RESEARCH COMPENDIUM

Prepping for the New Session

End-of-Summer Reading for State Budget Analysts

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URBAN INSTITUTE · ELEVATE · THE · DEBATE

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Their objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.

Contents

Acknowledgments

This compendium was funded by the general support of the State and Local Finance Initiative. Funders for the reports cited here are acknowledged in those reports. We are grateful to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the editors and authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at www.urban.org/support.

The editors thank Richard Auxier, Tracy Gordon, Megan Randall, and Kim Rueben for reviewing this report; all of the Urban Institute researchers and center directors whose work is reflected in the compendium for their input and guidance; and Urban's communications team, who provided design and editorial support.

Executive Summary

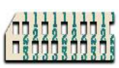
Founded in 1968 to understand the problems facing America's cities and assess the programs of the War on Poverty, the Urban Institute brings decades of objective analysis and expertise to policy debates. While today's issues are significantly different from the ones the country faced almost 50 years ago, they are no less pressing. Our scholars blend academic rigor with on-the-ground collaboration, often teaming with policymakers, community leaders, practitioners, and the private sector to diagnose problems and find solutions to improve lives, strengthen communities, and increase the effectiveness of public policy.

Each year, the Urban Institute produces hundreds of reports, briefs, webcasts, and blog posts on topics ranging from the social safety net, taxes, and labor markets to health policy, housing, and family and neighborhood well-being. In this publication, Urban's State and Local Finance Initiative, joined by other Urban Institute researchers, has selected the latest evidence-based work from our body of content to provide analysts charged with crafting and deliberating over state budgets independent and rigorous research. Our hope is to highlight ideas and results that might spark interest and inform the policy process beyond the original scope of these studies.

Creating a state budget is a contentious and demanding task. Analysts face a wide spectrum of competing needs and political desires, and their job is made even harder by the revenue constraints many states face after the losses of the Great Recession. The research contained in this compendium will help state budget analysts better evaluate agency requests, make recommendations, and respond to questions from their governors and legislatures. The topic areas represented are as follows:

- **Medicaid:** reports on how policy choices affect program costs and efficiency
- **States and the Affordable Care Act:** estimates of the costs and benefits of Medicaid expansions under the Affordable Care Act
- **Criminal justice and corrections:** research showing how reforms to corrections systems could reduce admissions and length of stay, thereby saving money and improving outcomes
- **Education:** research examining how variations in demographic characteristics and policy choices across states affect both the costs and the outcomes of providing K–12 and higher education

- **Social safety-net programs:** evaluations of how participant behavior and administrative practices affect the efficacy of safety net programs for low-income families
- **Economic and workforce development:** research providing a framework for state economic development strategies, examining the intersection between child care and workforce development systems, and discussing the promise of the apprenticeship approach to workforce training
- **Public employee pensions:** analysis of state pension plan reforms and recommendations, as well as alternative reform proposals
- **State finances:** reports on how possible federal tax reform may affect the states, the relationship between taxes and growth, and timely web tools to track and analyze state employment, wages, housing, and taxes
- **Pay for success and performance measurement:** an examination of how to measure performance and effectively collaborate with private enterprise
- **Demographic and housing trends:** interactive web tools and insights into how immigration, housing, and urbanization trends can affect budget planning
- **Election 2016 and the states:** key evidence in response to policy topics that emerged in the campaign cycle, as well as analysis of the presidential candidates' tax proposals and how they stand to affect states

 Look for this symbol for articles that use Urban Institute modeling tools.

We hope you find this compendium useful and welcome your suggestions for future updates. We encourage you to visit http://www.urban.org/ for additional materials, including expert interviews and conference presentations. You can also visit *Urban Wire*, the Urban Institute blog, and *TaxVox*, the Urban-Brookings Tax Policy Center blog, for timely reflections on current events.

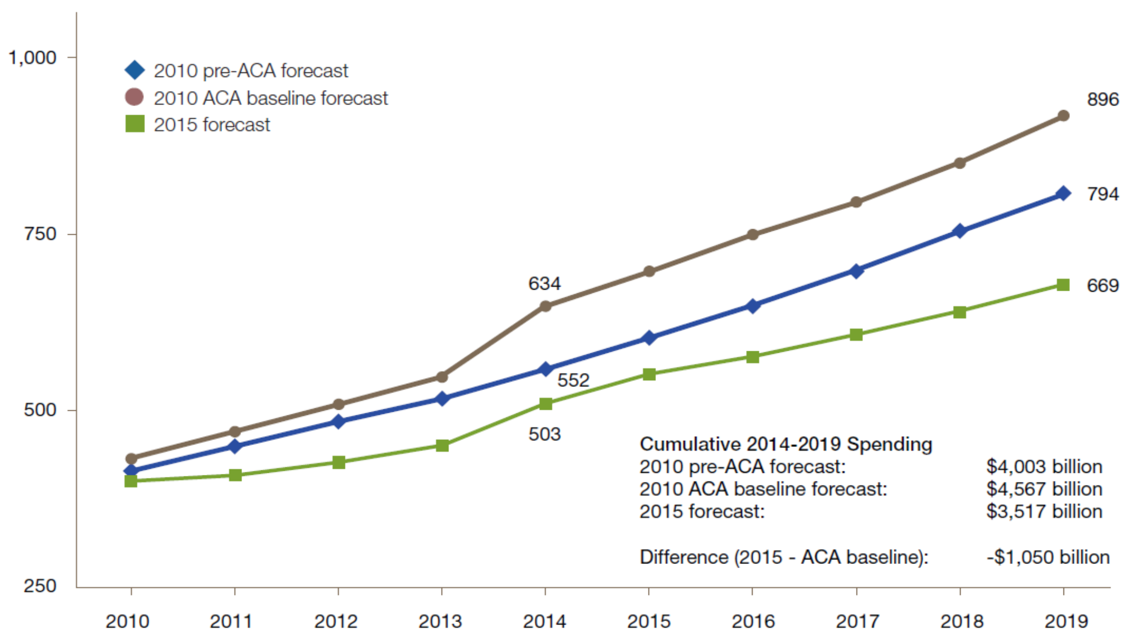
Medicaid

Medicaid (excluding federal grants) represented 16 percent of state-financed spending, which includes general fund and other state funds, in fiscal year (FY) 2015, the second-largest budget category after K–12 education.[1] With federal funding, Medicaid accounted for 27.4 percent of total state spending. Since the Affordable Care Act (ACA), growth in spending, both federal and state, has slowed but is still projected to grow almost 6 percent annually from 2014 to 2019 (figure 1). Policymakers are looking to rein in spending growth without compromising the quality of care. This growth in spending is partly related to the changing demographics of our country and the aging of the population, but expanded eligibility and general health care costs also play roles. At present, 19 states are also still weighing whether to expand Medicaid to people earning less than 138 percent of the federal poverty level under ACA. Although the federal government initially provided 100 percent of the funding for expansions, the federal match will be reduced beginning in 2017, increasing the state share from 0 to 10 percent by 2020.

FIGURE 1

Medicaid Expenditure Projections

$ billions



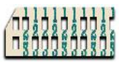
Source: Stacey McMorrow and John Holahan, "The Widespread Slowdown in Health Spending Growth: Implications for Future Spending Projects and the Cost of the Affordable Care Act —An Update" (Washington, DC: Urban Institute, 2015), analysis from Centers for Medicare & Medicaid Services national health expenditure projections.

Key Reports

The Cost of States Not Expanding Medicaid

Stan Dorn and Matthew Buettgens | August 2016

The authors analyze the 19 states that have not expanded Medicaid, finding that, from 2017 to 2026, expansion in these states would increase nominal state costs by less than $60 billion while increasing federal funding by more than $400 billion. Each new state dollar would draw down between $7 and $8 in additional federal dollars. Although they were not able to estimate offsetting state revenue gains and full state cost savings, every broad fiscal review conducted in expansion states finds that such offsets are exceeding state cost increases, so expansion is helping overall state budgets.

 Uses the Urban Institute Health Insurance Policy Simulation Model (HIPSM)

The Widespread Slowdown in Health Spending Growth: Implications for Future Spending Projects and the Cost of the Affordable Care Act—An Update

Stacey McMorrow and John Holahan | June 2016

Despite considerable attention to the recent slowdown in health spending growth, there has been little focus on how this slowdown will alter future spending. Updating projections from their previous analysis, the authors examine the most recent national health spending projections from the Centers for Medicare and Medicaid Services and explore how those projections have changed since passage of the ACA. Current projections suggest that national health expenditures will be $2.6 trillion less over 2014–19 than under the original ACA forecast from September 2010, with $1 billion of the difference coming from Medicaid expenditures. The authors describe some factors that have contributed to declining growth rates and consider the extent to which the ACA has played a role.

How Much Could Financing Reforms for Long-Term Services and Supports Reduce Medicaid Costs?

Melissa M. Favreault, Howard Gleckman, and Richard W. Johnson | February 2016

Medicaid pays for much of the care received at home and in nursing homes by older adults with health problems who need long-term services and supports (LTSS). With Medicaid spending more than $100 billion annually on LTSS, this represents a significant portion of state Medicaid budgets. Expanding access to long-term care insurance could reduce the number of people who turn to Medicaid for assistance, in turn lowering program costs and saving money for federal and state governments. Increasing the insured population could also give people more choice and flexibility in their LTSS. This brief analyzes the effects of several new LTSS insurance programs on people age 65 and older and finds these options can significantly reduce Medicaid costs. However, the authors also find significant differences in Medicaid savings among the alternatives they study. For each alternative, the authors analyze voluntary insurance programs, which would be financed with premiums, and mandatory programs, which would be funded through dedicated payroll taxes. The authors project that the mandatory comprehensive plan would reduce Medicaid LTSS spending 35 percent in 2070, while the voluntary subsidized comprehensive plan would reduce Medicaid LTSS spending 7 percent.

Uses the Urban Institute Dynamic Simulation of Income Model (DYNASIM)

The Effect on States of Increasing the Medicare Eligibility Age

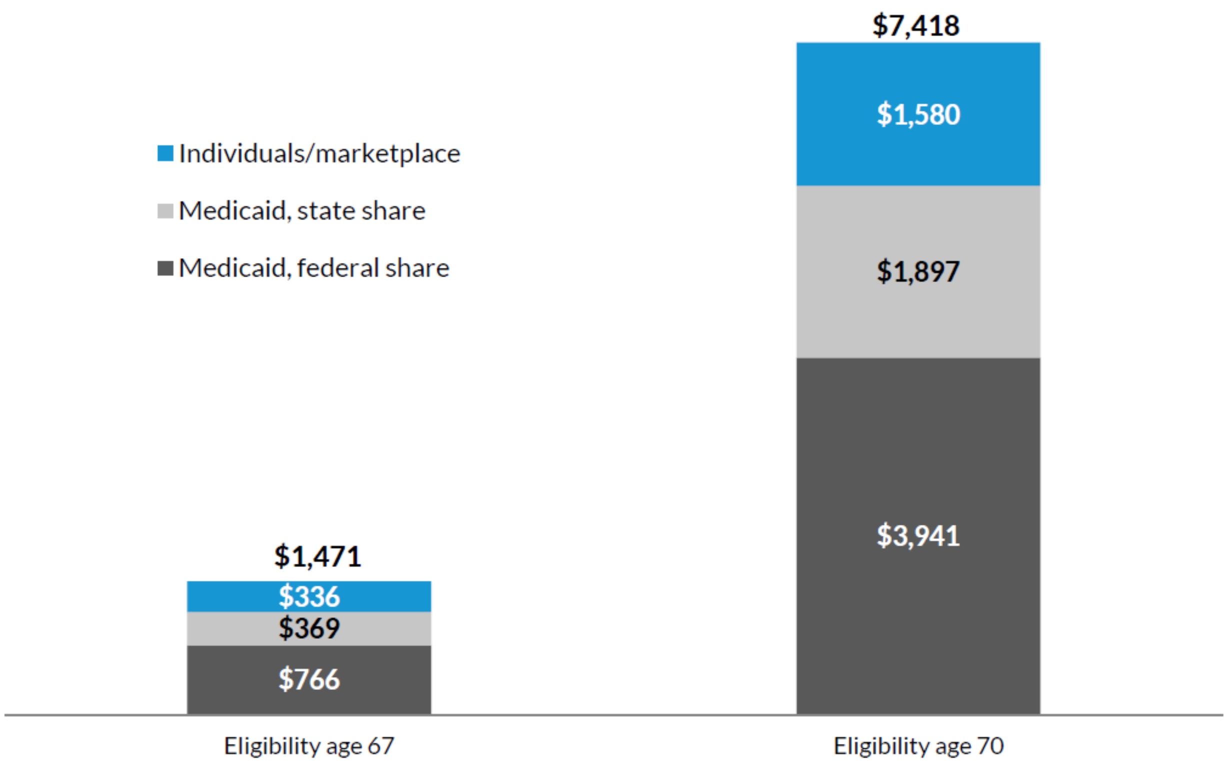
Timothy A. Waidmann and Emily Lawton | September 2015

As Budget Committee chair, US House of Representatives Speaker Paul Ryan proposed raising the Medicare eligibility age from 65 to 67 in the committee's 2015 budget resolution. Proposals like this could have major consequences for state government finances if the medical care of persons who currently receive both Medicaid and Medicare benefits becomes the sole responsibility of Medicaid. In this brief the authors estimate the number of such individuals, also known as dual-eligibles, in each state and the current Medicare spending that could be shifted to state Medicaid programs. While just over 2 percent of all Medicaid beneficiaries are between the ages of 65 and 69, this group has high per capita medical care expenditures when compared with the average beneficiary; currently, the Medicare program bears the largest share of their costs. The authors find that the states' share of Medicaid costs would increase $369 million per year if the Medicare eligibility age were increased to 67 and $1.9 billion per year if the eligibility age were increased to 70 (figure 2). Comprehensive tables detail budgetary effects by state.

