Friends of Local Government
Policy Paper Series

A LOCAL REALITY CHECK:

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Stephen L. Kehs, Contributing Author
Tammy Wetzel, Contributing Author

Michael F. Cerra, Editor
Taran B. Samhammer, Co-Editor

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Preface

This is the second paper in NJLM Foundation's "Friends of Local Government" Policy Paper series. These papers will offer perspectives and analysis from organizations that are often heard on West State Street, but not necessarily on Main Street.

This paper offers a review of the American Recovery and Reinvestment Act of 2009, focusing on the impact on local governments. The Board of the NJLM Educational Foundation thanks the authors, and believes you will find this paper informative.

We would also like to note the support of the Foundation's Board for this project, as well as staff from the New Jersey State League of Municipalities, including Bill Dressel, Michael Darcy and Taran Samhammer.

Michael F. Cerra, Policy Advisor
NJLM Educational Foundation
222 West State Street
Trenton, New Jersey 08608
www.njlmef.org

About the Contributing Authors

Stephen L. Kehs, AICP, PP - Vice President, Triad Associates, Contributing Author

Steve has a strong background in strategic planning, creating the vision and moving into implementation. He served as Director of the Cumberland County (NJ) Department of Planning & Development where he spearheaded the County's role in hazardous waste facilities siting, Federal Empowerment Zone planning, a countywide Economic Development program, and a plan for Federal Wild & Scenic River corridor preservation. He was also with the Chester County (PA) Planning Commission where he was responsible for a number of municipal land use, community development, and farmland preservation projects. Steve also authored the Cumberland County Ecotourism Plan, one of the first such plans in the nation.

Tammy Wetzel, Senior Associate, Triad Associates, Contributing Author

Tammy applies her knowledge as a Community Development Specialist, directly responsible for the creation of state, federal, and private community development grant funding applications. She also delivers training and seminars on successful grantwriting. She was the former Empowerment Zone/Community Development Specialist at the New Jersey Department of Human Services. As New Jersey's Empowerment Zone (EZ) Specialist, Ms. Wetzel acted as liaison between two federally designated Empowerment Zones and all NJ State Departments for contract monitoring, special project development, resource development and funds procurement. Additionally, she was the Community Development Specialist directly responsible for the creation of community directed service funding for all seven Divisions under DHS, grant development, compliance standards, structuring of program development teams, and program/service implementation.

On February 17, 2009, at an alternative energy facility outside of Denver, Colorado President Obama signed into law the American Recovery and Reinvestment Act (ARRA) of 2009. This Act amounts to the largest one-time domestic spending program in the history of the United States. Coupled with a massive dose of tax relief, the Act is intended to stimulate the faltering U.S. economy and, specifically, to create or save 3.5 million jobs during the President's first two years in office. Topping 1,500 pages, ARRA is challenging to navigate.

The context of the ARRA's enactment is one in which the federal government is responding to the current economic crisis as a national emergency – requiring a rapid response and involving high stakes. Such an approach, aimed at stabilizing public and private financial sectors, has not been attempted since the days of the "New Deal" in the early 1930s.

Over the past decade, when there has been a significant increase in government spending it has been in response to a national emergency such as 9/11, the war in Iraq, or Hurricane Katrina. Each of these events has had obvious significance for those impacted, but not all governments and businesses have benefited from the infusion of federal funding in response to those events. ARRA proposes to be different. By design, this act is intended to benefit individuals, businesses, and local governments. The big question involves the extent to which the intended stakeholders reap immediate benefits.

The mission of ARRA is to create jobs, encourage private investment and speed economic recovery. It demands unprecedented levels of accountability and transparency for all levels of government. ARRA will affect many state formula and discretionary grants, as well as various entitlements and anti-cyclical programs. Through state programs, states or individuals could receive more than $250 billion from the package. Many of these programs will require legislative, business and management information system changes. As crafted, the stimulus package has $304 billion in spending, $288 billion in tax cuts, $100 billion for investments in long-term economic growth and $95 billion for state fiscal relief.

