IMPACT OF RECESSION ON STATES AND LOCAL COMMUNITIES

HEARING

BEFORE THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

Printed for the use of the Committee on Appropriations

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APPROPRIATIONS FOR 2009

IMPACT OF RECESSION ON STATES AND LOCAL COMMUNITIES

THURSDAY, DECEMBER 11, 2008.

WITNESSES

HON. JIM DOYLE, GOVERNOR, STATE OF WISCONSIN
HON. JIM DOUGLAS, GOVERNOR, STATE OF VERMONT
HON. JON CORZINE, GOVERNOR, STATE OF NEW JERSEY
JULIE MURRAY, CHIEF EXECUTIVE OFFICER, THREE SQUARE, INC., LAS VEGAS, NV, FOOD BANK
DR. SANDY BAUM, SENIOR POLICY ANALYST, THE COLLEGE BOARD, AND PROFESSOR OF ECONOMICS, SKIDMORE COLLEGE
MARCIA KREUCHER, EXECUTIVE DIRECTOR, COMMUNITY ACTION AGENCY OF JACKSON, LENAWEE, AND HILLSDALE, MI

Chairman OBEY. Good morning.

Well, as people who work on the Hill know, this is not our regular committee room; we had no idea whether we would have 66 people showing up or six. I am glad we are somewhat above six. I appreciate the fact that everyone who is here is here despite the fact that we at least hope we adjourned last night depending on what the Senate does on the automobile bill.

Let's get right to it. This country is in what appears to be the most dangerous recession since 1932, and I think both parties are pushing different explanations for what happened. The Democratic Party seems to generally claim that this recession started because of nefarious activities on Wall Street, and the Republican Party seems to suggest along the lines that it started in the housing areas. And I think, frankly, that that narrative is wrong on both sides.

To me, what has happened is that if you go back to 1980, from 1980 through today, virtually 80 percent of all of the income growth that occurred in this country went to the wealthiest 10 percent of American families. And, in fact, in this decade, starting in the year 2000, about 95 percent of all of the income growth in the country has gone to the top 10 percent. And so I think average families have tried to respond to what was essentially a freeze in their real income over time by trying to borrow.

So they borrowed more for student aid to send their kids to college, they borrowed more for housing, they borrowed more for health care, they borrowed more for a lot of things they needed and probably some things they didn't need. And at the same time that that happened, you had all of these new instruments that were being developed on Wall Street, accompanied by a substantial reduction in regulation of those activities.

And so I will readily grant that housing and Wall Street finance were the triggering events, but I think the basic problem is, as I just described, the long-term erosion of the ability of average, working people to raise their income over time. And so now we are faced with the consequences of that problem.

We were told by an economist from Moody's, for instance, in the Democratic Caucus just two days ago that even if we pass the $700 billion, so-called stimulus package, that we can still expect unemployment—which right now is hovering close to seven percent—that we can still expect unemployment in a year and a half to be hovering around nine percent. I think that is totally unacceptable, and I think that indicates just how serious this recession could be.

We have lost two million jobs in the last year. The growth in population and labor force means unemployment has expanded by even more, by 3.1 million; one in eight persons in the labor force is either unemployed or underemployed, and we are getting very, very sad-looking predictions and projections and forecasts from economists throughout the country. Even many conservative economists who normally advise the Congress to leave it to the Federal Reserve to respond to the recession are now advising Congress to shore up the economy with more temporary—and I emphasize temporary—spending. The Federal Government, it seems, is about the only game in town to provide a lift to the economy.

As the economy shrinks, we can anticipate more large reductions in the real revenues coming into the States and coming into the Federal Government. And falling revenues are going to force those States to either cut important services or to raise taxes, and that will create a major fiscal drag on the economy.

And we also will be experiencing a human dimension. Losing a job and not being able to find a new one undermines the dignity of unemployed workers and puts a financial strain on the whole family and the whole community.

And so I think there is generalized agreement, we have to make every reasonable effort to prevent things from getting much worse. The downward momentum appears to be very strong, but it is to be hoped that a well-designed economic recovery program could help slow it.

And so we have two panels that will be appearing before us today—one a panel of Governors, a bipartisan panel of Governors to walk us through what is happening at the State level; and, secondly, a panel of people who are experienced at seeing what happens on the ground level to people who are the most vulnerable to these downturns. And I am happy that we have both of those panels here today.

Before I call on them, let me call on the distinguished gentleman from California, Mr. Lewis, the ranking member, for whatever comments he would like to make.

[The information follows:]

COMMITTEE ON APPROPRIATIONS

DAVE OBEY (D-WI), CHAIRMAN

For Immediate Release
Thursday, December 11th, 2008

Contact: Kirstin Brost
202-225-2771

Obey Hearing Statement:
The Need for An Economic Recovery Bill

WASHINGTON – Today, Dave Obey (D-WI), Chairman for the House Appropriations Committee, delivered the following statement at an appropriations hearing on the need for an economic stimulus bill.

"These are very difficult times for the American people. The U.S. lost almost 2 million jobs in the last year. Growth in population and labor force mean unemployment has expanded by even more – 3.1 million. One in eight persons in the labor force is either unemployed or underemployed.

"These trends are accelerating. In just the last three months, we have lost one and a quarter million jobs. At that rate, we will lose five million jobs in a year.

"Economic forecasts made before last Friday's shocking jobs report predicted: GDP will drop 4.1% this quarter; the economy will continue to shrink through the middle of next year; and the unemployment rate will hit 8.1% by the end of next year. Unfortunately, economic forecasters have a consistent track record of being overly optimistic around recessions.

"Before it's over, this recession seems destined to become the worst since the early 1980s, if not the 1930s. Even many conservative economists – who normally advise Congress to leave it to the Federal Reserve to respond to the recession – are now advising Congress to shore up the economy with more spending.

"Federal government spending appears to be about the "only game in town" to provide lift to the economy. Consumption is declining because paychecks are not keeping up with inflation, while values of homes and other assets decline. Business investment is shrinking as credit tightens and sales prospects dim. Our major export markets have also fallen into recession. With falling revenues, almost every state government is also being forced to cut back spending to satisfy balanced budget requirements.

"The Rockefeller Institute of Government recently found that states' revenues for the last quarter were up by an average of only 0.1 percent over the last year. In the face of the five percent inflation we've had in the last year, that's a hefty drop in real revenues.

"As the economy shrinks, we can anticipate more large reductions in real revenues in the coming two years. Falling revenues force states either to cut important or to raise taxes.

"State spending largely goes to fund education and health care. According to the Center on Budget and Policy Priorities, the economic downturn has already forced the states to cut back spending by almost $50 billion in the current fiscal year: 17 states to cut back health care for low income children and families; 15

states to cut back programs for the elderly and disabled; 16 states to cut back K-12 and early childhood education; and 21 states to cut back support for public colleges and universities.

"The fiscal outlook is changing rapidly as governors and state legislatures gear up for their 2009 sessions. The Center on Budget and Policy Priorities now estimates that: states will face a budget gap of $100 billion in each of the next two years; the gap is roughly 15 percent of the state operating budgets; and only a handful of states will be spared the need to close large budget gaps.

"If states raise taxes and cut important investments it would add substantially to the downward momentum of the U.S. economy."

"These trends all have a human dimension. Losing a job and not being able to find a new one undermines the dignity of unemployed workers and puts a financial strain on the whole family. Even more people will lose health insurance and postpone needed medical care for themselves and their families.

"One of the first tasks the President-elect will no doubt take head on is how to ensure that all Americans have health coverage. There will be serious discussions on what that coverage ought to look like and what programs to buttress in order to get us there. As we begin this effort, we need to remember that health reform is central to the budget, not separate from the budget, and it needs to be looked at in that light as well. We have to integrate our thinking so we don't consider changes in mandatory programs separately from discretionary programs. They impact each other. Changes in one can make it more difficult to meet our responsibility to the other.

"As we deal with a stimulus package, we are faced with an opportunity to set the stage for a greater national emphasis on public health by providing necessary investments in the physical, information technology and public health infrastructure necessary to achieve our long term health reform goals.

"The number of people receiving Supplemental Nutritional Assistance Program – "SNAP" the new name for food stamps – has soared by 4.7 million to 31.6 million in the last twelve months. That's more than one in ten Americans.

"The Center on Budget notes that credible economic forecasters warn that unemployment could reach 9 percent if government does not take forceful action. If that happens, another 7-1/2 million people will be forced into poverty. The number living below half the poverty line would rise by at least 4-1/2 million.

"We must make every reasonable effort to prevent things from getting that bad. The downward momentum appears too strong to end the recession anytime soon. But a well-designed economic recovery program could help slow it."

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Mr. LEWIS. Thank you very much, Mr. Chairman.

As we go about welcoming Governor Corzine, Governor Doyle, Governor Douglas, I had first thought that my colleague from New Jersey was going to be the only one with us today, because he wanted to make sure to greet his governor. But the economy has been improving in Georgia lately, so Mr. Kingston has decided to show up as well. But he has assured us he won't be taking much of your time.

In the meantime, what the Chairman said at the initial stages about the severity of our circumstances is felt by all of us; and it seems to me that it is really important for us to know that with the challenges that are out there across the country, it is very obvious that solving these problems has little or nothing to do with partisan politics.

Indeed, we are in an environment in this country today where I have serious doubts about our ability to effectively encourage our children and grandchildren to become involved in public affairs because they look at the way our government is working, whether it be at the local or the State level, but certainly the Federal level, and they say, My goodness, there has got to be something better for us to have our children do. But the country's future and, I believe, the world's future is very dependent upon our being able to attract the best to our staff in a room like this, but also among the members, as reflected by many of the people in the audience.

I was initially hopeful that today's committee meeting was to resume our deliberations and mark up the remaining unfinished spending bills for the fiscal year 2009. We are now into our third month of the new fiscal year, and many critical functions of government are operating under a continuing resolution that expires on March 6th.

