoffs, and at what cost. I would refer you to some of the work that my colleagues at the Urban Institute have done, specifically on low-income housing tax credits and, you know, thinking across the board about the mix of different kinds of tax credits, and also tax incentives versus direct grants, as you said.

Mr. PRICE. Well, I would appreciate, if there is particularly anything that would be relevant to the hearing record on this, to refer us to this.

I am reflecting, of course, my own local experience, and I guess I am registering the view that direct funding is not the total solution here. Never will be, probably. The HUD budget has a long way to go. But these tax credits have been a very potent instrument for encouraging diverse development. But there is certainly a shortfall in terms of the demonstrated need.

Any other witnesses want to chime in on this?

Yes, sir.

Mr. POLONCARZ. If I may, Congressman, all kinds of assistance is crucial. But in the city of Buffalo, historic tax credits and other types of tax credit programs have been one of the key drivers of the economic development, taking abandoned warehouses, abandoned facilities, working with tax incentives that we offer from local government to make these projects actually worthwhile, because they are so difficult to do. And if you eliminate those tax credit programs, you are going eliminate a great opportunity in some of these older Rust Belt communities to take these abandoned buildings and turn them into what they are today: housing, new offices that, for decades, sat vacant. And if that program was eliminated, that would have a tremendously negative impact, especially on the older communities with an old building stock.

Mr. PRICE. Thank you.

Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Missouri, Mr. Smith, for five minutes.

Mr. SMITH. Thank you, Mr. Chairman. It is a new year, which means this Committee has another chance to mark up a budget resolution. The deadline for the congressional budget for this coming year is in 91 days. I hope we can start off this year on the right track with—hopefully, we pass a budget resolution through the Committee, through Congress. A budget provides stability, much as you all have testified. Our job on this Committee is to establish a framework for the appropriators to effectively do their job.

When Republicans were in the majority of this Committee, we delivered on a budget every single year. And for the past three years President Trump has, too. But last year, under Democrat control, we didn't even attempt to produce a budget resolution. Because of failed leadership by the Democrat majority, our country is relying on a flimsy two-year agreement that fails to provide anything close to the 10 years of certainty to a budget resolution.

Now we are here today to discuss the federal—how the federal government can better provide stability to state and local governments. Looking over a report that was published last week by the majority in preparation for today's hearing, I can't say I disagree with you, Mr. Chairman. The report states—and I quote—that "Federal budget uncertainty is harmful to states and localities." And, quote, "continuing resolutions make it difficult for states to plan and implement strategic, long-term investment."

So taking the majority's own report into account, why hasn't this Committee done its job and marked up a budget resolution? That is what we should ask ourselves. Why are Democrats OK with continuing resolutions with our government, and provide nothing but uncertainty and instability to the American people?

The Committee needs to start doing its job. It is time we give our budget process a thorough review, modernizing a broken process that will hold Members accountable.

In Washington State, failing to pass a budget at least one month before it is due is a misdemeanor. That is impressive. And in California, of all states, their legislators go without pay if they don't pass a budget. Washington State, California. Pretty serious, serious issues if you don't pass a budget.

Where are we at, at the federal level? Why are we any different? Why should we not have those same kind of responsibilities or guidelines? We can do better. I hope that we do better. And I hope we get things done this year.

I yield back, Mr. Chairman.

Chairman YARMUTH. I thank the gentleman. His time has expired.

And, just as a comment, the Ranking Member and I served for the entirety of 2018 on the Joint Select Committee on Budget Reform. The gentleman from Arkansas led that joint select committee with great distinction and great commitment, and we discussed many of these ideas and, unfortunately, could not come to any agreement on how to reform the Budget Committee.

So if you have any specific ideas that—for how we can do that, I would love to hear them.

Mr. WOMACK. By the way, if the gentleman will yield for just a brief moment, for the record let it be known that the Chairman of this Committee, John Yarmuth, was a yes vote on that budget process reform proposal. And that is not a small undertaking. There were two members of the party that voted in favor of those proposals, and the Chairman is one of those.

So I think, in defense of the Chairman, he gets it. He understands that this process is broken, and I think everybody on this dais would probably agree that the process is broken. The solution as to how to fix it, though, is somewhat elusive to the Congress right now.

Chairman YARMUTH. I thank the gentleman for his comments, and I would just make one more remark to the gentleman from Missouri. Anybody who expects to have certainty for 10 years in today's world is badly mistaken, too, I think, or is wildly optimistic.

I now yield five minutes to the gentlelady from Illinois, Ms. Schakowsky.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. Climate change is the greatest challenge facing humanity today. This is—just this month alone we saw headlines that said, "Earth posts second hottest year on record to close out our warmest decade." Another, "Australia fires push some species to the brink of extinction," and another, "Floods, exacerbated by climate change, could destroy Venice.'" So it is worldwide.

And I have seen the effect even in my own community, where the levels of Lake Michigan are at almost their highest level. We saw flooding of Lake Shore Drive in Chicago, and severe damages around the lake shore.

I hope I pronounce it right—Mr. Poloncarz, is that correct? Good enough?

Mr. POLONCARZ. That is correct.

Ms. SCHAKOWSKY. OK, good. Last year you reaffirmed Erie County's commitment to the Paris Climate Agreement, with Erie County government already reducing its greenhouse gas emissions by 28 percent. And Buffalo was even designated as a Climate Smart Community. So I want to know. How did the federal government and investment help Erie County in its effort to reduce greenhouse gases, gas emissions, and become a Climate Smart Community?

Mr. POLONCARZ. Well, Congresswoman, there is no easy answer to that, because there are so many different ways of going about it, by ensuring that there are appropriate assistance and credits to remove from a coal-based economy, a carbon-based economy to a clean economy.

We have used and developers have used historic tax credits to take advantage of building new wind farms and solar farms. We proved, through my county, that you can actually meet the standard of the Paris Agreement. We met it years before the expectation you were supposed to meet it, and we continue to see a reduction in greenhouse gas emissions.

One of the things that has been very helpful is assistance from the EPA to create what is called a sustainable business roundtable, in which our business community has taken the lead and said, "We want our businesses to succeed, not just thinking about two, three, or four years from now, but 50 years from now."

And so they are using assistance that we have received from the EPA to create a sustainable business roundtable to assist local businesses, find ways to make themselves more sustainable, to use, of course, less fossil-based fuels, but also less water, if possible, because we—while we live in an area in the Great Lakes that has a substantial amount of fresh, clean water, and—we have also seen significant problems with that fresh, clean water. All you got to do is ask my friends from the other side of Lake Erie about what is going on with the algae blooms, and how they had to actually stop drinking water.

Ms. SCHAKOWSKY. That was actually on the front page of the Chicago Tribune, a picture of the algae bloom, yes.

Mr. POLONCARZ. I lived in Toledo. I went to the University of Toledo College of Law. I know the area very well. And I can't believe a city in a community that large has basically said you cannot drink the water from the municipal system anymore because of the harmful algae blooms.

We have worked very hard to find different ways. There is no easy answer. But it does take a government coming to the lead and saying, "We will help others reach the potential that they can when it comes to reducing their carbon emissions." And we have proven it.

And the good thing in our community is our business community has stepped up to the plate and said, "We want to play a part, as well."

Ms. SCHAKOWSKY. So what would be the impact on your community's efforts to address the problem if federal funding for the Department of Transportation, Housing, and Urban Development or Environmental Protection Agency were cut, as has been proposed by President Trump?

Mr. POLONCARZ. Well, it would be substantial, Madam Congresswoman. We know that the largest portion of greenhouse gas emissions in Erie County right now is directly related to transportation costs. So anything that we can do to take vehicles off the road and to replace it with trains and other types of processes and transportation that is actually not using carbon-based fuels is going to make a big difference.

Community Development Block Grants have a huge impact even in smaller communities. A $100,000 grant to a small town or village in our rural areas could have a huge impact on, actually, their entire budget. And if you take that away, they lose the opportunity to take actions to create a cleaner, greener community like clean water projects.

Ms. SCHAKOWSKY. I thank you for that. And that multi-faceted support from the federal government is so important. Thousands of experts are warning that climate change could make large parts of the earth uninhabitable. And it is critical that we invest in preparing communities for their demographic changes and fighting for—to save our planet. You are doing a great job. Thank you very much.

Chairman YARMUTH. The gentlelady's time——

Ms. SCHAKOWSKY. I yield back.

Chairman YARMUTH [continuing]. has expired. I now recognize the gentleman from Texas, Mr. Flores, for five minutes.

Mr. FLORES. Thank you, Chairman Yarmuth. I would like to thank each of the witnesses for being here today.

By any number of metrics, our economy is really strong, thanks in large part to the policies implemented by Congress in 2017 and 2018 and by the Trump Administration. The U.S. economy is in the midst of its longest period of uninterrupted growth in American history.

I will illustrate this by quoting from Jerome Powell, the chairman of the federal Reserve Bank, who stated at the most recent Open Market Committee meeting, "Wages have been rising, particularly for lower-paying jobs. People who live and work in low and middle-income communities tell us that many who have struggled to find work are now getting opportunities to add new and better chapters to their lives. This underscores for us the importance of sustaining the expansion so that the job market, the strong job market, reaches more of those left behind."

I couldn't agree more, but the truth is that the real barrier to successful state-run programs is to serve—that serve to sustain this current economic expansion is not the lack of federal funding. Rather, it is burdensome federal mandates that deny our states the flexibility and ability to innovate.

So in this regard, in fiscal 2018 federal spending on major health care programs totaled $1.2 trillion. About $380 billion of that was spent on Medicaid. As all of us know, there are several guidelines and requirements that states must abide by when spending federal Medicaid dollars. So my questions are these, and I would like to direct these questions to Secretary Walther or Director Murnieks.

And Dr. Gordon, I think you mentioned the flexibility challenge, also.

So the first question is, are there any reforms that Congress could consider to give states more flexibility in designing and executing health care programs so that they are better tailored to the needs of local communities?

Secretary Walther, we will start with you.

Mr. WALTHER. First I would like to say that we are very pleased with the amount—you know, the way it is working, generally speaking. It is a critical part of our budgeting process. In order for us to plan on a bi-annual basis like we do in Arkansas, it is imperative that we have an idea of what those—what that support from the federal government will be over the next two years.

Having said that, there are some areas where it is problematic. There is a process called the FMAP process, where it is the state's relative proportion to the rest of the United States. And it is a wealth index, so to speak. And that can—that changes from time to time, and it changes the amount of money that is supported by the federal government compared to the state government. It is a percentage number, it is around 80/20 or, yes, 70/30, I mean. And——

Mr. FLORES. If I can stop that for just a second.

Mr. WALTHER. Right.

Mr. FLORES. So I—so the answer is yes, you need more flexibility.

Mr. WALTHER. Yes, flexibility——

Mr. FLORES. Let me ask you to supplementally give us more information on that, if you don't mind.

Mr. WALTHER. Yes, sir, I would be glad to.

Mr. FLORES. So I can get through the rest.

Mr. WALTHER. Sorry.

Mr. FLORES. That is very helpful.

Director Murnieks, tell us about—does your state need more flexibility in this regard?

Ms. MURNIEKS. Congressman Flores, absolutely. Ohio currently, just in the Medicaid program, we have 18 different federal waivers. There are 450-plus Medicaid waivers in place throughout the 50 states. And I think the magnitude of the waivers shows—that illustrates perfectly the restrictions that we are under, that we need waivers, and all of the paperwork, and all of the bureaucracy that goes with it——

Mr. FLORES. It sounds like we are onto something here.

Ms. MURNIEKS. Just——

Mr. FLORES. So, if you would——

Ms. MURNIEKS. Absolutely.

Mr. FLORES. If you could supplement and give us more information on that——

Ms. MURNIEKS. Yes.

Mr. FLORES. And Dr. Gordon, did you mention something about the need for flexibility when it came to state funding, as well?

Dr. GORDON. Well, I was actually thinking of Medicaid as an economic shock absorber. So the fact that the Recovery Act added an increment in spending that was tied to local economic conditions, I think, is something that could be made permanent so there is more certainty for local—state and local officials, if they see a big increase in enrollments, as they did at the beginning of the Great Recession.

Mr. FLORES. OK, great. Let me go to the next question. I think this is important. I think all of you touched on this.

As you know, the federal budget process has been broken. There, you know, hasn't been a budget passed in the last several months. And then the federal funding was on again and off again, and we had CRs. Can you please describe the practical impacts of Congress failing to budget in appropriate funds on time, in terms of making it difficult to plan and implement your state budget?

Let's talk with—start with Director Murnieks.

Ms. MURNIEKS. Yes. Thank you, Congressman.

Mr. FLORES. A real quick question—real quick answer.

Ms. MURNIEKS. Yes, it makes it very challenging. When we came into office, when Governor DeWine came into office one year and one day ago, we were in the midst of a federal government shutdown.