FIGURE 2

Shifts in Medicaid Expenditures with Increased Eligibility Age

For nondisabled dual eligible, $ millions per year



Source: Timothy A. Waidmann and Emily Lawton, "The Effect on States of Increasing the Medicare Eligibility Age" (Washington, DC: Urban Institute, 2015), based on Medicare Beneficiary Summary File, 2010.

The Expanding Role of Managed Care in the Medicaid Program: Implications for Health Care Access, Use, and Expenditures for Nonelderly Adults

Kyle J. Caswell and Sharon K. Long | April 2015

States increasingly rely on managed care delivery and payment systems for Medicaid enrollees, yet evidence on how these programs affect health outcomes is mixed. This research studies county-level Medicaid managed care penetration and health care outcomes among nonelderly disabled and nondisabled enrollees. Results for nondisabled adults show that increased penetration is associated with increased probability of an emergency department visit, difficulty seeing a specialist, and unmet need for prescription drugs, and is not associated with reduced expenditures. This article finds no association between penetration and health care outcomes for disabled adults. This suggests that the primary gains from Medicaid managed care may be administrative simplicity and budget predictability for states rather than reduced expenditures or improved access for individuals.

Additional Reading

Evaluation of the Medicaid Health Home Option for Beneficiaries with Chronic Conditions: Annual Report Year Three
Brenda C. Spillman, Eva H. Allen, and Anna C. Spencer | July 2015

Children's Coverage Climb Continues: Uninsurance and Medicaid/CHIP Eligibility and Participation under the ACA
Genevieve M. Kenney, Jennifer M. Haley, Clare Wang Pan, Victoria Lynch, and Matthew Buettgens | May 2016

Medicaid Spending Growth Compared to Other Payers: A Look at the Evidence
Lisa Clemans-Cope, John Holahan, and Rachel Garfield | April 2016

The Combined Effect of Not Expanding Medicaid and Losing Marketplace Assistance
Matthew Buettgens, Linda J. Blumberg, and John Holahan | May 2015

Medicaid Expansions from 1997 to 2009 Increased Coverage and Improved Access and Mental Health Outcomes for Low-Income Parents
Stacey McMorrow, Genevieve M. Kenney, Sharon K. Long, and Dana Goin | February 2016

California's Early Coverage Expansion under the Affordable Care Act: A County-Level Analysis
Benjamin D. Sommers, Kao-Ping Chua, Genevieve M. Kenney, Sharon K. Long, and Stacey McMorrow | October 2015

Impacts on Emergency Department Visits from Personal Responsibility Provisions: Evidence from West Virginia's Medicaid Redesign
Tami Gurley-Calvez, Genevieve M. Kenney, Kosali Simon, and Douglas A. Wissoker | January 2016

Medi-Cal versus Medicaid in Other States: Comparing Access to Care
Sharon K. Long | July 2015

How did CHIPRA Quality Demonstration States Employ Learning Collaboratives to Improve Children's Health Care Quality?
Rebecca Peters, Rachel A. Burton, and Kelly J. Devers | June 2015

States and the Affordable Care Act

The Affordable Care Act's (ACA) primary goal is to increase access to health insurance by expanding the Medicaid program, creating health insurance exchanges, and making insurance mandatory. The ACA's tax credits and subsidies help eligible individuals purchase private health insurance.

The ACA has achieved some promising results. The uninsured rate is under 10 percent and 20 million more individuals have health insurance. But implementation challenges remain. Many families face high premiums as a percentage of their incomes, and many low-income individuals lack coverage in the 19 states that have not opted to expand Medicaid.

The US Supreme Court has made two key decisions that have shaped how the ACA was implemented. The first, *National Federation of Independent Business v. Sebelius*, ruled the federal government could not force states to expand Medicaid as required by the ACA. The second, *King v. Burwell*, ruled that federal tax credits and subsidies were constitutional whether health insurance was purchased on a state or federal health insurance exchange.

Web Tools and Interactive Features

The Health Reform Monitoring Survey is a quarterly survey designed to provide timely information and informative articles on ACA implementation, and on changes in health insurance coverage and related health outcomes, before data from federal government surveys are available.

Key Reports

After *King v. Burwell*: Next Steps for the Affordable Care Act

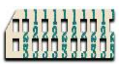
Linda J. Blumberg and John Holahan | August 2015

To address problems that have emerged under the ACA, Blumberg and Holahan propose federal reforms that would cost around $500 billion, or 0.2 percent of gross domestic product, over 10 years and several ways these costs could be paid.

The Implications of a Finding for the Plaintiffs in *House v. Burwell*: $47 Billion More in Federal Spending over 10 years and Smaller Marketplaces

Linda J. Blumberg and Matthew Buettgens | January 2016

In the wake of the *King v. Burwell* decision, the debate over cost-sharing subsidies continues with the ongoing *House v. Burwell* case. Blumberg and Buettgens estimate the ramifications of a finding for the plaintiff, which would eliminate federal reimbursements of cost-sharing reductions. They find that, on net, marketplace enrollment would decrease by 1 million people (as enrollees ineligible for tax credits could find less expensive coverage elsewhere) and federal government costs would increase by $3.6 billion in 2016 ($47 billion over 10 years). The change would also reduce the number of people who are uninsured by roughly 400,000.

 Uses the Urban Institute Health Insurance Policy Simulation Model (HIPSM)

The Cost of ACA Repeal

Matthew Buettgens, Linda J. Blumberg, John Holahan, and Siyabonga Ndwandwe | June 2016

Six years after its enactment, many are still calling for repeal of the ACA. In January 2016, Congress passed a bill repealing the ACA without a replacement, but the president vetoed it. Because considerable controversy exists among ACA opponents on what should replace the ACA, the prospect of repeal without replacement is real and merits analysis. In this brief, future health care coverage and costs are compared with the ACA in place and with the law repealed. The authors find that ACA repeal would reduce federal government spending on health care for the nonelderly, which appears to be one goal of those advocating repeal, by $90.9 billion in 2021 and $927 billion between 2017 and 2026. That represents a decrease of 21.1 percent. However, that reduction comes at a cost in other areas, including an increase in state costs of $68.5 billion as reductions in Medicaid spending are offset by increased spending on uncompensated care.

Additional Reading

Who Are the Remaining Uninsured, and What Do Their Characteristics Tell Us about How to Reach Them?

Linda J. Blumberg, Michael Karpman, Matthew Buettgens, and Patricia Solleveld | March 2016

Six State Experiences with Marketplace Renewals: A Look Back and a Glimpse Forward

Sandy Ahn, Jack Hoadley, and Sabrina Corlette | July 2015

Increases in 2016 Marketplace Nongroup Premiums: There Is No Meaningful National Average
Linda J. Blumberg, John Holahan, and Erik Wengle | May 2016

Taking Stock: Health Insurance Coverage under the ACA as of March 2016
Michael Karpman, Sharon K. Long, and Stephen Zuckerman | May 2016

Marketplace Plan Choice: How Important is Price? An Analysis of Experiences in Five States
John Holahan, Linda J. Blumberg, and Erik Wengle | March 2016

Uninsurance among Young Adults Continues to Decline, Particularly in Medicaid Expansion States
Stacey McMorrow, Genevieve M. Kenney, Sharon K. Long, and Nathaniel Anderson | April 2015

What Does the Failure of Some Co-ops and the Possible Pullout of United Healthcare Mean for the Affordable Care Act?
John Holahan, Linda J. Blumberg, and Erik Wengle | January 2016

How Much Do Marketplace and Other Nongroup Enrollees Spend on Health Care Relative to Their Incomes?
Linda J. Blumberg, John Holahan, and Matthew Buettgens | December 2015

More Than 10 Million Uninsured Could Obtain Marketplace Coverage through Special Enrollment Periods
Matthew Buettgens, Stan Dorn, and Hannah Recht | November 2015

Employer-Sponsored Insurance Continues to Remain Stable under the ACA: Findings from June 2013 through March 2015
Fredric Blavin, Adele Shartzer, Sharon K. Long, and John Holahan | June 2015

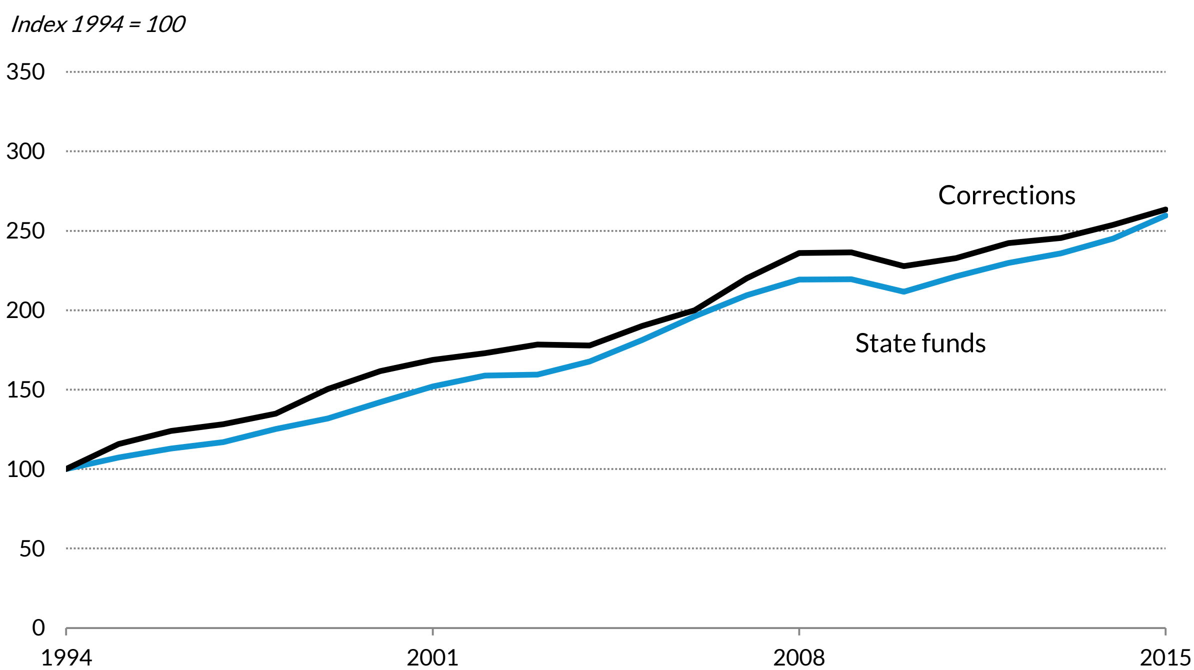
Variation in Marketplace Enrollment Rates in 2015 by State and Income
Matthew Buettgens, Genevieve M. Kenney, and Clare Wang Pan | October 2015

Criminal Justice and Corrections

State governments spent $56 billion on corrections in FY 2015, 4 percent of state-financed expenditures in that year (figure 4).[2] Unlike Medicaid, which relies on a large federal funding match, corrections spending at the state level is paid for almost entirely by states' own funds (98 percent). As a result, reforms addressing mass incarceration may free state dollars to use in other areas, such as education.

FIGURE 4

Growth in State and Corrections Spending



Source: National Association of State Budget Officers, *State Expenditure Report: Examining 2013–15 State Spending* (Washington DC: National Association of State Budget Officers, 2015).
Notes: "State funds" refers to general and other state funds. Corrections funds are 4 percent of state funds in 2015.

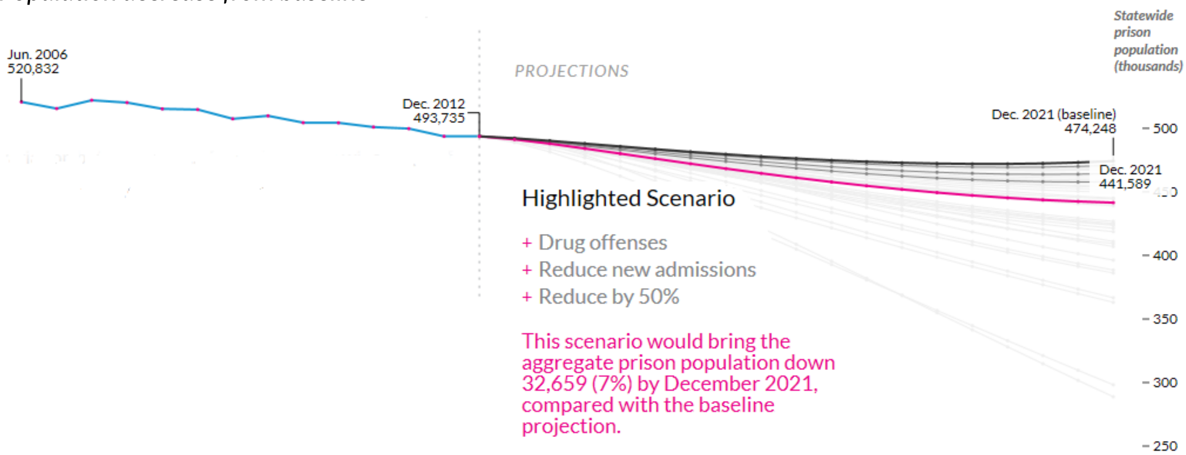
Web Tools and Interactive Features

The State Prison Population Forecaster shows effects, by state, of policies that aim to reduce prison admissions and length of stay for the most common offenses. The tool uses data from 15 states, representing nearly 40 percent of the national prison population, to forecast population trends and project the effect of changes on rates of admission or lengths of stay in prison. This forecasting tool paves the way for a more productive conversation about the need for tailored reforms that address the unique drivers of mass incarceration in each jurisdiction. One scenario is depicted in figure 5.