It is my understanding that our Appropriations Committee staff is now negotiating with their Senate counterparts on the nine appropriations bills that have yet to be considered by the House and the Senate. Those spending negotiations, you should know, many involving only subcommittee-passed bills that have not been debated in the Full Committee, are occurring without any Member or Senate input whatsoever, to my knowledge. I have heard from a variety of sources that both minority and majority staff in the House and Senate are very uncomfortable making these policy and funding decisions that should be addressed at a Member and Senator level.

I am told that it is the intent of the House and the Senate leadership to combine these nine spending bills into an omnibus package to be presented to President-elect Obama shortly after he is sworn into office in January. But why would we put our new President, elected on a promise of change in the ways of Washington—why would we want to ask him to sign a spending package like this? I don't know. I can't think of a single reason why he would reward Congress for failing to get its works done.

Perhaps the new team just wants to put 2009 behind us, and certainly all of us can understand why that might be the case. With our staff working around the clock, including weekends, and with the holidays upon us, it would be helpful to have some communication between the Committee, the Majority Leadership, and the incoming Administration on the end game—the sooner, the better.

If our next President plans to extend the continuing resolution for the full year, I don't see any point in asking our staff to work right up until Christmas on a package that will never see the light of day. Frankly, I would rather see the staff enjoy time with their family over the holidays, and be rested and ready to go with the Committee's work early this coming year.

With regard to today's hearing, there is no greater challenge facing working families than our Nation's struggling economy. The ability of consumers to secure loans to buy a car or a home, start a small business, or to care for loved ones with medical needs is critically important. But in order for taxpayers to be confident that Washington can address these challenges, Congress must propose real solutions that produce real results.

Like other fast-growing suburban areas across the Nation, my district has been severely impacted by the economic downturn that the chairman mentioned, that unemployment is currently, nationally, pushing 7 percent. In 2007, unemployment in my region, in my own district, was 5.9 percent; today, it stands at 9.5 percent. New home starts have fallen by 50 percent, and nearly 20,000 home construction jobs have been lost.

Thousands of families in our communities have lost their chance for the American dream. Nearly 100,000 homes are in foreclosure. And with the value of homes falling as much as 40 percent, even more mortgage holders are in danger of defaulting on their loans.

The typical Washington solution to every problem is, what? You know it better than we: to throw money at it.

I would argue that we can no longer afford the typical Washington solution. My constituents want Congress to deliver specific economic solutions rather than spending money on programs that sound good with no near-term results.

My understanding is that the incoming Administration is working with Speaker Pelosi and Senator Reid on a $500 billion or, as the chairman indicated, or more proposal for stimulus spending. While I have not yet seen any details of the proposal, members of this committee have an obligation to ask two very important questions: Will it work? And, where will the money come from? The typical Washington answer to a challenge of this magnitude is to write a blank check and hope for the best. But that is not good enough. Congress must demand results.

A recent New York Times article made this observation: Government agencies usually don't even have to do a rigorous analysis for transportation projects on how it would affect traffic, for example, before deciding to proceed. In one recent survey of local officials, almost 80 percent said they had based their decisions largely on politics, while fewer than 20 percent cited the project's potential benefits. If Congress is going to approve billions in new road projects, for example, will it also demand that this new spending result in less congestion?

If President-elect Obama is serious about change, he must insist that any Federal funding for infrastructure projects be linked to tangible results. When it comes to spending bailouts using taxpayer dollars, we must insist on measurable results.

Before turning to our panel, I would like to ask Chairman Obey if it is his intention to hold a Full Committee markup of this stimulus proposal in January. In other words, will the members of our committee have the opportunity to debate and amend the stimulus package before going to the House floor for consideration?

Chairman Obey and I have had many an exchange regarding last year's fiasco in which we essentially suspended all of our work. It is important that we have subcommittee expertise applied to these questions and, in turn, to have those lines of expertise come to the Full Committee where we can possibly even consider amending what has been proposed. That has not been our pattern recently. I hope we will see quickly a return to regular order.

I thank the Chairman for his guidance. I yield back the balance of my time.

Chairman OBEY. Thank you for those supportive remarks.

Let me now call our first panel. First, Governor Jim Doyle from a place called Wisconsin; secondly, Governor Jim Douglas from the State of Vermont; and, thirdly, Governor Jon Corzine, Governor of the State of New Jersey, who, before he had the unfortunate judgment to leave Washington, also served us with great distinction in the United States Senate.

Gentlemen, we are happy to have all of you with us. If you would take about five minutes or so to summarize your statement, we will insert your written statements in the record. And we appreciate your being here.

Governor Doyle, why don't you lead off?

Governor DOYLE. Thank you, Mr. Chairman.

And to Mr. Lewis and members of the committee, to my distinguished colleagues from Vermont and New Jersey, thank you for having us here today. And to the chairman in particular, I, of course, want to state my incredible appreciation for your leadership for the State of Wisconsin and your great leadership of this committee during very, very tough economic times, and your work to help move our State and this country forward.

The country's economic crisis has created very serious challenges for Wisconsin, and I believe that unless they are addressed correctly, these challenges to our States will impair our country's ability to recover and to move forward.

First, I want to acknowledge the attention to the State's infrastructure, and let you know that Wisconsin has been working hard to line up projects that are ready to go and that will really add value to our economy. And let me say in response to Mr. Lewis, we would be delighted to have accountability for the expenditure of that money, to make sure it is doing what it is supposed to be doing.

Let me also say a quick word about State budgets and how we handle ordinary economic downturns. Unfortunately, all of us, as governors, know how to handle ordinary downturns, and pretty severe downturns, but we are dealing with something of a different magnitude here today.

Wisconsin's budget is typical of, I believe, every other State in the country except, I think, Governor Douglas' in that we have to balance a budget; and I know he does it every year, but we, by our State constitution, have to balance our budget, so when the economy slows, we have to adjust. And until September, we were on course to meet revenue projections even in a very slow economy. Last spring, we adjusted to a bad economy by making major cuts in State government.

I have made $270 million in cuts to our State government since June of this year. And those cuts, in combination with earlier cuts that we have made, total a half billion dollars of cuts that we have made to the budget of the State of Wisconsin over the last year and a half. These actions were recognized as an ability to adapt and manage a challenging fiscal situation; and, in fact, as a result of those cuts, prior to September, Wisconsin saw an upgrade in its bond rating.

Unfortunately, this economic crisis is unprecedented in recent decades. We had based our budget on very, very modest revenue forecasts. And to just give you a sense of the dimensions that we now face, we were predicting even on very, very minimal budget forecasts from last June that we would have about $28 billion in revenues for the next biennial budget. But after what happened this fall, we now predict only $25 billion in revenues over that 2-year period a significant decline from what were already predicted to be very flat revenues.

The projected drop in revenue, combined with what happens with States in these kinds of times of expected increases in programs such as Medicaid, leaves us facing our largest budget gap ever: $5.4 billion over the next 2 years, or 17 percent of our biennial budget.

Due to the cuts we have made over the last few years, we approach this challenge in a situation where, in the State of Wisconsin, one out of ten of our State jobs are unfilled. The budget deficit we face in this economic crisis stands, at a minimum, to double the number of State workers that will be out of jobs. And no matter how many workers we let go, the most basic fact is that these people only comprise a small percentage of our budget. I could cut the workforce of the State of Wisconsin in half, and we still wouldn't be dealing with the full scope of the deficits that we now face.

So what we are left with is cutting away our State's ability to carry out the most essential expectations that people have for our government. We will be forced to cut the very tools and services that people depend on to pull them out of a recession and move them ahead.

Specifically, State budgets let our communities hire police officers and firefighters. They allow kids to go to good schools. They allow students to go to universities and technical colleges with affordable higher education. State budgets also make sure that a child who breaks his or her arm gets the appropriate medical care that he or she needs.

So that is what is threatened in the current situation: our schools, our universities, our technical colleges, our access to health care, our local police and firefighters. These are the areas that determine State budgets; approximately 80 percent of our State budget is in those areas. And aid to long-term capital projects, which is very beneficial to the future and which we truly believe will help stimulate this economy, will not close our budget shortfalls or ease these devastating cuts. And these cuts could undermine years of careful progress.

As you know so well, Mr. Chairman, and that you have been so helpful on, in Wisconsin we have worked hard together to make sure that every child in Wisconsin has access to affordable health insurance; and we have worked hard to make sure that families can get their kids a good education that they can afford. We have worked hard to build a great university system with affordable tuition and sufficient financial aid; and we have worked hard to put more police officers on the street to help turn some of our most troubled neighborhoods around.

For example, in Milwaukee, State funding has allowed the police department to launch a new, highly strategic data-driven neighborhood task force which is credited for reducing total crime in the city by 10 percent and homicides by 33 percent. This program is saving lives, and it is making the city stronger.

The magnitude of the budget shortfalls will also force States to consider tax increases. So we recognize, as States—and I am sure I speak for every governor—that we are going to have to make even more cuts, and we are going to have to make even more difficult choices. We don't want to have to make those choices, but we are willing and will make those choices. There are more cuts coming in Wisconsin, painful cuts that will really matter.

But we cannot allow our States' revenue shortfalls to be an obstacle in our efforts to recover from this recession and to move our State and this country forward. So I am here to work with you to do everything I can to help move our country ahead; and it is my deep belief that our approach must allow States to meet our citizens' most basic needs.

It would be terrible if, at the end of this recession, that what we would find is that we have moved this country back 25 years; that our schools are hurting, that our universities have become so unaffordable that ordinary people can't go to them.

We all recognize that, unfortunately, this recession will move beyond this fiscal year. So far, the current estimates put the total State deficits at $150 billion in this fiscal year and the next.

So, Mr. Chairman, again I thank you very much. And the committee, I thank the committee for listening to our concerns. We look forward to working with you to make sure that we assure that our schools remain good, that higher education remains affordable, that we have sufficient numbers of police and fire on the streets—safety on the streets, and that we are ensuring that people get the basic health care that they need.

Thank you very much.

Chairman OBEY. Thank you.

