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The Federal Agenda: and the Fiscal Cliff

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Overview

- Will Washington fill the gap?
- The health reform dilemma
- What about jobs?



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Stimulus redux...

Pressure is mounting to pass legislation in the short-term to address the unemployment crisis. Washington's response will be substantially smaller than the stimulus, but could include a mixture of spending measures and tax cuts, likely in the range of \$50-150 billion in size. Much of the funding will come from unused TARP funds.



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Prospects for Fiscal Relief...

There is a growing support for additional state fiscal relief. The public is deeply skeptical of the stimulus, but state and local “jobs saved” have been the biggest category among the roughly 2 million jobs created or saved by the stimulus.

However, even with stimulus funding states shed 41,000 jobs in January alone. If fiscal relief is not extended, up to 900,000 additional jobs will be shed over the next year.



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How much help...

There isn't enough political will to provide the magnitude of state fiscal relief that was included in the stimulus, but it is increasingly likely that enhanced Medicaid payments (FMAP) will continue for an additional six months beyond the end of 2010. This could deliver \$52 million in additional fiscal relief to Montana through FY2011.



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The health reform dilemma...

States may trade short-term fiscal relief for long-term obligations. The bills still under consideration could cost states \$25-\$33 billion over the next ten years and limit their ability to reduce Medicaid spending in future budget crises. Despite the stimulus, over 30 states anticipate cutting provider or hospital reimbursement rates in the coming year.



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What about jobs...

While the stimulus may have blunted the recession and saved the jobs of hundreds of thousands teachers, police officers, and other public employees, there is wide disappointment in the level of job creation in the private sector and a growing political imperative to act. The House passed a \$150 billion jobs package before Christmas, but it stalled after Scott Brown's election.



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The post-Mass. jobs agenda...

1)Round One – Senate passed a \$15 billion bill built around employment tax credits and extensions of existing transportation funding and Build America Bond programs.

2)Round Two – Senate and House will soon take up a separate bill to extend unemployment and Cobra benefits and, potentially, provide limited state fiscal relief (six months of enhanced FMAP).

3)Round Three – Many are pinning their hopes on transportation reauthorization and the Elementary and Secondary Education Act (ESEA) reauthorization for additional funding.



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Taking the long **view**...

If the stimulus and any new jobs legislation are going to deliver more than just a temporary shot of adrenaline into the economy, state and local leaders will need to work together to use multiple streams of federal funds to implement broader economic development strategies.



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Promising sectors...

- 1) **Green Economy/New Energy** – In addition to formula funds and loans, the Recovery Act includes over \$20 billion in competitive grants and tax credits for the green sector.
- 2) **Knowledge Economy** – Over \$18 billion in research and other grant funding through the stimulus. However, few states have set goals for the amount their states will win.
- 3) **Exports** – Montana's exports rose 18% in 2008. According to the World Bank, export promotion programs yield \$40 in new exports for every \$1 in public investment. The Obama administration has proposed increasing the U.S. export promotion budget by 50%.



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What about green jobs...

The stimulus included over \$100 billion to promote energy efficiency/renewable energy. The Center for American Progress estimated that this spending could yield over 2 million “green jobs”. However, they have been slow in coming, with roughly 350 green jobs created in Montana through the end of January. While modest in number, Montana’s count is up 250% since October.



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