FIGURE 5

Reducing New Admissions for Drug Offenses

Population decrease from baseline



Source: Urban Institute, State Prison Population Forecaster.

Key Reports

Assessing the Impact of South Dakota's Sentencing Reforms: Justice Reinvestment Initiative

Brian Elderbroom, Samuel Bieler, Bryce Peterson, and Samantha Harvell | May 2016

South Dakota's prison population reached an all-time high in 2012 and was projected to grow an additional 25 percent over the next decade at a cost of $224 million. In response, South Dakota significantly reformed its justice system. The authors identify three major positive impacts from two policy changes—presumptive probation and felony reclassifications of drug possession and ingestion—in the two years following legislative enactment in 2013:

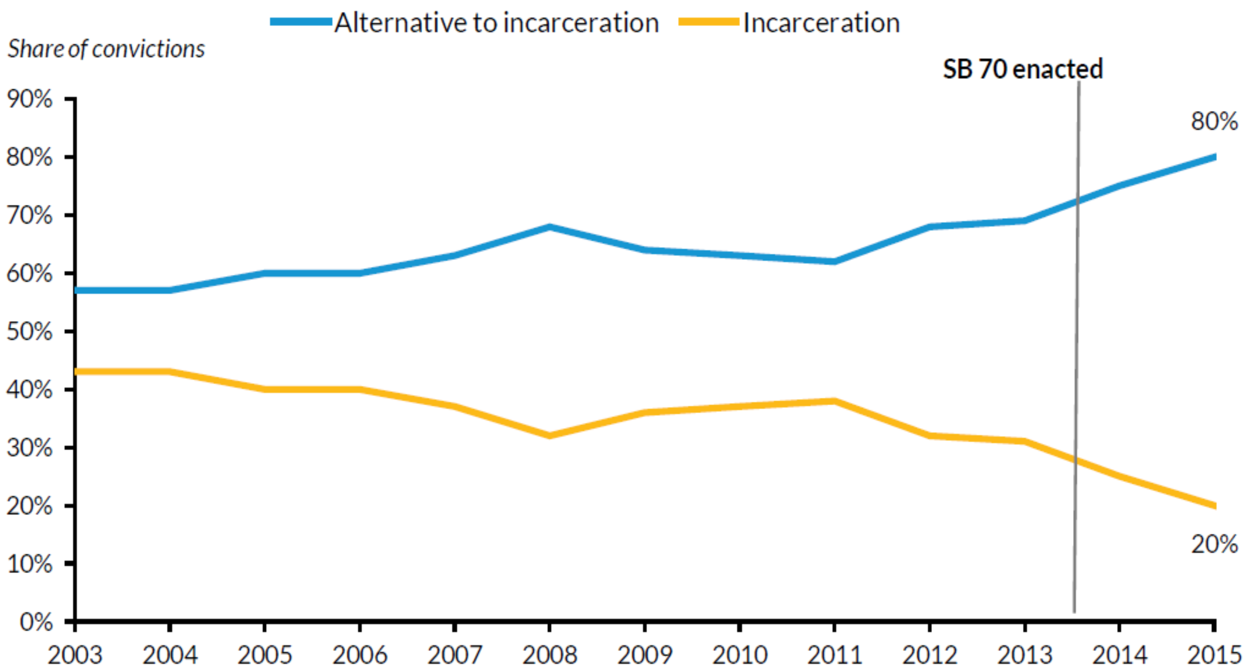
- Judges used probation more frequently (figure 6).
- Fewer people were sent to prison.
- Prison terms were shorter for drug abuse and addition offenses.

According to the Public Safety Improvement Act Oversight Council, the reforms saved the state more than $34 million by 2015. These policies have produced positive results, but new developments threaten that success. While prison admissions and sentence lengths for affected offenses declined, the number of felony convictions, particularly for Class 5 and 6 drug offenses, increased dramatically from 2013 to 2015.

FIGURE 6

South Dakota Judges Are Using Probation More Frequently

Disposition of cases subject to presumptive probation



Source: Brian Elderbroom, Samuel Bieler, Bryce Peterson, and Samantha Harvell, "Assessing the Impact of South Dakota's Sentencing Reforms: Justice Reinvestment Initiative" (Washington, DC: Urban Institute, 2016), calculations based on data from South Dakota's Unified Judicial System.

Note: SB 70 = Public Safety Improvement Act (South Dakota Senate Bill 70). Includes Class 5 and 6 felonies subject to presumptive probation, third-degree burglary, grand theft of items worth less than $5,000, drug possession, and drug ingestion.

The Sustainability of Juvenile Programs beyond Second Chance Act Funding: The Case of Two Grantees

David M. Altschuler, Jeanette Hussemann, Janine M. Zweig, Isela Banuelos, Caroline Ross, and Akiva Liberman | February 2016

The question of how best to reintegrate young people released from juvenile justice facilities and equip them to assume a law-abiding, prosocial life course is receiving increasing attention from policymakers. Federal Second Chance Act demonstration projects have fueled recent efforts to develop and implement comprehensive and collaborative strategies focused on reentry and recidivism reduction. This brief discusses how changing state and local policy contexts in Houston, Texas, and Sacramento, California, affected the implementation of federal Second Chance Act programs for juveniles, and whether the programs were able to sustain the efforts beyond the life of the federal grants.

Transforming Prisons, Restoring Lives: Final Recommendations of the Charles Colson Task Force on Federal Corrections

The Charles Colson Task Force on Federal Corrections | January 2016

The Charles Colson Task Force on Federal Corrections was a nine-person, bipartisan panel created by Congress to examine challenges in the federal corrections system and develop practical, data-driven solutions. Informed by more than a year of fact-finding, rigorous data analysis, and by testimony from and discussions with key experts and stakeholders, the independent Task Force's recommendations to the US Congress, the president, and the attorney general provide a blueprint for reforms to the federal corrections system. The Task Force recommendations are sensible, cost-effective strategies to reduce the federal prison population and enhance public safety. While the report focuses on federal reform, it draws upon lessons learned from successful reforms of state corrections systems over the last decade that can also inform corrections policy for other states.

Additional Reading

Consequences of Growth in the Federal Prison Population

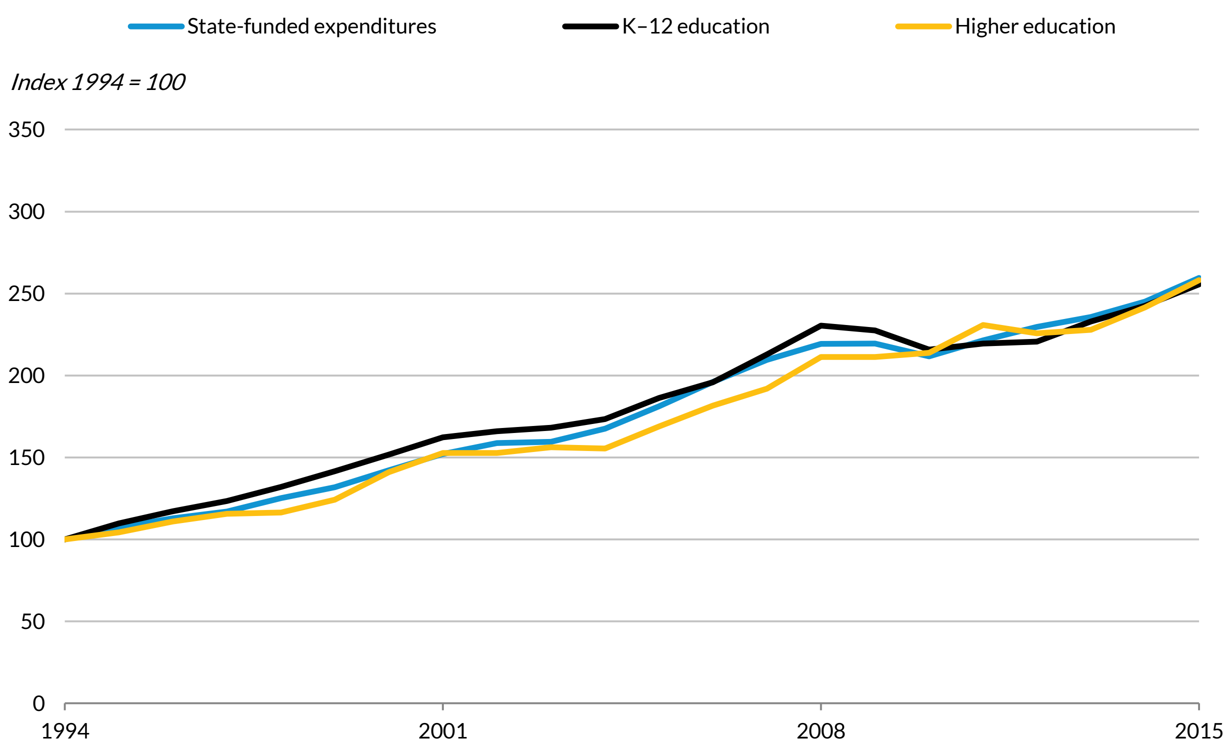
Samuel A. Taxy and Abigail Flynn | May 2015

Education

State spending on elementary and secondary education expenditures totaled $306 billion dollars in FY 2015, representing the largest budget category at 25 percent of state-financed spending.[3] Higher education expenditures of $167 billion accounted for an additional 13 percent of state funds in FY 2015 (figure 7). While most K–12 education spending happens at the local level, much of the funding comes from state transfers. Concerns regarding unequal access to public education within states have led states to increase their spending for K–12 education and pick up more of the tab. It is also important to understand how different student populations can affect both the cost of providing an adequate education and outcome measures. Questions about how to restore education spending, ensure sufficient funds, and address college affordability have been part of budget negotiations and will continue to be pivotal issues facing state budgets.

FIGURE 7

Growth in State and Education Spending



Source: National Association of State Budget Officers, *State Expenditure Report: Examining 2013–15 State Spending* (Washington DC: National Association of State Budget Officers, 2015).
Notes: "State funds" refers to general and other state funds. Elementary and secondary education (K–12) funds and higher education funds are 25 percent and 13 percent, respectively, of state funds in 2015.

Web Tools and Interactive Features

The Urban Institute feature A Closer Look at Income and Race Concentration in Public Schools maps the share of children from low-income families in public schools and the share of children in high-poverty schools at the county level. Understanding where low-income children live is important in understanding what role state funding should play.

America's Gradebook is an interactive tool that uses adjusted scores from the National Assessment of Education Progress (NAEP) reading and mathematics assessments for fourth- and eighth-grade students to compare performance across states. The adjusted scores account for demographic differences across students in each state.

Using data on enrollment, funding, and tuition in public colleges and universities, the Financing Public Higher Education dashboard illustrates differences in college affordability by state and how they have evolved over time with states' economies and policy priorities.

Key Reports

Breaking the Curve: Promises and Pitfalls of Using NAEP Data to Assess the State Role in Student Achievement

Matthew Chingos | October 2015

NAEP data have been used to support policies with diverse goals, but research suggests these data have to be used with caution. This report provides a systematic framework for assessing how much student achievement varies across observationally similar states and the extent to which changes in state performance on the NAEP are explained by changes in state demographics. Accounting for these differences suggests that more funding or additional resources might be necessary for improvement in places that serve a more diverse population.

Financing Public Higher Education: The Evolution of State Funding

Sandy Baum and Martha C. Johnson | November 2015

Although college access and affordability are national issues, students have different educational opportunities depending on their state of residence. This report examines the differences across states in funding, enrollment, and pricing changes over time. The authors find that some states fund their institutions more generously than others, and that a few were even able to maintain funding during the worst years of the economic downturn. Enrollment has also grown rapidly in some states, creating challenges quite different from those facing states where the number of students attending public colleges and universities has been more stable. Students have different options for higher education depending on their states of residence, and state policymakers face unique challenges, depending on their state's mix of economic and political realities.