[The information follows:]

Prepared Remarks for Governor Doyle
Testimony for Economic Stimulus – Washington, D.C.
Thursday, December 11, 2008

Remarks:

The country's economic crisis has created very serious challenges for Wisconsin, and I believe that unless addressed correctly, these challenges to our states will impair our country's ability to recover and move forward.

Before I address the unique hardships of the current crisis, I want to first acknowledge the attention on states' infrastructure and let you know Wisconsin has been working hard to line up projects that are ready to go. I also want to say a quick word about state budgets and how we handle ordinary economic downturns.

Wisconsin's budget, which is typical of state budgets, is required to be balanced by law. So when the economy slows, we have to adjust. Until September we were on course to meet our revenue projections.

Last spring, we adjusted to a bad economy by making major cuts to state government. I made $270 million in cuts to state government this year. Those cuts, when combined with actions we took in our original two-year spending plan, totaled $500 million in reductions to state agencies. These actions were recognized as an ability to adapt and manage a challenging fiscal situation, and Wall Street upgraded our bond rating.

Unfortunately, this economic crisis is unprecedented in recent decades. We had based our budget on modest revenue forecasts. We predicted the slumping economy would leave us $28 billion in revenues as we prepared for our 2009-11 biennial budget. But after what happened this fall, we now predict only $25 billion in revenues over the two-year period.

The projected drop in revenue, combined with expected needed increases in programs such as unemployment and Medicaid, leaves us facing our largest budget gap ever -- $5.4 billion over the next two years, or 17 percent of our biennial budget.

Due to cuts we have made over the last few years, we approach the challenge ahead with a state government where 1 out of 10 of our workers no longer holds the job. The budget deficit we face in this economic crisis stands to, at a minimum, double the number of state workers out of their jobs. And no matter how many government workers we let go, the most basic fact is that these people only comprise a small part of our budget.

So, what we are left with is cutting away our states' ability to carry out the most essential expectations people have for government. We will be forced to cut the very tools and services that people depend on to pull them out of a recession and move them ahead.

Specifically, state budgets let our communities hire police officers and firefighters. They allow kids to get a good education, and a chance at a good university or technical college education that their families can afford. State budgets also make sure that a kid who breaks her arm gets the appropriate medical care she needs.

So that's what is threatened: our schools, our universities, our technical colleges, our access to health care, our local police and firefighters. These are the areas that determine our budgets, and aid to long term capital projects, while beneficial to the future, will not close our budget shortfalls or help ease devastating cuts.

And these cuts could undermine years of careful progress. As you know so well, Mr. Chairman, we have worked very hard together to make sure that every child in Wisconsin has access to health insurance. We have worked hard to make sure that families can get their kids a good education they can afford. We have worked hard to put more police officers on the street to turn some of our most troubled neighborhoods around.

For example, in Milwaukee, state funding has allowed the Police Department to launch a new, highly strategic, data-driven Neighborhood Task Force, which is credited for reducing total crime in the city by 10 percent and homicides by 33 percent. This program is saving lives and making a city stronger.

The magnitude of the budget shortfalls will also force states to consider damaging tax increases at a time when families' ability to pay is most threatened.

We recognize that we will have to make cuts, and we will make those difficult choices. But we can not allow our states' revenue shortfalls to be an obstacle in our efforts to recover from this recession and move this country forward.

I am here to do everything I can to help move our country ahead and it is my deep belief that our approach must allow states to meet our citizen's most basic needs.

For that to happen, the deficit that most states face must be addressed. We all recognize that unfortunately this recession will move well beyond this fiscal year and the next. So far, current estimates put the total states' deficits at $150 billion in this fiscal year and the next.

Mr. Chairman, today I am asking you to help us make us stronger states so that we can better help our country. Thank you.

Chairman OBEY. Governor Douglas.

Governor DOUGLAS. Mr. Chairman, thank you very much. Congressman Lewis. We appreciate the chance to be here to talk about the current fiscal condition of the States and of our country, and how we might work together as State and Federal officials to speed the economic recovery of our country.

I am the Governor of Vermont, of course—also vice chairman of the National Governors Association. I will offer a few thoughts on behalf of the entire association membership and some from my perspective as the chief executive of a small State.

The residents of my State and all States, as you know, are anxious. They are hurting. In many cases, they are out of options and are really looking for help from us and the Federal Government. A week or so ago, 48 governors and governors-elect met in Philadelphia with the President-Elect and Vice President-Elect to talk about ways that we can work together as partners to spur economic growth and speed recovery.

As Governor Doyle noted, the governors of our Nation are indeed making difficult choices now, and working with their legislatures to implement them. States have already cut $7.6 billion from budgets during the current fiscal year and could be facing shortfalls of nearly $180 billion over the next 2 fiscal years. As you noted, we don't have the option of not balancing our budgets, so we have to find ways to keep them in balance in these very difficult and challenging fiscal times.

Vermont is a small State, but our financial pressures are no less acute. We have already reduced our revenue forecast for the current fiscal year twice. We have pushed through two rounds of very difficult budget cuts. Another rescission is being developed now. We have cut our State workforce by about 5 percent, and for the next fiscal year, 2010, I have directed the departments to prepare budgets that reduce general fund appropriations by an additional 13 percent.

So we are working hard to address this downturn. We are looking at all options to reduce expenditures. But these reductions will undoubtedly impact important State services, including those that affect the most vulnerable in our States.

These actions and those that all States need to take to balance budgets can slow recoveries and make downturns worse. So one of the most efficient mechanisms that the Federal Government can use to speed a recovery, as economists across the political spectrum agree, is investing in existing Federal-State programs.

NGA urges the Congress to invest in States as part of any national recovery strategy, specifically to temporarily enhance the Federal Medical Assistance Percentage for at least 2 years; to invest in ready-to-go infrastructure projects with no State match to spur job growth; to consider changes in the Federal Tax Code that can spur economic growth; and to avoid policies that preempt State authority, that shift costs to States, or that impose new unfunded mandates that work against the goal of economic recovery.

I want the expand on a few of those recommendations very briefly.

An enhanced FMAP is most effective, as a counter-cyclical measure, to implement at the onset of an economic downturn in order to boost recovery, but we believe it has to be in effect for at least 24 months. That allows States to meet anticipated increases in Medicaid costs for the duration of this economic downturn. To achieve a maximum effect, the funding should be between a third and a half of the budget shortfalls that States are facing this year and next.

Another important safety net program is unemployment insurance, and Vermont and at least 33 other States are facing challenges maintaining adequate balances in our unemployment trust funds. I encourage the Congress to reconsider a Reed Act distribution to the States for the purposes of bolstering these balances. This will help blunt the impact on already overburdened and struggling businesses if unemployment trends continue as projected. The chairman indicated the likelihood of that trend if no action is taken, and we have to do everything we can to provide that safety net to the people of our State.

Chairman OBEY. If I could just interrupt. What I indicated was what the unemployment levels were expected to be even if we did take that action.

Governor DOUGLAS. Even if we did. Thank you, Mr. Chairman.

I have read some testimony of an economist before another committee of the Congress suggesting that the difference between action and inaction could be as much as 2.5 percent. So your point is certainly well taken that this is a serious situation, and everything possible should be done to keep it from being more serious.

Investments in ready-to-go infrastructure projects are a cost-effective creator of high-paying jobs. Estimates are that for every billion dollars in transportation infrastructure there are about 35,000 jobs created and about $5.7 billion in additional economic activity created as well.

I think we should have a broad definition of infrastructure to have the most impact. That may be highways and transit systems and airports; it could be clean water and sewer projects; perhaps information technology, including broadband; environmental projects; higher education infrastructure, as well.

And I want to emphasize, as my colleague Governor Doyle did, that we are not asking for a blank check. We want to work with the Congress to ensure that investments in infrastructure are tied to projects that are truly ready to go, and perhaps even include a use-it-or-lose-it provision to ensure that funds get into the economy as quickly as possible. These restrictions, though, ought to take into account regional limitations.

For example, a 90-day requirement that I have heard discussed in some quarters to have shovels in the ground wouldn't make sense in northern States where the construction season doesn't begin until at least April and ends generally by November.

I urge the Congress to temporarily lift the State matching requirements that would otherwise restrict the States' ability to begin projects due to fiscal restraints. We support efforts that have been initiated by my State's congressional delegation to extend a State match waiver to include all SAFETLU projects through next September.

Just a couple other specific thoughts from our small State, Mr. Chairman: We practice what we call just-in-time delivery of bridge paving and road projects. We don't have a large number of ready-to-go projects waiting for funding. So we suggest a reasonable time frame to obligate stimulus funds would be no less than 180 days. We generally don't have large transportation projects in small States, but small projects come with large regulatory hurdles and red tape. So I would urge the Congress to streamline regulations and relax current eligibility criteria to allow stimulus funds to be used for maintenance-related activities.

I might note that the President-elect in his comments to the governors last week talked about the need to cut through the red tape of the Federal Government to expedite these projects.

A provision allowing or encouraging stimulus projects to be bid using Federal agency emergency procedures would allow States to use simplified bids and other procedures to expedite project delivery. And maintenance of effort or antisupplanting language should not be included, I would suggest. Any ready-to-go project ought to be eligible for stimulus funding, thereby allowing any displaced funding to be used for additional activities or projects.

In my written comments, Mr. Chairman, I have included some thoughts about the Tax Code that I would urge you to take a look at. There is an EB–5 Immigrant Investor Visa program that we would hope is extended by the Congress to bring foreign equity capital into at-risk investments in our States. There are a number of ideas that I hope the committee will consider.

I think it is quite clear that our Nation is at a crossroads at this very difficult time. Folks who are losing their jobs, their homes, and even their hope are looking to their leaders for help. I believe the timely targeted and temporary investments by the Federal Government that we have discussed this morning are needed now to get our economy going and put us on the road to recovery.

Again, I thank you for the opportunity to be here this morning to offer these thoughts to this committee.