Mr. FLORES. Right.

Ms. MURNIEKS. And that made it very challenging.

It—we can, for a period of time, keep our programs operating using state resources, but that—the time and effort dedicated to keeping everything going so that the—Ohio's economy and our employees and our staff can have stability is extremely challenging.

Mr. FLORES. Thank you. I would ask the rest of you to answer supplementally, if you don't mind, after the hearing.

Thank you. I yield back.

Chairman YARMUTH. Thank you. The gentleman's time has expired. I now recognize the gentlelady from California, Ms. Jayapal, for five minutes.

Ms. JAYAPAL. Washington State, but I was going to say to my colleague from Missouri that he could always move to Washington or California. And we have Democratic legislatures and Governors in both states. So thank you very much.

I wanted to start by just saying that federal government spending is essential to a real partnership between states and local governments and the federal government, and critical to our ability to really bring our 50 states together and support that partnership.

We had a budget hearing recently that the Chairman pulled together that was around—with economists. And we talked about the failed austerity measures in—that have been shown through research to really hurt our country, and to hurt our people, and certainly to hurt state and local governments. And so I wanted to start there and perhaps direct this to Dr. Gordon and Dr. Lambrew.

The past federal government austerity spending times, can you give us a sense of how they have affected state and local governments in a broad way?

Dr. Lambrew, perhaps specifically, with your portfolio.

You want to start us off, Dr. Gordon?

Dr. GORDON. Sure. People who look at the state-federal partnership often talk about these ages of federalism.

So, for a long time, the federal government and states basically operated independently of one another in this sort of dual federalism.

Then there was an era of cooperative federalism, where the federal government was expanding its role, but still recognizing the strengths of state and local governments, delegating about 9 percent of its budget to those governments to carry out important functions like social services and public works.

Then you saw a period of sort of proliferation of federal grants, some retrenchment from that, consolidation of grant programs, and then an era of decline in real per capita grants going to state and local governments in the 1980's.

That has rebounded. state and local governments are now getting on, as a whole, about 25 percent of their revenues from the federal government. There are a lot more creative uses of federalism, things like Race to the Top during the recession, where the federal government leveraged funds to get state and local governments to make certain investments in things like information technology.

So there have been these various areas of federalism, and it has changed throughout the years. There is nothing to say that we are in the right place right now. But I think we are learning from these experiments, especially things that are undertaken sometimes during hard economic times, as you mentioned.

Ms. JAYAPAL. Dr. Lambrew, you oversee a very important portfolio, safety net portfolio. Tell us what happens when the federal government cuts back, particularly in times of recession, but really in both instances of growth and recession.

Dr. LAMBREW. Sure. And while I can't speak quite to my experience in Maine in the last years, since our economy has been good, and the federal government has not yet cut back on funding, looking back I was in the Obama Administration when 2009–2010 hit. And so we worked hard to figure out, with our state partners, how do we support Medicaid, federal financing percentages, increases to target to unemployed states—or, excuse me, states with high unemployment. But I would say we thought, at the time, if we could make it permanent, then you would actually end the uncertainty.

Fast forward. In the state of Maine we do have a Medicaid contingency fund, in case, because we need to. We do think through, if there is a downturn, do we have enough money for TANF and the low-income supports. And we have to do that within our own means, because there is not the automatic stabilizers that Dr. Gordon talked about.

So we would prefer to be able to use the money we have effectively to implement programs on the ground, and not have to set aside money as much as we do, because there is not the automatic response that the federal government is going to be there for us.

Ms. JAYAPAL. Thank you. I want to go back to housing and homelessness. This is something that our communities across the country are struggling with. And we do have a lot of tools at our disposal, including McKinney-Vento funds, CDBGs, low-income tax credits, and, of course, HUD vouchers and public housing.

Mr. Poloncarz, could you talk to us? You called Community Development Block Grants a vital lifeline that help communities develop affordable housing and infrastructure. Tell us more about why those funds are so needed in your community, and how you have used them.

Mr. POLONCARZ. Well, when we think about Community Development Block Grants, they can range from very large affordable housing projects in the city of Buffalo to, as I previously said, clean water projects in a small little rural community, where we may be assisting them to do repairs on a sewage treatment facility. And it is the kind of things that people don't necessarily think about government doing, but they want government to ensure that it is there.

And so, when you talk about housing, every community in the United states has a homeless problem. Thankfully, our community doesn't have as much as some other areas. Maybe it is because people just—it is tough to be homeless in Buffalo in the winter. But we have had individuals die outside during winters when they didn't have appropriate housing. We have homelessness and issues associated with individuals in our rural community, just like we do our cities.

And if we don't have the funds to help provide assistance, not just through the county—because, remember, the county sometimes is also a pass-through to a third-party not-for-profit that is actually delivering the actual service to the individual or the family. So if we were unable to do that, if there was a shutdown, or there was a slowdown, or there was a cut in those programs, we, the county, now have to make a determination. Are we going to use our own funds?

Remember, out of my $1.8 billion budget, only $125 million of that is discretionary. The rest is all mandated. So then I have to make a determination. Am I going to cut other programs, or am I going to raise taxes for this service which the vast majority of the public doesn't even understand we provide? And that is why it is important.

Chairman YARMUTH. OK——

Ms. JAYAPAL. Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentlelady's time has expired. I now recognize the gentleman from Texas, Mr. Roy, for five minutes.

Mr. ROY. I thank the Chairman. I thank all of the witnesses for coming and taking your time out to be with us here today.

I have been intrigued by some of the language that I have heard here today. A lot of my colleagues like to word—use the word "investment." It is one of those euphemisms that always gives me a little bit of a smirk about where that dollar is coming from. I heard a lot about a partnership between the Feds and the state. I heard here about failed austerity.

Well, I would agree with failed austerity, because we are sitting here with $23 trillion of debt piling up around our ears for our kids and our grandkids. So, yes, any kind of effort at austerity has indeed failed. We are currently racking up roughly $110 million of debt per hour. So during this hearing, congratulations, we are going to raise a—rack up another $110, you know, $220 million of debt. That is what is happening as we speak. Those are the real numbers. That is what we are facing.

So what I am curious—as I look to my folks here testifying from the perspective of states—I worked in state government. I was the first assistant attorney general in Texas. I worked at the Texas Public Policy Foundation, focusing on federalism issues. I appreciate that states are here.

I think my question is, is when we are looking at states, my question, for example, from the gentleman from New York, Mr. Poloncarz, is there any federal restriction on the ability of the state of New York to raise taxes or come up with revenues to produce whatever the state of New York wants to do?

Mr. POLONCARZ. I am not aware of any federal restriction. The local governments in New York are under a 2 percent tax cap restriction.

Mr. ROY. By the state of New York?

Mr. POLONCARZ. Correct.

Mr. ROY. Right. So the state of New York makes its choices about what it wants to do with respect to taxes, and how it wants to spend its money, without any interference from anybody in this body. Is that correct?

Mr. POLONCARZ. I am not aware of any restriction on how many taxes we can raise as a result of a federal program.

Mr. ROY. How many million people live in New York State?

Mr. POLONCARZ. Well, that varies, but there is approximately 1 million in my community, and I believe there is about 16—well, 18 million, I think, in New York State. It is a urban, suburban, and rural——

Mr. ROY. It might be a little bigger than that. But OK. So there is a lot of people in the state of New York. It is a full-functioning economy, they are able to produce revenues for the state of New York by virtue of taxing their citizens in the state of New York.

I think my question would be—is why are 300 people a day moving away from New York City and the tri-state area? Why are 300 people a day flocking away from that area and moving to, for example, in Texas, where we have 1,000 people a day moving to Texas?

I would suggest, because of the laboratories of democracy, we are able to see that individual states are able to create systems and create environments in which they think will create prosperity and growth and economic opportunity, and people are flocking in droves to those places that are seeking to create an environment where you can have economic growth and opportunity.

I would ask if Mr. Walther, the gentleman from Arkansas, if you might agree with that rough statement that I just made.

Chairman YARMUTH. The——

Mr. WALTHER. I would. Obviously, there are a lot of things going on in Texas: no income tax on personal income, things like that, weather—probably a weather difference. But Texas——

Mr. ROY. It is a factor.

Mr. WALTHER. Texas has become quite a state when it comes to technology, and has brought a lot of people in. We compete with Texas also in Arkansas, so I have seen it from a little north of you.

Mr. ROY. Yes, sir, you do, indeed. We could talk a little football, but we haven't had much to talk about lately in either state.

But here is one thing I would note. I mean I am just looking—I pulled up a CNN list here. New York comes in No. 1 in the overall taxation burden on its folks. I guess my point here is we have got folks here talking about how important it is for these programs, for states to get money from the federal government.

Well, there is no more room in the inn. We have $23 trillion of debt, $100 million of debt an hour. I think if the states are looking to the federal government to be fiscally responsible and to solve your problems, and to create the programs that you want for the citizenry, well, you should go a different direction.

States need to come up with ways to solve their own problems. States, when they do that, do that much more effectively than people governing from Washington, trying to make decisions for 330 million Americans.

Right now the state of Texas loses almost $1 billion a year in dollars that we put out for transportation dollars for the dollars we get back. The state of Texas has a lot of transportation issues. I would like to get that money back. I would like the dollars to stay in the state of Texas.

I would like the federal government to focus on the one thing it should do, which is securing the United States. Texas deals with the burden of a broken border, where we have 900,000 people who have been apprehended in the last year, in the last fiscal year, coming into, heavily, Texas.

When is this body, this Congress, going to do its job, its constitutional duty, to defend the United States of America, secure the borders so that Texas and border states don't have to bear the burden of a failure of this body? When will this body embrace some of the reforms we have talked about here today to be responsible? And when will states recognize that coming to Washington for more money is ignoring the very responsibility of states to do what they do best, which is take care of people at the state and local level?

I thank the chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from New Jersey, Mr. Sires, for five minutes.

Mr. SIRES. Thank you, Mr. Chairman. You know, over the years I have put together a few budgets. I have been a mayor, I have been a speaker of the New Jersey Assembly. So I think a few budgets have come along my way.

And talking about uncertainty, I think that is, obviously, one of the biggest problems, especially at the local level. You know, you do something today, and they talk about all these cuts, and it is gone tomorrow. Samples like the cops program. You hire cops, next year it is gone.

Then we pass things in Washington requiring certain uniforms for fire departments and certain things. That is a lot of money that comes in. As more communities want to buy a pumper, it is $800,000. That is not to mention a ladder truck that is so expensive.

So when we talk about uncertainty and partnership, the government certainly has a role to play, because communities just cannot handle these kind of things to secure—for them to be secure and be safe.

So when I hear all these cuts—the CDGB (sic) program, you mentioned it, sir. You know, I mean, that is the lifeline of our communities. You know? And then not to mention charity care for hospitals.

I mean I could go right down the line of some of the things that, when they talk about cutting, that puts pressure on the local individual who is already over-taxed.

And not to talk about infrastructure, you know, in New Jersey we have this tunnel that we need to rebuild. The northeast region produces about 20 percent of the GDP of this country. We have a tunnel—we have two tunnels 100 years old. We have a bridge that, if the lifeline of these tunnels, the commuter—that is over 100 years old, and it doesn't lock properly. You need somebody with a sledgehammer to line it up properly.

I don't think people realize the impact that, if these things go, that it is going to have on the entire country. Because the region just generates so much money for the government.

New Jersey, New York, Connecticut, we are all sending states, in terms of sending money to the federal government. And we don't get money back like we sent. I think New Jersey—I think it is, what, 28 percent of what we get from the federal government?

So—and I am a firm believer of this partnership with certainty. If we can bring it to a certain—to a degree.

We talked about tax credits. Everybody talks about affordable housing. But the only way that you can build now, not just affordable housing, but senior citizen housing, is through tax credits, because there is very little money.

So if you take away tax credits, where are these communities going to find money to build a senior citizen building? If you take away all this money, it falls on the lap of the community that does not have that money. So there are certain government programs that are certainly needed for communities to be able to deal with the situation.

I come from a very urban district. The town that I live in—I always say this—it is 1 square mile, and it has got 52,000 people in it. I represent Hoboken, New Jersey, one mile square. It has got about 53,000 people in it, not to mention Jersey City, which is going to become the largest city in New Jersey with the next census.

So these urban areas are under more pressure than some of these other parts of the country. And they need more. Unfortunately, that is the reality of it. They pay more, but they need more. So when we talk about cuts and some of the—and, quite frankly, some of the legislation we pass here, you know, sometimes the impacts on these communities, it is really tough.

So all I can say is a partnership is necessary to get these—some of these projects through, to continue to generate income for the federal government. If you stop people from commuting to New York, you are going to lose money in the long run, because New York is the engine that generates a great deal of money that goes to the federal government.

