From the Expert: The Federal Agenda and the Fiscal Cliff

By Chris Whatley

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While the debate over health care reform may be front and center on Capitol Hill this week, budget deficits and the jobs crisis that underlies them continue to headline conversations in state capitols. Congress may soon follow suit. Whether health reform passes or not, Congress is poised to pivot to a series of bills, known collectively as the “jobs agenda,” which could have a direct impact on state budgets.

The Senate last week passed legislation—House Resolution 4213—that includes $25 billion to continue stimulus-style Medicaid reimbursement rates, known as FMAP, for an additional six months. Now awaiting action by the House, this measure would ensure states continue to receive their largest source of Recovery Act budget support through the end of the 2011 fiscal year.

With Medicaid enrollment now topping an historic 46.9 million, increased FMAP is essential for balancing state budgets while maintaining essential services. According to a recent Council of State Governments survey, 24 states have already assumed the fiscal relief in their proposed budgets.

Beyond those provisions, the $140 billion piece of legislation would extend unemployment benefits and COBRA subsidies through Dec. 31, 2010. The Senate legislation also extends dozens of expired tax credits, including those aimed at research and development, renewable energy and efforts to make homes more energy efficient. The legislation will now move back to U.S. House of Representatives, which passed similar legislation in December 2009, before a final version can be sent to the president.

As the House and Senate continue to hammer out the differences between their two bills, more tax relief and job creation measures could make their way through Congress in the coming months. After weeks of delays, Congress appears poised to send a $17.6 billion bill to the president later this week that would provide payroll tax relief for businesses that hire new workers, as well extend the Highway Trust Fund and Build America Bonds program through Dec. 31, 2010.

In the House, Ways and Means Committee members are preparing to consider a $12 billion to $13 billion bill this week aimed at small business tax breaks and extending Recovery Act authority for state and local borrowing. The draft legislation would eliminate capital gains taxes on certain small business stock as well as continue a Recovery Act provision exempting interest on private activity bonds from the alternative minimum tax.

The draft bill would also extend the Build America Bonds program, which allows state and local
governments to issue taxable bonds with a federal subsidy of 35 percent, through 2013. According to the U.S. Treasury Department, state and local governments had issued $78 billion in Build America Bonds by the end of February, accounting for approximately 23.2 percent of the municipal bond market. Members of the Senate Finance and Small Business committees are also working on similar legislation that could reach the Senate floor in the next few weeks.

Back in the House, Education and Labor Committee Chairman George Miller of California is proposing a $100 billion aid package to states and localities over the next two years. Miller’s plan would include about $24 billion in direct assistance to states and local governments to support education, law enforcement and firefighting jobs. Most of that assistance was already approved by the House as part of its jobs measure in December.

While the $25 billion in fiscal relief included in HR 4213 appears to be on a fast track, most observers hold little hope that Congress will adopt the expanded state budget support included in both the $154 billion jobs legislation passed by the House in December and Miller’s draft bill. Hope also appears to be fading over the prospects that nearly $50 billion included in the House-passed jobs bill for new infrastructure spending will make its way into the final legislation sent to the president’s desk.

While the jobs agenda is likely to drive much of the debate in Washington for the next few months, the real work of crafting effective economic development strategies will depend on innovative leadership in state capitals. No matter what programs are approved by Congress or what tax incentives are put in place, it will be the decisions made by state leaders working in concert with private sector entrepreneurs that set the stage for a return to prosperity.

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