Chairman OBEY. Thank you very much, Governor.

[The information follows:]

Testimony of Governor James H. Douglas of Vermont Before the U.S. House of Representatives Committee on Appropriations "Impact of Recession on States and Local Communities" December 11, 2008

Chairman Obey, Ranking Member Lewis, Members of the committee, thank you for this opportunity to testify on the current fiscal condition of states and discuss ways in which states and the federal government may partner to speed the nation's economic recovery.

My name is Jim Douglas, the governor of Vermont, and it is in that capacity that I testify today. I am, however, also Vice Chair of the National Governors Association (NGA), a bipartisan organization representing all of the nation's governors.

A little over a week ago, 48 governors and governors-elect gathered in Philadelphia to meet with President-elect Obama and Vice President-elect Biden and discussed the state-federal partnership and the economic crisis facing this country. Our citizens are anxious, hurting, and in many cases, out of options, and they're looking to us – those of us in state government and those of you at the federal level – for help. During our discussions, the President-elect underscored his commitment to work with governors and states. Governors emphasized our commitment to work as partners with the federal government to spur economic growth and speed recovery. All parties recognized the need for action. And as partners, governors noted the hard choices that they are already making in these tough economic times. States are taking a close look at government programs, and we're working hard to streamline operations, ensure efficiency, and prioritize our investments. In Vermont, my top three priorities when building my budget are protecting the most vulnerable, investing in job creation, and insuring public safety.

However some decisions states must take to balance budgets also can slow recoveries and make downturns worse. Consequently, one of the most efficient mechanisms the federal government can use to speed a national recovery is investments in existing federal-state programs. This is effective because these programs are on-going and because state-by-state funding allocations, administrative procedures and staffs already are in place to quickly distribute any additional funds.

In October, NGA sent a letter to Speaker Pelosi and Minority Leader Boehner and leaders in the Senate to request that Congress invest in states as part of any national recovery strategy.

Specifically, governors called on Congress to temporarily enhance the Federal Medical Assistance Percentage (FMAP) for at least two years. Funding for FMAP is a particularly effective countercyclical tool because it immediately allows governors to eliminate planned budget cuts required to meet balanced budget requirements and continue services for those with the greatest need.

Likewise, investments in ready-to-go infrastructure projects are a cost effective creator of high paying jobs. These investments should include a broad array of infrastructure projects including highways, broadband, transit systems, clean water, sewers, airports, and perhaps environmental and higher education infrastructure. States should be given the flexibility to determine where their dollars would provide the most effective stimulus. Governors also welcome the opportunity to work with you on the details of the infrastructure provisions to target high priority projects, reduce the bureaucratic red-tape and obligate and expend funds quickly.

Finally, governors encouraged Congress to consider changes to the federal tax code that can spur economic growth, and avoid policies that preempt state authority, shift costs to states or impose new unfunded mandates that work against the goal of economic recovery.

Fiscal Condition of States

States have already cut $7.6 billion from state budgets since the fiscal year began in July. States have identified another $30 billion in budget gaps that must be filled this year. That number is likely to double to $60 billion by the end of June 2009. Twenty-five states already project shortfalls for 2010 of $60 billion. Again, a number that is likely to double to more than $120 billion if economic conditions continue to deteriorate. That means states could be facing shortfalls of nearly $180 billion over the next two years. And states do not have the option of running deficits. In fact, 49 states have balanced budget requirements and the 50th state, my own state of Vermont, always balances its budget

In addition, tax collections are trending downward. Already sales tax growth compared with last year has gone negative along with business tax revenues. Personal income tax collections remain slightly higher than last year, but have trended negative over the past quarter. These revenues will be further depressed by the lack of capital gains tax revenues resulting from the sell-off in the stock market. Income tax revenues are likely to dip most after unemployment peaks, which could be well into 2009.

Rainy Day Funds – Rainy day funds are used by states to fill budget gaps when revenues drop dramatically. Prior to the last downturn in 2001 and 2002, states built large rainy day funds totaling $49 billion, or 10.4 percent of general fund spending. In 2007, once state economies began to recover, states again built rainy day funds totaling $69 billion, or 11.5 percent of general fund spending, heading into the current downturn. This means that states have acted responsibly in that they have built large surpluses in good economic times for use in economic downturns. States also averaged only 4.5 percent growth in spending over the past eight years, well below the historical average of 6.5 percent. The economic crisis facing states is, however, much bigger than current state reserves, and federal action is necessary to ensure economic recovery and stability over the long term.

Economic Outlook in Vermont – Vermont is a small state, but our financial pressures are no less acute than larger states. Our SFY 2009 budget is approximately $4.3 billion, including $1.3 billion in Federal Funds. Vermont's budget is based on a Consensus Revenue Forecast, to which both the Administration and the Legislature adhere. Since the original SFY 2009 Consensus Revenue Forecast in January 2008, the current year General Fund Revenue and Transportation Fund Revenue Forecasts have been reduced by $70.4 million (5.9%) and $17.0 million (7.5%)

respectively; the Consensus Revenue Forecast will be adjusted in January 2009, with all the risk remaining on the downside for further revenue reduction. Declining revenues and increasing costs have combined to put a strain on our State's financial resources not seen since the early 1990s.

The recession in New England has become self-reinforcing with the next 2 – 4 quarters expected to be extremely difficult. Vermont has already seen business closures and announced layoffs in small and large organizations, including a layoff at our second-largest employer. In conjunction with a continued decline in our housing and construction-related markets, we will likely see more pressure on our auto and auto-dependent businesses, including dealerships over the next several quarters. Our Higher Education institutions have been seriously impacted by both the losses in their investment and endowment accounts and the inevitable reductions in State funding support. The tax burden on Vermonters is among the highest in the nation, according to several different studies. We, therefore, have no tax capacity for increasing the tax burden on our residents in order to address this recession.

As the State's largest employer, the State of Vermont took a preemptive step in November 2007 by announcing the reduction of 400 vacant state employee positions (roughly 5 percent of the state workforce), which will be accomplished by the end of December. In addition to the previously outlined rescissions, a further General Fund rescission plan of $66 million and a Transportation Fund rescission plan of $9.1 million are currently being developed for approval by the Legislature. For SFY 2010, we are requiring departments to develop budget submissions that reduce General Fund appropriation requests by an additional $148 million (13%). Vermont is working hard to address this downturn and we are currently looking at all options to reduce expenditures. These reductions, however, will undoubtedly impact state services, including those services supporting Vermont's most vulnerable citizens.

Vermont wholeheartedly supports the NGA's call to temporarily enhance the Federal Medical Assistance Percentage (FMAP) for at least two years and increase Federal infrastructure funding without the state match required. Infrastructure needs can be found statewide and throughout several sectors in addition to transportation – information technology (IT), higher education facilities, and environmental infrastructure, to name a few. Federal investments in infrastructure would create jobs and spur economic growth throughout our state.

State Impacts Lag the Downturn – The state fiscal picture will continue to deteriorate over the next two years. When the economy slows, state sales tax revenues decline first because reductions in personal consumption often lead downturns. Rising unemployment is the next sign, which in turn leads to declines in state personal and corporate income tax revenues. The increase in unemployment also often leads to increases in the demand for food stamps, unemployment benefits and especially Medicaid payments, which is currently about 23 percent of state budgets. Medicaid growth from women and children coming onto the rolls tends to occur very late in the cycle and constitutes a significant state expense.

The lag effect on states was evident in each of the last two recessions. The recession that ended in 1991 resulted in 28 states cutting budgets that year. States, however, continued to experience the recession's impact and in 1992, 35 states cut budgets. Similarly in 2001, when the most recent recession ended, 16 states cut budgets. However, 37 states cut budgets in each of the next two years—2002 and 2003. If the current downturn continues and follows the path of past recessions, 35 to 40 states will face budget shortfalls in 2009.

Role of the States in Recovery

During any economic downturn, states are key players from three major perspectives. First, they administer most of the safety net programs in the United States. The four major programs that can both help stabilize the economy and provide benefits to individuals in need are 1) Medicaid, 2) welfare, 3) unemployment compensation and 4) food stamps. All of these are federal-state programs that receive major federal funding.

Second, states can quickly create jobs in the short run through infrastructure investment such as highways, transit projects and water and sewer system modernization. States are able to do this quickly because they administer many infrastructure programs and have detailed information regarding unmet needs.

Third, because of balanced budget requirements, states typically react to downturns by cutting spending and raising taxes, which make the downturn more severe. Direct payments to states to help offset these actions are, therefore, one of the most powerful countercyclical actions the federal government can take.

Medicaid - The Federal Medical Assistance Percentage (FMAP) is the share of the Medicaid program paid for by the federal government. FMAPs are recalculated each year and the new FMAP is applied at the start of the federal fiscal year. Small changes in a state's FMAP can have a significant impact on state budgets, and any reduction will force states to spend more than they otherwise would have.

In federal FY 2009, which began October 1, 2008, 17 states experienced FMAP declines over their federal FY 2008 FMAP. Twelve of these states had also experienced FMAP declines in the previous fiscal year. Fourteen states are projected to have FMAP decreases in federal FY 2010, beginning October 1, 2009.

The FMAP formula is based on a three-year rolling average that reflects economic conditions from several years ago, and as a result, can exacerbate problems states have financing Medicaid during fiscal downturns.

During the 2001-02 recession, states faced high unemployment and weak tax revenues, which, when combined with unexpected Medicaid growth, forced almost every state to seek serious cutbacks in Medicaid costs.

In response, Congress approved $10 billion to temporarily enhance FMAPs for every state by 2.95 percentage points for five fiscal quarters in 2003 and 2004. Spending caps for the territories (which face unique financing challenges) were raised by 5.9 percentage points for the last two quarters of FY 2003 and first three quarters of FY 2004.

In addition, Congress implemented a hold harmless provision to prevent scheduled FMAP decreases for the same period. Studies conducted by the Government Accountability Office (GAO) and other experts found that temporarily increasing all states' FMAP levels provided immediate fiscal relief to states by alleviating Medicaid obligations and preventing cuts to programs important to residents during fiscal downturns.