Additional Reading

Financing Public Higher Education: Variation across States
Sandy Baum and Martha C. Johnson | November 2015

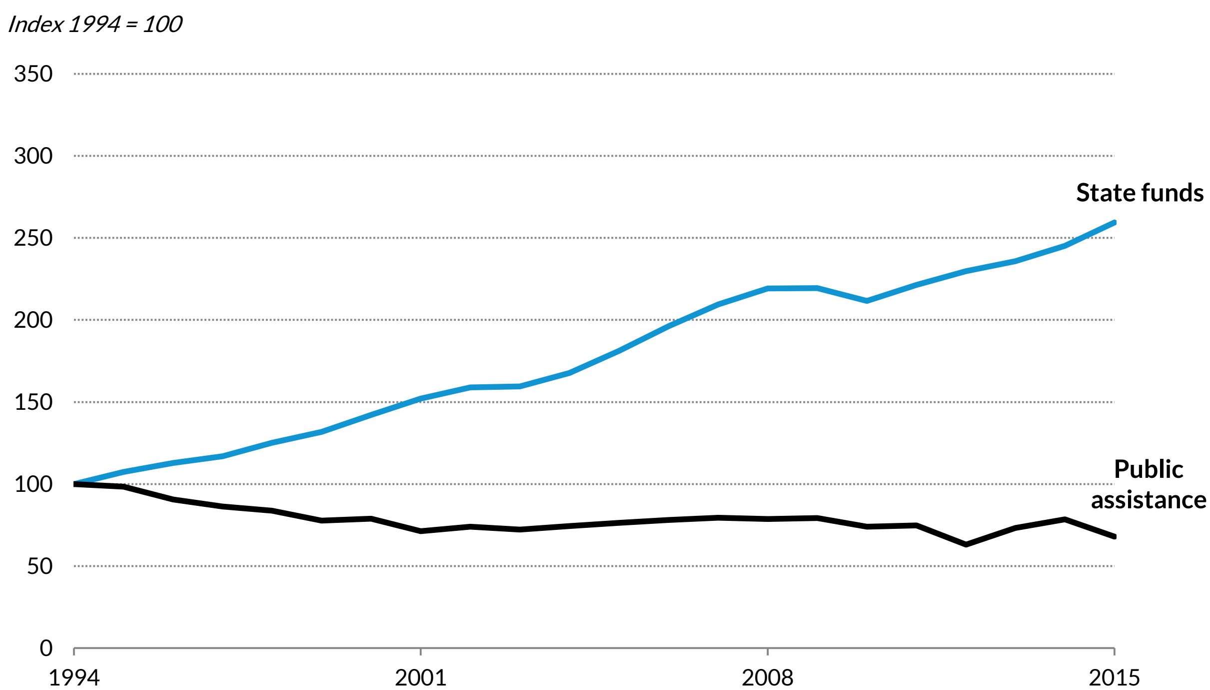
Urban Wire: New tuition data don't change the picture of inequality across states
Sandy Baum and Martha C. Johnson | November 2015

Social Safety-Net Programs

Social safety-net spending (excluding Medicaid) has declined from 3.4 percent of state-financed expenditures in FY 1994 to just 0.9 percent of state-financed expenditures in 2015 (figure 8).[4] Federal funds cover the vast majority of spending for social safety-net programs like Temporary Assistance for Needy Families (TANF) and the Supplemental Nutritional Assistance Program (SNAP). While federal dollars finance just over half of total state public assistance spending, state and local governments often use state funds to match federal funds and administer programs; states also decide on program priorities.

FIGURE 8

Growth in State and Safety-Net Program Spending



Source: National Association of State Budget Officers, *State Expenditure Report: Examining 2013–15 State Spending* (Washington DC: National Association of State Budget Officers, 2015).
Notes: "State funds" refers to general and other state funds. Public assistance funds, excluding Medicaid, are 1 percent of state funds in 2015.

Web Tools and Interactive Features

The Net Income Change Calculator can show what happens to benefits when a family's income changes (see, for example, Maag and Rueben's *TaxVox* post below). An increase in the minimum wage, for example, may result in lower needs-based benefits for some program recipients as well as fewer people qualifying for benefits, reducing state expenditures.

The Child Care and Development Fund Policies Database produces a comprehensive, up-to-date database of child care subsidy policies for the 50 states, the District of Columbia, and the US territories and outlying areas. The database contains hundreds of variables designed to capture Child Care and Development Fund policies across time.

The Welfare Rules Database is the primary source of data on state TANF policies nationwide, providing a detailed longitudinal account of changes in welfare rules in all 50 states and the District of Columbia. The annual Welfare Rules Databook summarizes these findings.

Key Reports

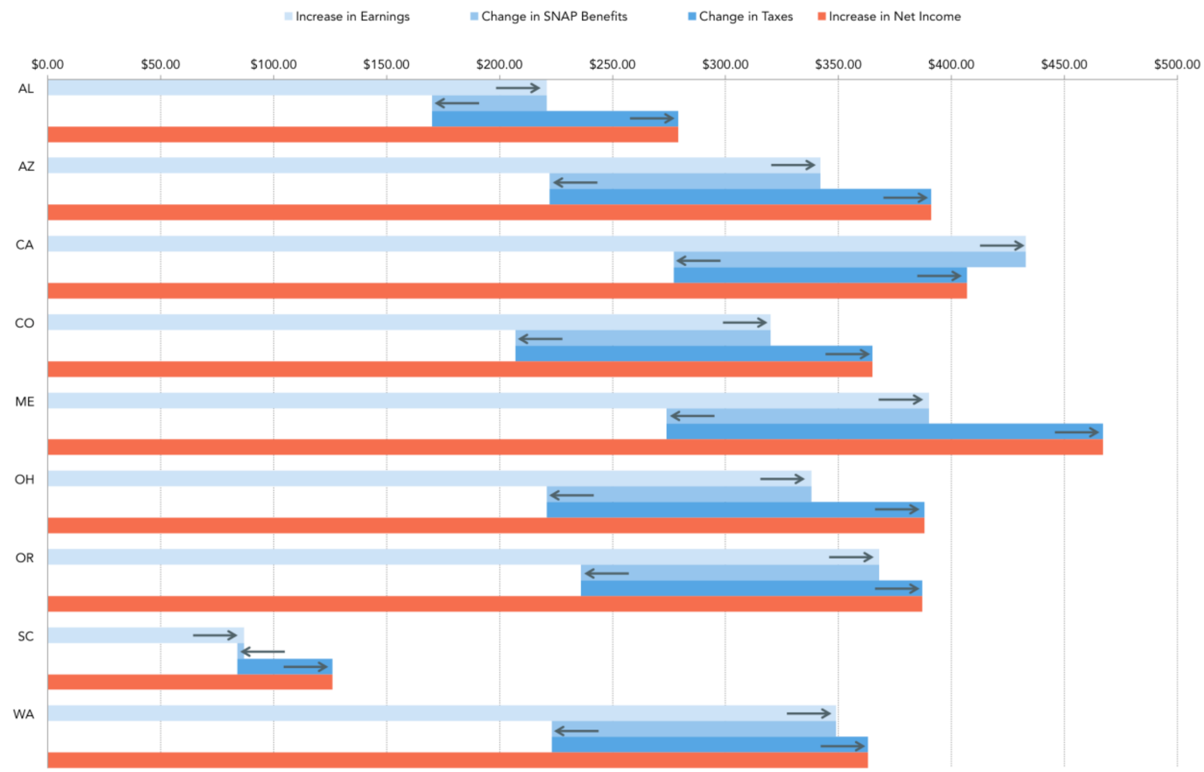
TaxVox: What Happens to Taxes and Transfers When States Raise the Minimum Wage?

Elaine Maag and Kim S. Rueben | May 2016

In November, voters will consider ballot initiatives to raise the minimum wage in eight states, following the decision by the California legislature to phase in its own increase. The authors use Urban's Net Income Change Calculator to get a sense of how these wage changes would affect the bottom line for a sample family (see figure 9).

FIGURE 9

Effect of Increasing the Minimum Wage on the Monthly Income of a Part-Time Worker



Source: Urban Institute, Net Income Change Calculator.
Notes: The Net Income Change Calculator uses rules for 2012. Calculations are for a single parent with two children, ages 4 and 7. The parent works 20 hours per week, receives SNAP benefits when eligible, and pays $600 per month in rent.

Uses the Urban Institute Net Income Change Calculator (NICC)

The Big States and Unemployment Insurance Financing

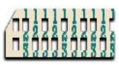
Wayne Vroman | March 2016

At the end of September 2015, more than six years after the trough of the Great Recession, aggregate state unemployment insurance (UI) net trust fund reserves (including loans in the municipal bond market) totaled just $26.1 billion, 68 percent of the prerecession balance. While many states have successfully rebuilt reserves from their low levels in early 2011, 11 states plus the Virgin Islands still had outstanding loans that totaled more than $13 billion at the end of September 2015 (with $6 billion from California alone). This brief examines state UI financing experiences during and after the Great Recession and investigates differential responses of UI tax collections and benefit payments among states with respect to their size, focusing on the 13 largest states by employment. The analysis finds that in the 13 big states, program revenue responded more slowly and benefits were reduced more when compared with the other states in the UI system. The author cautions that these differential responses will adversely affect the performance of the state UI system during the next recession.

Federal and State Taxes and Their Role in the Social Safety Net

Elaine Maag | July 2015

Federal and state income taxes play an important role in providing income support for low-income households by administering refundable tax credits, such as the earned income tax credit. This report uses the Urban Institute's Net Income Change Calculator to calculate the value of TANF and SNAP, as well as state and federal income taxes, for a single parent of two children working full time at minimum wage. The author finds that in many cases, state and federal tax credits exceed the value of the more traditional safety net programs. Given the large role taxes play in the safety net, policymakers should be aware of how changes to the tax system could affect low-income working families.

 Uses the Urban Institute Net Income Change Calculator (NICC)

A Descriptive Study of County- versus State-Administered Temporary Assistance for Needy Families Programs

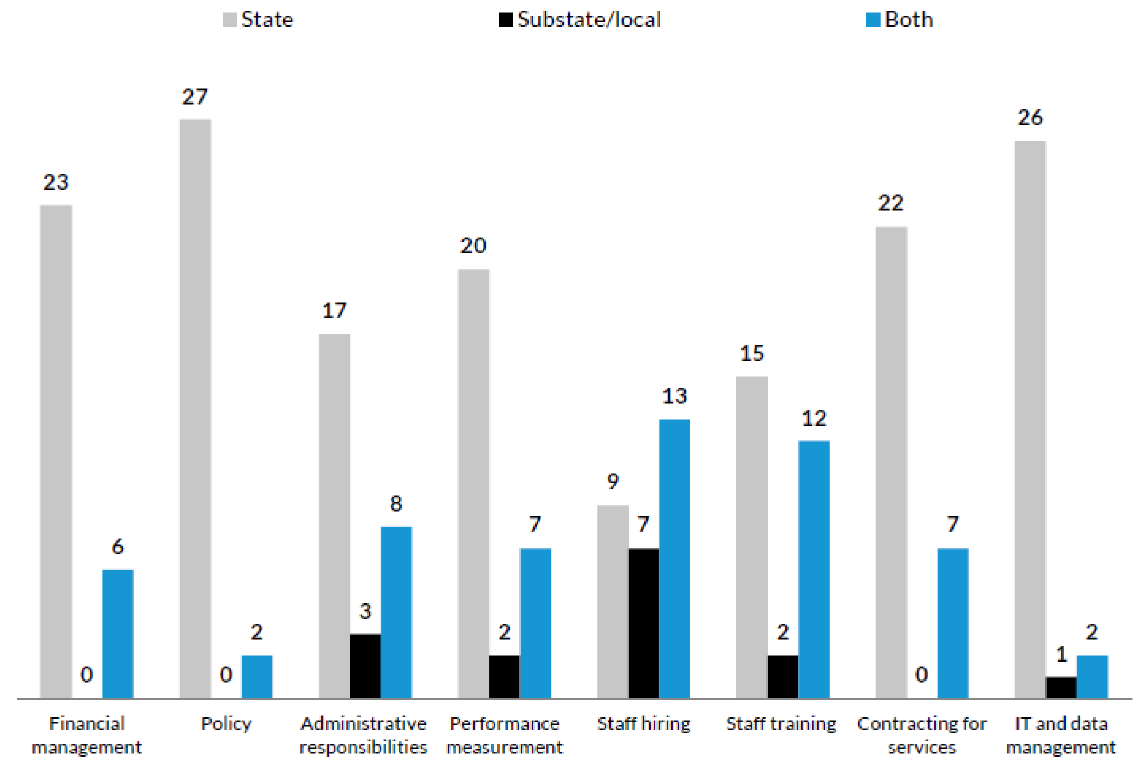
Heather Hahn, David Kassabian, and Lina Breslav | May 2015

One-half of all families receiving TANF cash assistance live in states with county-administered TANF programs. But what does "county-administered" mean? States do not report details about how counties administer TANF, but these details and their differences from state-administered programs have implications for federal policies, regulations, and technical assistance. This report closely examines the TANF programs in four states with county-administered systems (California, Colorado, Minnesota, and North Dakota) and provides detailed information on TANF administration in selected counties. The report also describes the technical-assistance needs of county-administered programs and identifies differences between county- and state-administered TANF programs, surveying 29 states with state-administered TANF programs (figure 10).

FIGURE 10

Responsibilities of States and Local Entities in State-Administered TANF Programs

Number of states



Source: Heather Hahn, David Kassabian, and Lina Breslav, "A Descriptive Study of County- versus State-Administered Temporary Assistance for Needy Families Programs" (Washington, DC: Urban Institute, 2015).

Note: IT = information technology; TANF = Temporary Assistance for Needy Families. Data were survey responses from 29 states with state-administered TANF programs, December 2013–March 2014.

