

THE STIMULUS and New England State Governments

Because they are required to balance their budgets, state governments nationwide are responding to recession-induced budget gaps by cutting services, increasing taxes, and drawing down their reserves. They are also receiving relief from American Recovery and Reinvestment Act (stimulus) funds.*

Although the New England states are not the hardest hit, all six state governments saw tax revenues drop sharply in fiscal year 2009 and reduced their services and spending, drew down reserves, enacted tax increases, and used general-purpose stimulus funds to offset part of the gaps. (See “New England States’ Policy Responses.”)

Because the Recovery Act was enacted when FY2009 was two-thirds over, more stimulus funds are available in FY2010. That is fortunate because New England state government budget gaps are also larger. (See “Budget Shortfalls or Gaps.”)

ARRA funds for states stimulate the overall economy by reducing actions like tax increases and cuts in spending and services that state governments would otherwise take to balance their budgets. Thus the stimulus helps preserve jobs and maintain household incomes. However, general-purpose ARRA funds only partly offset the shortfalls and are scheduled to phase down in FY2011, even as state budget gaps remain substantial. School districts in many states, for example, have sent teacher layoff notices for the 2010-2011 school year because state and local revenue collections remain weak and much of the education-related general-purpose stimulus funds have been spent.

* Katharine Bradbury, “State Government Budgets and the Recovery Act,” <http://www.bos.frb.org/economic/ppb/2010/ppb101.htm>.

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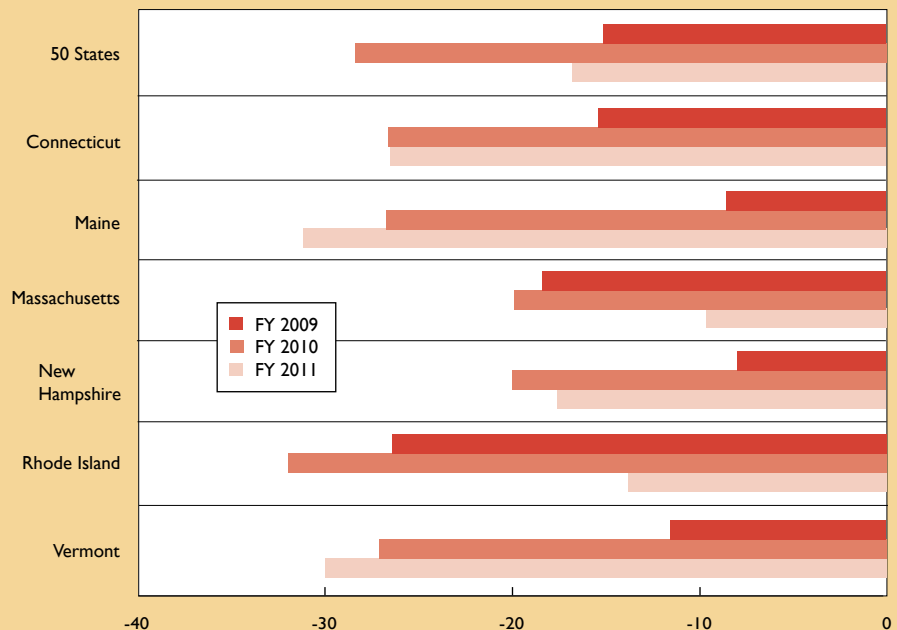
New England States' Policy Responses and Budget Shortfalls (millions of dollars)

	FY2009				FY2010			
	Gaps addressed to balance budget	Spending cuts	Balance draw-downs	General-purpose ARRA grants	Estimated gaps	Spending cuts	Enacted (net) tax increases	First 9 months ARRA
50 states	109,900	31,318	27,159	28,056	196,200	55,655	23,912	46,216
CT	2,700	341	99	403	4,700	53	808	545
ME	265	74	79	186	849	232	17	235
MA	5,200	1,271	1,391	781	5,600	2,424	890	1,571
NH	250	81	86	56	310	n.r.	151	208
RI	872	214	43	184	990	416	66	193
VT	141	68	-2	70	306	98	37	144

Notes: n.r. = not reported
ARRA data reflect general purpose fiscal assistance, defined as the sum of FMAP and SFSF from Recovery.gov agency reported data. The first nine months for FY2010 is actual distribution between 6/26/2009 and 3/26/2010.
Balances include ending balance and balances in rainy-day and budget stabilization funds.
Sources: The Fiscal Survey of States, Recovery.gov for ARRA; Center on Budget and Policy Priorities for gap estimates.

Budget Shortfalls or Gaps

Percent



Note: FY2009 and FY2010 are gaps as percent of general fund. FY2011 is shortfall as percent of FY2010 budget.
Source: E. McNichol and N. Johnson, “Recession Continues to Batter State Budgets,” Center on Budget and Policy Priorities, February 25, 2010.