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Spending by states and cities declines; Budget restraint is most in a decade

By Dennis Cauchon, USA TODAY

States, cities and school districts trimmed spending at the end of 2011 by the most in a decade, a USA TODAY analysis finds.

The belt-tightening coincided with a cut in federal stimulus aid and reflected lower spending on health care for the poor, employee compensation and big ticket items, such as roads and college buildings.

The lower spending, plus an increase in tax revenue in the past two years, has most states reporting the smallest shortfalls in years -- or even small surpluses.

State and local spending fell \$26 billion in the last three months of 2011 from the same period a year earlier, or 1.2%, the federal Bureau of Economic Analysis reports. This reversed a longer trend of spending growth during the recession and recovery, despite cuts by some states and cities.

"The majority of states have a stable to positive outlook," says budget expert Arturo Perez of the National Conference of State Legislatures. Making a difference: States budgeted for just a 1.9% bump in general fund revenue this year, much lower than forecasts -- and spending commitments -- made in earlier years.

Extra federal aid is winding down, but the two years of bonus money appears to have replaced the drop in tax collections.

After the federal stimulus law was signed in February 2009, federal money became the No. 1 source of state and local revenue for the first time in history.

At the end of last year, federal aid fell, and the sales tax regained its position as the No. 1 way states get money.

"States and local governments did not have a recession, and certainly not the deep recession the private sector experienced," says Chris Edwards, a budget analyst at the Cato Institute, a libertarian think tank. He says spending rose every year and reports of draconian cuts misleadingly focused only on state general funds, which account for less

than half of state budgets and exclude most federal money.

"Stimulus funds got out there faster in this recession than the last one, and that was good for states and the economy," says budget expert Elizabeth McNichol of the Center on Budget and Policy Priorities, a liberal think tank.

Behind lower spending:

Medicaid. Health care spending on the poor fell sharply in the second half of the year. One factor: The stimulus law allowed the federal government to pay 74% of the \$400 billion-a-year program during the heart of the recession, versus 59% at the end of last year.

Employment. States, cities and schools cut employment by 668,000, or 3.4%, from the peak in August 2008.

Projects. Investment in infrastructure fell 4% in both 2010 and 2011. During the real estate boom, states and local governments increased spending on roads, bridges and buildings more than 8% a year.

Politics. The sweep of many conservative Republicans into state offices in 2011 may have limited tax revenue and spending increases.