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## Federal funding cuts have major implications for North Carolina as costs are shifted to the state

*North Carolina must be deliberate and thoughtful in preparing for a long-term trajectory that can sustain thriving communities despite the loss of federal funding for health care, food assistance, and more.*

By **LUIS TOLEDO, POLICY ANALYST** and **ALEXANDRA F. SIROTA, DIRECTOR**

The U.S. federal budget sets out our shared priorities as a nation and can ensure that we deliver on our promise of opportunity for all, no matter where one lives. President Trump and some in Congress have made it clear, however, that they intend to reduce the role of the federal government and shift costs to the states by cutting federal funding for health care, food assistance, and many other areas. Such a cost shift to states will ultimately mean that North Carolina, and most Southern states, will be left behind and residents will be left out of the benefits of a thriving economy.

The final 2018 federal budget will play out in state budgets over the 2018-19 fiscal years and for decades moving forward. Each year, state policymakers will have to make decisions within the context of the framework set forward by the federal budget which, under President Trump, would dramatically change the federal and state contract that seeks to protect the health, well-being and financial security of our nation.

### The role of the Federal budget in North Carolina

The federal budget covers a wide range of various public services such as defense and security-related international activities, Social Security, Medicare, Medicaid, postal service, transportation, education, science and medical research, and benefits for veterans and federal retirees.

Additionally, the federal budget also plays a significant role in each state by providing a large share of state and local revenue. In North Carolina, federal funds supply 32.7 cents of each state revenue dollar.<sup>1</sup> Federal funding helps North Carolina cover programs that support health care, public education, housing, community development, child care, job training, transportation, and clean water, among other programs. These federal funds can also flow directly into local governments and local communities by providing grants for special programs and addressing urgent needs like disaster recovery.

**President Trump’s cuts to program funding**

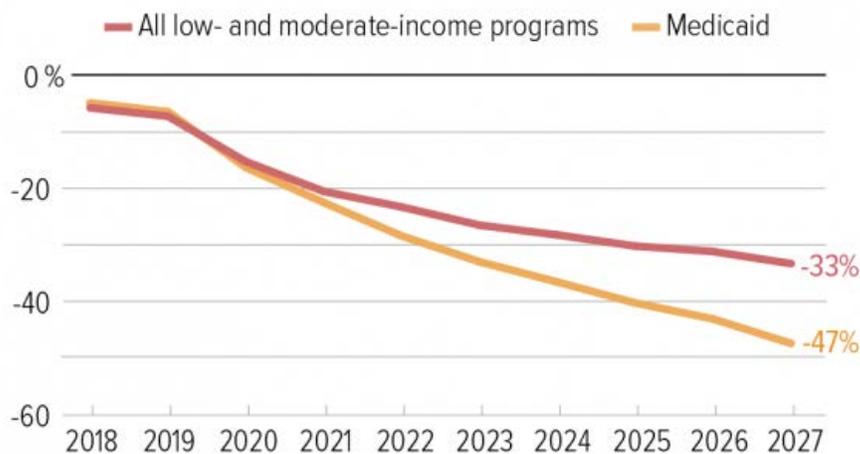
President Trump’s proposed 2018 budget contains the largest dollar cuts to programs for low- and moderate-income people proposed by any President’s budget in the modern era. Overall, his budget would cut non-defense programs by an estimated \$2.5 trillion nationally over the next decade. About three-fifths (59 percent) of the budget’s cuts would come from programs that help low- and moderate-income families afford the basics or improve their upward mobility.<sup>2</sup>

For example, the President’s budget would require states to pay for 25 percent of SNAP benefits (starting at 10 percent in 2020 and increasing to an average state share of 25 percent by 2023), a cost shift of approximately \$116 billion nationally over 10 years.<sup>3</sup>

Unfortunately, Trump’s proposed budget cuts to programs helping low- and moderate-income people would also only deepen over time. Over the next ten years, all low and moderate-income programs would see increasing cuts in spending, reaching a 33 percent cut in 2027.<sup>4</sup>

**Trump Budget’s Cuts to Programs for Low- and Moderate-Income People Deepen Over Time**

Percent cut in spending, fiscal years 2018 to 2027



Source: CBPP based on Office of Management and Budget and Congressional Budget Office data

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Furthermore, Trump’s drastic shift set to take effect next year is compounded by the fact that federal grants to state and local governments are already at historically low levels.<sup>5</sup> Grants from the mandatory (ongoing) portion of the federal budget for purposes other than Medicaid and the Children’s Health Insurance Program (CHIP) were at a lower share of the economy in 2015, at 0.42 percent of gross domestic product (GDP), than in any year since 1980. Similarly, discretionary (annually appropriated) grants to state and local governments in the federal 2015 fiscal year were 1.05 percent of GDP, lower than in all but one year since 1980.

