



WILL IT WORK?

THE RECOVERY PLAN WILL HELP STATES STRUGGLING WITH MASSIVE BUDGET SHORTFALLS, BUT IT MAY NOT BE ENOUGH.

BY EDWARD SMITH

The economic recovery plan passed by the U.S. House of Representatives in late January throws a fiscal lifeline to struggling states.

The \$819-billion, two-year proposal—crafted by Democratic members of Congress with President Barack Obama’s economic team—includes key elements state lawmakers had pushed for, including an \$87 billion tem-

Edward Smith is the managing editor of State Legislatures. Portions of this article were adapted with permission from a news story by Pamela M. Prah, staff writer for Stateline.org, a nonprofit online news site.

porary increase to the federal government’s matching money for Medicaid, the joint federal-state program that costs \$330 billion annually and serves 59 million Americans.

The plan also has \$79 billion to help states forestall cutbacks to local school districts, public colleges and universities, and public safety. There’s another \$90 billion for infrastructure—highways, transit, water and flood control projects, and efforts to modernize public buildings.

Other elements that may help state and local governments are \$43 billion to extend unemployment benefits and provide job training, nearly \$40 billion to help unemployed

workers keep their health insurance and \$20 billion to increase food stamp benefits.

This portion of the program—increases for Medicaid, unemployment compensation and food stamps—will help people most hurt by the recession, assistance states would not necessarily be able to extend.

The recovery plan will make a huge difference for states struggling with deep budget shortfalls, says North Carolina House Speaker Joe Hackney, president of the National Conference of State Legislatures.

“It helps our states tremendously, particularly the Medicaid money, but the other pieces as well. It will create a lot of jobs in

WHAT THEY'RE SAYING

Editor's note: This article went to press before Congress took final action on the economic recovery package. NCSL's Washington, D.C., office is closely tracking the bill, including details on how each state will be affected by the final legislation. You can check for the latest details at www.ncsl.org/magazine.

our states and speed our recovery. I am appreciative that the Congress has listened to our concerns.”

DIFFERING VIEWS

Numbers in the final plan (a \$900 billion version was still being debated in the U.S. Senate when *State Legislatures* went to press) may change. Much of the initial debate centered on the balance between spending and tax cuts. The proposal changed from one with about a 60-40 split between spending and tax cuts to one with far fewer tax cuts. One item eliminated was a \$3,000 credit for each job employers create.

Congressional Republicans were vigorously contesting some of the spending. And governors Mark Sanford of South Carolina and Rick Perry of Texas have said they don't think the plan is the right solution to the fiscal mess.

Although the package offers significant relief for states, it will have little to no direct effect on FY 2009 budgets, which legislatures are working on trimming now to close shortfalls that have developed since budgets were approved. But if state lawmakers know help is on the way, it may alter the approach to FY 2009 budget cutting and the changes they need to make for FY 2010, which starts July 1 for most states.

A recent Congressional Budget Office report casts doubt on whether the spending plan will have an immediate impact. U.S. Representative John Boehner, the House

“New York has arguably been hit harder than any other state by the fiscal crisis. To preserve our standing as the financial capital of the world and protect the hundreds of thousands of people who may lose their jobs, we must receive our fair share of the federal stimulus package,”

Senate Majority Leader Malcolm A. Smith, New York

“The federal stimulus package will benefit California and the nation as a whole through new jobs from infrastructure projects and alternative energy, extending unemployment insurance benefits and increasing food stamp payments, which not only provide immediate help to individuals and their families but also help get money circulating into local economies. We can also benefit from increased Medicaid payments to states at a time when more and more families are losing their employer-based health care coverage and by aiding states with discretionary funds what will help prevent the economic situation from getting worse at the state and local levels.”

House Speaker Karen Bass, California

“I don't see how the legislation in its current form ‘stimulates’ a recovery of the dire economic problems we have in the country today. I would rather see a very surgical approach of spending to help the economy rather than what appears to be a broad based approach of spending not directly related to the economic issues of the day.”

Representative Burt Solomon, Texas

“The Medicaid match rate may be our only way to moderate cuts and services to vulnerable Oregonians. Any portion of the federal stimulus package that addresses rebuilding our infrastructure will be incredibly helpful to getting Oregon families get back on track.”

Senator Richard Devlin, majority leader, Oregon

“The big issue for us will, of course, be the [Medicaid] changes. We have a strong economy in North Dakota, but it is important that any enhancements be equitable, because our needs are increasing, too.”