Work Support Strategies

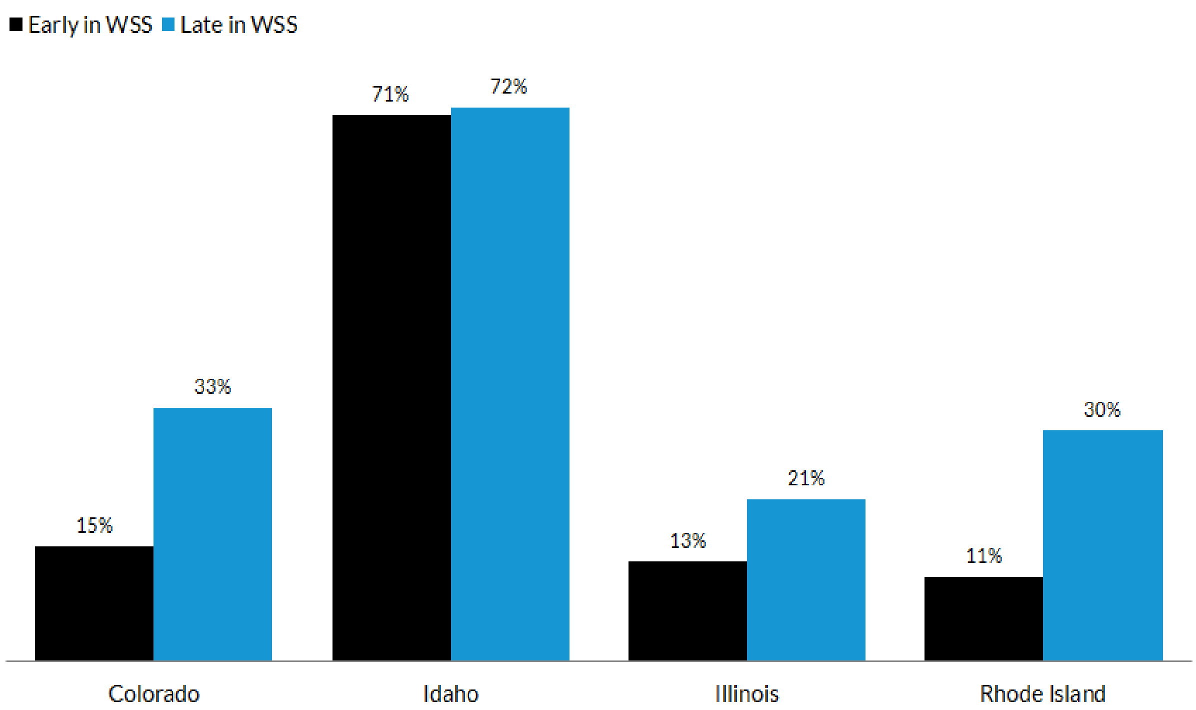
The Work Support Strategies (WSS) initiative is a multiyear, multistate, foundation-funded initiative to help low-income families get and keep the package of work supports for which they are eligible. Urban researchers have partnered with six WSS-initiative states to support their efforts to reform and align systems delivering the work-support programs that increase families' well-being and stability—particularly SNAP, Medicaid, the Children's Health Insurance Program, and child care assistance through the Child Care and Development Fund. Through WSS, states seek to streamline and integrate service delivery, improve administrative efficiency, and reduce the burden on states and working families. These reforms can also save money administering the programs.

The six WSS states have made efforts to align policies across the various work support programs in ways that would increase access and retention. A key initiative that all states undertook in some capacity was to develop an integrated application across multiple programs. For example, some states used electronic data on SNAP eligibility to automatically enroll and retain individuals in Medicaid; others aligned recertification dates across programs to reduce turnover among eligible families by making the review process more transparent and less burdensome. All six states also made changes to their business processes, updating their methods for greeting customers, accepting applications, making eligibility determinations, and processing changes and renewals. As a result of the various changes, the number of families that received benefits the same day they applied increased dramatically (figure 11).

FIGURE 11

WSS States Saw Dramatic Increase in Same-Day SNAP Processing

Percent of SNAP applications processed same day in four states



Source: Urban Institute analysis of data provided by the Colorado Department of Human Services, the Idaho Department of Health and Welfare, the Illinois Department of Human Services, and the Rhode Island Department of Human Services.
Notes: Each data point is based on three months' average data. Data for "early in WSS" are from 2010, 2011, 2012, or 2013, depending on data availability. Data for "late in WSS" are from 2015.

Changing Policies to Streamline Access to Medicaid, SNAP, and Child Care Assistance: Findings from the Work Support Strategies Evaluation

Julia B. Isaacs, Michael Katz, and David Kassabian | March 2016

This report describes the experiences of the six WSS states as they identified and adopted various policy changes to reduce administrative burdens for clients and workers.

Improving Business Processes for Delivering Work Supports for Low-Income Families: Findings from the Work Support Strategies Evaluation

Heather Hahn, Ria Amin, David Kassabian, and Maeve E. Gearing | March 2016

In this report, the authors examine the six WSS states' efforts to address inefficient business processes for delivering work support programs. Agencies reformed systems that used outdated technology, created unnecessary burdens, and did not work effectively for staff or families.

States' Use of Technology to Improve Delivery of Benefits: Findings from the Work Support Strategies Evaluation

Pamela J. Loprest, Maeve E. Gearing, and David Kassabian | March 2016

This report provides findings on the experiences of six WSS state programs in changing their technological systems to improve and integrate the delivery of work supports.

Urban Wire: Modernizing how public agencies deliver work support benefits

Julia B. Isaacs | March 2016

This blog post discusses findings from Urban's evaluation of WSS. The emerging results provide insights into what public agencies can do to improve the efficiency and effectiveness of their public benefit delivery systems.

Additional Reading

Clients' Recommendations for Improving the Child Care Subsidy Program

Heather Sandstrom, Jaimie Grazi, and Julia R. Henly | June 2015

Economic and Workforce Development

The Urban Institute has assembled a body of research on the intersection of economic and workforce development. The first collection below examines how states approach economic development, going beyond the interstate competition for companies and investment. The second collection highlights apprenticeship and training programs, showing how states invest in human capital. Finally, *Bridging the Gap* is a multifaceted project linking child care policies with workforce development. One finding is that supplemental services, like child care, are pivotal for successful training programs.

Economic Development Strategies

States use diverse tools to further economic development goals, including financing assistance and tax incentives. Through a series of informational briefs and reports, Urban researchers are creating a framework for more transparent and accountable economic development strategies, giving policymakers a broader lens to examine how economic development policies interact with other programs like workforce development and infrastructure planning.

Using the Tax Structure for State Economic Development

Norton Francis | May 2016

This brief examines how policymakers design the tax structure for economic development purposes, sometimes running counter to tax policy principles.

State Financing Incentives for Economic Development

Norton Francis | February 2016

This brief explores different ways states can assist businesses and entrepreneurs with financing.

State Tax Incentives for Economic Development

Norton Francis | February 2016

This brief explores the tax incentives states use to make their environment more attractive to new business or to retain and expand existing businesses.

GASB 77: Reporting Rules on Tax Abatements

Norton Francis | October 2015

This brief reviews a new financial reporting requirement under which state and local governments will coordinate and cooperate on their annual financial statements to account for the impact of tax abatements.

Coordinating Workforce and Economic Development under WIOA

Lauren Eyster | October 2015

This brief discusses how the 2014 Workforce Innovation and Opportunity Act helps states integrate workforce and economic development strategies.

Apprenticeships and Training

Apprenticeships have been gaining support from US senators and governors on both sides of the aisle, and studies have shown them to be cost effective. In April 2016, the White House and the Department of Labor announced a $90 million investment in apprenticeships. The funds will go to states, businesses, and nonprofits with the goal of supporting broader access to more and different apprenticeships. Beyond apprenticeships, local workforce systems and educational approaches like Connected Learning serve adults and youth who may need help training for and succeeding in the workforce.

Youth Apprenticeship: A Hopeful Approach for Improving Outcomes for Baltimore Youth

Robert I. Lerman and Arnold Packer | April 2015

This brief looks at apprenticeship models in several contexts, including current state programs in Georgia and Wisconsin and comparable European programs. It draws on youth apprenticeship program successes to explore apprenticeship as a potential tool to improve school and career outcomes for Baltimore's youth, one in four of whom do not graduate high school in five years.

Urban Wire: Six things states should know about apprenticeships

Alexandra Tilsley | May 2016

This blog post discusses several strategies states and workforce development groups can use in pursuit of $90 million in federal grants supporting apprenticeships. These strategies include building sustainable systems, learning from programs that work while bringing in representatives from diverse fields, and considering approaches for finding employer partnerships.

Understanding Local Workforce Systems

Lauren Eyster, Christin Durham, Michelle Van Noy, and Neil Damron | March 2016

A local workforce system encompasses the organizations and activities that prepare people for employment, helps workers advance in their careers, and ensures a skilled workforce exists to support local industry and the local economy over time. This brief explains who a local workforce system serves, the organizations involved, and the functions it performs. The authors offer a useful framework for readers to better understand their own local workforce systems and to identify new ways of supporting their local workforces and economies.

Urban Wire: Connecting learning to careers

Hamutal Bernstein | July 2016

Connected Learning provides a paradigm to bridge informal learning advocates and educators with employers and workforce development stakeholders. Practitioners and researchers must share a common language and understand how interest-driven learning is synonymous with career exploration and skill development.

Bridging the Gap between Child Care and Workforce Development Systems

Lack of child care is a barrier between low-income parents and successful participation in education and training programs. Through a series of reports, as well as a recent convening of experts across the country, Urban researchers explore strategies and policies that can support efforts to bridge the gap between child care and workforce development.

New federal rules like the 2014 Workforce Innovation and Opportunity Act (WIOA), the reauthorization of the Child Care and Development Fund, and potential changes to TANF will give states and localities opportunities to develop child care and workforce training plans. The programs seek to improve outcomes for participants, while understanding how limited funding options can hinder reform.

Bridging the Gap: Exploring the Intersection of Workforce Development and Child Care

Gina Adams, Shayne Spaulding, and Caroline Heller | May 2015

This brief explores the issues that lie at the intersection of workforce development and child care systems and proposes strategies to address them.

Supporting the Child Care and Workforce Development Needs of TANF Families

Heather Hahn, Gina Adams, Shayne Spaulding, and Caroline Heller | April 2016

This report highlights how limited or complex connections between TANF policies, workforce development, and child care subsidy systems create disincentives and barriers to meeting the complex needs of TANF families.

The Workforce Innovation and Opportunity Act and Child Care for Low-Income Parents: Opportunities and Challenges under the New Law

Shayne Spaulding | June 2015

This brief highlights new opportunities, and remaining challenges, for states and localities to expand and enhance their services for low-income parents under the 2014 WIOA, which recently revamped the federal workforce development system.

The Child Care and Development Fund and Workforce Development for Low-Income Parents: Opportunities and Challenges with Reauthorization

Gina Adams and Caroline Heller | June 2015

Adams and Heller identify strategies to better serve low-income parents in education and training programs as states revise their child care systems following the recent reauthorization of the Child Care and Development Fund, the primary source of public funding for child care.

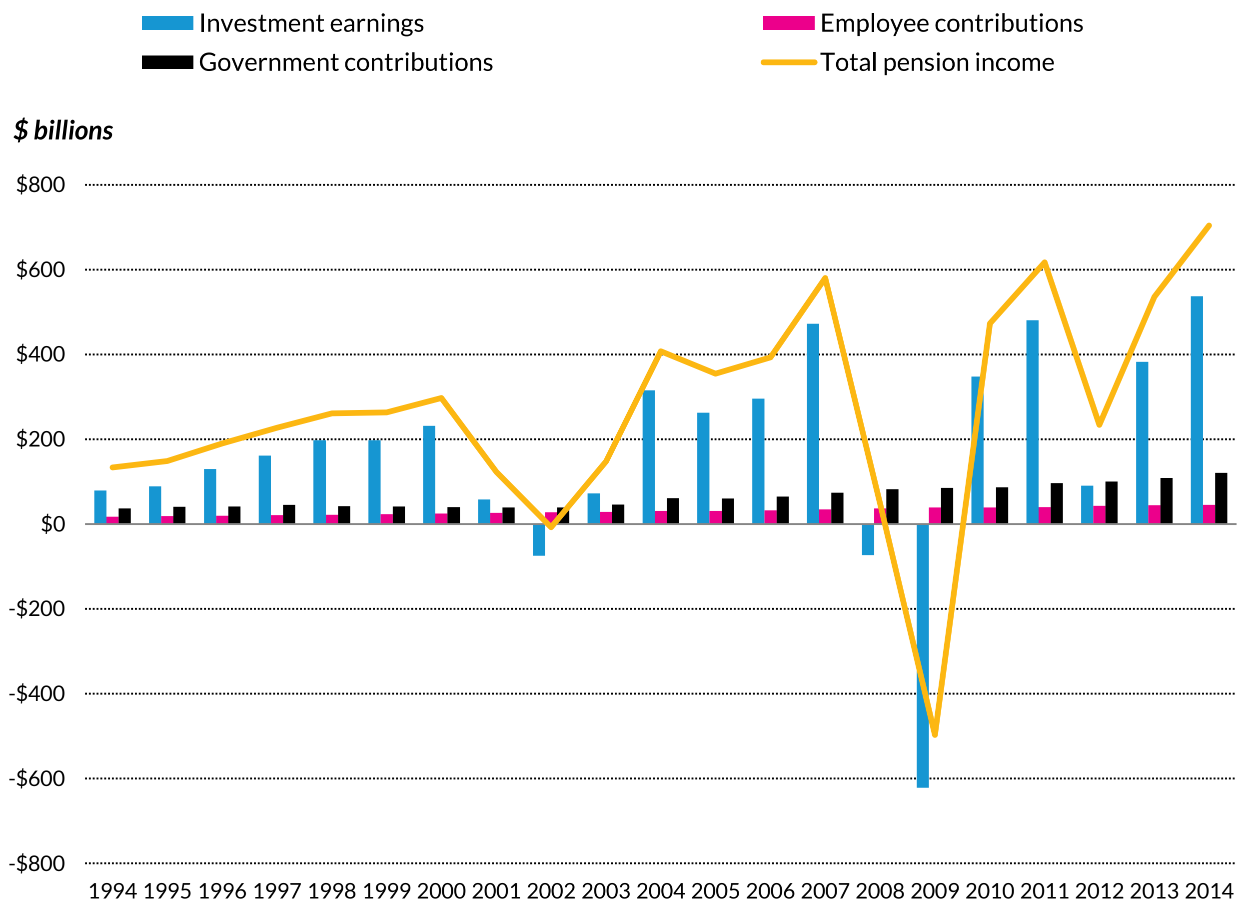
Public Employee Pensions

State public employee pensions may not provide adequate retirement security for workers. Investment losses during the Great Recession of 2007–09 put tremendous strain on the fund balance needed to pay out future benefits (figure 12).