I guess I don't have a question, but I just give you a rant and rave here for going through so many years of putting budgets together.

[Laughter.]

Mr. SIRES. You know, it was never easy.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Georgia, Mr. Woodall, for five minutes.

Mr. WOODALL. Thank you, Mr. Chairman, and thank you for holding the hearing. I appreciate you all being here.

Mr. Poloncarz, you referenced transportation infrastructure spending. I serve on the Transportation Committee, as well. We actually don't have any problem spending the money, it is raising the money that we have a problem with. The fourth quarter of last year, the federal government spent $1.16 trillion. That is a 7 percent increase. We brought in a little over $800 billion, that was a 5 percent increase in revenues. But you do that envelope math, you find out we spent about 43 percent more than we brought in. And I am guessing any of your jurisdictions, if we freed you up to spend 43 percent more than you are bringing in, you would be wildly successful, too.

So what I want to find out from all the local expertise is you have talked about flexibility, which is taken away when money comes from the federal government. You have also talked about uncertainty, which is created when the federal government hits our speed bumps. When we talk about block grants, in particular, we are trying to create some certainty here.

I don't think anyone would deny in a time of recession, in a time of natural disaster, as many of you mentioned, there is a huge role for the federal government to come in and help our localities. But that is not where we are right now, today, while the federal government is spending 43 percent more than it is bringing in. We are at a time of great economic prosperity in our localities.

So tell me why now isn't the right time to have some of these block grant conversations that creates federal government budgeting certainty, and stipulating that in those times of recession, those times of crisis, the federal government will need to step up and be a better partner than—can I start with you, Dr. Lambrew?

Because we bragged so much about your risk pool there in Maine, and there is so much that we can learn from your jurisdiction, from Mr. Poloncarz's jurisdiction, tell me why now isn't the right time for us to bring some federal certainty.

Dr. LAMBREW. So I would argue that having—knowing at the state level that if there is some unexpected costs, and recessions are one source of that, they are not the only one.

So, for example, we know that about a decade ago a new drug came onto the market that cures hepatitis C, cures it, but very expensive. Without having some ability to have some additional federal funding to match—not to just 100 percent pay for that new drug, but to match it was important.

Louisiana had Katrina. Their population increased. Natural disasters is a cause.

So we have multiple reasons for uncertainty——

Mr. WOODALL. Stipulating that all of those things are true——

Dr. LAMBREW. Correct.

Mr. WOODALL. If I agree to be a good federal partner with you on those unexpected occurrences, why is it unreasonable to ask you to be a good state partner to me by giving me a certain expenditure for normal expenditures.

Right now the skin in the game is just out of whack. We saw it in Georgia, where we created a provider tax to say, well, we will just have a provider tax. That way we will get two-thirds more from the federal government than what we were getting from them before, right? We are all clever folks at gaming the system. We rob banks because that is where the money is.

I want to be a good partner, and we are not now. And then that is why you all came to town, because we are not a good partner to you when we get into federal government shortfalls. But if not today, when is the day to have the conversation with my state and local partners about capping my federal government involvement in your communities during a time of normalcy?

Dr. Gordon pointed out that 90 percent of education in my community and your communities is funded by you all. And yet my board of education spends a lot more time talking to me about federal restrictions than they do talking to local families.

Secretary Walther, you know, Arkansas and Georgia, we have got a lot in common with one another. I don't want to be a bad partner. I don't want to shirk my responsibility. I just grow weary of, "If only the federal government was doing more."

Well, I am doing so much more that I am doing 43 percent more than the revenue that I am bringing. And guess what? When I go to get that 43 percent of the revenue, it is going to be high-income jurisdictions, like New York. It is going to be successful jurisdictions like California. The taxpayers are going to be the taxpayers.

Mr. Secretary?

Mr. WALTHER. One observation from what you are saying is there—right now we are at a certain place in the budgeting process. We are—you know, the states and local governments are receiving a fairly known amount. If we start making dislocations of that, it may, on a large basis, be—not mean anything to you when you are looking at it from the very top. But if you are at the bottom, where the money actually gets distributed and affects the citizens of a community, and they lose that, it could be devastating.

So it is important that we work together, that we look eyeball to eyeball, and understand—you understand our issues and we understand yours, and we work out a solution. It is—that is the way it has to be done.

Mr. WOODALL. The Chairman knows, from our work on the Joint Select Committee last cycle, there is shared understanding that the piper is going to come to be paid, and those folks that you point out, Mr. Secretary, that can handle that dislocation the least, are going to be the ones who are affected the most when that day comes. And I just don't want us to miss this opportunity at the top of the economic cycle to solve some of these problems.

I appreciate your indulgence, Mr. Chairman.

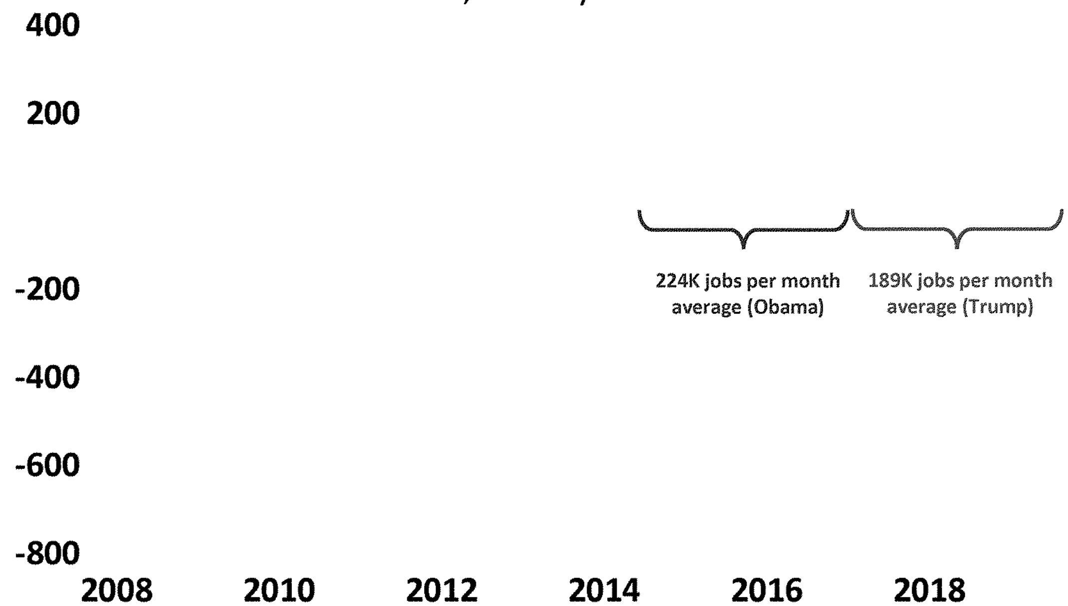
Chairman YARMUTH. Absolutely. The gentleman's time has expired. I now recognize the gentleman from Virginia, Mr. Scott, for five minutes.

Mr. SCOTT. Thank you, Mr. Chairman. Do you have the charts? Thank you.

[Chart.]

Non-Farm Job Growth

Thousands of Jobs, January 2008 to October 2019



Source: Bureau of Labor Statistics. Note: Numbers reflect nonfarm job growth. Averages reflect a 33 month period.

JOINT ECONOMIC COMMITTEE
REP. CAROLYN B. MALONEY, VICE CHAIR

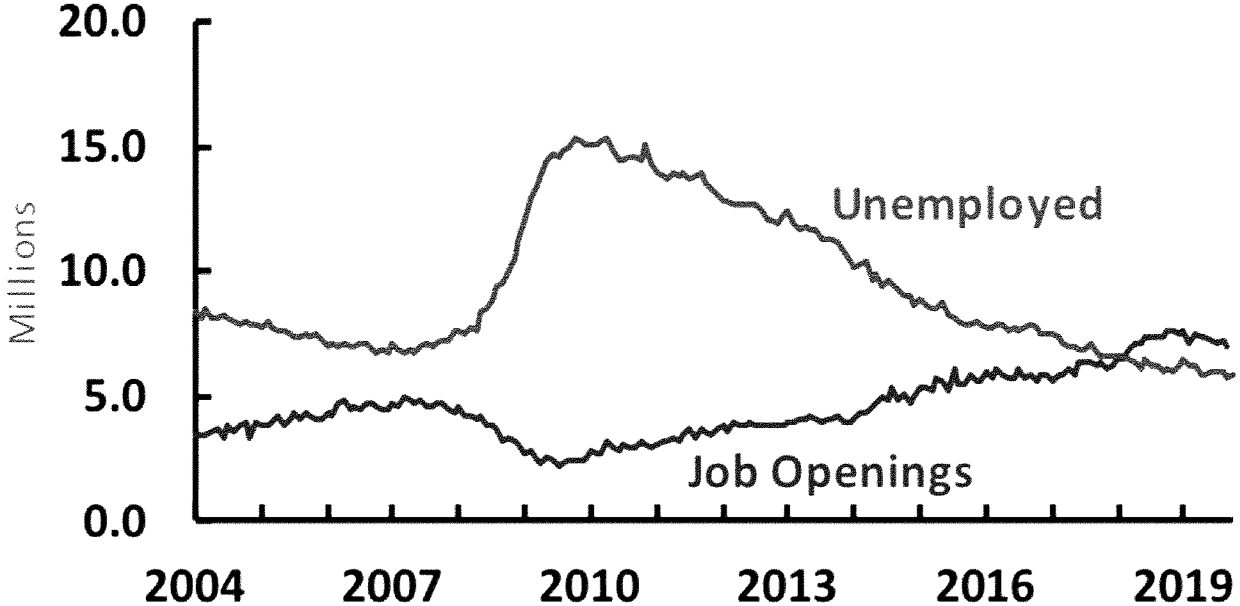
Mr. SCOTT. Here is just a couple of charts. We have heard all about the—is it going to go in?

Can we go to the next chart? Well, let me go back to this. This, if it was filled in—can you go back one? If it was filled in, it would show the last three years under Trump is 189,000 jobs per month. Under the last three years of Obama, 224,000 jobs. And you could see in the jobs, when the Obama Administration proposal went in 2009, we were in the bottom. We weren't—we were losing a lot of jobs, and we recovered. And you would also see that there wasn't a wrinkle when the Trump Administration proposal went in. Next chart?

[Chart.]

Job Openings vs. Unemployment

In millions, January 2004 - September 2019



Source: Bureau of Labor Statistics

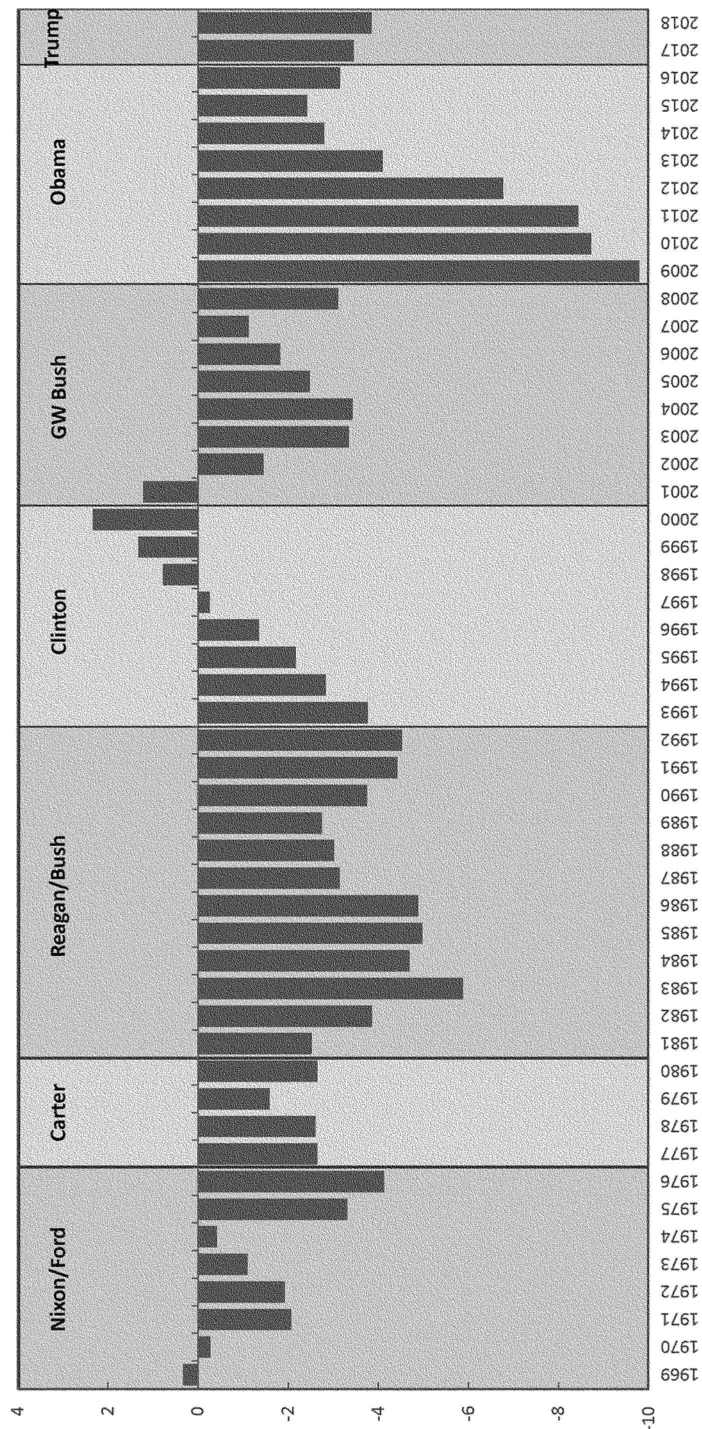
Note: Job openings refer to nonfarm job openings.

