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## State Aid Two-Weeks Later: How Are the States Spending the Money?

The following is an update on news reports regarding what the states are planning to do with the \$10 billion one-time grants for “essential government services” and “unfunded mandates” included in the President’s Tax Cut Package.

“(d) USE OF PAYMENT-

“(1) IN GENERAL- Subject to paragraph (2), a State shall use the funds provided under a payment made under this section for a fiscal year to--

“(A) provide essential government services; or

“(B) cover the costs to the State of complying with any Federal intergovernmental mandate (as defined in section 421(5) of the Congressional Budget Act of 1974) to the extent that the mandate applies to the State, and the Federal Government has not provided funds to cover the costs.

“(2) LIMITATION- A State may only use funds provided under a payment made under this section for types of expenditures permitted under the most recently approved budget for the State.

“(e) CERTIFICATION- In order to receive a payment under this section for a fiscal year, the State shall provide the Secretary of the Treasury with a certification that the State's proposed uses of the funds are consistent with subsection (d).

*--- Title VI, Section 601 of the Social Security Act as added by Section 401 of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-027)*

**State clips included below:** Louisiana, South Carolina, Arizona, Indiana, Virginia, Iowa

**Louisiana:** (6/1/03 *Times-Picayune*)

...\$152 million for essential services or unfunded mandates -- seemed to drop from the sky. Lobbyists at the state Capitol were abuzz at the prospect of more goodies for their clients. House spending committee members were gleeful over the chance to restore painful cuts they had adopted just a week before -- "divine intervention," state Rep. Joe Salter, D-Florien, called the news. Senators were relieved they'll have more money to work with once the budget bill comes their way, although a few whispered that they wished the news had come a week or two later so that they, not their House colleagues, could have been the ones to make the big saves.

The revised budget passed by the House Appropriations Committee, to be heard in the full House today, includes state aid for the Essence Music Festival in New Orleans, the Louisiana Purchase Bicentennial celebration and the Sugar Bowl that had previously

been cut. It restores millions of dollars for education and economic development programs that were slated for cuts.

It also gives rural and urban lawmakers a special treat: \$16 million for pet projects in their districts, twice what the earlier budget had allocated to what critics call slush funds.

(5/24/03 *Times-Picayune*)

The federal action came hours after the House Appropriations Committee chopped millions of dollars from Gov. Foster's higher education and economic development initiatives so it could plug more than \$150 million back into the cash-strapped Medicaid program, which provides health coverage for the poor.

Foster administration officials said the federal aid will make it easier for lawmakers to restore money for prekindergarten programs, community colleges and other items cut by the House Appropriations Committee.

"It's a significant win for the state," said Andy Kopplin, Gov. Foster's chief of staff. "We're going to work very aggressively to restore the initiatives that we gave up just yesterday."

**South Carolina** (5/29/03, *The State*):

LEGISLATORS ARE relieved, nearly to the point of euphoria. Their prayers have been answered, the problems solved, without their having had to make a single difficult decision. Manna, it would seem, has fallen down from the Washington heaven. It's raining federal money across South Carolina. No more budget crisis.

**Arizona:** (6/1/2003, *The Arizona Republic*)

Gov. Janet Napolitano wants to spend a one-time windfall of \$350 million from the federal government to protect education, health care, homeland security and other "essential services."

Republican leaders disagree with the Democratic governor. They say the infusion of federal cash should be socked away to cover the \$360 million deficit that would be left by their budget plan's use of accounting maneuvers and one-time revenues to balance the 2004 budget.

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"The U.S. Congress . . . realizes that states are in a short-term crunch and that this is designed to help get us through this without having to shut down schools, without having to gut vital services," Napolitano told *The Arizona Republic*. "This wasn't designed to be a bank account for the states."

The federal money popped into Arizona's view just last week. An unexpected wrinkle in President Bush's tax cut bill included a \$20 billion federal aid package: an olive branch to moderates who thought the tax cut was too deep. Arizona will get \$170 million for the state's overburdened health care system, possibly freeing up money for vulnerable programs like health insurance for the working poor, subsidized day care and behavioral health.

**Pennsylvania** (5/29/03, *Center Daily Times*):

Gov. Ed Rendell called on Pennsylvania lawmakers to use an expected \$900 million windfall from the federal government to restore cuts already made in next year's state budget, but cautioned against using the money to avoid tax increases.

Rendell said that during budget negotiations he would talk to legislative leaders about how to restore some of the \$760 million in budget cuts approved by the General Assembly and signed by the governor in March. The reductions affect a wide range of services, including libraries, public transit and drug and alcohol treatment programs.

... Pennsylvania's share includes roughly \$480 million to replace state funding earmarked for medical assistance programs and \$420 million in one-time grants for "essential government services."

**Indiana** (5/29/03, *The Courier-Journal* (Louisville, KY)):

[Gov. O'Bannon's deputy press secretary, Andrew] Stoner, said the non-Medicaid money will go into the General Fund to help the state make ends meet.

**Virginia** (5/29/03, *Richmond Times-Dispatch*)

Gov. Mark R. Warner is elated over the \$415 million the state will receive from Washington, and state workers should be happy about the windfall, too.

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The new funds will go into the state's two-year, \$52 billion budget, which began July 1, 2002, but Warner suggested that the cash will have to be earmarked for existing programs. In other words, the dollars cannot be used to embark on new initiatives, and the General Assembly in January will review the allocations.

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A spokesman for Warner said that the governor's Cabinet secretaries have been asked to prepare "a list of ideas" for the money's use and to present them at the regularly scheduled Cabinet meeting Monday.

**Iowa** (5/31/2003, *The Hawkeye*):

The Senate bill would use the federal money to fund part of the \$503 million economic development plan.

Vilsack, a Democrat and former mayor of Mount Pleasant, proposed a \$500 million Iowa Values Fund in January to help lure high-tech industry to the state and provide jobs for 68,000 unemployed workers.

(6/1/2003, *Register* columnist)

What helped was the recent federal tax cut, a bill that also sends money back to state governments to ease their budget woes. Iowa will get \$180 million. Rather than borrow money or raise taxes to pay for an \$810 million growth fund, Senate Republicans decided to create a \$503 million fund. They would use \$100 million of this new federal money to

finance the first two years of it. In later years, money raised by collecting sales taxes on Internet and catalog sales would go into the fund.

On Friday, House Republican negotiators seemed to agree. One said the House would no longer try to use this new federal money for additional aid to cities and counties.

That means the Senate plan has emerged as the only game in town when lawmakers return Tuesday and Wednesday to complete their work. Without that last-minute federal money riding in to save the day, it's doubtful conservative Republicans controlling the Senate would have been able to muster a majority of their caucus for a "growth" fund many see as just more spending to let government anoint business winners and losers.

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