



Comments on Your Government

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On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act (ARRA) into law. This bill represents a significant infusion of Federal funds into state and local governments, as well as providing direct benefits to individuals, families and businesses. The ARRA is intended to address the economic and fiscal crisis on the national and state level. The following RIPEC Comments provides information on some of the initiatives contained in the bill and outlines a set of guiding principles for the State to consider as they implement the additional funding.

The following tables show estimates of the amount of money Rhode Island could potentially receive under the recently-passed Federal fiscal stimulus package. Table 1 includes only those funds that are available for use by the State and local governments. Table 2 includes estimates of payments or tax cuts that would go directly to individuals, e.g., unemployment benefits and the proposed Alternative Minimum Tax (AMT) patch. One should note that these two tables do not capture a number of other individual and business tax credits, assistance programs, bond initiatives, Medicaid changes and other incentives which may have an additional fiscal impact.

Energy Programs	\$50.1
Transit Infrastructure Initiatives	
Highways and Bridges	\$137.1
Other	75.9
Education	
Title I and IDEA Funding	\$93.7
Child Care and Head Start	7.2
Other	5.2
Worker Support Initiatives	
Unemployment Insurance Funding	\$1.7
Housing Supports/Homeless Prevention	35.3
Food Supports	0.7
Worker Training and Employment Services	14.7
Public Sector Funding	
State Fiscal Stabilization Fund	\$167.6
Medicaid - FMAP	470.0
Justice Assistance	12.1
Other	11.4
Total	\$1,082.8

NOTE: Funding for certain initiatives, such as the Medicaid FMAP, may range depending on the source due to the variables in the funding formula (e.g., the unemployment rate). The amounts in this table should be regarded as estimates.
SOURCE: Rhode Island State Budget Office

Table 2
Estimated Rhode Island Share
American Recovery and Reinvestment Act 2009
\$ million

<u>State/Local</u>	
Highway Infrastructure Investment	\$213.4
Title I and IDEA Funding	98.2
Child Care and Head Start	7.2
State Fiscal Stabilization Fund	160.9
Housing Supports	54.0
Medicaid FMAP	543.2
Unemployment Assistance	17.4
Energy Programs	54.3
Byrne Justice Assistance Grants	9.5
Other*	25.0
<i>Subtotal</i>	<i>\$1,183.1</i>
<u>Direct Distribution</u>	
Pell Grants	\$62.4
Unemployment Insurance Funding	261.4
Supplemental Nutrition Assistance Program	52.9
Seniors, Disabled Vets, SSI	54.7
<i>Subtotal</i>	<i>\$431.4</i>
<u>Tax Cuts</u>	
Making Work Pay	\$428.6
AMT	246.3
Other**	98.4
<i>Subtotal</i>	<i>\$773.3</i>
Total	\$2,387.9
% GSP	5.08%

NOTE: Funding for certain initiatives, such as the Medicaid FMAP, may range depending on the source due to the variables in the funding formula (e.g., the unemployment rate). The amounts in this table should be regarded as estimates.

* Includes WIA funds, Child Support Enforcement, and the Community Services Block Grant

** Includes Recovery Zone Bonds, EITC Increase, and the Child Tax Credit

SOURCE: Center for American Progress

Data from the National Bureau of Economic Research (NBER) indicate that the United States has been in a recession since December, 2007, which has since been intensified by the prolonged slump in the housing market, high energy costs, the collapse of a number of financial institutions, and the severe tightening of the credit market. The Center for Budget Policy and Priorities (CBPP) estimate that at least 43 states have projected current-year deficits and 41 states have projected a deficit for FY 2010. According to CBPP estimates, the combined national total of FY 2009 deficits is \$46.4 billion. This number is projected to increase to approximately \$145 billion in FY 2010.

Rhode Island is a state that has been particularly hard-hit by the current economic downturn. The housing crisis and the rate of foreclosures have contributed to the State's fiscal and economic stress. Rhode Islanders' use of sub-prime mortgages caused the state to have the highest number of foreclosures in New England, which has intensified the negative effect of the current economic downturn. One result of the State's contracting economy is the unemployment rate. In December, Rhode Island's unemployment rate of 10.0 percent was the second highest in the country (behind Michigan) and was almost double the unemployment rate of 5.2 percent in December 2007.

The State and national economic problems have translated into severe fiscal difficulties for Rhode Island: according to the CBPP, Rhode Island's projected FY 2009 deficit as a percent of the State's general fund ranked 4th highest in the country (behind Arizona, California and Alabama). Further, Rhode Island's FY 2010 deficit, which the CBPP projected to be 13.7 percent of the State's general revenue fund, is currently estimated to be the 15th highest out of the 34 states that have projected a specific shortfall.

To address the economic and fiscal crisis in the states, the Federal government has put together a rescue package. As the tables above demonstrate, the amount of Federal funds the State is set to receive is significant. However, there are a number of issues that need to be resolved including:

- What is the timing and duration of funding? That is, what funds are available for immediate use, which funds will be distributed over time, and how will this affect the State's ability to use the stimulus money?
- How do the maintenance of effort requirements impact the State's ability to use the funds? For example, it appears that the State's MOE requirement for the education portion of the state fiscal stabilization fund requires the State to support education at FY 2006 levels. If this is the case, will the State be able to achieve projected savings including the savings from the pension reform?
- What is the amount of funding that is restricted and how will the restrictions that are placed on certain funds, such as Title I, impact the State both in the short and long term?
- How will the Federal funding impact State aid to local municipalities and school districts?

These funds represent an opportunity for the State but they also carry risks to the long-term reform of Rhode Island's fiscal structure. RIPEC recommends the following guidelines be put in place as the State develops plans to use the stimulus money:

- Funding should be used to enhance Rhode Island's short-term and long-term opportunities to construct a more viable and sustainable economy that is within the State's abilities to manage and accomplish;
- Initiatives should not build the budget base, nor should they create additional demand for services;
- Consensus should be reached between the Legislative and Executive branch on the level and availability of funding;
- Fundamental structural change should not be put on hold;
- Projects should be completed in order of priority;
- The State should use existing infrastructure and State businesses wherever possible when implementing projects;
- A return on investment approach should be used when developing and selecting projects for funding;
- The State should undertake an analysis of the potential future fiscal position of Rhode Island when the stimulus funding ends;
- Funds should be used, when possible, to reduce future cost; and
- The working group for the implementation of the stimulus money should be a temporary structure, not one that will last past the use of the stimulus period.