Fiscal Stimulus and State & Local Governments

Federal Reserve Bank of Chicago:
Assessing the State and Local Sector – Where Will the Money Come from?

Chicago, IL
May 12, 2009

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American Recovery and Reinvestment Act of 2009

• $787 billion in total
• About $250 billion of this goes to state and local governments by formula
  – $130+ billion of this seems extremely likely to serve as flexible fiscal relief
  – Other money has significant strings attached
  – But states are creative…
• Other elements of ARRA also benefit SLGs
• “…they are so not turning down the money…”
About $130+b of ARRA can provide “ready” fiscal relief

Main elements of fiscal stimulus legislation that could readily provide fiscal relief to state and local governments

<table>
<thead>
<tr>
<th>Amount ($ billions)</th>
<th>Summary</th>
<th>Existing program</th>
<th>Main strings attached</th>
<th>Fungibility</th>
<th>Distribution across states</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 81.7</td>
<td>FMAP (Federal Medicaid Assistance Participation) &amp; health</td>
<td>This is the percentage that the federal gov't reimburses each state for most aspects of Medicaid (health care for the poor and medically needy) and for certain other programs. Each state's FMAP depends on a formula related to per-capita personal income. FMAPs generally vary from 50% to about 80%.</td>
<td>State cannot have reduced its Medicaid eligibility or made eligibility standards or procedures more restrictive post-July 2008; may not use FMAP money for reserve funds</td>
<td>Largely available for fiscal relief</td>
<td>(1) States held harmless against any scheduled FY 2009 FMAP reductions; (2) 6.2% point across-the-board increase in each state's FMAP; (3) additional increases possible based on extent of increase in unemployment rate</td>
</tr>
<tr>
<td>39.5</td>
<td>State Fiscal Stabilization Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.8</td>
<td>K-12 and higher education</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public safety and other governmental services</td>
<td>None</td>
<td>Few</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.0</td>
<td>Incentive grants</td>
<td>None</td>
<td>For state strategies to help struggling students</td>
<td>Probably not easily fungible</td>
<td></td>
</tr>
<tr>
<td>0.3</td>
<td>Other</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 130.0</td>
<td>Sum of shaded items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Largely available for fiscal relief
Most other programs are categorical or capital

• $54b for transportation and water infrastructure
• $30b education programs
• $10.4b energy
• An array of smaller amounts for other programs – child care, housing, community development, etc.
• These items may provide some fiscal relief, but that will be more challenging
When will stimulus money be spent?

CBO estimates of federal outlays for selected major provisions of ARRA
primarily affecting state & local governments

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Medicaid/State fiscal relief (FMAP-plus)</td>
<td>$33.9</td>
<td>$43.9</td>
<td>$11.8</td>
<td>$0.1</td>
<td>$0.0</td>
<td>$0.3</td>
<td>$90.0</td>
<td></td>
</tr>
<tr>
<td>State Fiscal Stabilization Fund</td>
<td>6.5</td>
<td>28.4</td>
<td>16.1</td>
<td>2.4</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
<td>53.6</td>
</tr>
<tr>
<td>Highway construction</td>
<td>2.8</td>
<td>6.9</td>
<td>5.5</td>
<td>4.1</td>
<td>3.0</td>
<td>2.8</td>
<td>2.5</td>
<td>27.5</td>
</tr>
<tr>
<td>Other transportation</td>
<td>2.2</td>
<td>2.5</td>
<td>3.3</td>
<td>2.9</td>
<td>3.0</td>
<td>2.7</td>
<td>3.9</td>
<td>20.6</td>
</tr>
<tr>
<td>Education provisions</td>
<td>1.4</td>
<td>13.0</td>
<td>11.5</td>
<td>1.3</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>27.3</td>
</tr>
<tr>
<td>Clean water &amp; drinking water revolving funds</td>
<td>0.2</td>
<td>1.4</td>
<td>1.8</td>
<td>1.2</td>
<td>0.6</td>
<td>0.3</td>
<td>0.3</td>
<td>5.8</td>
</tr>
<tr>
<td>S&amp;L law enforcement</td>
<td>0.4</td>
<td>0.8</td>
<td>0.6</td>
<td>0.4</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$47.4</td>
<td>$96.9</td>
<td>$50.6</td>
<td>$12.5</td>
<td>$7.5</td>
<td>$5.8</td>
<td>$6.9</td>
<td>$227.6</td>
</tr>
</tbody>
</table>

Source: Elmendorf, 2009

Note: Program definitions and categorizations here vary slightly from those used elsewhere in presentation.
Actual expenditure of state-local stimulus money is just getting started

<table>
<thead>
<tr>
<th>Category</th>
<th>Total through April ($ billions)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMAP</td>
<td>$14.75</td>
<td>About $8.5b of this was disbursed in Jan-Mar quarter. GAO (February 4, 2009) estimated that a similar pre-enactment FMAP proposal would result in allocations to states of approximately $8-10b per quarter from 2009q1 through 2011q1.</td>
</tr>
<tr>
<td>State Fiscal Stabilization Fund</td>
<td>0.03</td>
<td>USDOE has approved $7.2b of spending so far; presumably to be disbursed soon</td>
</tr>
<tr>
<td>Highway infrastructure</td>
<td>0.01</td>
<td>Over $9 billion obligated by USDOT, but outlays are just beginning</td>
</tr>
<tr>
<td>Transit</td>
<td>-</td>
<td>$8.4b of obligations announced in early May</td>
</tr>
</tbody>
</table>
Stimulus money and budget gaps

• $130+b that states arguably can use for fiscal relief, over about 3 years; states may free up more (?)

• Over roughly same 3 years, states face budget gaps of more than $250b; local governments face additional gaps

• Gaps growing significantly as we speak

• → Significant spending cuts, tax increases, and other actions also required in near-term

• Over longer term...
Will stimulus last until taxes recover?

Taxes adjusted for population growth, inflation, and legislative changes
By fiscal year, indexed to approximate start of each fiscal crisis (Year 0)

Sources: Tax revenue (Census Bureau and Rockefeller Institute estimates), Inflation (BEA GDP price index), Legislative changes (NGA/NASBO Fiscal Survey of States Fall 2008)
Stimulus aid: Big, but temporary. Gaps re-emerge even under optimistic scenario

"Low-Gap" Scenario:
State general revenue minus expenditures with and without federal stimulus

Balance (gap) as % of general expenditures vs. State fiscal year

- Without stimulus
- With stimulus plan
Gaps of >$100b annually re-emerge under “high-gap” assumptions

"High-Gap" Scenario:
State general revenue minus expenditures with and without federal stimulus

- Blue line: Without stimulus
- Green dashed line: With stimulus plan
Concluding comments

• Stimulus aid is huge, but temporary
• It is just beginning to flow
• States still figuring out how to use it
• It is helping to reduce budget gaps, but significant additional actions are required
• Stimulus provides breathing room for states; further difficult actions will be required after stimulus money runs out
Selected references and resources


Federal Funds Information for States (FFIS), State Policy Reports, February 2009.


Government Accountability Office, RECOVERY ACT: Initial Results on States' Use of and Accountability for Transportation Funds, Statement of Katherine Siggerud, Managing Director Physical Infrastructure Issues, GAO-09-597T, April 29, 2009.

Tomsic, Trinity, ARRA, the Federal Budget, and the States, FFIS, Presentation to the Lincoln Institute of Land Policy, May 2009.

www.recovery.gov