Mr. SCOTT. This shows unemployment rate. At the top of—the worst unemployment was the Obama Administration economic proposal. And as you go down, you don't see a wrinkle anywhere to suggest that the Trump Administration had anything to do with it.

Mr. SCOTT. And the final chart shows that, going back into Nixon, Ford, every Republican, without exception, ended up with a worse deficit position than he went in with. And every Democrat, without exception, ended up with a better deficit situation than they started off with.

[Chart.]

Federal Budget Deficit as a Percent of GDP. 1969-2018



Source: Congressional Budget Office, The Budget and Economic Outlook, 2019-2029, January 2019

You know, just to get—as we discuss who is in—who is getting credit for what, we just like those on the table. Thank you.

Ms. Lambrew, Maine expanded Medicaid, 43,000 people got insurance. Can you tell us what effect that had on the state budget?

Dr. LAMBREW. Sure. We are in the process of doing that kind of quantification. It has just been about a year. But we expect that, in the two-year budget cycle that we operate, that we will be able to get over $700 million more in federal funding to invest in opioid use reduction treatment. For example, one out of 10 expansion enrollees has gotten some treatment for opioid use reduction, 16,000 people got mental health treatment in the last year, over 3,000 people got a cancer screening, which we think will have a long-run savings to the state and the federal government, as people get care detected earlier.

We also know our hospitals are beginning to experience declines in uncompensated care, which, at the end of the day, is good for all citizens, as private premiums come down with less of a cost shift in the state.

So we are quite excited about the early results of our Medicaid expansion——

Mr. SCOTT. What about state revenues? With all the additional spending are you getting any additional revenues, tax revenues?

Dr. LAMBREW. So we don't single that out again. I can say, generally, that the revenue forecast for the state of Maine has been good. It got revised upward in December, so the revenues in the state of Maine are strong, at the same time as the Medicaid expansion has——

Mr. SCOTT. So the expansion got in more federal money, and probably increased revenues as a direct result of expanding Medicaid and covering 43,000 people?

Dr. LAMBREW. There was certainly no decline in revenue. At the same time, revenue was going up in that period.

And I will note, going back to what happens in a bad time, the Medicaid expansion is exactly the right policy you want to have in effect, because that is covering—as one of my colleagues said—the working poor. Should they lose their jobs, they could, without the Medicaid expansion, lose their health care, put strain on hospitals, put stress on local communities. With a 90 percent federal matching rate for that group that is most vulnerable to expansions, I would argue, is one of the better recession-proof policies that we have in the state of Maine.

Mr. SCOTT. Thank you.

Secretary Walther, you mentioned your levee situation. Have you—and, obviously, if you have better levees when storms come, you will have less damage. Have you projected whether or not the cost savings and reduced damage due to the levees would be more than or less than the cost of constructing the levees?

Mr. WALTHER. No, sir, I do not have that information.

Mr. SCOTT. Do you—is there any way that you can build the levees without federal support?

Mr. WALTHER. There is. It will take a lot longer period of time. But I am sure it would be possible. A lot of that is done through local levee boards that work to generate revenue on a local basis to complement the money we get from the federal government, too.

Mr. SCOTT. OK. Ms. Gordon, you mentioned some of the things that we can do, counter-cyclical spending. We have counter-cyclical spending with food stamps and unemployment benefits. What should we be doing before a recession starts to be ready for a recession?

Dr. GORDON. Thank you for the question, Congressman. I think that people often talk about automatic stabilizers in the tax code, federal tax burdens that go down automatically when people earn less income, or social safety net programs, as you mentioned. But I think one aspect that gets overlooked is this counter-cyclical assistance to state and local governments, which, as the Congressman mentioned, you know, do have skin in the game, and they are providing these services as soon as they are demanded. There is not always necessarily a backstop from the federal government.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Pennsylvania, Mr. Meuser, for five minutes.

Mr. MEUSER. Thank you, Mr. Chairman. Thank you all very much for being here with us today.

We are certainly experiencing quite an economic boom. And economic booms, job creation, is the number-one revenue generator for governments. The economic boom is due to a number of things, but the primary factors are certainly a less regulated economy.

Without a doubt, the tax cuts—I think the tax cuts exceeded anyone's expectations, even the highest of expectations, by putting more money in people's pockets, and in small business, and in large businesses that employ millions, of course. Those companies are reinvesting, and people have simply more money to spend how they see fit. And the multiplier effect takes place far more effective than any targeted spending, stimulus type of spending from the federal government or any level of government.

Trade is a huge factor. It completely opens up new markets for our—best products in the world are made in the U.S.A.—products and farm goods.

Low interest rates play a very big role, and that is the case.

And having low costs and dependable energy at our disposable—at our disposal, which is not affected by geopolitical Middle East and military events.

So, anyway, we also have something known as the Tenth Amendment, where the powers not delegated to the United States by the Constitution, nor prohibited to it by the states, are reserved to the states and to the people.

So, all that being said, I use a very simple example. Think of your traffic lights in your home town. Imagine your federal government was in charge of your traffic lights. First of all, if there was ever a problem, it would take a while for them to get fixed. Whether or not they worked right or not would be relatively up for grabs. And they always seem to work extremely well, so thank goodness we are smart enough to have where the funding takes place for such things as close to the scene where it is needed as possible, where the proverbial rubber meets the road.

I was revenue secretary for the Commonwealth of Pennsylvania for four years. And in one of our budgets we initiated block grants to counties. The block grants, depending upon the funding, were anywhere from a 15 to 20 percent reduction from the previous year. Initially, there was a lot of squawking. How can we do that?

Then we asked the counties what they thought: 66 out of 67 counties felt they could do a far better job with anywhere from 15 to 20 percent less from the state government, and it worked out very well.

So I am going to ask you about block grants related to Medicaid, certainly education, transportation. And, you know, under Obamacare there were some waivers given, of course, to states related to health care.

So Mr. Walther, I will start with you. What are your thoughts on the effectiveness of federal block grants to the states?

Mr. WALTHER. From our point of view, they are much easier to administer and to get the dollars to those who need it. In other words, you—we get a block and then we determine, on a local level, what—where those dollars go, based on the requirements that the block grant actually has in it. So it is a great way of doing it.

And some places we get that, and some we don't, but it would be a preference, I guess from the state's point of view, to—the more we can do that, the better it is in administering and getting the dollars to those who need the money.

Mr. MEUSER. Great. Ms. Murnieks, related to Ohio and your experience?

Ms. MURNIEKS. I would concur that the more flexible we can be in our funding and how we are able to dedicate the funds to the important programs that are going to have the biggest impact locally, the more flexibility that could be provided in that, whether it is through block granting or another methodology, would be appreciated in Ohio.

Mr. MEUSER. Great, thank you. And let me ask you this, Ms. Murnieks, while you are speaking there. What does the federal government do well for Ohio, for the states? What kind of synergies—what funding initiatives and cooperative efforts are effective, and not only appreciated, but delivered a good return on investment?

Ms. MURNIEKS. Well, I can say that when we look at the Medicaid program overall, that has enabled us to address the opioid addiction program and the drug problem that we have had in the state of Ohio. I would say that more flexibility would be appreciated, but that partnership has worked well in Ohio.

Mr. MEUSER. Thank you.

And, Mr. Chairman, I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Michigan, Mr. Kildee, for five minutes.

Mr. KILDEE. Thank you, Mr. Chairman, for recognizing and for holding today's hearing. This is a subject that I spent a great deal of my career before coming to Congress working on, particularly in terms of federal investment and the way the federal government can support community and economic development.

I mean, after all, the best way to provide for sustainable communities is to make sure that they have vibrant economies. And the federal government does have a role—can have a greater role, I think, in supporting that.

Our states do rely on significant assistance from the federal government. The data that has been discussed in this Committee makes that point very clear. But those state programs and state governments' ability to be more stable allows states to invest in cities and towns, as well. So reduced federal support has a cascading effect not just on state budgets. But what we have seen is that states that are under fiscal stress tend to pass their stress on to local governments, which are creatures of state government.

Add to that the reduction in the commitment that this federal government has made directly to community development through programs like—and, Mr. Poloncarz, you mentioned the community development block grant program. This is one of those programs where local priorities can drive funding decisions.

But, let's face it, I mean, we just haven't provided the support at a scale equal to the need in many of these communities. Those cuts in community development block grant support has a real impact on basic elements of civil society in chronically distressed communities.

So perhaps Dr. Gordon and then Mr. Poloncarz, if you might discuss maybe in a little greater detail what you think the needs—CDBG being one way to address it, but in these left-behind places, Dr. Gordon, that you referred to, these chronically distressed communities that seem to be immune to up-cycles, there was a conversation about counter-cyclical investment. There are communities, a whole subset of American communities, that are completely immune to up-cycles.

I happen to represent a string of those older, industrial communities. I know you have all heard me talk about my home town of Flint. It is the, you know, I think the case study of what happens when we see chronic distress.

Could you comment on where you think the federal government's role could be enhanced, each of you, particularly for these chronically distressed communities?

Dr. GORDON. So I think the federal role is typically thought of as addressing these spillovers, so the Congressman from New Jersey mentioned that you have bridges that connect states that people use every day to go from where they live to where they work. But there are also externalities from letting places fall behind, not to mention that there is just a sense that, as Americans, we want to provide a certain decent minimum for everyone, a certain level of access to goods that are necessary to live a healthy and productive life. So the federal government has a role in helping these places that are facing chronic challenges that come from things like trade and external economic events.

One point that I tried to make in my testimony is that the federal government has an arsenal, really, at its disposal already in the $700 billion that it spends annually in federal grants, and that those grants could be better targeted to places that are in need. There have been experimentation during natural disasters, during economic disasters to tweak these formulas to make them more responsive to differences in local need and local cost and local fiscal capacity.

In my own work I have found that most states face a gap in what they could raise in revenues and what they would have to provide in spending to meet national benchmarks. federal governments offset those gaps in about half of all states, but gaps remain in many, many states. And so, from my perspective, I think the federal government should look at the tools that it already has, and try to use them more effectively.

Mr. KILDEE. Mr. Poloncarz, you play a role in your community similar to one that I once played. I wonder if you might comment on the effective for your community, but also the other places that you are familiar with around the state that may be facing chronic distress.

Mr. POLONCARZ. Well, the problem with chronic distress, Congressman, is it is chronic because you have just a never-ending cycle. You lose businesses, you lose tax base, you lose jobs, people move. What ends up happening, you still have the same need for the people that are left in the community, but you have less revenue now to pay for it on the local level.

And we see that in large, urban centers, like the city of Buffalo, which is seeing a tremendous revival. But depending on how you quantify it, it may be still considered the third or fourth poorest city in America. And the same thing in rural communities, where I talk to town supervisors and they have some of the same issues and same problems.

And on an annual basis, our consortium comes together to determine how we are going to spend Community Development Block Grants, and it is never enough. And we are then basically thinking, OK, what did we do last year, what did we do two years—because we helped that community out three years ago, we helped this community out two years ago. Now who can we help out this year, so that it is fair?

But everyone sits at the table and says, "We could do so much more if we had additional revenue to assist us in those projects," and it really matters in a community where they cannot generate more revenue because they have a declining population and a declining tax base.

Mr. KILDEE. Thank you all very much, and I yield back.

Chairman YARMUTH. Yes, the gentleman's time has expired. I now recognize the gentleman from South Carolina, Mr. Norman, for five minutes.

Mr. NORMAN. Thank each of you for coming here.

Let me mention one thing about the jobs numbers that I saw up there. I had a constituent call me back during the Obama years, and was questioning me on the jobs now versus the jobs created then.

And so I delved into it. The jobs created then, the difference was it was government jobs. It was for more bureaucracy. What this President has done is create private-sector jobs. Ask any business. They will tell you they are investing in their business, they are putting equity in, they are excited. And it is from cuts in regulation, not expanding regulations. That is the main—one of the main differences. For every one being proposed, this President has cut 15 to 20. He is a businessman.