An enhanced FMAP is most effective as a countercyclical measure if implemented at the onset of an economic downturn and for a period of time that allows states to meet anticipated increases in Medicaid costs for the duration of the economic downturn.

FMAP increases can provide some much-needed countercyclical assistance to states. To achieve the maximum effect, the funding should be one-third to one-half of the budget shortfalls in 2009 and 2010. It also is critical that the funding be for at least 24 months to include the year after the recession is over and counter the lag on the state impacts.

Unemployment Insurance Trust Fund –Vermont, and at least 33 other states, are facing challenges maintaining adequate balances in our unemployment trust funds.

One reason for this challenge is the pace at which Vermont is feeling the effects of the national recession. We have seen claims for unemployment increase in excess of 65 percent in the last year. We hear daily of small- to medium-size lay offs at employers impacted by the downturn in the automotive industry and access to capital issues. This will only exacerbate growth in unemployment rates and result in additional claims.

I encourage this body to reconsider a Reed Act distribution to the states for the purpose of bolstering unemployment trust fund balances. The funding provided will help blunt the impact on already overburdened and struggling Vermont businesses, if unemployment trends continue as projected. I support a distribution for the sole purpose of shoring-up the fund, versus increasing benefits. Unemployment benefits in Vermont already meet any standards previously considered by this Congress during earlier discussions regarding a Reed Act distribution.

Infrastructure - Infrastructure investments are an effective mechanism to create jobs in a slowing economy, especially when projections for economic weakness stretch into years, not months. These are generally high-paying jobs because there is very little international leakage in terms of imports from this type of spending. Federal investments that allow states to initiate ready-to-go infrastructure projects can, therefore, spur demand for labor and increase productive capital. For example, every $1 billion in transportation infrastructure spending generates approximately 35,000 jobs and $5.7 billion in additional economic activity.

Last month NGA worked with several national stakeholder organizations to identify approximately $57.4 billion in projects that could be ready-to-go in 90 days. Given 24 months, states could initiate more than $136 billion in infrastructure projects.

Vermont – as well as other small states – practices just-in-time delivery of bridge, paving, and road projects, and does not generally have large numbers of "ready-to-go" projects waiting for funding. Transportation projects are planned to mature based on expected future budgets. To expedite additional projects to construction, some lead time is necessary to ensure proper preparation. A reasonable time frame to obligate FHWA-related stimulus funds would be no less than 180 days.

Congress and the White House should also shy away from legislative language that would place arbitrary time limits on when construction bids for roads and bridges should be awarded. A reasonable timeframe related to funding obligation will in and of itself assure reasonable timeframes for bid-awarding and the beginning of construction.

Small states generally don't have many, if any, large transportation projects that cost tens of millions or hundreds of millions of dollars. Large states will be able to expend large stimulus allocations on just a few expensive road or bridge projects. Small states, on the other hand, must schedule numerous smaller projects to stimulate their economies.

Small infrastructure projects, however, often come with large regulatory hurdles and lengthy red tape. A $4 million project can take just as long to permit as does a $40 million project. This means that small states face the prospects of having to navigate many more regulatory hurdles than do larger states that can use their stimulus money on fewer, more expensive infrastructure improvements.

To aid small states, Congress must streamline or eliminate federal regulatory hurdles and red tape that can bog down either the contract bid-letting process or the infrastructure construction process.

The stimulus bill should also relax current FHWA eligibility criteria and, for example, allow stimulus funds to be used for maintenance-related activities. This is particularly important to small states. We need to insure that stimulus funds allow culvert work as well as drainage, ditching and other highway maintenance activities. Materials procurement associated with maintenance activity on federal-aid highways – such as temporary bridge parts, guardrail, etc. – should also qualify. Additionally, acquisition of equipment used in federally-aided and required activities, such as vehicles needed for bridge inspection, should also be eligible for stimulus funding.

To execute funding as quickly as possible, a provision allowing or encouraging stimulus projects to be bid using federal agency "emergency procedures" would be extremely helpful. This would allow states to use force accounts and simplified bids, which would significantly expedite project delivery. Emergency procedures also allow states to get the work done now, and worry about federal paperwork related to agencies such as FHWA or the Army Corps of Engineers later, something that would significantly expedite project delivery.

We believe maintenance of effort (MOE) or anti "supplanting" language should not be included. Any ready-to-go project should be eligible for stimulus funding, thereby allowing any "displaced" funding to be used for additional activities or projects. This flexibility is key to putting the money to maximum use, and also will extend the positive effects of stimulus money out into the future. Only projects already under contract should be excluded.

Nothing will be more important than the rules that limit how stimulus money can be spent. We believe a broad definition of infrastructure will have the most impact – airports, highways, transit systems, clean water, sewers, information technology including broadband and even environmental infrastructure. For example, the purchase of vehicles like buses and trains, as well as highway-related material like guardrail and bridge parts is key to any solid transportation network. The manufacturing of these goods does create jobs, and their procurement should be allowed under a stimulus package. In addition, providing infrastructure for broadband and mobile wireless service in underserved areas of Vermont provides an opportunity to help our economy in the short run and the long run. In the short run, planning, engineering, and construction of fiber optic networks and towers will provide jobs. In the long run, ubiquitous availability of these services will provide greater opportunities for work and business, education, health care, and community development, and is a necessary prerequisite to sustaining a rural economy. And getting Vermonters to work making capital investments in our environmental infrastructure could have an immediate economic impact and a lasting impact on this state and the country. The Vermont Agency of Natural Resources has projects totaling almost $292 million that could be set in motion quickly and effectively.

I should note that governors are not asking for a blank check.

We want to work with Congress to ensure that investments in infrastructure are tied to projects that are truly ready-to-go and perhaps include a "use-it-or-lose-it" provision to ensure that funds get into the economy quickly. These restrictions, however, must take into account regional limitations so that all parts of the country can benefit. For example, a 90-day requirement to have shovels in the ground would make little sense in Vermont and other northern states where the construction season cannot begin in earnest until April and must, due to weather conditions, end by late November. Congress also should temporarily lift state matching requirements that would otherwise restrict a state's ability to begin projects due to fiscal constraints.

In addition, we support efforts by Vermont's Congressional delegation to extend the state match waiver to include all SAFETEA-LU projects through September 30, 2009. In a letter last week to Speaker Pelosi, Rep. Peter Welch noted, "This flexibility will allow states to start priority projects immediately and stimulate the economy, create new jobs and make much needed infrastructure improvements at <u>no additional cost to the taxpayer</u>."

Federal Tax Proposals - Changes to federal tax policy are generally aimed at providing additional cash for individuals to spend or invest or to encourage business to make investments they would otherwise delay during an economic downturn. When properly structured, tax changes can be very effective at getting cash into the economy quickly and nationwide.

State and federal tax systems are closely linked, meaning that changes in federal tax policy that reduce the federal tax base generally have the same effect at the state level. Any policy that would reduce both federal and state tax revenues violates the criteria of do no harm because losses at the state level have to be offset to meet balanced budget requirements. When considering tax changes for individuals or businesses to spur economic growth, Congress and the Administration should take into account the degree to which states conform their income tax base to the federal base and whether the stimulus provided by federal tax changes will be undermined by corresponding revenue losses for states.

Changes to Personal Income Tax – A review of past stimulus packages demonstrates that tax changes focused on individuals can generate immediate positive results for the economy. In particular, tax benefits aimed at putting cash in the hands of lower-income households are most effective because such individuals tend to spend extra cash more rapidly than high-income individuals. Currently, 36 states plus the District of Columbia conform their individual income tax base to the federal individual income tax base. Refundable tax credits distributed directly to individuals through checks would not affect the federal or state tax base; that is, they would not reduce state revenues, but would put additional cash in the hands of individuals and benefit all income levels. Likewise, nonrefundable tax rebates would not reduce state revenues but would exclude those portions of the populations that have no income tax liability, thus diminishing their stimulus effect.

We also must take steps to re-engage Americans in equity investments. Investors have fled equity markets over the past year due to wild fluctuations in valuations that are not tied to changes in the health of the underlying business. We must put additional incentives in place so that investors return to equity investments, and the best way to do that is to reduce taxes on capital gains.

Changes to Business Taxes – Tax changes designed as incentives to encourage business to invest in equipment and structures are another popular form of tax stimulus. Studies of bonus depreciation policies enacted in 2002, however, indicate that such incentives are not as effective as measures aimed at individuals. They also reduce state revenues, thereby exacerbating economic conditions in states and undermining at least part of the effect of the federal stimulus.

Many states conform to federal rules on depreciation in the calculation of their business income taxes, therefore, changes to federal depreciation calculations also affect state taxable income. In 2002, federal bonus depreciation provisions were projected to reduce revenues in 47 states by more than $14.7 billion over three years. To counter these revenue losses, all but 13 states decoupled from the federal depreciation rules. Decoupling prevents immediate revenue losses at the state level, but it also increases complexity for states and taxpayers as businesses must conform to different depreciation schedules in different tax jurisdictions. If federal officials adopt temporary accelerated depreciation provisions as part of a stimulus package, states will either once again decouple from the federal system or be forced to raise revenues or cut spending to counter the loss in business income tax revenues.

Alternatively, investment tax credits can have the same stimulus effect on business investment without undermining state revenues. Tax credits are preferable for states because they do not reduce federal taxable income upon which state business taxable income is based. The credit still encourages business to make investments in equipment and structures in the near term but does not require states to undertake countervailing measures to protect revenues.

Research and Development (R&D) tax credits function in much the same way, but act as a spur to innovation. The reauthorization of the federal R&D credit last year was an appropriate

Chairman OBEY. Governor Corzine.

Governor CORZINE. Thank you, Mr. Chairman, and Ranking Member Lewis. I am pleased to be here with my colleagues from New Jersey, Congressman Rothman and Congressman Frelinghuysen, who work very ably in a bipartisan way to represent the interests of our State.

