Stimulate This!—But How?

Connecticut's Experience with the Obama Stimulus Provides Some Clues

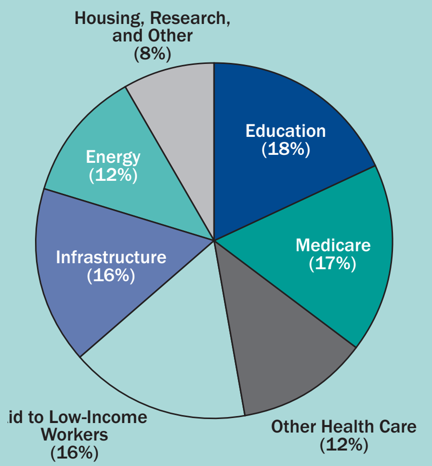
BY ARTHUR W. WRIGHT

When private spending plummeted in 2008, economists' kneejerk response was to plug the gap with new government expenditures. Massive public spending not related to war had not been tried since the 1930's. But the depth of the crisis, an abundance of willing constituent/recipients, and the imperatives of President Obama's campaign promises moved the Congress to pass the American Recovery and Reinvestment Act of 2009 (ARRA). How effective will this first peacetime experiment in Keynesian pump priming be? It's too soon to say, but Connecticut's experience to date illustrates the ARRA's priorities, and can tell us something about the difference it has made in two big sectors, education and transportation.

THE ARRA IN BRIEF

What has become known as "Obama's stimulus bill" authorized federal spending of $500 billion, plus nearly $300 more in tax cuts, over the three federal fiscal years 2009-2011. Referring to the pie chart on this page, some 30% ($150 billion) of ARRA's half-trillion dollars of spending will go to "health care". The next largest bloc of funds, 18% ($90.9 billion), is dedicated to "education," but subtracting the $87 billion for Medicaid—the joint federal-state health insurance program for low-income people—from the health-care figure leaves education as the biggest single target sector.

ARRA SPENDING NATIONWIDE



SOURCE: *The Connecticut Economy*, based on data from the State Office of Policy and Management (OPM).

One chunk of ARRA spending, $53.6 billion, was set aside for the so-called State Fiscal Stabilization Fund (SFSF), administered by the U.S. Department of Education (DOEd). SFSF dollars will go to states, whose governors must then allocate them to local school districts under a welter of criteria and restrictions. The main purpose of the SFSF was to mitigate layoffs of school employees and so protect public education; all but $5 billion (about 9%) of the SFSF will serve this basic purpose. DOEd will spend the $5 billion on "Race to the Top" and "Investing in What Works."

KINKS IN THE PIPELINE

The "welter of criteria and restrictions" cited above presents an interesting problem in public policy. On its face, the SFSF gives state governors an incentive to reduce planned state appropriations for aid to local school districts, to free up tight state funds for other purposes—in effect replacing state taxpayer funds with fiscal stimulus dollars. In hopes of warding off temptation, the DOEd put language in the ARRA requiring states to spend stimulus money on improvements of their programs, and also to meet "maintenance of effort" (MOE) standards on budgeted state education spending.

Governor Rell (to her credit) sought to take maximum advantage of the SFSF funds by cutting nearly $270 million from budgeted State aid to education for each of FY 2010 and 2011—within DOEd requirements. Nevertheless, the agency's Inspector General singled out Connecticut, along with Massachusetts and Pennsylvania, for opprobrium in an "Alert Memorandum" dated September 30, 2009. Never mind that Connecticut and the other two states were, technically, within the scope of the ARRA and SFSF restrictions; to quote from page 2 of the "Alert Memorandum," "Although [the budget] reduction may be allowable under the law, it may adversely impact the achievement of the education reforms of the SFSF programs."

A second public-policy issue in the ARRA, which underlines some criticisms of the whole stimulus effort as wasteful, is oversight and compliance costs. The same "welter" meant to channel federal education aid in desired directions and to prevent it from cross-subsidizing non-education state programs, also requires burdensome oversight by federal agencies, and perhaps more burdensome efforts by local schools to meet the requirements. For examples of the challenge of complying with ARRA, check out the "Monthly Reporting Requirements" at ct.gov/recovery/, or at the following website of the Texas Education Agency: http://www.tea.state.tx.us/webinar.aspx. Let's not forget, of course, that both oversight and compliance…create or save jobs.