What does this mean for states and local governments? ARRA contains more than $300 billion in potential funding for state governments and state-related programs. Over 60 perecent of Recovery Act spending will flow through or be touched by state governments; yet by projection less that 1 percent is targeted directly to local governments. Funding for local governments will come primarily in the form of entitlement funds that are in place, such as Community Development Block Grants (CDBG), Social Service Block Grants (SSBG) or Energy Efficiency and Conservation Block grant programs.

Investments in these formula grants will be significant for those communities who are eligible. For instance, the CDBG Program (www.hud.gov/recovery/cdblock.cfm) is slated to receive $1 billion, while the Energy Efficiency and Conservation Block Grant Program will distribute $2.8 billion in funding through formula and another $400 million in discretionary funds (www.eecbg.energy.gov).

Much of ARRA is directed toward state relief. There is over $95 billion in funding that may supplant current budget spending to address the $350 billion budget crisis faced collectively by states over the next two years. A large portion of that funding goes to the projected $87 billion needed for the increased Medicaid match, while another $8.8 billion will be provided as flexible Stabilization Funds for states to use to fill budget gaps at any level and within any department.

Formula funding will be a targeted means of supporting governments, providing as much as $130 billion nationwide to supplement state spending through federal/state formula programs focused largely on education, transportation and social service needs. There are also some long term investment opportunities available through ARRA. Over $100 billion in competitive grant opportunities will be made available over the next year. The pots of funding are small and will be spread out, but when combined, they could provide a substantial resource for state and local economies. The biggest categories include green energy/jobs ($25 billion), research and development (over $20 billion), rail improvements ($8 billion) and rural broadband initiatives ($7.2 billion).

Grants are keys to the long-term legacy of the ARRA. The stimulus will not create the infrastructure constructed through the various New Deal programs, but states and local governments that take a strategic approach to grant funding for research, clean energy and other fields can have an impact on their communities. Over 75 federal programs received funding, which include:

- Transportation Infrastructure;
- Energy and the Environment;
- Community and Economic Development;
- Public Safety;
- Health Care and Social Services; and
- Rural Development/Water Infrastructure.

Of the total $787.2 billion, it is projected that $573.3 billion will be in direct spending while another $211.9 billion is targeted for tax cuts. Since ARRA funds will be distributed through pre-established formulas to states and local governments, the Congressional Budget Office (CBO) estimates that nearly 75% of funding will be spent by September 2010. This can be tracked at www.recovery.gov.

The reality for most local governments is that there will not be a significant impact on the local economy through discretionary grant funding. Such funding will come by way of formula grants:

- $5 billion for weatherization assistance (through the state);
- $2.25 billion for energy retrofits through HUD;
- $750 million in job training (including $500 million for 'green jobs'); and
- $300 million for DHS state and local Programs (transit and port security).

There will be some funding distributed via competitive actions and others that will be a combination of discretionary funding and formula funding. These opportunities include:

- $2 billion for Edward Byrne JAG grants;
- $ 1 billion for COPS Hiring Program;
- $765 million in State and Local Law Enforcement Assistance;

- $225 million for Violence Against Women Prevention and Prosecution;
- $210 million for Assistance to Fire Fighters (construct or renovate fire stations);
- $1.38 billion for Rural Water and Waste Disposal Program; and
- $130 million for Rural Community Facilities Program.

Local governments should also review the various New Jersey State Department's websites (www.nj.gov/nj/gov/deptserv) for some ARRA funding that will be distributed via competitive applications such as the recent Neighborhood Stabilization Program (NSP). This was Recovery Act funding that was distributed via formula to the various states who in turn issued a Request for Proposal (RFP) for local governments to compete for the funds.