Senator Judy Lee, North Dakota

“Assistance with Medicaid, food stamps and unemployment insurance will help provide a safety net for our most vulnerable citizens. At the same time, states need flexibility in how they might utilize the federal assistance.”

House Speaker Terie Norelli, New Hampshire



HOUSE SPEAKER
JOE HACKNEY
NORTH CAROLINA



SENATOR
DON BALFOUR
GEORGIA

minority leader, and other key Republicans are concerned about the report's finding that a small amount of the proposed infrastructure spending—\$26 billion out of \$274 billion—would be funneled into the economy by the end of this federal budget year in September.

Georgia Senator Don Balfour expressed similar misgivings. "I support a stimulus package that creates tax relief for our families and small businesses," he says, but points to the budget office's report as a warning that help may take a long time to arrive.

"Our citizens need relief now. Funneling their money through Washington and then giving them back a smaller amount or spending billions of dollars on government buildings is not going to stimulate our economy," Balfour says.

A report by the Center on Budget and Policy Priorities says that, even though the proposed package would send more than \$300 billion to the states, about half the money would not go to help with budget shortfalls. Billions of federal dollars in the House plan, for example, would go to local governments, and billions more are targeted at infrastructure projects that are not usually part of states' operating budgets.

Nonetheless, many lawmakers see the recovery plan as vital to states.

"This economic crisis might not be the Great Depression, but it certainly is adding up to be the Great Recession, especially when it comes to state budgets," says Massachusetts Senator Steven Panagiotakos, chairman of the Ways and Means Committee. "Just about every state in the nation is experiencing large budget deficits for this



SENATOR
STEVEN PANAGIOTAKOS
MASSACHUSETTS

fiscal year with an equally challenging problem for FY 2010."

Hackney says the opposition to the package is misguided. "Obviously we have to stimulate the economy. There's a rough consensus among the economic experts that we have to do this."

GRIM PROJECTIONS

The package comes as state lawmakers face increasingly grim revenue projections.

A state budget report issued in December by NCSL found states then were facing a \$137 billion budget shortfall for fiscal years 2009 and 2010. Before the ink was dry, states started reporting even deeper shortfalls, with California officials grabbing the spotlight when they announced their budget projections forecast a more than \$40 billion shortfall over that period.

An update of that report in late January found states grappling with a FY 2009 gap that had grown to \$47.4 billion, not including the \$40 billion gap that was closed before budgets were enacted. The update projects the FY 2010 shortfall at \$84.5 billion.

The U.S. Government Accountability Office estimates states and local governments will have to close a \$312 billion shortfall for FY 2009 and FY 2010, nearly twice the group's previous projection. "The current results represent a significant deterioration," the office said in a report to Congress.

A state revenue report released in mid-January from the Rockefeller Institute of Government also offered a downbeat assessment.

"Early figures show an overall decline of more than 4 percent" in state revenues for the final quarter of 2008. The institute called it a "dramatic worsening of fiscal conditions nationwide."

"The first and second quarters of 2009 will likely bring further declines, as weakening conditions in the economy are reflected in major losses for sales and income taxes."

The last quarter of 2008 confirmed the gloomy forecast: Gross domestic product



SENATOR
BRUCE STARR
OREGON

shrank at an annual rate of 3.8 percent, its fastest drop in a quarter century.

Oregon Senator Bruce Starr, vice-chair of the Business and Transportation Committee, says "state budgets are hemorrhaging right now." He is hopeful that the economic recovery package will lay the "foundation for long-term economic health."

States also are grappling with a worsening unemployment situation, according to the U.S. Labor Department's December report. The U.S. unemployment rate reached 7.2 percent in December, and massive layoffs in late January will likely exacerbate the situation. Unemployment rates in Michigan (10.6 percent) and Rhode Island (10 percent) hit double digits in December. Six states—Massachusetts, Michigan, Nevada, New Jersey, New York and Oregon—saw their rates go up a full percentage point.

"Regional and state unemployment rates were universally higher in December," the Labor Department said, with all 50 states and the District of Columbia recording monthly increases.

OTHER STEPS

Money for infrastructure projects will create jobs, and relief in areas such as Medicaid will help states, but Panagiotakos says the federal government could go a step further.

"The greatest help to the states would be in the form of a state block grant for operating budgets," he says. "This type of stimulus would save public sector jobs and preserve vital services."

State lawmakers, however, are prepared to share in the president's call for a "new era of responsibility," says Massachusetts Senator Richard Moore.

"We can achieve the goals of many federal programs when we have flexibility through relief from federal mandates," he says. ■



SENATOR
RICHARD MOORE
MASSACHUSETTS

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