THE ARRA IN CONNECTICUT

According to Governor Rell's "recovery" website, the total stimulus funds "committed" to Connecticut as of mid-November 2009 came to just over $2.0 billion. (Another half billion dollars have been "awarded".) Some $1.2 billion is actually in the pipeline and ready or scheduled to be spent under current authorizations. The governor's website leads to a handy interactive map that enables one to find the total dollars allocated to each of the 169 municipalities in Connecticut, with a breakdown into the major subcategories. The database underlying that map is the source of the data shown and mapped in the centerfold of this issue, on pp. 12-13. (Note the caveats about certain details in "About the Centerfold" on page 13.)

Reckoned by these data, prepared and maintained in the Office of Policy and Management, three-quarters of total stimulus funds now spent or on the skids for the Nutmeg State have gone either to education (39%) or to transportation (36%). See the second pie chart.

Of the total education funds of $463 million, nearly $331 million (72%) fall under the SFSF and therefore represent money paid to local school districts around the state to sustain and improve their public school programs. A sizeable portion of the $331 million is funding that (in the straitened circumstances of State budgets) would not otherwise have been available to school administrators, teachers and students. The rest will allow Connecticut (within the DOEd's rules) to transfer precious State resources to other areas facing draconian cuts during the current (and ongoing) budget crisis.

The remainder of the committed stimulus funds targeted at education, $132 million, will support specific programs by the State and municipal governments. Most of this money will likely go for new programs, thus representing a net addition to education resources in the state.

Transportation funds under the ARRA are, as one might expect, distributed less "evenly" across Connecticut's 169 municipalities than the education funds. No transportation funds will be spent in thirty-eight towns (22.5%). Five big "winners" garnered allocations ranging from $33.5 million (Fairfield) up to $105 million (East Lyme); in between are Branford ($76 million), Trumbull ($39 million), and New Haven ($38 million). Virtually all of this money is project-specific; the interactive map at the Governor's recovery website permits one to plot the locations of the biggest projects.

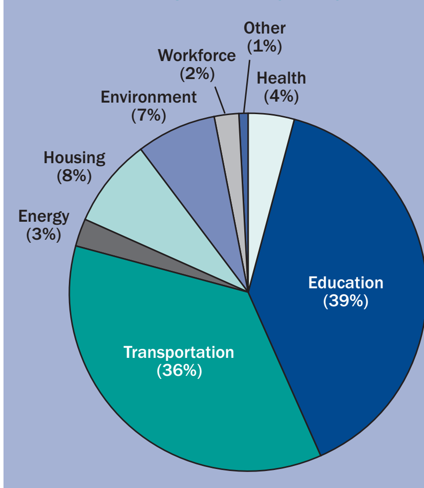
Just under one-quarter of ARRA transportation funding in Connecticut ($100,777,546) is dedicated to "transit", related mainly to the Metro-North, Amtrak, and Shore Line East rail lines, plus municipal bus service. The ten towns receiving amounts of 7 or 8 figures trace out the state's commuter rail routes. The largest single sum, $30 million to New Haven, will help fund the conflicted repair and service facility for Metro-North, planned for that city for many years.

WATCH OUT FOR THE CLIFF

Obama's stimulus bill has meant a lot to Connecticut, especially in education and transportation, both important sectors for long-run growth. A good deal of the federal money has preserved jobs otherwise threatened because of State cuts (teachers), or added new jobs (construction, compliance specialists). If the Nutmeg State is any guide, no wonder that the Luv Guv (Sanford, R-SC) decided to eat crow and accept some stimulus funds.

The danger here is that the ARRA extends only through federal FY 2011 (October 31, 2011), whereas the foreseeable deficits of Connecticut (and many other states) extend as far as the eye can see, under current assumptions. The federal DOEd refers to this mismatch as the "cliff" problem in its warnings that states, insofar as possible, should try to spend SFSF funds on finite projects, not on programs that will entail continuing obligations. What could be more of an enduring obligation than aid to public schools? The implication is that, year after next, Connecticut had better be ready to use its own resources to sustain its public education system. That will mean either significantly higher taxes or significantly lower spending on non-education activities, or (most likely) both.

ARRA SPENDING IN CT



SOURCE: *The Connecticut Economy*, based on data from OPM.