Most local governments will probably see the largest impacts from ARRA through the apportionment of this funding through various programs and departments of federal and state government. This distribution of funding often involves new grant programs, programs that are parallel to existing funding mechanisms, new regulatory standards and an array of bureaucratic issues. Moreover, although the money will be awarded quickly, during the next few years there will be close scrutiny by Congress and various agency Inspectors General to evaluate the distribution of funds and their ultimate use. The effectiveness of the stimulus package certainly will have a major impact on upcoming elections. Debate continues regarding the wisdom of certain aspects of ARRA, the level of deficit spending it involves and political fortunes hang in the balance.

Among the issues that will continue to be debated are the likely efforts of a number of interest groups, alliances, and ad-hoc advocacy campaigns to ensure that many line items in ARRA become permanent parts of the federal budget. No doubt some of those campaigns will succeed in their efforts to permanently increase the funding for select programs and agencies as a result of the one-time stimulus.

The stimulus funding and its impact on the national debt have also heightened discussion about how to control the costs of entitlement spending on programs such as Social Security, Medicare and Medicaid. While past Presidents and Congresses have tended to avoid addressing a comprehensive overhaul of entitlement spending, political, economic and cultural conditions may now converge to create conditions that bring these programs into line with future revenue projections.

To paraphrase Charles Dickens – while it may not be the best of times, it is certainly not the worst of times. While it is common for the media to compare current economic conditions with events of the Great Depression, they are hardly comparable. For example:

- Gross Domestic Product (GDP) in 1929, at the start of the Great Depression, was $865 billion in current dollars. This is a mere fraction of the real 2008 GDP of $14.3 trillion (Brookings Institute).

- From 1929 to 1933, GDP fell 30 percent, while the stock market lost a whopping 90 percent of its value. By comparison, stocks lost approximately 30 percent of their value in 2008 and are down approximately another 10 percent so far in 2009 (Brookings Institute).

- In 1933, unemployment was probably at least 25 percent, and many experts put it much higher. By comparison, unemployment today is just over 9 percent of the workforce (U.S. Department of Labor).

- Moreover, the severely damaged economy in the 1930s lacked the governmental safeguards and safety nets - both financial and social - that we enjoy today, and which tend to break the downturn and provide the foundation for a turnaround.

- In addition, the amount of the current stimulus dwarfs the 1930s precedent. The total spending of the New Deal was just 2 percent of GDP (Brookings Institute). The Recovery Act signed by President Obama is 5 percent of GDP (Brookings Institute), and it is widely regarded as just a down payment on future stimulus packages.

- The initial appropriation for the Works Projects Administration (WPA) was "just" $4.8 billion (roughly $100 billion in today's dollars) compared with the $775 billion provided today. All of the New Deal WPA programs cost $11 billion dollars and employed 8.5 million U.S. workers (Carnegie Fellow Report). For that money, the country bought 651,000 miles of new roads, built 78,000 bridges, 8,000 parks and 800 airports (Carnegie Fellow Report). It also funded programs in the humanities, the arts, writing and theatre projects, and a national health survey.

In that light, given the amount of money the federal government is about to spend in the next eighteen months, and given that our economy and government are immeasurably more developed than they were in the 1930s, the prospect of creating or saving 3.5 million jobs and fostering an economic turnaround with useful public works projects and incentives is a realistic and certainly hoped for expectation.

These are unusual times. The economic events of 2007-2009 have created an historical challenge for government. However, it is yet to be seen just what sort of long term effect ARRA will have on local government budgets and community infrastructure. Certainly for many large urban centers ARRA has the potential to be a lifeline by providing gap financing to plug the holes in fiscal budgets. But for smaller suburban or rural communities, the direct impact of ARRA may have less dramatic impacts.

The impacts of ARRA will be far reaching. They will be viewed by many in the same historical context that we now view the actions of the 1930s. The fiscal, economic and political ramifications of ARRA will be lasting and consequential. Time will be the best and most accurate measure of these impacts.