Second, I would like to say that one thing both sides can agree on is infrastructure: roads, streets, bridges. The issue is—and Mark, you mentioned it—is the money is never enough. You can't have enough money, and—which comes to my question for each of you.

I am a contractor. I am from the private sector. I have seen firsthand where, with the same contractor, him charging $400 per square foot for pavers, he is charging me 110. And he is making money at 110. I said, “Where is—explain this to me.”

He said, “It is government.”

What checks and balances can we put in play so that the block grants that you support will—the money will go further, and that it will not be taken advantage of?

And I will start, Doctor, with you.

Dr. GORDON. Yes—oh, sorry.

Dr. LAMBREW. There are two doctors.

Dr. GORDON. Which doctor? Yes.

[Laughter.]

Dr. GORDON. So I think, since the beginning of time, Governors have come to Washington and said that what we really need is more money, or the same amount of money with fewer strings attached. And from the federal government’s perspective, of course you want to limit budget exposure, and you want to have restrictions on gaming and manipulating the system.

I would just argue that there is a cost. As an economist, we are always talking about tradeoffs. And so some of these maintenance of effort requirements, matching requirements, reporting requirements, basically, you know, inhibit states from innovating, and also might get in the way of the aims of the program in the first place.

Mr. NORMAN. You want me to tell you what cured it in the situation that I just gave you? Competition. We got contractors from out of South Carolina that were willing to come in here. You had such a difference. Competition is where you have the dollars go further. And I think both sides can agree that is a good thing.

Doctor?

Dr. LAMBREW. And I would just add I—that is what we have been doing in the state of Maine. We work hard on competitive procurement, to make sure that we are really trying to look out to see who can do it best, highest quality for a good price.

But I would note that we should look hard at the regulations that have been coming out recently, because, while there may be fewer of them, they are often times limiting state options. For example, two regulations this year for the SNAP program would limit state choices.

In the state of Maine we would have to conform to standard utility allowances that are more national. That would mean a 14 percent cut in our state that has high utility costs because of heating in the northern part of the state. We would have limited eligibility in what is called broad base categorical eligibility: 44,000 people in Maine could lose eligibility because state flexibility is taken away. And I mentioned this, Medicaid financial accountability regulation. That would affect all states’ flexibility about how they have, over years, funded their state programs and paid for their hospitals.

So I think we ought to be precise when we talk about regulatory burden. There may be fewer regs, but some of the regs that we are seeing would actually go backward, in terms of supporting states.

Mr. NORMAN. And this is what I would ask you to do. You put—like you put a balance sheet, put on the things that the regulation is supposed to provide versus why you think it is not there.

And also, all—each one of you all are at a good vantage point to offer cuts, as well as things that needed to be changed. And nothing lasts forever. Our family budgets, business budgets, are modified every 30 days. So to have things in place that aren't sunsetted makes no sense to me.

Mark?

Mr. POLONCARZ. I certainly agree with a number of your points. One of the things that we certainly have, and especially when it comes to transportation, that is implemented in every project are requests for proposals, and taking the lowest responsible bidder. I have seen the bids come in and scratch my head and seen how they are so out of numbers. But then you go with the lowest responsible bidder. It works in certain areas, it may not work in other areas.

For example, in the Medicaid program we know that there is many more people who are now on the program. In Erie County alone it is approximately 80,000 more since the Affordable Care Act. But we haven't seen an increase in some of the dollar values associated with the age groups, because it is the individuals 65 and older, and end-of-life care and nursing care that are driving the costs associated with it. And when you have a country, so to speak, where we are trying to make people live longer, and we have been able to reduce the costs and ensure that we are providing health care for youths and families, but when we see this dramatic increase in costs with the individuals for end-of-life care and nursing care at the same time the number of enrollees goes down, I am not certain how we control that aspect of it, because we all want to live longer lives.

Mr. NORMAN. Transparency. One of the big things is transparency, and having a gatekeeper that has no interest in it going up or down, that knows the system. That is the best way that I know to do it.

Larry?

Mr. WALTHER. Just a——

Chairman YARMUTH. The gentleman's time is—go ahead and finish the question. The gentleman's time——

Mr. WALTHER. Just a quick comment. What the states need to do is still have accountability with the spending of the money, and hopefully—not hopefully—when we should have more savings up front to offset the cost that might be incurred on the end where you have the accountability.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Nevada, Mr. Horsford, for five minutes.

Mr. HORSFORD. Thank you very much, Mr. Chairman, for holding this hearing to discuss the important topic of federal investments and what they mean for our states.

As we await the President's Fiscal Year 2021 budget blueprint, it is important for us to remind the President of all the good that federal investments bring to our states and local communities, its families and workers.

Nevada is one of the few states that meets every other year in our legislature, and is on a part-time schedule. So it is important that we have budget certainty. And that includes certainty for what money we receive from the federal government. Like many of the experts on the panel and some of my colleagues, I previously served in the state legislature, and was the senate majority leader not so long ago. And it was during the time when we faced our state's worst budget crisis, during the Great Recession. We actually lost nearly a third of our state's revenue.

Nevada's budget deficit, as I said, was one of the worst in the nation. Our unemployment and home foreclosure rates were among the country's highest. Fortunately, the Obama Administration signed into law the American Recovery and Reinvestment Act of 2009, which provided $1.5 billion in direct aid, including funding for our schools, for states' maintenance of effort, as well as Medicaid assistance, as well as other competitive grants that collectively created and saved nearly 34,000 jobs in my state.

Today we are one of the strongest economies in the nation, with record job growth since 2010, including small business creation, especially for women of color, and an increased housing appreciation.

Additionally, Medicaid expansion in 2014 provided new life to so many Nevadans. Nevada was one of the first states to expand Medicaid under the Affordable Care Act, and I give credit where credit was due. I had the opportunity to work with then-Republican Governor Brian Sandoval. He was the first Republican Governor in the country to enact Medicaid expansion. From that we now have 630,000 Nevadans currently on Medicaid, including children, pregnant women, seniors, and individuals with disabilities. And Nevada has increased Medicaid enrollment from 2013 to May 2019 by 90 percent. We are second-highest percentage increase in the U.S., second only to the Chairman's great state of Kentucky.

Well, despite all of these gains, and the fact that we have been able to cut the rate of uninsured in our state, particularly among children, in half, under this Administration the President said when he was running for office—then candidate—"There will be no cuts to Medicaid" in 2015. And, lo and behold, he sent us a budget proposal last year that would have cut Medicaid spending by $1.5 trillion over 10 years. Nevada would have been one of the most hard-hit states as a result of that proposal, and I am glad that this Congress rejected his budget blueprint and passed an alternative.

Since I am already familiar with how state and local governments are impacted by federal investments, and I believe that all of us should be arguing for more resources into our states, not less—I don't quite get my colleagues who want to get less money to their constituents for schools and health care and small businesses. I want to get my state's share of the money that we send through taxpayer resources.

So, Dr. Gordon, can you explain to me how prepared are state and local governments for a possible recession in the future? How can the federal government help states and localities prepare?

And all things go up. Our economy is good. I am rooting for a good economy. I want successful small businesses and job growth. But we also know the trajectory, and we have to be prepared for when the economy is not as strong. And there are levers that the federal government can deploy. So can you speak to those, please? Thank you.

Dr. GORDON. Yes. I just want to say, of course, you know, recession does not appear to be imminent. However, states are very well prepared. Their rainy day balances are at an all-time high of 8 percent of general funds. As you know, credit rating agencies do various stress tests of state revenues and spending programs. And most states tend to pass those tests quite well.

The issue is that states had healthy rainy-day funds prior to the last recession, and nothing really could have prepared them for a revenue drop on the order of 30 percent, and increasing demands for public programs. So it is great that the federal government stepped in and did so quickly with the Recovery Act. What I am concerned about is that we don't have an automatic response ready right now. We have to wait for discretionary action. And, in fact, things that are done in the heat of the moment might not be the best policy.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, Mr. Crenshaw, for five minutes.

Mr. CRENSHAW. Thank you, Mr. Chairman, and thank you, everyone, for being here.

You know, there is no debate over whether or not there should be federal support to the states. It might be framed that way sometimes, but that is not the debate. The debate is over how efficient it is and how sustainable it is, and what makes sense at the state level, and what makes sense at the federal level. And that—there should always be a debate about that.

You know, there was a question proposed of why wouldn't we always ask for more money for our constituents. Well, the reason is because we want to be good stewards of all taxpayer dollars, and we want a system that is actually sustainable. Sustainability is certainly a goal. Of course I ask for money for my constituents. But I also know that my constituents voted to pass a $2.5 billion flood bond paid for by their own tax dollars.

If I am going to ask for flood mitigation funding from the federal government—and you bet that I have—then I know that we also need to match it. And there has to be a good relationship between the state and the federal government. There has to be a balance.

The notion of flexibility has come up quite often, and that seems to be some bipartisan agreement there. So I want to ask for some examples from everyone on what kind of federal—give me some examples on federal mandates that have either cost your state more, prevented innovation, or reduced efficiency.

And we will start with the ma'am from Ohio. Thank you.

Ms. MURNIEKS. Sure, thank you. I will go back to—my last job prior to this was as the chief operating officer for the Ohio attorney general's office when Governor DeWine was attorney general. And an example that frustrated me in that role was that we were continuing to receive federal grants for marijuana eradication, when we were having Ohioans killed by the opioid crisis. And we didn't have the flexibility to re-direct those funds.

Mr. CRENSHAW. Wow.

Ms. MURNIEKS. So I think that is a great example.

There was a question earlier about if we have flexibility, how can we have accountability. I think the best accountability is to focus on results. And in Ohio we are achieving results. We created 10,000 new private-sector jobs this year. Small businesses are growing. The majority of the folks working with our small businesses right now are actually women creating small businesses for the first time ever in Ohio. We are seeing more venture capital investments. Innovation is up. And we created a new opportunity zone tax credit in Ohio that mirrors the federal opportunities, so that we can drive more funding——

Mr. CRENSHAW. In addition.

Ms. MURNIEKS [continuing]. into those areas. So those are some of things——

Mr. CRENSHAW. Since we are on Ohio, we have problems in Texas with disaster relief funding being mired in a lot of red tape. Do you have the same issues in Ohio?

Ms. MURNIEKS. We absolutely do, Congressman. One of the things that I have on my white board in my office as issues to address is the complexity of disaster recovery funds. The—we had some tornadoes in Ohio coming through the Dayton area earlier this year——

Mr. CRENSHAW. Has there been any official proposals by Ohio? In Texas we had a long land commissioner's report on that.

Ms. MURNIEKS. We don't have any official proposals yet, but it is a——

Mr. CRENSHAW. Send them our way, if you——

Ms. MURNIEKS [continuing]. an issue——

Mr. CRENSHAW [continuing]. if you develop one.

Ms. MURNIEKS. Absolutely, we will, thank you.

Mr. CRENSHAW. And will the rest of the panel please answer the question? Thank you.

Mr. WALTHER. For—I don't have a lot of experience in this area. The most recent one is the—are the floods that occurred in——

Mr. CRENSHAW. It doesn't have to be disaster relief-related. We are still on these general examples.

Mr. WALTHER. Generally speaking, when you are working with the Corps of Engineers and FEMA, they already have these rules and regulations that are in law that make it difficult to secure dollars and assistance. Now, we are working through that.

I will—on the other hand, when we were going through these—this difficult time this year, they were there, giving us advice and assistance in that way, looking at the levees, looking at the compromising of the levees. So they played a great part. But from a financial side, it is a long-term process to get money for levees when it comes to the federal government. Thank you.

Mr. POLONCARZ. Congressman Crenshaw, I think the original question was with regards to the federal mandate's cost. Well, it is not so much it is costing more, it sometimes is the complexity associated with it and the timeline delays. We do the best that we can to implement policies, but we are often dealing with knowing that we are not going to get funds for three, four years out, even though they sometimes are needed immediately.

So it—I don't know if it is so much driving increased costs, at least at the local level in my county and upstate New York counties, but it is knowing that we could always—the programs are such that we are depending on the funding, and often the funding for the projects that we need them for, whether Community Development Block Grants, water, clean water programs, or so forth, aren't going to come for years.

Mr. CRENSHAW. Thank you. I am out of time. I yield back.

Thank you, Mr. Chairman.

Chairman YARMUTH. Thank you. The gentleman's time has expired. I now recognize the gentleman from Massachusetts, the Vice Chair of the Committee, Mr. Moulton.

Sorry about that. Off my game here. I recognize the gentleman from California, Mr. Panetta.

Mr. PANETTA. No, no, no, always on your game, especially being from Kentucky. Thank you, Mr. Chair, I appreciate that.

And, ladies and gentlemen, thank you for this opportunity for us to talk to you, and for your participation, as well as your preparation in being here.