Efforts to reform public employee pensions, while well intentioned, are often stymied by both politics and the issue's intrinsic complexity. This section reviews research on how specific pension plan reforms have fared, as well as possible alternatives. The Urban Institute's work includes tools that compare custom reform alternatives with current state plans.

FIGURE 12

State and Local Government Pension Plan Revenues



Source: US Census Bureau, Annual Survey of Public Pensions: State and Locally Administered Defined Benefit Data.

Web Tools and Interactive Features

The Public Pension Simulator shows how much state and local government retirees would receive in pension benefits and how much governments would pay for those benefits. For analysts in state and local governments considering pension reform, the simulator also provides an easy way to compare the nation's largest public pension plans under existing benefit rules and various reform alternatives.

Additionally, analysts can build a custom pension plan to see how policy levers affect pension financing and benefits, and see how each state's pension plan stacks up on Urban's the State of Retirement: Grading America's Public Pension Plans.

Key Reports

Negative Returns: How State Pensions Shortchange Teachers

Chad Aldeman and Richard W. Johnson | September 2015

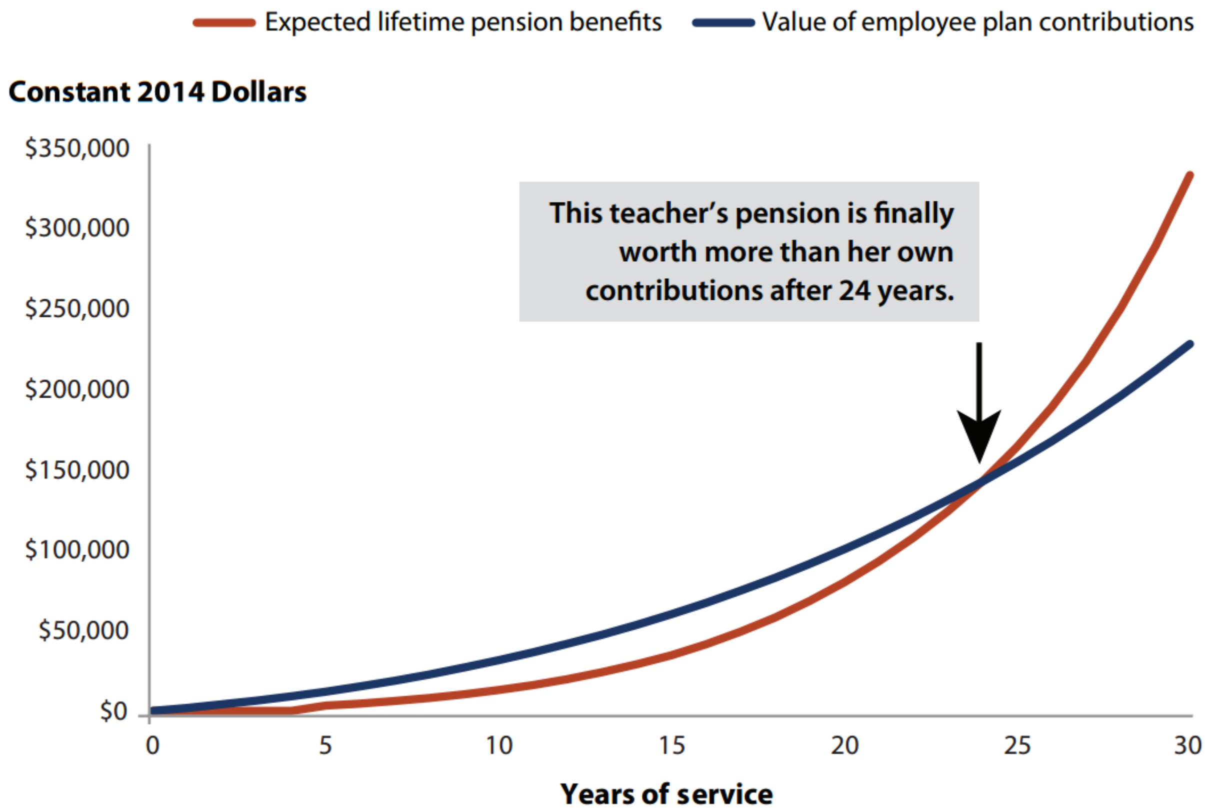
Pensions are intended to provide stable and secure retirement prospects for our nation's teachers, yet, as this brief illustrates, many state pension plans fall short. By calculating how long teachers hired at age 25 must remain teaching in the same state to earn any employer-financed pension benefits from their state's pension plan, the authors uncover two major problems with state pension programs.

First, in the median state, teachers must serve at least 25 years to receive a pension worth more than their own contributions (figure 13). Second, the authors estimate more than three-quarters of new teachers will earn less in pension benefits than they contributed to the plan.

In light of a growing trillion-dollar shortfall, state pension plan reform is necessary, but traditional efforts focused on cutting costs rather than redesigning programs may make the situation worse. The authors suggest that policymakers instead consider alternative benefit designs that allow employees to accumulate future retirement benefits gradually throughout their careers, rather than restricting benefits to those with the longest tenures.

FIGURE 13

Example of How Pension Benefits and Employee Contributions Grow over Time



Source: Chad Aldeman and Richard W. Johnson, "Negative Returns: How State Pensions Shortchange Teachers" (Washington, DC: Urban Institute, 2015), calculations based on data from Urban Institute's State and Local Employee Pension Plan database.
Notes: The figure displays the value of lifetime pension benefits and required employee contributions for an employee hired at age 25 earning an average salary and enrolled in a traditional plan that provides annual benefits equal to 2 percent of final average salary times years of service. Benefits vest after five years, and retirees may begin collecting at age 60. The required employee contribution rate is 7 percent. Calculations assume 8 percent nominal interest and 3 percent inflation.

The State of Public Pension Reform in Louisiana

Owen Haaga, Richard W. Johnson, and Benjamin G. Southgate | June 2015

Louisiana's ongoing struggle with its public retirement system provides an opportune case study for state policymakers interested in pension reform.

In 2012, the Louisiana Supreme Court struck down a proposal that would have created a cash balance plan to replace the state's traditional final average salary (FAS) plan. The ruling was based on an actuarial report commissioned by the legislature that found the cash balance plan would cost slightly more than the FAS plan it would replace. This brief attempts to answer the larger questions at stake about cash balance plans. Would state employees really fare better under the proposed cash balance plan? Why would it cost more? To address these issues, the authors simulate lifetime retirement benefits for newly hired state employees under both the cash balance plan and the FAS plan, then compare expected outcomes. They find that cash balance plans generally distribute benefits more fairly than FAS plans since they put all plan participants, not just long-term employees, on a path toward retirement security. Cash balance plans also do not penalize workers who remain on the job past the plan's retirement age.

However, the investment guarantee that some cash balance plans provide can be costly if the guarantee is not well designed. The authors' simulations show that the proposed 2012 Louisiana cash balance plan would not have improved retirement incomes for many state employees, as the plan's benefits would have been limited to control the cost of the investment guarantee. In light of this fact, the authors propose an alternative reform plan for state policymakers to consider: institute a smaller cash balance plan that does not guarantee investment returns and extend Social Security coverage to state employees. Such a plan would cost less than the existing FAS plan and the 2012 cash balance plan. Additionally, the authors' simulations indicate that 76 percent of newly hired state employees who remain in state employment for at least five years would receive more retirement benefits under this reform package than under the existing state FAS plan.

Additional Reading

Why Have Government Contributions to New York Pension Plans Soared since 2010?

Richard W. Johnson, Owen Haaga, and Benjamin G. Southgate | June 2015

Is a Cash Balance Plan the Right Choice for Louisiana State Employees?

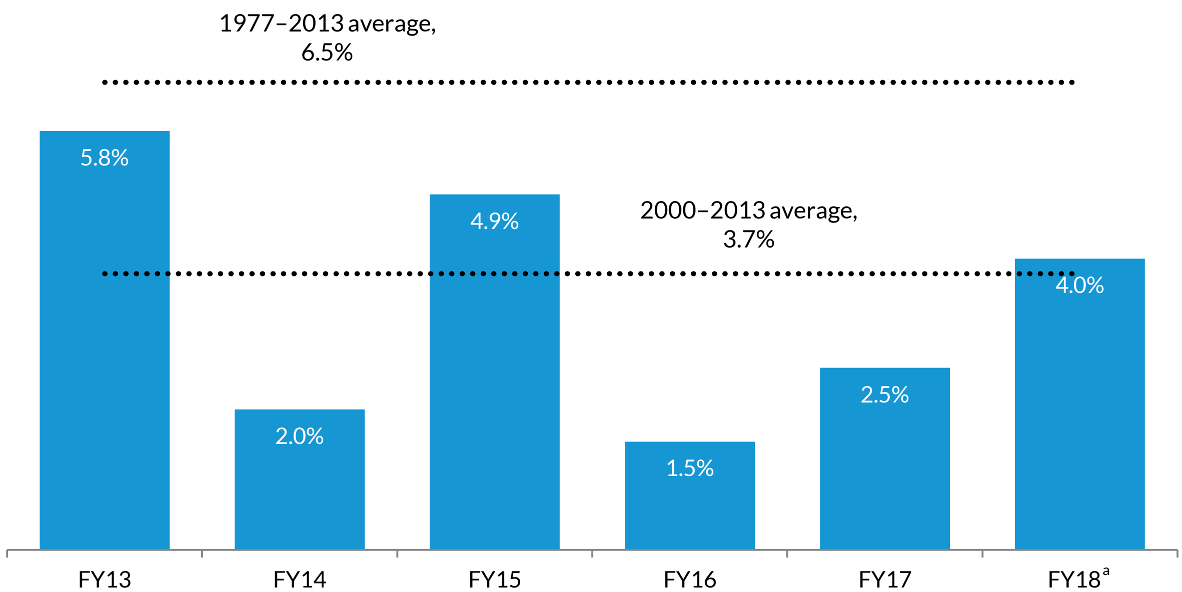
Owen Haaga, Richard W. Johnson, and Benjamin G. Southgate | June 2015

State Finances

State revenue growth has remained sluggish in the post-recession years and is projected to remain so over the next few years (figure 14). State budget analysts must therefore increasingly balance cost pressures with demands for additional spending on education, social safety net programs, and the like. We examine how states' underlying characteristics affect relative revenue levels and spending needs, reviewing trends, budget actions, and the possibility of new taxes. Finally, it is important to understand how possible federal tax reforms can affect both state revenue options and budget processes.

FIGURE 14

Projected Change in Nominal State Operating Revenue, 2013–2018



Source: State agency revenue reports compiled by Urban Institute; average growth calculated using Census Bureau Survey of State and Local Finances.
Note: State operating growth is the unrestricted revenue used for state government operations. For most states this is called the general fund.
[a] Thirty-one states reporting.

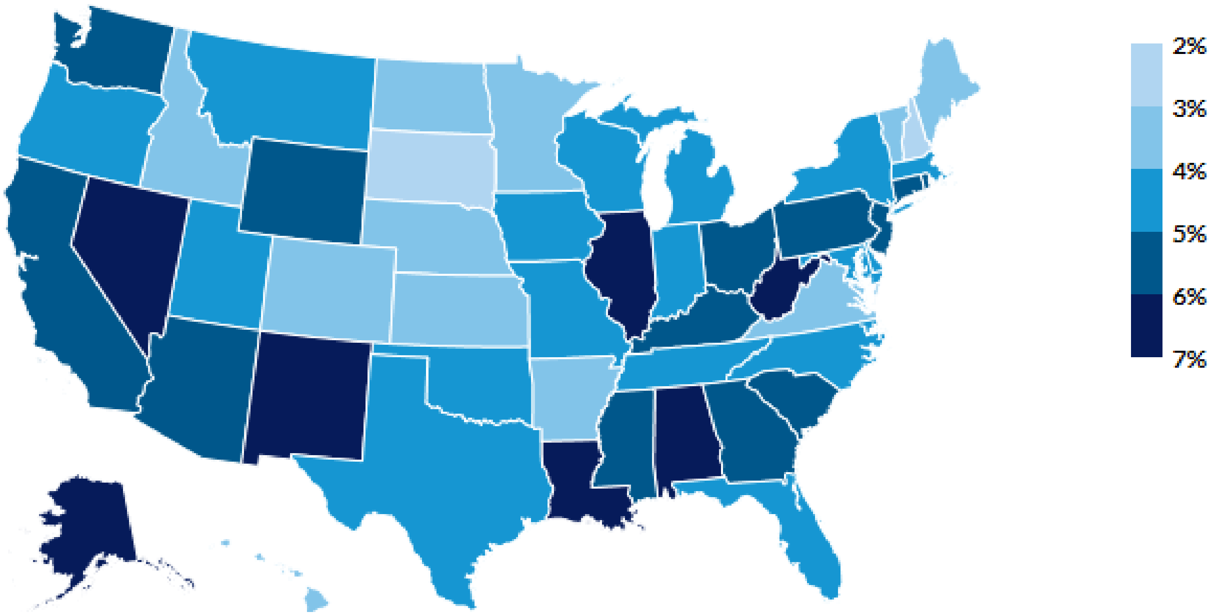
Web Tools and Interactive Features

The State Economic Monitor tracks and analyzes economic and fiscal trends at the state level. Its interactive graphics highlight differences across all 50 states and the District of Columbia in employment, wages, housing, and taxes (see, for example, state unemployment rates in figure 15).

