

Fiscal Stimulus and State & Local Governments

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

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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

Amount (\$ billions)	Summary	Existing program	Main strings attached	Fungibility	Distribution across states
\$ 81.7	FMAP (Federal Medicaid Assistance Participation) & health	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%.	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	Largely available for fiscal relief	(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
	State Fiscal Stabilization Fund		Generally must maintain state support for K-12 and higher education at >= FY 2006 levels in FY 2009, 2010, & 2011; must address inequities in teacher distribution; establish P-16 longitudinal data system; etc.		
39.5	K-12 and higher education	None	Must use to restore funding to greater of FY 2008 and FY 2009 levels and for previously enacted equity and adequacy adjustments	Despite strings, can be used, in effect, for fiscal relief	61% distributed based on age 5-24 population; 39% based on total population
8.8	Public safety and other governmental services	None	Few	Largely available for fiscal relief	same as above
5.0	Incentive grants	None	For state strategies to help struggling students	Probably not easily fungible	competitive
0.3	Other	None			
53.6					
\$ 130.0	Sum of shaded items				

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

	Federal fiscal years						2015-2019	Total
	2009	2010	2011	2012	2013	2014		
Medicaid/State fiscal relief (FMAP-plus)	\$ 33.9	\$ 43.9	\$ 11.8	\$ 0.1	\$ (0.0)	\$ 0.0	\$ 0.3	\$ 90.0
State Fiscal Stabilization Fund	6.5	28.4	16.1	2.4	0.3	-	-	53.6
Highway construction	2.8	6.9	5.5	4.1	3.0	2.8	2.5	27.5
Other transportation	2.2	2.5	3.3	2.9	3.0	2.7	3.9	20.6
Education provisions	1.4	13.0	11.5	1.3	0.0	-	-	27.3
Clean water & drinking water revolving funds	0.2	1.4	1.8	1.2	0.6	0.3	0.3	5.8
S&L law enforcement	0.4	0.8	0.6	0.4	0.6	-	-	2.8
Total	\$ 47.4	\$ 96.9	\$ 50.6	\$ 12.5	\$ 7.5	\$ 5.8	\$ 6.9	\$ 227.6

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

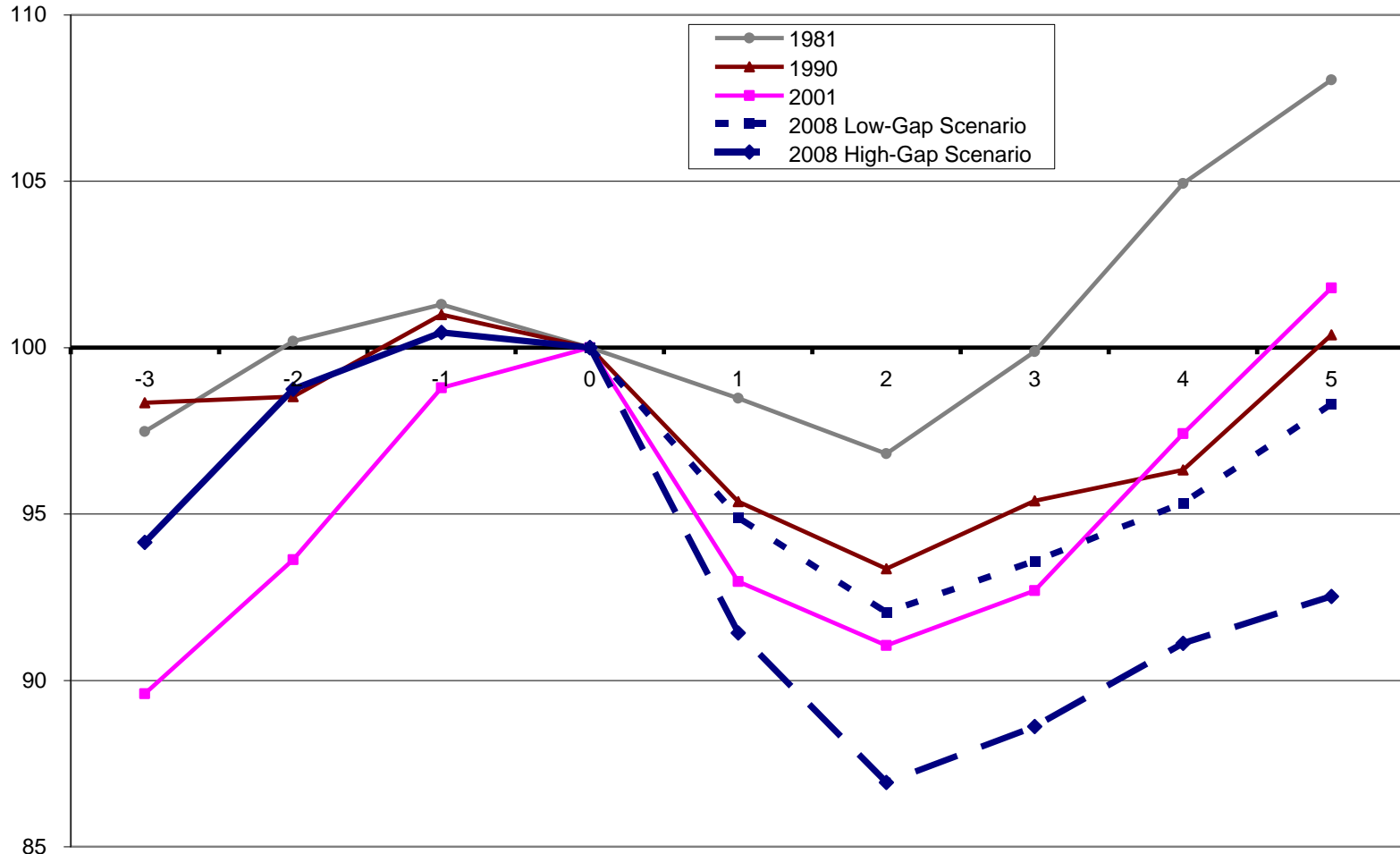
Category	Total through April (\$ billions)	Comments
FMAP	\$ 14.75	About \$8.5b of this was disbursed in Jan-Mar quarter. GAO (February 4, 2009) estimated that a similar pre-enactment FMAP proposal would result in allocations to states of approximately \$8-10b per quarter from 2009q1 through 2011q1.
State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

