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**State Fiscal Relief has Helped Ohio
Congress must consider additional assistance to states in any jobs package to ensure that
the recovery takes hold.**

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Although some believe the Great Recession may be over, our economy remains in a precarious position. To ensure that the recovery takes hold, it is critical that Congress provide additional federal assistance for programs proven to be economically powerful. States with high unemployment and depressed state revenue collections, such as Ohio, will continue to struggle for some time after the national recession officially ends. State fiscal relief has been an effective economic stimulus in previous recessions and has preserved thousands of Ohio jobs. Ohio would greatly benefit from an extension of aid to state government, such as the extension of additional federal Medicaid funding or more money to support state and local spending on education and general government services.

State fiscal relief provided an immediate economic boost.

The American Recovery and Reinvestment Act (ARRA) contained a total of \$135 billion in state fiscal relief. Ohio will receive around \$4.8 billion, including \$3.01 billion in additional federal Medicaid funds, \$1.46 billion to cover education shortfalls, and \$326 million from the general government portion of the Fiscal Stabilization Fund.

State revenues plummeted and demand for state services increased as the recession took hold. Since the beginning of the recession in December, 2007, Ohio's Medicaid enrollment has increased nearly 10 percent and is projected to rise even further in the coming biennium. Without state fiscal relief, Ohio would have needed to cut an additional \$650 million from its Fiscal Year 2009 budget, or find revenues to cover the shortfall. State dollars alone would not have been enough to balance the budget in the absence of federal recovery spending. Had Congress not acted to stabilize state finances, Ohio would have faced additional devastating spending cuts with only a few months left in the fiscal year. ARRA lessened Ohio's need to slash jobs or programs.

Goldman Sachs estimated that the fiscal drag from state budget cuts and tax increases could reduce GDP by 0.6 percent to 0.7 percent over the coming year, and is likely to increase if Recovery Act assistance to states expires as enacted.¹

State fiscal relief flowed quickly. These funds pay for existing payroll and programs, so states rapidly passed the money to workers, vendors, and program beneficiaries. The spending impacted Ohio's economy immediately.

State fiscal relief has a strong connection to jobs and supports some of Ohio's most important industries.

Direct state aid has a substantial impact on jobs. The State Fiscal Stabilization dollars were used to preserve funding and jobs in government agencies, police departments, and schools. Medicaid paid for services at hospitals, doctors' offices, and nursing facilities across the state. The \$4.8 billion in state fiscal relief allocated to Ohio will create more than 41,100 job years.² (A job year is defined as one full-time job for one year).

During previous periods of economic downturn, additional federal Medicaid funding has proven to be a potent economic stimulus tool. Following the recession early in the decade, one study found that every additional \$1 million the federal government spent on Medicaid in Ohio resulted in \$3.58 million in business activity and \$1.3 million in wages gained in our state.³

The sectors most likely to be impacted by additional state fiscal relief—Education, Health Services, and Government—are critically important to Ohio's prosperity. These industries alone account for more than one quarter of all employment in Ohio. Education and Health Services is the only sector projected to grow during the next two years. By the end of 2010, more than 822,000 Ohioans are expected to be employed in this industry.⁴

Ohio is the seventh largest state by population, but has the fifth largest Medicaid program. One in six Ohioans, including children, low-income working families, and disabled individuals, currently receive their health care from Medicaid. As the largest state program, more than \$1 billion every month flows from state and federal sources to pay Ohio providers for services in our state. This funding has a significant economic impact in a key employment sector, in jobs that cannot be shipped overseas or to neighboring states. Of the 10 largest employers headquartered in Ohio, seven are in the health industry, employing 207,000 Ohioans.⁵

Ohio needs additional state fiscal relief.

For the last few months, Ohio's state revenues have been close to projections, but our finances remain precariously balanced. Already, the Ohio Supreme Court's decision on Video Lottery Terminals forced the state to close an \$850 million gap or risk cuts to primary and secondary education: the very jobs and programs that ARRA state fiscal relief was meant to protect.

Ohio has already allocated ARRA funds it will receive for education and other services, it has exhausted fiscal management strategies, and the Rainy Day Fund is gone. Any shortfall will mean immediate budget cuts or increased fees and taxes. Such cuts not only hurt Ohioans in need of help, but damage the economy generally.

The abrupt end of additional federal Medicaid funding under ARRA in December, 2010, will withdraw an effective form of economic stimulus before state revenues recover sufficiently to make up the difference. State tax collections are closely linked to employment and recover more slowly than the general economy following a recession. Previous recessions have shown that state revenues remain suppressed for around two years following the official end of the national recession. The length and depth of this recession may mean an even slower climb.

As Congressional leaders and the White House work to develop a jobs package to blunt the impact of the recession on the unemployed and stabilize our shaky economic recovery, they must consider including state fiscal relief.

Additional fiscal relief would allow Ohio to restore jobs, programs, and services cut during budget deliberations, or fill gaps that may appear mid-year. Restoring enacted state cuts would be good for the economy and speed the recovery.

¹ Goldman-Sachs U.S. Economic Analyst, "State and Local Update: The Drag Persists" 11 December 2009.

² According to the Council of Economic Advisors, every \$100,000 in state fiscal relief creates 857,610 job years. For a detailed description of methodology see *Estimates of Job Creation from the American Recovery and Reinvestment Act of 2009*. Executive Office of the President, Council of Economic Advisors, May 2009. <http://www.whitehouse.gov/administration/eop/cea/Estimate-of-Job-Creation/>

³ *Medicaid: Good Medicine for State Economies*. Families USA, May 2004. http://www.familiesusa.org/assets/pdfs/Good_Medicine_2004_update93b7.pdf

⁴ *Ohio's Short-Term Employment Forecast: 3rd Quarter 2008 to 3rd Quarter 2010*. Ohio Department of Job and Family Services, June 2009. <http://lmi.state.oh.us/Proj/projections/ShortTermForecast.pdf>

⁵ *Ohio Major Employers*. Ohio Department of Development, April 2009. <http://www.development.ohio.gov/research/files/b100000002.pdf>