## Implications of funding cuts for North Carolina

If members of Congress follow President Trump in turning their back on states by drastically reducing the role of the federal government and shifting costs to the states, North Carolina's state budget – and in turn its people - would be impacted severely.

Given the massive cuts to federal funding proposed by the President, North Carolina would have to come up with at least \$13 billion in additional revenue over the next 10 years to maintain existing vital programs, especially those for low- and moderate-income families who would bear the brunt of cuts. Divided evenly across 10 years, this translates into raising \$1.3 billion in additional revenue each year. However, as already illustrated the costs to the state would not be the same every year and would instead only increase over time.

Analysis shows that it would be difficult for North Carolina to assume these costs. This means the state would likely have to cut many key investments and public services that help people thrive, cut the number of people eligible for a program, or raise taxes. The former options would hurt the most vulnerable North Carolinians.

Specifically, as it pertains to healthcare, North Carolina would have to come up with an additional \$6 billion over 10 years to maintain Medicaid, as Trump's budget not only embraces the House Republican bill to repeal the Affordable Care Act (ACA), but goes further in shifting costs to states by cutting Medicaid by as much as \$1.3 trillion nationally over the next decade.

This is concerning considering that last year in North Carolina Medicaid offered health coverage to 1.9 million poor seniors, children, parents, and people with disabilities – of which the majority (1 million) lived in the rural parts of the state.

As it pertains to food programs, North Carolina would have to come up with an additional \$3.9 billion over the next 10 years as Trump's proposed budget would shift 25 percent of SNAP benefit cost to states. North Carolina's required average annual state contribution would be \$562 million once the provision is fully in effect.

106,000 households (136,000 individuals) across North Carolina that currently receive the SNAP minimum benefit would also be directly affected next year as President Trump has proposed to eliminate that benefit. The state would in turn lose \$19.1 million a year that covered the minimum benefit.

Furthermore, just in 2018 alone, North Carolina would have to come up with \$306 million to make up for the loss of discretionary grant funding proposed by the President.<sup>6</sup> Under the federal proposal, various vital grants would be completely eliminated, leaving the state on its own to support critically needed areas.

- The Social Services Block Grant would be cut by \$49 million, which would prevent almost half a million (452,000) children and adults in NC in 2018 from receiving adoption services, protective services, counseling services, substance abuse services, disabled-special services, and transportation services.<sup>7</sup>
- The Low Income Home Energy Assistance Program would be cut by \$84.5 million, which would prevent eligible households in North Carolina from receiving a one-time vendor payment to help pay their heating bills. In 2016, 191,000

households were eligible and able to receive one-time assistance as they had an elderly person age 60 and above or a disabled person living in the home.<sup>8</sup>

- The Supporting Effective Instruction (Teacher Quality) grant would cut North Carolina school districts' budgets by \$45.5 million and would leave school districts without any dedicated funding for professional development.<sup>9</sup>
- The Community Development Block Grant would be cut by \$71 million. This grant has helped local NC governments improve deteriorating residential neighborhoods, provide funds to job-creating industrial sites, provide loans or grants to large and small businesses, and support other economic development activities.

Overall, President Trump's cost shift runs contrary to over five decades of typically bipartisan support for key programs, which have operated as programs with national eligibility and benefit standards to address the wide disparities in fiscal capacity across the states.

In recent weeks, we have seen that the state is not only failing to invest at the level needed in skills training, community economic development, and services to poor families—even as communities continue to struggle with mass job loss and high poverty rates—but is also failing to adequately plan for the federal government's cost shift to states. Between the NC Senate and House budgets, there are proposals to reduce state dollars committed to addressing important needs and replacing those with federal dollars that are not guaranteed to be sustained in the years ahead.<sup>10</sup> Moreover, using reserved money or the state's Rainy Day Fund is not a feasible solution as its current \$1.4 billion balance would not be enough to address the massive cost shift in the long term.

The reality is that state policymakers will be left to address the cost shift through cuts to services or increases in revenue. An important first step will be for North Carolinians and policymakers to oppose further cuts in state revenue in order to adequately plan and prepare for a challenging fiscal environment. Ultimately, it is up to everyone to ensure that the federal government continues to do its part in supporting thriving communities here in North Carolina and across America.

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