FIGURE 15

Unemployment Rates by State, June 2016

The national unemployment rate was 4.9 percent as of June 2016



Source: Urban Institute, *State Economic Monitor: Employment,* based on data from Bureau of Labor Statistics, Labor Force Data, "Table 3. Civilian labor force and unemployment by state and selected area, seasonally adjusted" (2016).

The State and Local Finance Data Query System (DQS) allows for flexible presentation of data from the Census of Governments State and Local Finance series, including detailed revenue, expenditure, and debt variables for the United States, each of the 50 states, and the District of Columbia for 1977–2013 (the latest year available). Data are available by type of government (state, local, state and local totals, and local government detail), as well as in real or nominal dollars and on a per capita basis or as a fraction of personal income, general revenues, or total expenditures. Data are updated as soon as possible after the release by the US census each fall.

Key Reports

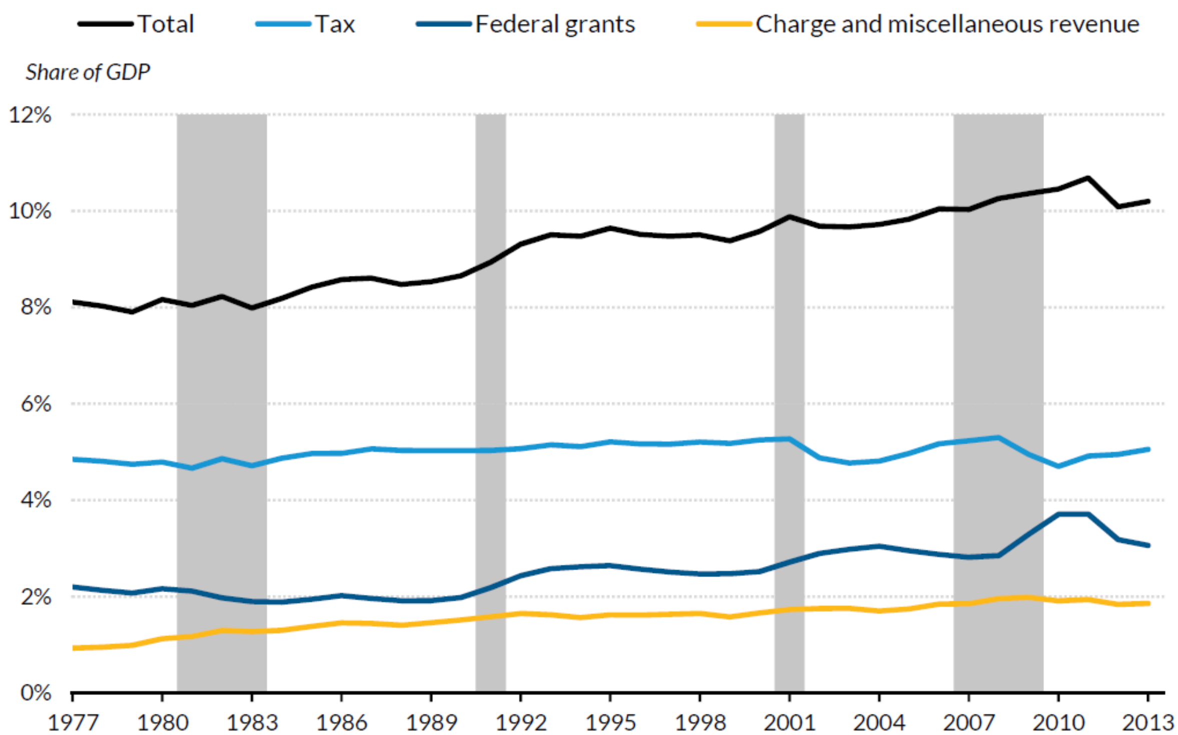
Governing with Tight Budgets: Long-Term Trends in State Finances

Norton Francis and Frank Sammartino | September 2015

The tenuous balance between revenues and outlays in state finances is becoming more precarious (figure 16). On one side of the ledger, the growth in traditional sources of state revenue is slowing down; on the other, expenditure growth is poised to accelerate. As a result, states will increasingly face more difficult annual budget challenges as they attempt to satisfy balanced-budget requirements. Changing demographics, technology, and inflation are also driving these divergent fiscal trends. To keep a functioning government, state legislators will need to make difficult trade-offs between revenue increases and spending cuts. To aid in this effort, this brief examines the history and outlook of state revenues and expenditures with particular attention to the effects of the last recession on state fiscal policy.

FIGURE 16

State General Revenue Trends, 1977–2013



Sources: Census Survey of State Government Finances; Bureau of Economic Analysis.
Notes: Shaded areas indicate recessions.

The Growth Mirage: State Tax Cuts Do Not Automatically Lead to Economic Growth

William G. Gale, Aaron Krupkin, and Kim S. Rueben | September 2015

This paper builds on a widely cited study that identifies a robust negative relationship between tax rates and state growth. The authors find that the negative effects disappear when they extend the sample beyond 2000 and that the relationship is unstable over time and across taxes. Likewise, examination of recent state tax cuts reveals little evidence of tax cuts driving growth. Drawing on the related literature and states' historical and more recent experiences, they find that states have no good reasons to believe that cuts in income tax rates will bring the desired benefits.

Assessing Fiscal Capacities of States: A Representative Revenue System–Representative Expenditure System Approach, Fiscal Year 2012

Tracy Gordon, Richard C. Auxier, and John Iselin | March 2016

Reflecting the country's broad diversity and strong federalist traditions, state and local governments exhibit enormous variation in their revenue from taxes, fees, and charges, and how much they spend on public goods and services such as schools, hospitals, and roads. This report documents these differences and looks at what state and local governments could generate in revenues and would spend if they followed national averages, taking into account their own demographics and economic conditions. The authors find that states vary widely in their revenue capacities and expenditure needs, including their ability to cover their expenditure needs using their own resources. Understanding how and why states differ in their taxes and spending is of vital importance to federal grantmakers, state policymakers, and citizens who want to understand how their state's fiscal choices compare to a national standard.

Should We Tax Unhealthy Foods and Drinks?

Donald Marron, Maeve E. Gearing, and John Iselin | December 2015

What we eat and drink can cause obesity, diabetes, hypertension, and other conditions. In response, many governments have enacted or are considering taxes on unhealthy food and drinks. Denmark, Finland, France, Hungary, Mexico, the Navajo Nation, and the city of Berkeley, California, have enacted such taxes, primarily on sugar-sweetened beverages and energy-dense processed food. This report evaluates the rationale behind such taxes; reviews evidence on their effects; analyzes different ways of structuring them; draws lessons from taxes on tobacco, alcohol, and carbon emissions; and offers a framework for assessing the taxes' benefits and costs. The authors stress that, although taxes can influence what people eat and drink, they are not a silver bullet. Governments must balance potential health gains against taxes' limits and costs. Additionally, whether taxes are a promising option depends on each social and economic environment, the nutritional harms being targeted, the way taxes are designed, and the range of other policy options available—all questions state policymakers should consider when debating "sin" taxes.

Federal Tax Reform and State Budgets

There are direct connections between federal taxes, particularly the federal income tax, and state taxes. Most states with an income tax start from the federal income definitions, which means a change at the federal level has a state impact. Every major tax reform proposal thus has both economic and fiscal consequences for states. Understanding the relationships between federal and state tax law is important to preventing surprises in state revenue outlooks.

Urban Institute President Sarah Rosen Wartell speaks at an event on federal tax reform on March 31, 2016. Photo by Lydia Thompson, Urban Institute.

Effects of a Federal Value-Added Tax on State and Local Budgets

James R. Nunns and Eric Toder | April 2016

State policymakers have long been concerned about a federal value-added tax (VAT) that could shrink sales tax bases, but there may be even bigger effects on other revenues and spending, through changes in incomes, relative prices, and asset values. To illustrate the range of budgetary effects of a VAT, the authors examine both a broad- and a narrow-based VAT, with no change and an increase in the price level, and both short- and long-run time horizons. Their analysis and estimates show that from a budgetary perspective, states should prefer a narrow VAT base that excludes at least most government spending, rather than a comprehensive VAT base.

Uses the Tax Policy Center microsimulation model

Revisiting the State and Local Tax Deduction
Frank Sammartino and Kim S. Rueben | March 2016

Eliminating the state and local tax (SALT) deduction is one federal tax reform proposal that would directly affect state and local budgets. The rationale for such an elimination is often federal deficit reduction, and, indeed, the authors estimate that eliminating the SALT deduction would increase federal revenue by almost $1.3 trillion over 10 years. There are also several arguments for eliminating the deduction based on economic efficiency, equity, and improved federal fiscal policy. However, eliminating the deduction would increase taxes for about 24 percent of taxpayers nationwide, and that percentage would be much greater in some states. It could also affect the mix of revenue sources used by state and local governments and lead to reductions in spending for programs and services. Although there are strong reasons for federal support of state and local spending, subsidizing such spending through the SALT deduction may be less effective than providing support through grants or other means. Eliminating the SALT deduction would simplify federal tax filing, make federal income taxes more progressive, and raise significant revenue. State and local governments could respond, the authors contend, by shifting their mix of revenues toward fees and other charges and to deductible business taxes, or by reducing formerly deductible taxes (and thus total revenues).

Uses the Tax Policy Center microsimulation model

Additional Reading

Federal Expenditures on Children: What Budget Policy Means for Children's Policy
Heather Hahn | November 2015

Taxing Carbon: What, Why, and How
Donald Marron, Eric Toder, and Lydia Austin | June 2015

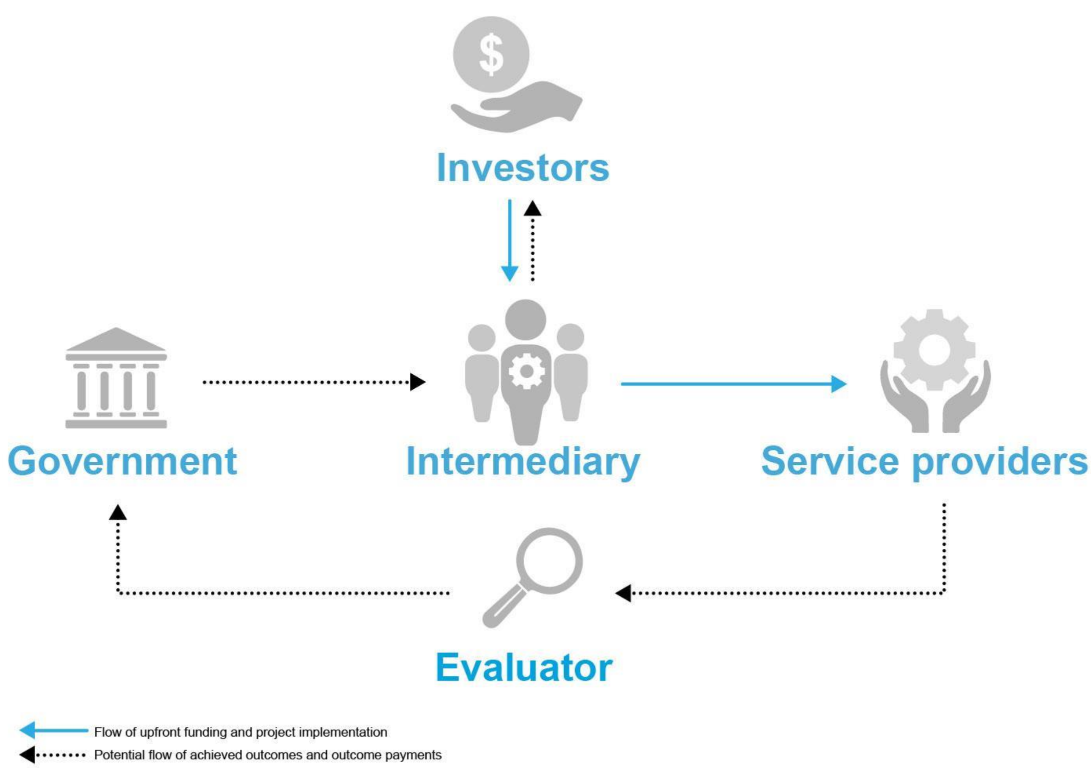
How Should Governments Use Revenue from Corrective Taxes?
Donald Marron and Adele C. Morris | January 2016

Pay for Success and Performance Measurement

This year several new states and cities have initiated evidence-based social programs through a financing mechanism called pay for success (PFS). PFS emphasizes accountability and sound performance management in program design, while also providing a creative new funding opportunity for state and local policymakers. PFS funding allows governments to explore innovative ways to reform services with financing from a private organization or nonprofit. If an independent evaluation shows that the program achieved the agreed-upon outcomes, then the government repays the new funder's investment with interest (figure 17).

FIGURE 17

Key Actors Involved in a Pay for Success Project



Source: Urban Institute, Pay for Success website. Image adapted from US GAO, "Pay for Success: Collaboration among Federal Agencies Would Be Helpful as Governments Explore New Financing Mechanisms," GAO 15-646 (Washington, DC: US GAO, 2015).

