RAHALL *Report*

THE SQUEEZE ON STATE FINANCES

by Congressman Nick Rahall

In my most recent "Rahall Report," I discussed how states and local governments have been placed in a position of coming up with funds to fill the voids left by reductions in Federal Government assistance programs. To further this debate, the National Governor's Association, in its annual survey of state budgets, found that 41 states were facing major budget deficits due to the cutbacks in Federal funding.

While the Federal Government can finance a deficit when general expenditures exceed revenues, nearly every state government is required by law to balance its operating budget at the end of the fiscal year. Thus, while states can issue bonds to finance specific projects, general revenue must meet or exceed expenditures.

However recently, the number of states balancing their budgets have declined. In part, this situation can be traced to the mid-1970's when many states cut taxes or enacted new tax expenditures, largely in response to inflation. Likewise, inflation increased tax revenues.

While healthy surpluses absorbed some reductions in the Federal Government's contribution to state treasuries, in recent years the surpluses have diminished and state finances have become a matter of great concern.

The National Governor's Association has also found in a separate report, that the most severe impact of the Reagan Administration's Economic Recovery Program on the states, will be the new tax law. It has been estimated that these tax changes will cost states over $2.3 Billion in corporate tax revenue next year. The total tax loss to states could reach as much as $27.5 Billion by 1986.

With this loss of tax revenue and reduction in Federal aid, states may have to increase taxes, after several years of tax cuts to their residents. 1981 has already brought a number of state legislatures to raise taxes totaling $2.5 Billion.

In the coming months, the question will become much greater: Do states eliminate essential social services, or increase the burden on the average taxpayer?

NJR For approval (ms) OK vm. JZ have OK also mr

WEEKLY COLUMN OF NOV. 16

THE SQUEEZE ON STATE FINANCES

IN MY MOST RECENT "RAHALL REPORT," I DISCUSSED HOW STATES AND LOCAL GOVERNMENTS HAVE BEEN PLACED IN A POSITION OF COMING UP WITH FUNDS TO FILL THE VOIDS LEFT BY REDUCTIONS IN FEDERAL GOVERNMENT ASSISTANCE PROGRAMS. TO FURTHER THIS DISCUSSION, THE NATIONAL GOVERNOR'S ASSOCIATION IN ITS ANNUAL SURVEY OF STATE BUDGETS HAVE FOUND THAT 41 STATES ARE FACING MAJOR ~~XXX~~ BUDGET DEFICITS DUE TO THE CUTBACKS IN FEDERAL ASSISTANCE.

WHILE THE FEDERAL GOVERNMENT CAN FINANCE A DEFICIT WHEN GENERAL EXPENDITURES EXCEED REVENUES, NEARLY EVERY STATE GOVERN= MENT IS REQUIRED BY LAW TO BALANCE ITS OPERATING BUDGET AT THE END OF THE FISCAL YEAR. THUS, WHILE STATES CAN ISSUE BONDS TO FINANCE SPECIFIC PROJECTS, GENERAL REVENUE MUST MEET OR EXCEED EXPENDITURES.

RECENTLY HOWEVER, THESE BALANCES HAVE DECLINED. IN PART, THE REDUCTION CAN BE TRACED TO THE MID-1970'S WHEN MANY STATES CUT TAXES OR ENACTED NEW TAX EXPENDITURES, LARGELY IN RESPONSE TO INFLATION, THUS INCREASING TAX REVENUES.

WHILE HEALTHY SURPLUSES ABSORBED THESE CUTS IN THE EARLY YEARS, RECENTLY THE SURPLUSES HAVE DIMINISHED AND STATE FINANCES HAVE BECOME A MATTER OF GREAT CONCERN.

THE NATIONAL GOVERNOR'S ASSOCIATION HAS ALSO FOUND IN A SEPARATE REPORT, THAT THE MOST SEVERE IMPACT OF THE ADMINISTRATION'S ECONOMIC RECOVERY PROGRAM, WILL BE THE EFFECT OF THE NEW TAX LAW. THEY HAVE ESTIMATED THAT THESE TAX CHANGES WILL COST STATES OVER $2.3 BILLION IN CORPORATE TAX REVENUE IN 1982. THE TOTAL TAX LOSS FOR STATES COULD REACH AS MUCH AS $27.5 BILLION THROUGH 1986.

WITH THIS LOSS OF TAX REVENUE, AND REDUCTION IN FEDERAL AID, THE TOTAL FINANCIAL BALANCE FOR ALL 50 STATES MAY SHOW A DEFICIT IN 1982.

TO MEET THIS IMPENDING SITUATION, THERE ARE SIGNS THAT STATES MAY HAVE TO INCREASE TAXES, AFTER SEVERAL YEARS OF NET CUTS. ALREADY IN 1981, A NUMBER OF STATE LEGISLATURES HAVE PASSED NEW TAX TOTALING $2.5 BILLION.

IN THE COMING MONTHS, THE QUESTION WILL BECOME MUCH GREATER: DO STATES ELIMINATE ESSENTIAL SOCIAL SERVICES, OR INCREASE THE BURDEN ON THE AVERAGE TAXPAYER.