I think it is testimony to the Chairman's leadership that we are focused very precisely on this very significant problem we have in the economy that is creating enormous dislocations at the State and local level. I have heard that from my colleagues already, and I am pleased to join them as well.

Our story in New Jersey is not a lot different from what you heard from Governor Doyle. We face one of the biggest challenges we have had in history financially. We are constitutionally required, as 49 other States are, to balance our budget. The budget that ended last June, we collected $33.5 billion. In the current year, estimates are that it will be $31.5 billion; and if I am wrong, it will be less, with sharply declining revenue collections month over month by comparison.

As we put together our budget for next fiscal year, which I have to deliver to the legislature in February, we are looking at $29.5 billion as the likely target. That is $4 billion, in 2 years, in absolute dollar reductions, 12 percent. And as I like to emphasize, those are absolute cuts, not baseline numbers, which I think budgeteers understand.

There are automatic increases in health care costs that we face, just as everybody else in the economy does, contractual wage hikes and automatic safety stabilizers that kick in during times of recession. If we were to look at baseline cuts, it is over $8 billion, more than 24 percent cut from what would have been expected over that 2-year period.

To compensate for the decline in revenue, we are doing the hard things that Governor Doyle talked about. We are cutting through the fat, and, frankly, I think we are dangerously into the bone. We have cut the State payroll by over 4,000 people. That is about a 6 percent decline in the last 2 years. We have changed collective bargaining arrangements, increased pension contributions, mandated cost sharing. I could go on.

We have cut aid to our colleges, universities, and municipalities already. We will be more challenged on that area in the next round of cuts. It will hurt people and the economy. And, frankly, a lot of our budget is not open to cutting in a civil society.

We are not going to shut down our prisons. There is only a minimum amount of cuts that you can make to public safety. Eliminating services to the developmentally disabled and mentally ill doesn't seem like a likely or proper direction. I could talk about child welfare agencies and others. And we have contractual obligations on debt service that go forward.

So we are left with a very limited set of places where you can go cutting—programs like Medicaid, higher education, aid to municipalities are the most likely. And coming up with $4 billion of those kinds of cuts goes at our most vulnerable citizens and the most important areas where we would like to be investing, our children and our future. These cuts are sapping an economy just as we ought to be strengthening the economy.

And as I say, we are just one state. If you multiply it, 4 billion times 50, you get an idea of what we are talking about. We are medium-sized, and so some of the bigger ones have larger and some of the smaller ones a little less.

My central point: A Federal stimulus package targeted to States must include, in my view, help on the operating side. I am an enthusiastic advocate for infrastructure spending. As a matter of fact, a month ago in the same hearing room I testified to the proper use of that if it is properly metricized and responsible. But we need help on the operating side if we are not to have the kind of cuts that I have outlined and Governor Doyle did.

I must say, we could end up having a $300 billion or $400 billion—maybe a $500 billion—program to help the States and other stimulus activities, but it could all end up being a wash if we don't get help on the operating side of the state budgets. And we haven't accomplished a lot if that is the case.

We are not looking about blank checks. The fact is that States and the local government already have the delivery systems, already have the programs in place, the infrastructure to deliver the broad-based stimulus program. The Federal Government has access to the resources, and we would love to be a partner in that process.

We have already made significant cuts, but—I would support the FMAP kind of investment that has been previously talked about, but there are other places, some of them in the mandates that the Federal Government lays upon the States. I think everybody knows that IDEA, we are only funding 17 percent of a mandate that we are required to carry. Everyone knows that No Child Left Behind is putting unfunded mandates on the States. We need help along those lines.

And the reality on Medicaid is real. In the last 5 months, we have had 40,000 increase in the number of people signed up for Medicaid. It is exploding in front of our very eyes. So I do hope that we get to FMAP; that we work in some of the other programs like "DISH" with respect to our hospitals, particularly in front of some hoped-for long-term fix for the uninsured.

I do hope also that we don't lose track of the fact that creating jobs with our infrastructure program is real. It can make a huge difference, and I think it can be delivered in a very solid context. We have, for instance, spending ongoing in the State of New Jersey, about $2.8 billion of accelerated transit projects and another $1.6 to -7 billion in school construction that we have moved up 6 months to try to stimulate the economy today.

But there are many things that we are not doing. Case in point, the State has already committed $5.7 billion towards one of the largest transit projects in the country, a new transit tunnel under the Hudson River, would create 6,000 jobs if we could get it funded today; 50,000 permanent jobs in the New York-New Jersey region is the estimate of the economists once it is completed, and it will carry 45 million passengers annually. There are real metrics and real positive elements associated with that.

Just as the New Deal put together programs that have short-run benefit, those projects like the Lincoln Tunnel and Golden Gate

Bridge, and the electrification of the Northeast Corridor that I took today with Vice President Biden, these projects put people to work then and they are paying dividends to our citizens today.

There is enormous need on both the operational side and the infrastructure side, and I would encourage both the Committee, the Congress, and all of us to work as partners to offset what is a very, very severe decline in our economy.

I would just close with: We had an antipoverty network hearing in Trenton this week. The use of our food banks is up over 30 percent in client usage. Applications for unemployment are so large that we had to shift 150 people out of other departments to actually deal with the ongoing crisis of servicing those who are applying for unemployment.

It is time for us all to pull together, join hands together, and be partners, address this not only to stimulate the economy, but to service the basic, core needs of our communities.

I appreciate having the chance to talk.

[The information follows:]

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JON S. CORZINE
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THE HONORABLE JON S. CORZINE
GOVERNOR, STATE OF NEW JERSEY
HOUSE APPROPRIATIONS COMMITTEE
"IMPACT OF RECESSION ON STATE AND LOCAL COMMUNITIES"
DECEMBER 11, 2008
GOVERNOR JON S. CORZINE

Thank you, Mr. Chairman – and thank you to the entire committee for inviting me to testify on the impact of the recession on state and local communities.

I think it's a testament to the Chairman's leadership that he's focused on ways that the federal government and the states can partner in fixing our broken economy.

I do have a serious message from the people of New Jersey to the people of Wisconsin – and I hope it's one that Chairman Obey and Governor Doyle will appreciate:

Thank you for Brett Favre. **[PAUSE]**

Governor Doyle already underscored many of the problems that the states are dealing with through his detailed description of the situation in Wisconsin. His concerns reflect common challenges for most, if not all, state and local governments.

In New Jersey, we're also facing one of the biggest fiscal crises in our state's history.

Like most states, we are constitutionally required to spend only as much as we take in.

In the budget year that ended last June, we collected and spent $33.5 billion.

In the current year, we will have reduced expenditures by almost $2 billion to $31.5 billion

The budget I'll introduce to the legislature in February will require upwards of $2 billion in additional reductions as the recession cuts deeply into our revenues.

That's a decrease of $4 billion in just two years, or a 12% reduction.

These cuts are measured in absolute numbers. They make no allowance for increases in health care spending, contractual wage hikes for public employees, or safety net resources, which increase in times of recession. If we used baseline growth – rather than absolute numbers – to calculate our current and future budget cuts, the total reduction would be over $8 billion over two years, rather than $4 billion.

To compensate for the decline in revenue, we've had to cut through the fat -- and we're now dangerously cutting into the bone.

We've cut the state payroll by four thousand people over three years.

We reached a collective bargaining agreement with state employees that increased pension contributions and mandated cost-sharing for health care.

And we've consolidated departments and agencies to streamline the way state that government works. We've reduced aid to our colleges, universities, and municipalities.

The next round of cuts are bound to depress our economy and hurt the people who least have the ability to speak up for themselves.

There are large portions of our budget that we simply cannot cut if we're to maintain a civil society.

We can't shut down our prisons, cut public safety, eliminate services for the developmentally disabled and mentally ill, or shutter our child welfare agencies.

We have to make good on our debt service obligations.

What's left on the chopping block are fundamental programs like Medicaid, higher education, and aid to municipalities. Cutting upwards of $4 billion from these services will impose a terrible hardship on our state's most vulnerable citizens . . . and the education of our children.

And it will sap our economy of much-needed counter-cyclical spending.

And we're just one state.

Multiply these cuts times 50, and we're removing hundreds of billions of dollars from our national economy – offsetting much of what Congress and the new administration might try to accomplish through a stimulus package.

Which brings me to my central point...

Any federal stimulus package targeted to the states **must** include help on both the operating side and the job-creation side.

There's been a lot of talk about concentrating the federal stimulus package on infrastructure spending. And that is a positive element of putting people to work. I fully support an investment in jobs and infrastructure.

But unless we help the states plug the hole in their operating budgets, any good we do through infrastructure stimulus will be offset by cuts in vital social services and education.

To put it another way, you can spend $300 to $400 billion over two years on infrastructure, but if the states and local governments cut roughly an equal amount from their operating budgets, it's a wash. What has been accomplished?

We're not talking about a blank check – we're talking about aid to public colleges and universities, health care for children and seniors, and assistance to our towns and cities.

We need each other. The states have the delivery systems, programs, and infrastructure in place to deliver a broad-based stimulus package. The federal government has access to the resources to make it happen.

We are – and we must continue to be – partners in restoring our economy.

On the operational side, New Jersey and other states could significantly benefit the federal government to fully funding its obligations for programs like No Child Left Behind and IDEA. For special education, the federal government funds a woefully inadequate 17 percent of our total pupil costs, when it's committed to covering 40 percent. Since the inception of NCLB, the federal government has underfunded the program by $1.2 billion in New Jersey. That needs to change.

Above and beyond redressing unfunded mandates, we need help meeting the ever-growing demands on our safety net programs.

Over the past five months, an additional 40,000 people have enrolled in New Jersey's Medicaid program . . . . Making steep cuts in Medicaid and children's health at the same time that people are losing their jobs is the wrong direction to go.

We need an increased FMAP match now, not months from now after the unemployment rate is likely to top 8 to 9 percent.