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?

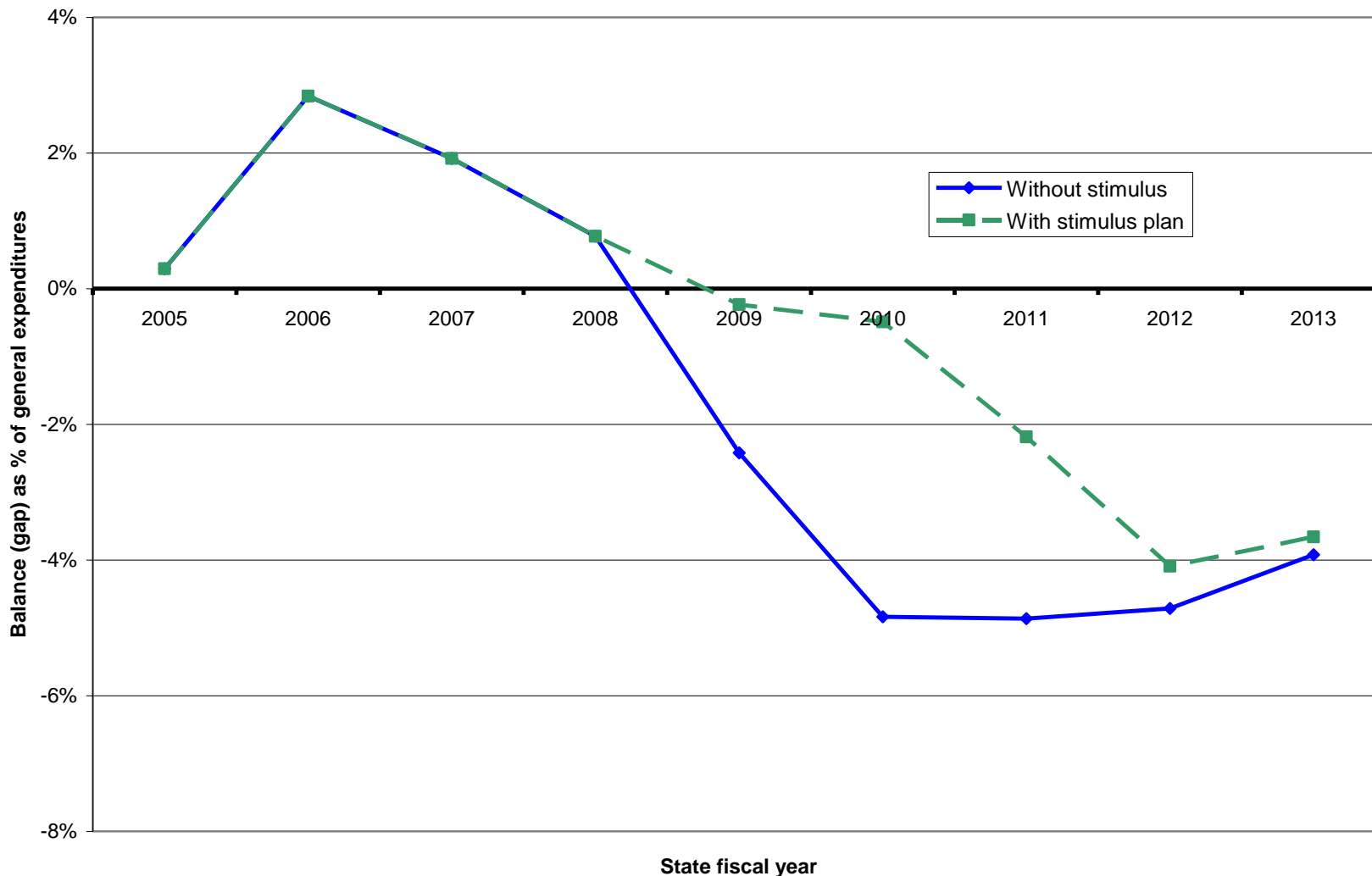
Taxes adjusted for population growth, inflation, and legislative changes
By fiscal year, indexed to approximate start of each fiscal crisis (Year 0)