In South Carolina, for example, a PFS program mobilized $30 million from funders to promote better health for new moms and babies with the Nurse-Family Partnership. The Urban Institute, with funding from the Laura and John Arnold Foundation, is a leader in the emerging pay for success field, and our Pay for Success website brings together all of our resources on this new and innovative financing mechanism.

Key Reports

Foundational Concepts and Terms of Pay for Success

John Roman, Matthew Eldridge, and Rayanne Hawkins | December 2015

This brief asks and answers questions that governments, social service providers, and other stakeholders often face as they consider a pay for success project. By prioritizing evidence, outcomes, performance management, and the strategic deployment of resources, PFS could improve delivery of social services to vulnerable populations, yielding benefits to individuals, governments, and society at large.

Solving the Wrong Pockets Problem: How Pay for Success Promotes Investment in Evidence-Based Best Practices

John Roman | September 2015

The "wrong pockets problem" describes a situation in which the entity that bears the cost of implementing a practice—including an evidence-based best practice—does not receive a commensurate benefit. Because the costs outweigh the benefits for that implementing governmental actor, projects in the public interest do not receive sufficient resources. Thus, project investment is suboptimal, and overall social welfare is—in equilibrium—suboptimal. Sustained inefficiency is the norm. This paper examines how pay for success works as a transformative solution to the wrong pockets problem. Through public-private partnerships, governments, private or philanthropic funders, social service providers, evaluators, and intermediaries infuse evidence-based programs with capital, investing in demonstrated ideas that have traditionally had access to too few resources. PFS enables proven evidence-based programs to be scaled, promising programs to grow their evidence base, and potential programs to be evaluated.

Additional Reading

Urban Wire: **How governments can shift innovation risk through pay for success**
Matthew Eldridge | March 2016

Urban Wire: **One day, two new pay for success projects**
Justin Milner and Ben Holston | February 2016

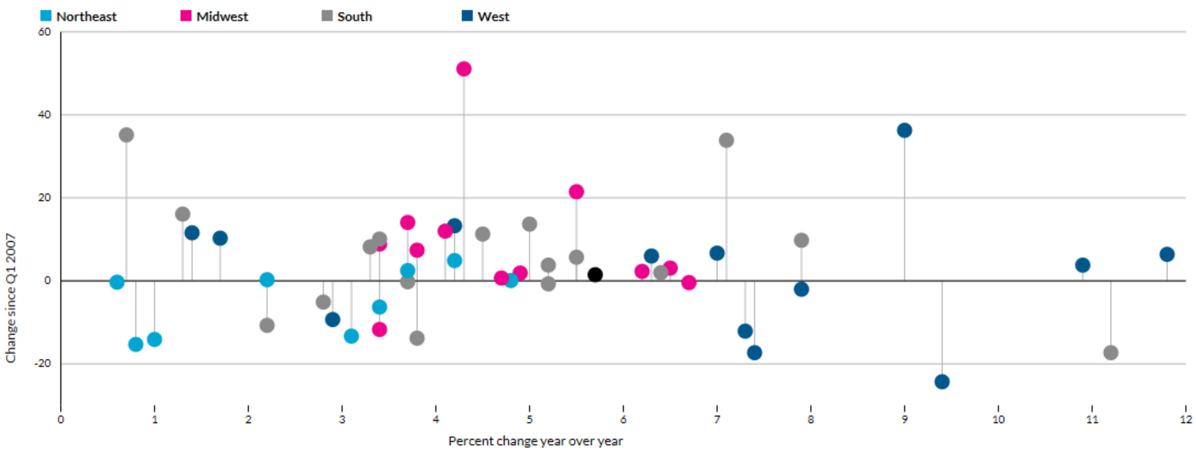
Demographic and Housing Trends

The changing makeup of state populations and the economic realities these populations face are key considerations for state policymakers. Immigration, for example, brings a new cohort of eligible citizens each year whose naturalization can affect state revenues and expenditures. The housing price rebound (figure 18) also places renewed emphasis on state housing policy. As state analysts consider their long-term plans and discuss next year's budget, it is important to keep these trends in mind.

FIGURE 18

One-Year Change versus Change Since Peak in Housing Prices

National house prices in the first quarter of 2016 were 1.5 percent above the peak in house prices during the first quarter of 2007.



Source: Urban Institute, *State Economic Monitor: Housing*, calculations based on Federal Housing Finance Administration, State House Price Indexes.

Web Tools and Interactive Features

With Mapping America's Futures, state analysts can examine regional population growth and see how their state populations will change under different scenarios.

Visualizing Trends for Children of Immigrants, an Urban Institute feature, provides maps and charts that use data from the American Community Survey to break down who the children of immigrants are and how their demographics have changed over the years.

The Mapping America's Rental Housing Crisis tool illustrates, in every US county, the stark gap between the demand for affordable housing for extremely low-income renters and the supply, even with the inclusion of federal subsidies.

Housing Finance at a Glance, the Housing Finance Policy Center's reference guide for mortgage and housing market data, includes new figures describing housing credit availability, first-time homebuyer share, government-sponsored enterprise (GSE) risk-sharing activities, and a special quarterly feature on GSE loan composition, repurchase rates, defaults, and loss severity.

Key Reports

The Economic Impact of Naturalization on Immigrants and Cities

María E. Enchautegui and Linda Giannarelli | December 2015

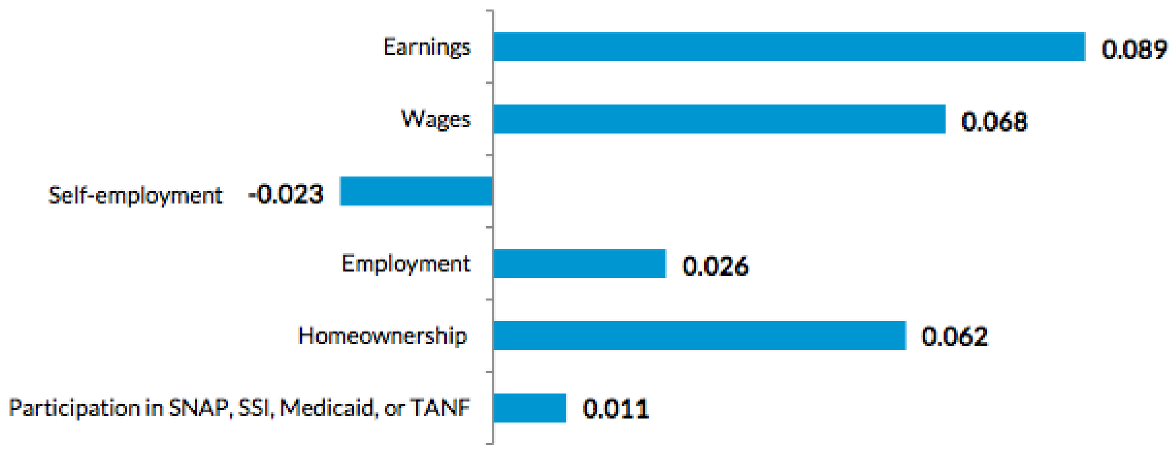
This study estimates the economic impact of naturalization on 21 cities and presents the first published estimates of the effect of naturalization on expenditures for public benefits in two detailed case studies (New York City and San Francisco). The authors' major findings include that, with naturalization, individual annual earnings increase by an average of 8.9 percent, or $3,200; the employment rate rises 2.6 percentage points; and homeownership increases 6.2 percentage points (figure 19). Revenue from federal, state, and city income tax and federal payroll tax (from both employers and employees) would increase by $2.03 billion in the 21 cities if those eligible to naturalize became citizens. As for expenditures on public benefits, if all naturalization-eligible immigrants in New York City and San Francisco were to become citizens, net benefits would accrue. In New York City, annual city, state, and federal tax revenue would rise $789 million and public benefits costs would decrease $34 million, for a net benefit of $823 million. In San Francisco, city, state, and federal tax revenue would rise $90 million and public benefits costs would increase $4 million, for a net benefit of $86 million. Based on these findings, the authors conclude that programs promoting naturalization for those who are eligible could be a powerful mechanism for cities to harness the full economic contribution of immigrants and promote local economic development.

Uses the Transfer Income Model, version 3 (TRIM3)

FIGURE 19

Effects of Naturalization on Those Eligible to Naturalize

Twenty-one focus cities



Source: María E. Enchautegui and Linda Giannarelli, "The Economic Impact of Naturalization on Immigrants and Cities" (Washington, DC: Urban Institute, 2015).
Notes: Effects using propensity score matching nearest neighbor (3). Results for other matching techniques are shown in appendix D of the paper. Changes in employment, self-employment, homeownership, and government benefits are percentage-point changes. Changes in earnings and wages are percentage increases. All estimates are statistically significant at the .01 level.

Housing Policy Levers to Promote Economic Mobility

Pamela Blumenthal and John McGinty | September 2015

Adequate housing not only plays a critical role in people's lives but is often the keystone to a better life for many low-income individuals. This paper focuses on the housing policy levers that can provide greater opportunity to lower-income households, particularly to people of color who have been disadvantaged over generations. In a time of increasingly constrained resources, understanding what investments best create communities of opportunity is vital for state and local policymakers. The first half of this paper clarifies common definitions and measurements of inequality and mobility, drawing on the literature surrounding today's debates over inequality and economic mobility in the United States. The authors conclude that economic mobility is the best lens for examining how housing policies can address challenges of inequality in society today. The second half of the paper identifies five categories of housing policy levers that affect economic mobility: tax policy, block grants, rental assistance, fair housing, and homeownership programs. The authors then consider programs and policies that currently impede economic mobility, some that are not being used to their fullest potential, and other approaches that show promise.

Developing Housing and Education Partnerships: Lessons from the Field

Megan Gallagher | April 2015

Housing and education partnerships are based on the premise that service providers can have a greater impact on students' lives by combining their resources. For example, assisted-housing providers, including housing authorities, are in a unique position to support educators, low-income students, and their caregivers outside the school day. This paper documents and describes housing and education partnerships in three diverse settings: Akron, Ohio; New Haven, Connecticut; and Vancouver, Washington. Each case study presented in the paper highlights key elements that shape and strengthen the partnership, providing lessons for other state and local policymakers. Overall, the authors identify seven key elements that have shaped and strengthened housing and education partnerships in at least one observed site. They include shared goals and joint strategies, effective leaders and staff members, partnerships with strong service providers, flexible funding sources, promising programs and services, data for decisionmaking, and systems and protocols for coordination (figure 20). Although no single element is essential, each one can strengthen and deepen a partnership.

FIGURE 20

Seven Key Elements of Housing and Education Partnerships

Additional Reading

Urban Wire: Disabilities and public housing: A closer look
Corianne Scally | September 2015

Urban Wire: A lower homeownership rate is the new normal
Laurie Goodman, Rolf Pendall, and Jun Zhu | June 2015

Urban Wire: Five things you need to know about America's rental affordability crisis
Erika C. Poethig and Liza Getsinger | June 2015

Urban Wire: Moving out but not up: Why mobility programs don't always work as expected
Corianne Scally | June 2015

Uniting the Patchwork: Measuring State and Local Immigrant Contexts
Julia Gelatt, Hamutal Bernstein, and Heather Koball | June 2015

Election 2016 and the States

From enhanced federal infrastructure spending to free college proposals, ideas from the campaign trail could have significant implications for state budgets. The Urban Institute's Elevating the 2016 Debate blog is a resource for those looking to interpret the policy details of presidential candidates' promises, claims, arguments, and counterarguments. The posts highlight key evidence on policy topics that emerge in the campaign cycle and connect readers with the underlying research in these areas. Below are some of the posts most relevant to state budgeting decisions in the current election year and going forward, including some that highlight ideas that can live beyond the campaign season of the candidates.

The big drawback of federal proposals to make pre-K and college free

Matthew Chingos and Erica Greenberg | January 2016

Chingos and Greenberg suggest that the need for federal-state cooperation may limit the benefits of these proposals.

States drive infrastructure but are largely absent from Clinton's plan

Tracy Gordon and Richard C. Auxier | December 2015

Gordon and Auxier note that state and local governments spend far more on infrastructure than the federal government.

Marco Rubio's gas tax cuts would give state and local governments flexibility—and political fights

Richard C. Auxier and Tracy Gordon | November 2015

Auxier and Gordon highlight the role state gas taxes play in the joint responsibility for the nation's highways.

Always zoom out to examine a governor's economic record

Richard C. Auxier and Tracy Gordon | December 2015

Auxier and Gordon point out that a governor's record has to be measured against historical data to get an accurate picture of performance.

States of the Presidential Race: Iowa | Nevada | New Hampshire | South Carolina

This blog series highlights information on state demographics, economic conditions, higher education, and health care and Affordable Care Act expansions using data from the State Economic Monitor, an interactive state comparison tool.

Governors' Records: **Jeb Bush (FL)** | **Chris Christie (NJ)** | **John Kasich (OH)** | **Martin O'Malley (MD)**

This series delves into the records of current and former state governors who were on the campaign trail.

Election 2016 Candidate Tax Proposals

The Urban-Brookings Tax Policy Center's (TPC) Election 2016 site provides analysis, facts, and figures on the presidential candidates' tax proposals. TPC produces revenue estimates and information on how tax changes affect households of different incomes under the different plans. From cutting or increasing rates to instituting a value-added tax, federal tax reforms stand to have effects on state and local budgets.

Uses the Tax Policy Center microsimulation model

Notes

1. See National Association of State Budget Officers (NASBO), *State Expenditure Report: Examining 2013–15 State Spending* (Washington DC: National Association of State Budget Officers, 2015).
2. Ibid.
3. Ibid.
4. Ibid.

About the Editors

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