Similarly, we know that our hospitals have been struggling in recent years – and now more than ever, we need help with charity care funding while we develop a long-term fix for the uninsured.

Recently, I spoke about the need for a comprehensive federal program to address the housing crisis at its root – and to provide money to allow state housing agencies to modify housing loans. This can be done by providing money to state Housing Finance Agencies.

While there might be some debate, we also have an obligation to those who've been left behind. This week I attended an anti-poverty conference at our state capital where I heard first-hand accounts from people who struggle in the real world for adequate food, shelter, and job opportunities.

I think we all agree that this is the worst recession since the Great Depression, so we need to bridge the human gaps in TANF, food stamps, workforce development, and unemployment insurance – including the states' trust funds. It's not just the right thing to do. Any economist worth his salt will tell you that these programs have a high multiplier impact that will stimulate growth.

Even as the states and the federal government partner in meeting the social needs of our citizens, we can put people back to work by committing to a significant investment in our infrastructure.

Not only will this policy create jobs – it will lay the groundwork for decades of economic growth and prosperity.

Over the next year, New Jersey is accelerating $2.8 billion in roads, bridges, and mass transit, in addition to $1.9 billion in school construction.

The state is already accelerating projects to meet $25 billion in needed school construction.

So we're not just talking about projects that are shovel-ready – though they are. Our projects also conform with our broader policy goals: creating green industries, cutting greenhouse gases, reducing our dependency on foreign oil, and modernizing our educational facilities.

Case in point: my state has already committed $5.7 billion toward the largest tunnel project currently under design – a new mass transit tunnel under the Hudson River. This project will create 6,000 construction jobs annually for ten years and 50,000 permanent jobs in the region. When completed, it will also carry 45 million passengers annually. It's ready to go.

Projects like the mass transit tunnel mirror the transformative public works programs of the New Deal – programs that helped bring us out of the Great Depression.

Think of the Lincoln Tunnel. The electrification of the railroad between New York and Washington. The Golden Gate Bridge. These projects put people to work, and they continue to pay handsome dividends even today.

New Jersey, like other states and local governments, has a long list of shovel-ready infrastructure projects that range from roads and bridges, to sewer and water, to deferred maintenance on college campuses, to modernizing our energy grid. As an addendum to these remarks, I'm submitting a list for the record.

Let me close . . .

Getting out of the current economic mess is going to be expensive and messy. But we have the opportunity to lay the groundwork for both recovery and a generation of prosperity.

The great economist John Maynard Keynes knew a little bit about how to get out of a recession. He said, "The importance of money flows from it being a link between the present and the future."

It was true then, and it's true today. Let's join together and build a more prosperous and secure future for all the citizens of the United States.

Chairman OBEY. Thank you very much, Governor.

Just one observation, and I will be frank about it. A number of my colleagues on both sides of the aisle will say to me in private, “Well, yeah, I know these States have a lot of deficits.” But if the governors are of the opposite party, some Members are saying, “I don’t want to help him. I want to deal with my problems.” And others are saying, “Well, why? This is the State’s problem. I am a Federalist. Why should the Federal Government weigh in to give money to governors?”

My friends know I like to quote Archy the Cockroach, and Archy once said, “There is always a comforting thought in time of trouble, if it is not your trouble.” What others have said to me is: “We are seeing at the State level, or will see at the State level, that because of the actions you have to take to balance your budgets, the result will end up being a fiscal drag on the economy of somewhere around $200 billion.”

And I have heard even higher estimates. And if that is the case, it means that if the Congress doesn’t appropriate $200 million to at least counter that, we are not only not staying neutral, we are making the problem worse. Or, at least, the problem is becoming worse.

And so it seems to me that what we need to do is first, provide a reasonable balance between what the Federal Government does, what the local governments do, what State governments can do, and what the private sector and organizations can do in order to create jobs to counter the jobs we are going to be losing with what is happening in the economy; second, stabilize the budget situations at the State and local level; and, third, help the most vulnerable victims of this recession.

And hopefully, at the same time, while we are at it, it would be nice if we could do all of those things in a way which would modernize and streamline and make more efficient some of our delivery systems and services around the country.

So I appreciate your comments here today. And to give other members more time, I will decline to ask any questions at this time and turn it over to Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. It is not my intention to ask any questions, but I do have a unanimous consent, if you will, to enter into the hearing record the additional materials. And it includes an op-ed from Governor Sanford, who is the chairman of the Republican Governors Association, and Governor Perry of Texas.

Chairman OBEY. Without objection, so ordered.

[The information follows:]

Governors Against State Bailouts
By Rick Perry and Mark Sanford
2 December 2008
The Wall Street Journal

As governors and citizens, we've grown increasingly concerned over the past weeks as Washington has thrown bailout after bailout at the national economy with little to show for it.

In the process, the federal government is not only burying future generations under mountains of debt. It is also taking our country in a very dangerous direction -- toward a "bailout mentality" where we look to government rather than ourselves for solutions. We're asking other governors from both sides of the political aisle to join with us in opposing further federal bailout intervention for three reasons.

First, we're crossing the Rubicon with regard to debt.

One fact that's been continually glossed over in the bailout debate is that Washington doesn't have money in hand for any of these proposals. Every penny would be borrowed. Estimates for what the government is willing to spend on bailouts and stimulus efforts for this year reach as much as $7.7 trillion according to Bloomberg.com -- a full half of the United States' yearly economic output.

With all the zeroes in the numbers, it's no wonder Washington politicians have lost track.

That trillion-dollar figure is the tip of the iceberg when it comes to checks written by the federal government that it can't cash. Former U.S. Comptroller General David Walker puts our nation's total debt and unpaid promises, like Social Security, at roughly $52 trillion -- an invisible mortgage of $450,000 on every American household. Borrowing money to "solve" a problem created by too much debt seems odd. And as fiscally conservative Republicans, we take no pleasure in pointing out that many in our own party have been just as complicit in running up the tab as those on the political left.

Second, the bailout mentality threatens Americans' sense of personal responsibility.

In a free-market system, competition and one's own personal stake motivate people to do their best. In this process, the winners create wealth, jobs and new investment, while others go back to the drawing board better prepared to try again.

To an unprecedented degree, government is currently picking winners and losers in the private marketplace, and throwing good money after bad. A prudent investor takes money from low-yield investments and puts them in those that yield better returns. Recent government intervention is doing the opposite -- taking capital generated from productive activities and throwing it at enterprises that in many cases need to reorganize their business model.

Take for example the proposed Big Three auto-maker bailout. We think it's very telling that each of the three CEO's flew on their own private jets to Washington to ask for a taxpayer handout. No amount of taxpayer largess could fix a business culture so fundamentally flawed.

Third, we'd ask the federal government to stop believing it has all the answers.

Our Founding Fathers were clear and deliberate in setting up a system whereby the federal government would only step in for that which states cannot do themselves. An expansionist federal government of the last century has moved us light-years away from that model, but it doesn't mean that Congress can't learn from states that are coming up with solutions that work.

In Texas and South Carolina, we've focused on improving "soil conditions" for businesses by cutting taxes, reforming our legal system and our workers' compensation system. We'd humbly suggest that Congress take a page from those playbooks by focusing on targeted tax relief paid for by cutting spending, not by borrowing.

In the rush to do "something" to help, federal leaders would be wise to take a line from the Hippocratic Oath, and pledge to do no (more) harm to our country's finances. We can weather this storm if we commit to fiscal prudence and hold true to the values of individual freedom and responsibility that made our nation great.

Mr. Perry, a Republican, is the governor of Texas. Mr. Sanford, a Republican, is the governor of South Carolina.

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FOR IMMEDIATE RELEASE
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Thursday, December 10, 2008
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Statement of Texas Governor Rick Perry on House Appropriations Committee Hearing on Federal Spending Plan

Washington, DC – Texas Governor Rick Perry issued the following statement regarding the House Appropriations Committee Hearing on a Federal Spending Plan.

Governor Rick Perry: "As the House Appropriations Committee takes up the issue of federal assistance to the states, I hope that they will keep in mind the basic laws of economics. Nowhere, in any business, organization or home, is it prudent to pile debt on top of debt. However, the federal government seems to think it operates under a different set of rules, all seemingly intended to increase dependence on its generosity with other people's money.

Every dollar the government taxes and spends is a dollar a family could invest in their children's education or an employer could have used to create more jobs. Pouring those dollars as well as dollars borrowed from future generations into the coffers of mismanaged companies is just bad public policy. This same bailout mentality also fails to justify the rush to mortgage a massive new spending plan for the states onto future generations. Instead of giving away more dollars they don't have or will take from taxpayers, the federal government should press for the best economic stimulus of all: a tax cut."

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Mr. LEWIS. Mr. Chairman, if I could take the balance of my time and yield it to my colleague from New Jersey, Mr. Frelinghuysen.

Chairman OBEY. Sure.

Mr. FRELINGHUYSEN. I thank the gentleman for yielding and I thank the gentleman for the time.

And let me share—initially, I share the concern of our ranking member, Mr. Lewis, that so many of our appropriations bills were not debated and passed on the floor. I think in many ways that could have been a stimulus to get those bills through and money out on the street.

I share with Mr. Mollohan oversight of the Department of Commerce, Justice, and Science portfolio, and there is a lot in those bills that would do a lot to stimulate the American economy.

Having said that, gentlemen, thank you for being here. And particularly, it is a pleasure to welcome my own Governor Jon Corzine.

The advertised topic of this hearing is the need for an economic stimulus package. I think we can all agree that we have an obligation to act to ensure that the current economic slowdown is as shallow and as brief as possible. There may be a need for targeted infrastructure investments as many of you have outlined. I am certainly familiar with those that need to be done in the New York-New Jersey area.

The question that this Congress needs to debate is how we structure an assistance package that will be designed to stimulate or—will we structure an assistance package that will be designed to stimulate our economy or will it be structured in some ways to stimulate the growth and the size of our government? From my way of thinking, we must spur growth by using the traditional resilience of our economy and not relying on the sheer size of our U.S. Treasury.