My name is Jimmy Panetta, I come from the central coast of California. And as you have probably heard, and as you know, California pays more in federal taxes than they receive in federal spending. Actually, 30.7 percent of our state's budget comes from federal funds.

Now, obviously, California, being as large as it is, population-wise, geography, as well as the economy, I think that is understandable. However, we do rely quite a bit on federal funding for the basics, be it transportation, be it environmental infrastructure, be it health care, be it education, and, of course, emergency services and disaster response.

Yet, despite the importance of supporting state and local governments, I think what we are seeing is that this administration has pursued policies that have sort of left them out to dry with the 2017 tax bill, with the proposal of numerous budgets that cut this type of funding, as well as the investments.

Looking at the 2017 tax law's cap on state and local tax deduction, it does create challenges for state revenue agencies facing pressure to provide relief for taxpayers. And the President's budget would have devastated state investments.

Now, I am proud that the House at least addressed and passed legislation to repeal the SALT cap, and I am also very proud that we continue to pass appropriations that do reflect our priorities, all of our priorities, Democrats and Republicans. But I do believe that there is more that we can do.

We should provide, as you have heard over and over, we should provide more certainty to our state governments by passing our appropriations bills on time. And we in this Committee should be passing our own fiscally responsible budget resolutions, instead of simply reacting to this Administration's proposals for austerity. In this way I do believe that we can ensure both our federal and state tax dollars are being spent efficiently and responsibly.

Now, as a member of the Ways and Means Committee, as well as the Budget Committee, we examined the impacts of the 2017 tax law, and we specifically examined that—what I mentioned, that cap on the state and local tax deduction. We heard from a number of witnesses from municipalities and emergency service providers about the harm that that tax does, concern that it could harm investment at the local level.

Now, Dr. Gordon—and I apologize if you have answered this before, I was out at another hearing—but why would this be the case, in regards to the potential damages that it could provide?

Dr. GORDON. So the state and local tax deduction, like any deduction that is tied to marginal tax rates, was one of those deductions that was upside down, that benefited people more at the high end of the income distribution who faced higher tax rates. The cap addressed that inequity, however at a cost, which is basically providing less of a subsidy to states to provide services to low-income people who live in the same state as those high-income people. So I think we have to remember that state and local governments spend about two-thirds of their budgets on health care and education, goods that the federal government and federal taxpayers feel are important.

There is also a concern that limiting the SALT deduction basically makes it even harder for people who live in high-cost areas like the Silicon Valley or like New York City, that are very productive and have higher salaries and higher wages, that are nominally higher but don't buy as much, in terms of actual rent and things that you need to survive. The federal tax code doesn't really take that into account, as you know.

So the SALT deduction was one way of equalizing those differences.

Mr. PANETTA. Got it, thank you. And now, moving on to another issue that is important to me: biennial budgeting. And I know there was a question asked from my colleagues on the other side of the aisle.

But just again, Dr. Murnieks, what benefits have you experienced from biennial budgeting in Ohio, and what challenges, as well, have you experienced?

Ms. MURNIEKS. Congressman, biennial budgeting in Ohio is a long-standing tradition, and it is required in our state. We find that that enables us to plan ahead. We forecast our revenues well in advance, we plan our programs well in advance. It provides opportunity and certainty around when we are having the discussions about the budget, so that it is all on a schedule, and we can—you know, we can keep to that.

It is, I think, most important for our local partners that they know when programs are put in place, that they will be there for the duration of that biennial budget time.

Mr. PANETTA. Great. I am out of time. Thank you, I yield back, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Oklahoma, Mr. Hern, for five minutes.

Mr. HERN. Thank you, Mr. Chairman. I always love it when we talk about the Tax Cut and Jobs Act, because it is a bit of schizophrenia we have, because we talk about how it benefits the rich and poor, and—or the rich over the poor. And then, when we talk about SALT, we talk about it only helps the higher wage earners, which, by classification, would be the richer.

And so it is always amazing when I hear this, and I always hear the complaints from, really, two states, New York and California, that have taxed their local citizens into oblivion through state taxes, and then are critical of the federal government wanting to not have the rest of the country pay for those differences.

But all that aside, we will also have this year the highest income revenue to the federal government in the history of the country, even by putting back $1.9 trillion of taxpayer dollars back into each individual's hands across America over the next decade. And it is always amazing to me, when we hear about putting money back in the pockets of people, the individuals in each of your states and all the other states not represented here today, that that is a bad thing.

It has always been a bad thing. I just got into Congress about 14 months ago. It has always been a bad thing when somehow we have reduced revenue flows to the federal government. It has always been amazing to me, it is amazing to people who are not in Washington, DC. The only people who are really critical of that are the people in Washington, DC.

But here we are today and, you know, thanks to the President and his getting after the regulations and cutting, you know, somewhere around 10 to 15 regulations for every one that is introduced, the growth is going on.

I always hear my colleagues talk and, you know, they are great friends, but they always talk about "it could," "it may," "it possibly could." All these things that were talked about by really smart economists never came to fruition.

And it is really this ideology that we are going to take all this money back to the states. And each of you are accountable to revenues, either in a county or a city or a state. I assure you your people that get these moneys back don't go bury them in the backyard, which is the only way they would take them out of the revenue streams in your communities. Because they do buy things in your communities, they do support your schools, they do support your roads. And they support it directly without coming to Washington, DC. and cutting off a layer of administrative fees, which is what happens to much up here.

The—we have seen the growth in jobs, the greatest growth rate, lowest unemployment, the best employment of every group of citizens of the United states that—like we have never seen in none of our lifetimes. And I spent 30 years of my life in Arkansas, grew up there in Russellville. You know, I am really appreciative of what is going on over there. Obviously, I live in Oklahoma. And, you know, now we are envying a lot of the things you all are doing, which—I think that is awesome.

You know, the President has talked about transportation and infrastructure. He has met with the leaders. You know, still, we are trying to figure out how to fund this. I believe it is a constitutional duty that we have to fund our infrastructure. Most great civilizations have collapsed because they couldn't maintain their infrastructure. And we have got a lot of work to do there.

But, like I said to some really smart economists that had really fancy degrees behind their names not too long ago, and also to Fed Chairman Powell, we have got to get a lot more Americans to work, producing a lot more revenue to the states, and that is what this President pleaded (sic) to do, and his campaign has done that. Promises made, promises kept. The facts show it out. Regardless of how much you dislike him or hate him, that is not an impeachable offense. But yet we are trying to run him away because we don't like all this growth. So—for some reason.

But I do have a question. And you know, as we look at this, we continue to do this—inequities to the American people of continuing resolution, omnibuses—something that most people never understand in their life. As a business guy for 35 years prior to getting up here, I thought this couldn't possibly be this hard. You heard every person here today, I am sure, talk about how budgets were easy to pass, but the leadership would never get those into law since 1996, even though it is required by law. We just changed the rules.

So can you just tell me—and I will start with my friend from Arkansas—can you tell me what continuing resolutions do for you, as a state director of finance?

Mr. WALTHER. Well, like Ohio, we budget on a two-year basis, two-year cycle. And so there is uncertainty that is added into each year, especially that second year, whenever you are doing the budget. So that is the main thing, the uncertainty. And, you know, it is helpful to know what—how much money you are going to get on the next year.

Mr. HERN. So, to be completely bipartisan or nonpartisan, my colleague from—or my friend from New York there, if you could, talk about what CRs do to you.

Mr. POLONCARZ. Well, they are no fun to deal with, because we then put in contingency plans with regards to programs that we know are federally funded that——

Mr. HERN. So can I just halt you there? I only got 20 seconds left, and I just want to—for the record, I have got a person from New York and a person from Arkansas agreeing.

And we talked about how bad it is, and it should really be frustrating to you all sitting at that table, and everybody that is going to watch this video across C-SPAN and elsewhere, that everybody in America—most people in America that are decisionmakers hate CRs. Members of Congress hate CRs. Yet we do them every single year, because that is the only way the leadership can get together to make things work. We have to stop this ridiculousness. We got to do it in regular order, get a budget passed, be responsible legislators for the American people.

I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the—now the gentleman from Massachusetts, the Vice Chair of the Committee, Mr. Moulton.

Mr. MOULTON. Mr. Hern, I think we all want growth, we just don't want Russia running the country.

Mr. Chairman——

Mr. HERN. Was that a statement? They are not running the country.

Mr. MOULTON. Fiscal year 2020, Democrats fought to protect Medicaid appropriations after President Trump suggested reducing Medicaid funding by $1.5 trillion over 10 years. At the same time, the 2017 Republican tax law, which benefits wealthier Americans and corporations, added $1.9 trillion over 10 years to the debt. The effect might be even greater after accounting for federal tax revenue being lost over CBO's projections, as we experienced in 2019.

Now, every member here on both sides of the aisle represents communities that count on federal dollars. There is bipartisan dependence on federal funds. In fact, my colleague, Mr. Roy, recently commented that states and communities should solve their own problems, and not count on the federal government, which is ironic, because he took home more federal funds in Fiscal Year 2019 for his district than every other Republican on this Committee by a factor of two.

But let's be clear: We all benefit from federal dollars. But one party is responsible for sinking us into a fiscal black hole by passing a tax cut for the wealthy and corporations that is completely unpaid for. The result? We experienced the largest deficit in American history last year.

In fact, Republicans controlled the House, the Senate, and White House during appropriations for fiscal years 2018 and 2019. And the deficit rose each year. According to the U.S. Treasury, the deficit increased in Fiscal Year 2019 to $984 billion, which is a 26 percent increase from the previous year, and a 48 percent increase since Fiscal Year 2017, which is the last year of appropriations under the Obama Administration.

Now, the debt that comes from these repeated deficits is a massive bill that our kids and our grandkids will have to pay. It is like passing your family house down to your kids when the home is on fire, and taking out multiple mortgages so there is no value left in it, and with no insurance policy to pay for the loss. It is intergenerational theft.

And here is the problem for today's hearing: Nobody on this Committee, including my Republican friends, and even the fiscal hawks like Mr. Roy among us, has volunteered to give up federal funds for his or her district. But we are running out of money. The math doesn't add up.

Dr. Gordon, what fiscal challenges might state and local governments face if we cut federal government investments in states and local communities because of this massive Republican deficit?

Dr. GORDON. It is interesting that you started with the federal budget's own challenges, because I would say, in the long term, those are the same challenges facing states and localities: aging of the population; uncertain and, most likely, rising health care costs.

The GAO recently calculated that states will face a gap between revenues and expenditures on the order of 6 percent in 2068, so that is quite a ways out, but I think illustrates the fact that all of these governments are in the same boat together. And so I think the important question is figuring out which level of government is best situated to bear which kinds of risk, which levels of government should provide which kinds of services, and getting that sorted out before these sort of external threats come to play.

Mr. MOULTON. Mr. Poloncarz, the low-income heat—low-income energy assistance program became law under President Reagan, who was no friend of taxes, to protect millions of low-income households each year from extreme heat and cold when high energy bills exceed their ability to pay for them. In President Trump's last budget proposal he eliminated this program.

Now, I understand that, much like my district, your country—your county gets rather cold in the winter. And residents rely on this program to keep their homes warm. What measures would you need to take if federal investment for this program disappeared?

Mr. POLONCARZ. Well, we would immediately have to find a way to invest a few million dollars that we did not originally budget for. Remember, my budget is on a calendar year, January to December. So if it actually changed in the middle of the year, and I am looking at the fall and the winter coming up, I would have to find millions of dollars that I would be able to put into it.

Because, as you note, even with climate change, where it has been a little warmer in our community on and off this winter, it is supposed to get really cold again, down to 10 degrees. And if you don't have heat, your pipes burst, you die. It is a lifeline for tens of thousands, including working individuals who rely on HEAP to help pay for their energy costs. And without it, it would be devastating.

Mr. MOULTON. And is it going to be easy to find those millions of dollars?

Mr. POLONCARZ. No. We would either have to go into our reserves, or piggy-bank, which we have slowly developed over time, or we would have to raise taxes, which would probably not be acceptable in most situations, even if you are talking about ensuring that someone has heat. A lot of my legislators that I deal with are so averse to the idea of raising taxes that they would rather let some people go cold than raise their taxes on others.

Mr. MOULTON. Thank you.

Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentlelady from Texas, Ms. Jackson Lee, for five minutes.

Ms. JACKSON LEE. Mr. Chairman, Ranking Member, let me thank you for this very important hearing. I started my service, civic and governmental service, as a municipal court judge, and as a member of the Houston City Council. And I always say that is where the rubber hits the road. I have great respect for state government, federal government, but it is where these dollars really have a strong impact.