Sources: Tax revenue (Census Bureau and Rockefeller Institute estimates), Inflation (BEA GDP price index), Legislative changes (NGA/NASBO Fiscal Survey of States Fall 2008)

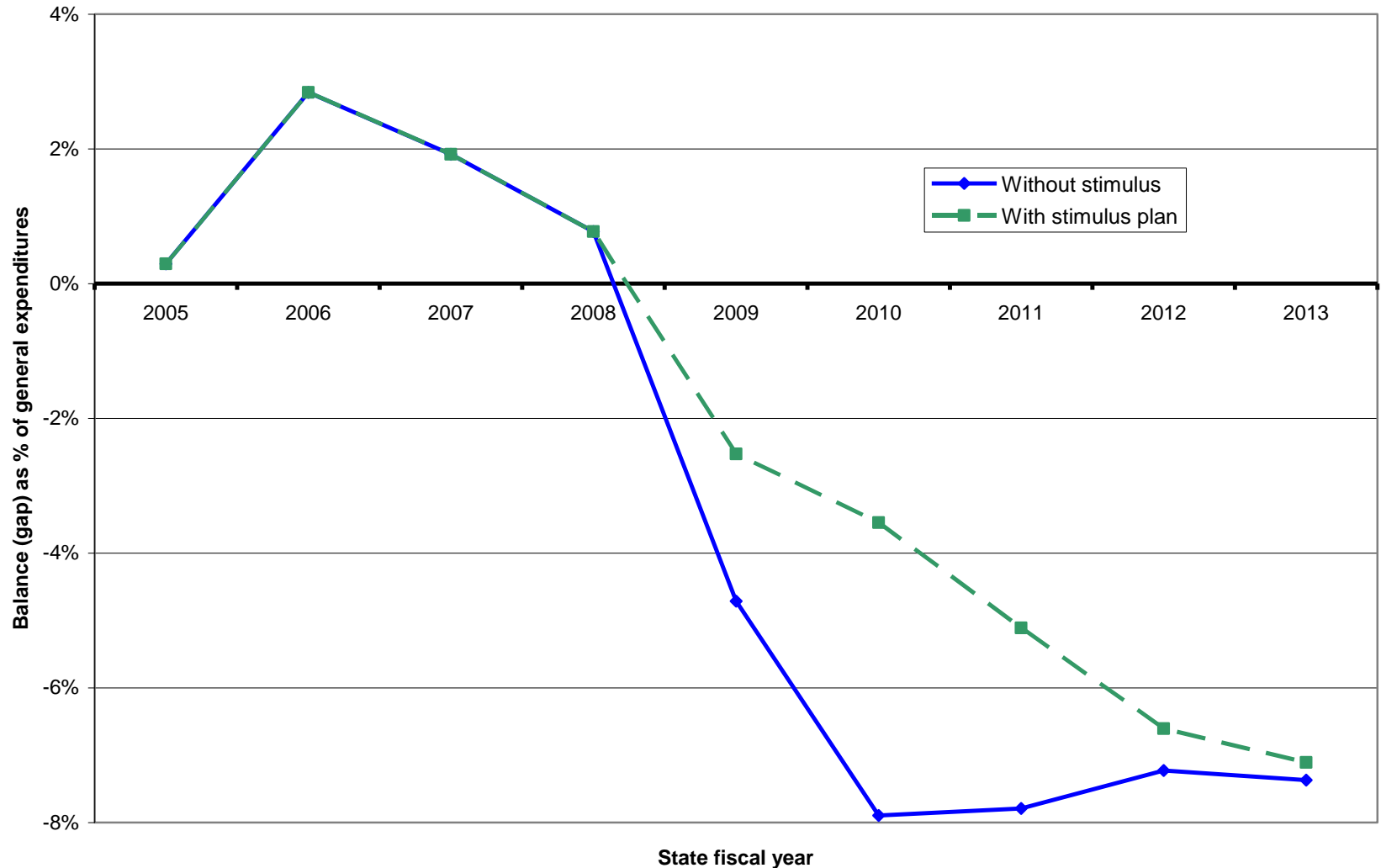
Stimulus aid: Big, but temporary. Gaps re-emerge even under optimistic scenario

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



Gaps of >\$100b annually re-emerge under “high-gap” assumptions

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



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

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