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**TESTIMONY OF JENNY REED, POLICY ANALYST
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At the Public Hearing on
Priorities for the use of Potential Funds for the District of Columbia from Recovery
and Reinvestment Proposals Currently under Consideration in the United States
House of Representatives and Senate
District of Columbia Committee of the Whole
February 11, 2009**

Chairman Gray and members of the Committee, thank you for the opportunity to speak today. My name is Jenny Reed, and I am a Policy Analyst with the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on policies that affect low- and moderate-income residents. DCFPI also is a member of the Coalition for Community Investment, a group of over 160 local businesses, congregations, non-profits and advocacy organizations working to ensure the District maintains public investments that expand economic opportunity in our neighborhoods and support families during the economic crisis.

The federal stimulus package that Congress is working on is intended to inject money into the economy and boost employment to keep the economic downturn from worsening. While the final bill is not yet complete, it appears that much of this funding will come to cities and states, and some of that is likely to be flexible funding to help states and cities address budget gaps they are facing. Other funds are intended to boost existing state programs in ways that stimulate the economy and create jobs, like school construction.

This means that some of the stimulus package will be available to help DC address its large budget gaps, rising program caseloads, and potentially to support targeted new investments. While legitimate concerns have been raised about using these short-term funds to support ongoing programs, DCFPI believes that it makes sense in these unique circumstances for DC to claim as much stimulus funding as possible and to plan to spend it quickly, including to address the city's revenue shortfall.

Most of the funding to states and cities in the stimulus package will go through existing programs like Medicaid. This is the easiest way to get money to the states, rather than setting up new channels or programs. The funding from the stimulus falls into four broad areas:

- 1) Funds intended to be flexible and to help states address budget shortfalls.** There are two main sources of funding in the stimulus package that can help states address their growing budget gaps. The first is an increase to states' federal share of Medicaid, otherwise known as FMAP. This will provide the District with substantial relief, and the funding that is not needed to handle increasing Medicaid caseloads could be used to fill states' budget gaps.

A second source, the State Fiscal Stabilization Fund, varies under the current House and Senate versions of the bill. Under the House bill funding will come to states in two parts:

one for education and another for all other areas of government. Monies not needed to address shortfalls in education may be able to reduce pressure on the budget shortfall. Under the current Senate version of the bill only funding for education will be received.

Under the current House and Senate bills, the District can expect to receive \$406 million or \$337 million, respectively, through FY 2011 from these provisions.¹ This could go a long way toward addressing the city's revenue shortfalls after education and Medicaid shortfalls have been addressed.

- 2) **Funds intended more to boost specific programs, where ability to use funds to address budget shortfalls is limited.** The larger majority of stimulus funding falls into this area and provides monies to a variety of program areas such as: education, labor, and transportation. In some case, such as with the funding for school modernization, child care, and transportation, the stimulus package is intended to spur new investments on top of local dollars already committed to projects. In other areas such as workforce development, law enforcement and education, the funding is mostly a boost to programs but their may be opportunities to reduce pressure on general funds. It is possible that the District could receive over \$600 million, for a variety of programs, mainly through FY 2009 and FY 2010 in this area.
- 3) **Competitive Funds that the District will need to apply for.** There are numerous sources of competitive funding that the District can, and should apply for, from the stimulus package, including housing, education, and health improvements. These are places where the District can maximize its use of federal dollars to make needed investments in DC.
- 4) **Funds that will go directly to residents.** Lastly, there are some funds that will go directly to residents that are hardest hit by the economic recession. Increases to programs that provide food stamps and unemployment insurance will help provide some relief to District residents.

An important question, then, is how should we think about spending the stimulus funding? DCFPI believes that three main themes should guide the Mayor and the Council when thinking about how to spend the stimulus:

- **Use as much of the stimulus funding as possible.** The stimulus package is intended to provide a needed injection in spending in the economy and help create employment opportunities. It is important that the District use all of the funding it has been allocated and diligently apply for any competitive grant funding that it may be eligible for.
- **Use the flexible funding to close the budget gaps.** Some DC officials have suggested that because the stimulus funds are short-term, they should not be used to fund ongoing programs. While this principle is sound, in these unique circumstances we feel it is appropriate to use the stimulus funds to address the city's revenue shortfall. A key goal of the federal stimulus package is to help states avoid deep and painful budget cuts that could hurt critical services and further weaken the economy. Moreover, it is expected that the finances of the District, and other cities and states, will have improved at least somewhat over the next few years. Using the funding to close the current gap also gives us time to adjust to new budget realities. Finally, if

¹ Sources: Center on Budget and Policy Priorities, "Economic Recovery Packages: State-by-State Estimates of Key Provisions Affecting Low- and Moderate-Income Individuals." 1-30-2009, www.cbpp.org; Federal Funds Information for States, "Changes to Funding Levels for Major Programs in Senate Recovery Package," 2009. www.ffis.org

stimulus funds are used solely for one-time projects, it would create a distorted situation in which ongoing programs and services are cut while massive new one-time projects are initiated.

In addition to addressing the city's current revenue shortfall, stimulus funds could be used to help restore some of the budget cuts for FY 2009 adopted last fall.

- **Identify areas where stimulus funding can make a targeted investment in DC's economy over the long-run.** The stimulus package can allow the District to make targeted — and needed — investments in DC's future. Targeted investments in affordable housing, workforce development and the environment and infrastructure of the District will help ensure our residents and our economy are prepared for the future.

The economic stimulus is a way to help state governments take the first step towards the investment in, and the rebuilding, of the economy. Not taking advantage of every dollar of the stimulus will leave us playing a great deal of catch up in the years to come.

Thank you for the opportunity to offer testimony. I am happy to answer any questions.