So I want to take note of the fact that we had a declining debt in 2016, the end of the Obama Administration, at $14.2 trillion. And we now have, at the end of 2019 and growing, a debt of $16.7 trillion. In those numbers, unfortunately, we have an administration who seeks to find ways to impact or to cover up that debt by cutting, I think, vital services.

So let me try to be as succinct—and if your answers can be succinct, I would appreciate it.

Dr. Gordon, what is the economic rationale for federal grants to states?

Dr. GORDON. The rationale is to address spillovers, things that are benefits or costs that a state might not take into account when it is making a determination. And some of those spillovers include concerns of equity or fairness, or providing the things that we think are important for people for a healthy and productive life.

Ms. JACKSON LEE. Do you—I come from the region of Hurricane Harvey. I remember having to introduce a bill for $174 billion. We are still trying to recover.

And I also call the federal government the umbrella in a rainy day. That may be the fire hose in the fire, it may be the relief engine in a tornado. How does that impact what the federal government needs—has to do for states and local governments?

Dr. GORDON. Thank you for pointing that out. You know, it is often said that all states except one are bound by balanced budget requirements. Actually, the truth is a little bit murkier than that. And it turns out that even states that don't have balanced budget requirements do balance their books each year.

So the fact that the federal government can borrow in extreme circumstances—or maybe not so extreme circumstances—is important, because it is better situated to absorb risks, whether from a natural disaster or an economic shock.

Ms. JACKSON LEE. And we have experience with natural disasters. As I have said, we are still suffering.

Commissioner Lambrew, I certainly work with my county government. And one of the opportunities or responsibilities of county government is, of course, the health construct, the health system. This Administration, unfortunately, has been using various efforts at undermining Medicare and Social Security, but particularly Medicaid, with this whole concept of block granting. Tell us what would happen if Medicaid is sizeably diminished for the vulnerable people in your county.

Dr. LAMBREW. I mean in the state of Maine we certainly would experience problems not just—and I think it is important to recognize the proposal in the budget is not just to cap Medicaid as a block grant, it is to cut it. And I think that those cuts represent significant proportions of people. It could be that we couldn't provide the services to older members or children, the way we do now. It would mean benefits that would have to be scaled back.

We have been trying to, again, tackle the opioid epidemic and provide treatment for mothers with children, to make sure that the family stays together while that parent gets substance use in order—we have been trying to get at social factors or determinants of health. How do we make sure we are providing the nutritional support for food security?

Ms. JACKSON LEE. So——

Dr. LAMBREW. Housing support, all of that——

Ms. JACKSON LEE. So block granting and/or cuts in Medicaid would be just devastating to local government, and your local government, in particular.

Dr. LAMBREW. Yes.

Ms. JACKSON LEE. Let me, County Executive Poloncarz—do I have it almost correct, sir?

Mr. POLONCARZ. That is good.

Ms. JACKSON LEE. We will—you can correct it in any way you desire.

But let me indicate that one of the blows of this economy now is the major tax cut, which the Administration insisted on giving a corporate tax cut that even corporations did not ask for. Almost five points down, as I understand it, which has been ludicrous, in terms of dollars for the treasury.

Can you let me know—one of the other aspects that we work a lot with county government or state government is transportation infrastructure, which—water falls into that. The whole issue of climate change and environmental quality, even though—and EPA. What do you believe is the importance of the federal government collaboration with some of these quality-of-life issues? Certainly transportation.

And when those dollars are cut, how does it impact you?

Mr. POLONCARZ. Well, it has an incredible impact. As I noted earlier, Erie County has a road infrastructure that is actually greater in length than three states. And as such, if we did not receive federal assistance from the federal government to actually provide additional money to do these road projects, we would just continue to have problems.

And when you live in an area like Buffalo in upstate New York, when you put roads down they don't last 50 years. You have got freeze-thaws, freeze-thaws, sometimes multiples in a year. And so, if you can get 15 years out of a road, that is a good thing.

And if we were to go out there to try to replace our 2,400 lane miles of county roads every 10, 15 years, it would be very difficult on our own. We would not be able to do it without coming up with some other revenue source to pay for it, or cutting the other services that exist.

Ms. JACKSON LEE. As I yield back, Mr. Chairman, I just want to say these are Americans who are speaking. They are speaking for Americans, though they are located across the nation. This $16.7 trillion debt that is growing is hurting Americans. This tax cut is hurting Americans. And this potential war with Iran will hurt Americans. I yield back.

Chairman YARMUTH. The gentlelady's time has expired. I now yield 10 minutes to the Ranking Member, Mr. Womack from Arkansas.

Mr. WOMACK. I will try not to take all that time, because I know we have votes that are scheduled and will be coming up here, perhaps even as I speak.

I want to thank the panel for being here.

I never miss an opportunity to brag on my home state, and I am going to do that today with Secretary Walther. Not lost on me is the fact that his chief of staff is in the audience today, my friend, Alan McVey.

Alan, always good to see you. I appreciate the work that you do and have done.

He has been a member of the economic development forces of Arkansas for a long, long time, and doing great work up at DF&A.

The current—we have had this discussion that has come up in this—in the last couple of hours about the broken budget process. I never miss an opportunity to talk about this process, because, as the chairman noted a minute ago, we spent all of 2018 investing our time in trying to fix this broken budget and appropriations process cycle without ultimate success.

But we did create a lot of ideas that are even today being explored by the Congress. And I hope they come to fruition at some point in time.

So let's talk about what we do in Arkansas: a two-year budget. Larry, it is a balanced budget by constitutional provision, and gives you the opportunity to provide certainty, while at the same time protect yourself against some unforeseen circumstance that might happen in the biennium. Is that correct?

Mr. WALTHER. Yes, sir, it is. As I mentioned in my testimony, we also build in safeguards, where we prioritize the spending. And if revenues don't come in as expected, then the lowest priority gets taken off the table, and then the next, and then the next. And that has happened in the Depression—excuse me, in the recession of 2008 and 2009. There was significant cuts. So that is the way we do it.

Now, another aspect of our biennial approach is we still have a session every year. This year we are going to have a session in—it starts in April and it is called the fiscal session. The only thing we talk about are the budget and the fiscal requirements of the state. And if there is some need to make adjustments in our budget at that time, or in increases for services that weren't expected, we can make changes at that point in time.

Mr. WOMACK. If you didn't have a responsibility to balance your budget, it would make the need for a biennial session less important to you, would it not?

Mr. WALTHER. That is correct. As I have heard the testimony today, the need or the requirement of having a balanced budget and no deficit and no debt leaves me with no choice but to make adjustments if something happens.

If a major change happened in federal money that would require the state to supplement more, or to provide more to education or Medicaid, most of those are set. About 90 percent of my budget is fixed. In other words, I don't have any choice. I have got to spend the money.

And so, we would have to make a really difficult decision on those other services that are out there that—you have education, you have Medicaid, you have corrections. We all—sometimes we don't talk about that, but we have got to deal with the, you know, that aspect of our budget. And it is not—it is predictable, but it is not going down, either, as I think most states know.

Mr. WOMACK. Necessitated by your process, our process, you have—it is incumbent on the general assembly, the elected leaders that come from all of our cities and our counties, to make some tough decisions from time to time. Is that correct?

Mr. WALTHER. That is correct. And we have a wide diversity in our legislature, both in the House and Senate. So they bring urban issues there, they bring rural issues. And so that is where they come together in committees to hash out these issues.

I will appear before them, my staff appears before them to give them certain information having to do with the cost of the decisions they are—they have before them, and that is a major portion, or input into the decisionmaking process, is what does it cost, and what do you have to do in order to spend that money.

Mr. WOMACK. Director Murnieks, it works for the state of Arkansas, it works for the state of Ohio. Why wouldn't or shouldn't it work for the U.S. federal government?

Ms. MURNIEKS. Ranking Member Womack, I would say that it works, and you should try it.

[Laughter.]

Mr. WOMACK. We will have that conversation among us, I am sure, some time in the not-too-distant future.

I am going to give everybody on the panel an opportunity to give us words of wisdom from out in the lands of where the rubber meets the road, because that is where you guys come from.

If you had a recommendation, one recommendation that you could make to your federal government that would better accomplish the objectives that were set out in this hearing today to kind of expose that federal-state relationship, bind it a little better without just throwing a lot more money at it, given the fiscal condition—this is the caveat, OK? We are a trillion-dollar deficit this year, $23 trillion in debt. Given the fiscal condition of our country, what recommendation would you make to this body or to the Congress of the United States that would, shall we say, make things better for all Americans?

We will start with you, Dr. Gordon.

Dr. GORDON. To the extent that there have been jurisdictions that are in trouble, I think the federal government has looked at expediting the flow of funds that are already appropriated or obligated.

In the cases that I am familiar with, it has been difficult to figure out where the bottlenecks are, in terms of local jurisdictions actually spending federal funds. That seems tremendously important to me as a management tool. If you had some kind of indicators of where there were basically uncashed checks, as happened in Detroit, for example, then the federal government could perhaps be more responsive and provide technical assistance or other kinds of help before it becomes a bankruptcy, as in the case of Detroit.

So my very nerdy, wonky prescription is a better fiscal data architecture for the federal government. It strikes me as crazy that any company—to use that analogy—can tell you what its offices in various parts of the country are spending at any given point in time. I am not sure the federal government can do that on a dime. It can do it, but it requires a lot of digging.

So better data in real time on expenditures from federal funds.

Mr. WOMACK. Better data architecture. I would agree with you there, and there are many examples in the federal government where we don't have a really good data architecture. At least that data is not being shared and utilized for great purposes.

All right, Dr. Lambrew, yours?

Dr. LAMBREW. Maintaining the partnerships that we have at the federal and state level, which is when we think through Medicaid and these programs where you have to plan significantly far out.

Not knowing if that relationship is going to be the same is probably more of a problem for us than a CR, because at least the CR is the same. But worrying about will the rules change, will we be able to do supplemental payments to our hospitals, will we be able to raise taxes the way we have done that, that is in play right now with executive branch rulemaking.

I think that Congress being more engaged with our executive branch to make sure that they are being good partners with states would be a valuable thing.

Mr. WOMACK. OK. Mr. Poloncarz?

Mr. POLONCARZ. It is almost the old do no harm. I am not always necessarily coming here with hat in hand saying, "Give me more, we could do more," but if some of the recent budgets that have been proposed by the Administration have been passed as is, it would be—have a tremendous impact.

And there is no part in some ways of our county government that doesn't get touched by the federal government, from Medicaid, TANF, to even the Army Corps of Engineers helping us design a fish ladder for a dam so that we don't have invasive species going up a creek.

So I would just say do no harm, and understand that we are here to help and work with you as much as possible.

Mr. WOMACK. Secretary Walther?

Mr. WALTHER. I have a—I am going to come at it from a little different approach. It would seem to—well, and I have had two—well, my last two assignments in Washington, DC. were—I was the director of U.S. Trade and Development Agency, and I was also on the board of EXIM Bank. And both of those agencies are designed to promote exports from the United States to foreign countries.

And at the EXIM Bank it is a bipartisan board, and I was a minority board member. But we worked outstandingly together, because we were going in the same direction. Our objective was to make the companies in the United States better prepared for exporting, and to finance those exports. It is bipartisan.

What would help, from Arkansas, what people sometimes call flyover country, would be if our legislature, the Congress and the Administration, were on the same page as it relates to these sorts of issues. And set the policy, and then move forward. But you have to do it together, and that is a tough hill to climb.

Mr. WOMACK. Director Murnieks?

Ms. MURNIEKS. Yes, I would concur with the comments about a better data infrastructure. And actually, in Ohio we are implementing a new project called Innovate Ohio that is focused on just that.

I would say, looking at the long term, instead of focusing on short-term accomplishments, look at the long-term vision, and focus on long-term results. Governor DeWine likes to say, "The seeds we plant today we may not see the trees that they produce during our lifetime," but we know that those investments matter. And so we are focused on children and we are focused on how we can improve their lives.

In—I would say more flexibility in how we go about achieving those results; reducing regulations, following some of the examples like what we have implemented in Ohio with reducing the number of regulations each time we adopt new; and also looking at the business and economic impacts on all of our new regulations.

Mr. WOMACK. My compliments to the panel. Thank you very much for joining us today, and we could utilize a lot of this wisdom and put it to work for the betterment of the American people. I thank you.

Chairman YARMUTH. I thank the Ranking Member. I now yield myself 10 minutes for questioning.

And I think it is really astounding that there was no one anywhere in this room today that denied that federal funds at the state and local level are really critical. And that is a starting point, I think. What we do have some question about is the issues of flexibility and strings.

And I was a young staffer up here—very, very young—many years ago, during the Nixon Administration. And the first job I had, the first assignment I had, I was working for a Republican Senator from Kentucky. And my first real assignment was to write a speech supporting a program called revenue sharing, which the Nixon Administration was putting forth.

And under revenue sharing, they took a huge chunk of money and just gave it to states and cities and towns. And no strings attached. The only string, as I recall—and my history may be a little shaky—was that the public had to be engaged in the decision as to how to spend the money. But there really wasn't any accountability after that.

The program went on until 1986. It was canceled under the Reagan Administration, largely because the deficits were getting higher and higher, and there wasn't enough money to continue doing that. They needed the money for—Reagan was trying to buildup the military at that point, and a variety of other things. The population was getting older.

But that is kind of the extreme we are looking at. Just give the money back, use it for whatever you want. I haven't heard that kind of a proposal recently.

Dr. Gordon, you have addressed this in various ways during the course of the hearing. But in a general sense, to the extent that we want some degree of flexibility—I will stipulate that, although that is dangerous, but I will stipulate we want some degree of flexibility and we want some degree of accountability—what should be the goals of the flexibility and the accountability?

Dr. GORDON. I think that is the question. And actually, my reading of the history on general revenue sharing is, yes, there was that great quote from, I think, James Baker that there was no more revenue left to share. But also, if you look at the funding formula, there were internal contradictions, where they included a term that was supposed to represent a community's need or—you know, need for federal revenue, and also its own revenue-raising effort.

So basically, you had, you know, many different expectations, all wrapped up into this one program, as well as the state-versus-local component. And it was just sort of unrealistic to expect it to bear all of those expectations.

So yes, I have tried to say a couple of times that I do think there needs to be a balance, in terms of flexibility and accountability. You know, states actually experiment with this on their own, vis a vis grants to local governments. So there might be something to look at there, in terms of specific program design.

Chairman YARMUTH. Thank you. And I want to talk about flexibility with regard to Medicaid, specifically, because—Director Murnieks, you talked about this and all the waivers that are out there—and we have had that experience in Kentucky, as well, in our last administration. The Governor asked for a lot of waivers, wanted to impose work requirements, and those types of things.

And it occurs to me that, while a certain level of flexibility may or may not be useful with Medicaid, but you run the risk, with a waiver system, of creating—maybe without intention, maybe with intention—a reduction in care. You are going to be—you know, work requirements, for instance, will reduce—and by the Governor's own admission, when he submitted the waiver in Kentucky, it was 95,000 people under his own estimate that were going to lose care.

Is that not a risk when you are asking for—at least if you are talking about, from our perspective, wanting to provide health care for people who need it most, is that not a risk that, with waivers, you could end up with, again, either malevolently or not, a reduction in care?

Ms. MURNIEKS. Mr. Chairman, I believe that if—when we are talking about flexibility, we are talking about more than waivers. We are talking about actual flexibility to implement programs on the ground in the best ways that they work for our constituents. We think that our states and our local jurisdictions are those that are closest to the problems that Ohioans in our local communities are facing, and they are at the best place to make decisions about the way to assist them to achieve their American Dream.

And I would say that, in Ohio, an example of how we have been able to bring different resources together, different states and federal funds, can provide an example of that, but we have had to do that through achieving a lot of waivers and a lot of paperwork, and that if that—if flexibility were the rule, instead of the exception, that would make it much easier for us to help the citizens of Ohio.

Chairman YARMUTH. So can you give me an example of something you were trying to do that became problematic because of the lack of flexibility within Medicaid, for instance?

Ms. MURNIEKS. I would say that when we are looking at the different—as we are re-defining the Medicaid program in Ohio, we are looking at the managed care system and what the—when we are re-procuring that, what it can look like.

And how can we encourage those dollars to provide better health outcomes? How can we structure the system so that it is focused on the health of Ohioans and wellness?

And, as we are examining that, it is extremely complicated. The regulations are quite onerous, and it is—it takes a great amount of time. And I would say that there aren't that many people throughout the system that understand, when you push one lever, the impact that it has on the rest.

So again, just being able to help states with fewer regulations, so that we can structure our programs in a way that, in the case of Medicaid, it is focused on wellness instead of just the regulations of the system.

Chairman YARMUTH. I appreciate that.

Dr. Lambrew, would you address that?

Dr. LAMBREW. Sure.

Chairman YARMUTH. You, obviously, are very familiar with Medicaid, and——

Dr. LAMBREW. I am.

Chairman YARMUTH [continuing]. in Maine.

Dr. LAMBREW. I am. And we have been actively exploring all the options that we have within our MaineCare Medicaid program to do better by the people of Maine.

We haven't hit that many barriers with, like, one good exception. We talked earlier about housing and the affordability of housing being a problem. If a person is homeless, they can't necessarily take their medications, see their doctor. They have transportation problems. There are things outside the boundaries of the health care system that affect health. I think Medicaid rules have limited the ability for Medicaid funding to go outside those bounds. That is about accountability, and I appreciate that.

But going to your earlier example, I think we sometimes confuse flexibility with program integrity. The state innovation waivers that are in effect for different parts of the law with the Affordable Care Act put guardrails on what could be approved for a waiver, and I think they are interesting, right?

Four conditions, not complicated: to do a waiver you have to cover as many people with as affordable coverage as comprehensive coverage, with no increase to the federal budget, right? That is four simple guardrails that, if a state can do it better, they can. So that is the sort of guardrails I think we all should think about when we talk about flexibility.

Can states do it better? In many cases, yes. But so long as they maintain that program integrity, what is the program meant to do, I think that is a way for federal government to guide states.

Chairman YARMUTH. Well, I think that—you know, I think it was Mr. Norman was talking about you don't want to waste money, you don't want to—and you don't want to impose requirements that are not going to serve any purpose. And I think one of the problems we have up here is we rarely do oversight to see what regulations, after they have been in place for a while, make sense, and which don't make sense any more, which are providing a public benefit, and which aren't. But that is another thing we need to talk about. The Ranking Member and I will figure that out next week.

But I am going to surrender the rest of my time, and thank the witnesses very much for your time and wisdom, and your appearance. And if there is no other business before the Committee, the hearing is adjourned.

[Whereupon, at 12:52 p.m., the Committee was adjourned.]

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CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

HEARING STATEMENT:
"WHY FEDERAL INVESTMENTS MATTER: STABILITY FROM CONGRESS TO STATE CAPITALS"
210 CANNON
JANUARY 15, 2020
10:00 A.M.

- Thank you Chairman Yarmuth and Ranking Member Womack for convening this hearing on the importance and necessity of federal investment if we are to have fiscally stable states and local governments.

- Let me welcome our witnesses:

  Tracy Gordon, PhD, Senior Fellow, Urban-Brookings Tax Policy Center
  Dr. Gordon conducts research on fiscal challenges facing state and local governments, including taxes, budgeting, intergovernmental relations, debt, and pensions. Prior to Urban, she was a senior economist at the White House Council of Economic Advisers, a fellow at Brookings, and held various other academic positions.

  Jeanne Lambrew, PhD, Commissioner, Department of Health and Human Services, State of Maine

Commissioner Lambrew oversees Maine's largest agency, covering Medicaid (known as MaineCare in Maine), public health, and social services. Before this role, she was a senior fellow at the Century Foundation and worked in the Obama Administration, first as the director of the Office of Health Reform at HHS and then as a Deputy Assistant to the President for health policy.

Mark Poloncarz, County Executive for Erie County, NY
Mr. Poloncarz is the county executive for Erie County, NY, a county of approximately 920,000 people that includes the city of Buffalo. Mr. Poloncarz has served as the County Executive since 2012 and will speak to the importance of the federal aid Erie County receives, which will be roughly $170 million in 2020—representing about 10 percent of the county's budget.

Larry Walther, Chief Fiscal Officer and Director of the Department of Finance and Administration, State of Arkansas [Republican witness]
In January 2015, Mr. Walther was appointed by Governor Asa Hutchinson to be the Chief Fiscal Officer and Director of the Department of Finance and Administration. Federal funding represented about 37 percent of Arkansas's budget in state fiscal year 2017.

Kim Murnieks, Director of the Office of Budget and Management, State of Ohio [Republican witness]
Ms. Murnieks was appointed by Governor Mike DeWine to serve as the director of Ohio's Office of Budget and Management (OBM) in January 2019. Federal funding represented about 34 percent of Ohio's budget in state fiscal year 2017.

- Thank you for being here and sharing your expertise with this Committee.

- Mr. Chairman, this hearing could not be more timely because the reexamination of increasing federal public debt is one of the exciting new movements in the economic discipline.

- The purpose of this hearing is to learn about a growing debate on the changing economics of debt and its implications for fiscal policymaking.

- State and local governments provide services that are critical to the health and safety of communities.

- But federal investments in state and local governments are crucial, particularly during recessions.

- In 2018, the federal government spent $697 billion supporting state and local governments in 2018, representing 17 percent of total federal outlays that year.

- These intergovernmental grants are a feature, not a bug, of American federalism.

- State and local officials may make smarter decisions about designing a program that best meets the needs of their communities; a national one-size-fits-all approach does not always work.

- As "laboratories of democracy," states and localities can experiment and innovate in ways that the federal government often cannot.

- Funding from the federal government represents a substantial portion of state and local budgets.

- In fiscal year 2017, the federal government provided nearly one-third (32.4 percent) of all the revenue collected by states.

- Other sources of revenue for state governments include state taxes (48 percent), service charges, such as public university tuition or highway tolls (12 percent), and other miscellaneous sources of revenue (8 percent).

- On average, the federal government provides about one-third of state budgets but some states receive a much higher percentage and some states receive less; 46.1 percent of Montana's state budget came from federal funds in 2017, making it the state with the highest share.

- During recessions, state governments face declining revenues and increased demand for services; because most states are required to balance their budget each year, economic downturns can result in pressure to lay off teachers, police officers, and other state-funded employees.

- To counter this, federal economic stimulus packages often include temporary aid to state and local governments.

- For example, the American Recovery and Reinvestment Act of 2009 included an enhanced federal match for Medicaid and additional federal funding for education, among other policies.

- The Center on Budget and Policy Priorities estimates that federal Recovery Act funding, including an extension in August 2010, closed 24 percent of state budget gaps between 2008 and 2012.

- Automatic stabilizers such as SNAP, Medicaid, and Unemployment Insurance are another way that the federal government provides more support to states during economic downturns.

- Federal grants touch many aspects of state governments, but the majority of federal funding supports Medicaid and other health care programs.

- According to the Pew Charitable Trusts in federal fiscal year 2018:

    1. Medicaid represents 65 percent of federal grants to states, on average.

    2. Income security programs such as Temporary Assistance for Needy Families, certain housing assistance, and employment services represent 13 percent of federal grants to states, on average.

    3. Transportation represents 8 percent of federal grants to states, on average.

4. Education represents 6 percent of federal grants to states, on average, which covers for example funding for Title I funding to high-poverty schools, grants to help schools teach students with disabilities, and funding for career and technical education.

5. Other (non-Medicaid) health grants represent 5 percent of federal grants to states, and supports the Children's Health Insurance Program, community health centers, and public health initiatives related to mental health/substance abuse and HIV/AIDS.

- In addition to grants, federal policies affect state and local budgets through the tax code.

- The SALT deduction made it easier for state and local governments to finance their government services because individuals could get their federal income taxes reduced by claiming a deduction on their federal tax returns.

- While the impact of capping the SALT deduction on state and local government revenue is difficult to predict, it certainly risks states and localities' ability to raise taxes to finance crucial programs and services for their residents.

- During the debate over the Trump TaxScheme, state and local government groups warned that capping the deduction would pressure state and local governments to cut taxes to mitigate the federal tax hike on their constituents, which would lead to cuts in education, health programs, infrastructure, libraries, environmental protection, and other important priorities.

- The federal government's role as an employer has a significant effect on state and local economies.

- In 2019, the federal government employed approximately 4.2 million people, including about 2.1 million executive branch civilian workers spread across every state.

- In communities where the federal government is both an employer and an economic engine, any uncertainty at the federal level becomes a threat to economic stability at the local level.

- Federal government shutdowns have obvious effects on furloughed employees, but the economic effects are even broader.

- CBO estimates that the partial government shutdown in 2018/2019 reduced real GDP by $11 billion ($3 billion of which was unrecovered).

- Reduced tax revenues at all levels of government mean that state and local governments have less to spend on other priorities.

- Some federal responsibilities may fall to state and local governments during shutdowns, resulting in financial and administrative challenges.

- The President's 2021 budget is expected to be released in early February, and it is anticipated that federal aid to state and local governments will be targeted for large spending reductions once again.

- Cuts to state and local governments in last year's budget included:
  1. Cutting Medicaid by $1.5 trillion over 10 years;
  2. Reducing the TANF block grant and instituting other changes such as more work requirements;
  3. Cutting the Department of Transportation by 22 percent;
  4. Eliminating funding for 29 critical education programs and cutting the Department of Education by more than 12 percent.

- I look forward to hearing from our witnesses and thank them again for being here.

- Thank you, I yield back the remainder of my time.