I understand that all of our States and our cities are hurting; as a result of the year-old recession, revenue collections are down. As Governor Corzine has stated, in New Jersey the revenue shortfall is expected to be at least $400 million and could reach nearly $1 billion, based on projections produced by the nonpartisan Office of Legislative Services. My Governor's administration estimates that the revenue shortfall for fiscal year 2009 to 2010 could be nearly $4 billion.

Let me say, some of the problems here are self-inflicted: too much spending, too much incurring of debt, and, quite honestly, too much borrowing, which has contributed. But I do think the Federal Government needs to step up to the plate.

I have to say for the record, even in the State, in States' investments, the State investment portfolio is down $23 billion. And that may be a nationwide trend. That is a huge impact.

But I served in the State legislature for a number of years. One of the reasons that we have this is because things have been given away to a lot of the public employee unions, and it has been reflected in the municipal budgets—the pension benefits, the health benefits for employees. And so the question is whether we have the courage to sort of revisit those areas and gain some sort of fiscal stability.

So I thank the gentleman for yielding, and I thank the Chairman for the time.

Chairman OBEY. Mr. Murtha.

Mr. MURTHA. Governors, I read through your statements. And I just want to say, we had this problem 25 years ago in western Pennsylvania. We lost steel and we got a lot of help from the government, and it made a hell of a difference.

I hope you are making suggestions how to streamline, because we started sewage and water, where it took 4 or 5 years to get through the process, there are so damn many agencies involved.

So I hope to the committee, the Appropriations Committee, and to Oberstar's committee to make suggestions about what would help streamline, so you can get that stuff out there. I know you have got all kinds of sewage and water projects and infrastructure projects, but we need to know from you what would help you get it out as quickly as possible.

Chairman OBEY. Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman. And I wanted to associate my remarks with Mr. Lewis in terms of last year's budget.

Here we are, having the hearing on anticipated legislation; yet, we have not finished up the fiscal year appropriation process for the year. And one of the reasons why we are unable to finish that had to do with offshore drilling. And I believe that an abundant supply of domestic oil would actually be a long-term solution to some of our economic woes.

So I think we could revisit some of these issues that we came apart on last summer, and it can be and should be part of this package.

But I am also wondering, in terms of some of the unfunded mandates—and I had served in the State legislature as well, and know that one of the great difficulties of State government is that there are so many unfunded Federal mandates on it; and yet, in your remarks, they are mentioned, but not specifically.

It would appear to me that the National Governors Association might say, "Here is a list of very serious unfunded mandates that are very costly and well-intended. They are all well-intended, but some aren't practical, and many could be handled by State and local government discretion anyhow."

You pointed out in your comments that Vermont, while it doesn't have a balanced budget amendment, always balances its budget. Just because we don't mandate it doesn't mean that you are not going to do it anyhow. So I think on so many of these mandates we could get the word "Federal" out of there, and the States would do it, but the States could probably do it a lot more efficiently and inexpensively. And I hope that maybe today or in the coming weeks you can enumerate some of those mandates and, on a bipartisan basis, we can get rid of some of them.

Governor CORZINE. Mr. Chairman, if I might make a comment on unfunded mandates, and then I would also like to reemphasize that all governors are asking for accelerated processes, as we did with President-elect Obama last week with regard to streamlining of some of the processes that are associated with infrastructure projects.

But make no mistake, almost every State has already gone through this prioritization process. We have in the State of New Jersey. We have ready-to-go shovel-ready projects that would meet both the Transportation Department standards that have to be met for matching funds. We have accelerated a large number of those in New Jersey, but we have a much longer list than what we have actually been able to fund with the resources that we have.

The same goes with our school construction efforts that we have in place in the State. It is a $25 billion project. If we were to do what we have already identified as a responsible addressing of that issue, we would only cover, on our dime, about $5 billion of that.

So I don't want people to come away saying that States haven't been doing their homework in getting prepared for shovel-ready, ready-to-go projects. I think we have that. And so—and I know that is the case on some of the water and sewer issues.

There are a number of those same things that would be associated with energy projects, that conversion of public buildings. Most of that has been identified in a lot of the States. There is a huge backlog of maintenance and repair issues at our public universities that are identified that I think could be included in any kind of infrastructure.

On the unfunded mandates, I think that some of them may be very appropriate. IDEA, which most people would strongly support in helping our at-risk children, our special needs kids, nobody thinks it is a bad program. The problem is that, since 1975, we have never gotten to full funding or anywhere close to full funding of what the Federal committed share is.

For us it is about $500 million, we estimate, what we are getting in shortfall relative to it. The same thing on Leave No Child Behind. Now, you are right, there are some mandates that a lot of us would just, you know, there is no funding for at all. And mistakes happen, and we can work on that. But a lot of the mandates are the Federal Government has not put its partnership share into those and the States are picking that up. And that gets into that displacement issue that helps us funding.

Chairman OBEY. Thank you. Governor?

Governor DOUGLAS. Mr. Chairman, you did not pose a direct question at the outset of this part of the hearing, but I wanted to comment on whether this is an appropriate step for the Congress to take. And I think part of the answer is that this is a shared responsibility to administer most of the programs that we are discussing. Transportation programs are funded substantially by the Federal Government, administered by the States. That is true of Medicaid and other safety net programs. So as I have suggested in our meeting with my colleagues last week, we are all in this together from a Federal and State perspective.

And secondly, I would not be here asking for the entirety of the budget gaps that the States are facing, because I think, and economists have weighed in on this, it is important to require some streamlining of State administration and programs. As we have noted today, we have been doing some heavy lifting in terms of cutting back and tightening our belts and doing things more efficiently. So we are certainly doing everything we can, and would welcome your participation in this effort so our mutual constituents can continue to get the service and benefits they deserve.

Chairman OBEY. Thank you. Mr. Dicks.

Mr. DICKS. Well, I want to welcome the Governors here and congratulate our Chairman for having this hearing. I think this is great, to allow the American people to understand the problems that the States are facing. And after all, we are all in this together. We all represent the same people. And we have to be concerned about those people.

I happen to be the Chairman of the Interior and Environment Appropriations Subcommittee, and we have jurisdiction over the EPA, clean water, and safe drinking water revolving funds. It has been my impression that loans are good to a certain extent, but at some point you got to have grants. We are now reduced to about 600 million or 700 million in STAG grants. During the Nixon administration, when Bill Ruckelshaus was the administrator of EPA, we had $6 billion a year in water and sewer construction grant programs. I think it was like 80 percent or 80–20 or 90–10, some number like that. And to me, representing—I have urban areas in my district and rural areas. The rural areas simply are unable to do these projects because they cannot—the cost of paying back the loans gets to be so high that the constituents cannot pay the bill.

So I think this is one area where we need—you know, Christine Todd Whitman, when she was Administrator of EPA, did a review of the whole situation; we have a $388 billion backlog nationwide in our wastewater treatment facilities. And if we are going to clean up the Chesapeake Bay and the Great Lakes and the Puget Sound, San Francisco Harbor, all these major estuaries in the country, we are going to have to do these projects.

So I just do not know if you have any comment on that, about the fact that all we have today seems to be loans, with a few very modest grant programs. I think this is one area that we could change that would make a dramatic difference, create jobs, and also help us deal with some of our fundamental environmental problems.

Governor DOYLE. Mr. Chairman, could I——

Chairman OBEY. Governor Doyle.

Governor DOYLE. I agree wholeheartedly. In fact, we have in our list of ready-to-go projects identified a whole section of clean water and water treatment projects. The reason they are ready to go is they have been sitting, in many instances, just sitting there because of a municipality or sewage district not being able to finance the project. But in our list of ready-to-go projects, that is a very major section of them.

Mr. DICKS. Thank you, Mr. Chairman.

Chairman OBEY. All right. Mr. Mollohan.

Mr. MOLLOHAN. Thank you, Mr. Chairman. Mr. Chairman, thank you for having this important hearing. I would like to join other members of the committee in welcoming the Governors here. I am chairman of the committee that funds law enforcement—served with Mr. Frelinghuysen—and the Federal Government has a program for State and local law enforcement that I am sure all of you are familiar with. Governor Corzine served with distinction in the Senate and is familiar with the COPS program, which was very robust during his tenure.

I wonder, moving from the infrastructure side to the operations side, if you all would discuss a bit for us the impact the economy is having on your ability to fund State and local law enforcement and what extraordinary needs the economic condition has placed in that area on you and how we might step up and help in those areas.

Governor CORZINE. Thank you, Congressman. First of all, at the State level we have already pared back State police classes. So we are delaying and shrinking the number of people that we are offering into the workforce. And you can only go so long in that process or you end up having a major undermining of broad public safety in the State. This actually is part of the trickle-down problem that comes from this issue. This is a major problem among local communities. State aid is cut with broad general aid, and then the local communities have to look for the places to make their cuts. And the first and foremost, largest part of their budgets, go to public safety, fire and police. And while there can be arguments about whether the benefit packages are excessive or too attractive, the fact is that we need people in our communities.

All of us are struggling with a gang problem. When you put dedicated police officers and technology into the streets, as Governor Doyle talked about, you get results and improvement in the quality of life in these communities. And I only hope that people understand that it is fine for us to adjust our budgets, our adjustments are going to be right out of the local support for law enforcement. That is why the COPS program was such an important ingredient, certainly would be something that I think most Governors, and certainly mayors, would be supportive of.

Governor DOYLE. If I could add, I agree with everything that was just said. In Wisconsin at least, the way we are structured, large parts of our municipal budgets come through local aids that the State provides. And when you are talking about the kind of deficits we are looking at right now, you know, 80 percent of our budget is made up of K–12 education, of higher education costs, of Medicaid, of local aids, and of corrections. And of those last two, local aids and corrections, obviously that is major public safety and law enforcement concern.

I was the Attorney General of the State of Wisconsin during the years of the COPS program. I saw the enormous advantage that we saw throughout the 1990s, a steady and significant decline of our crime rates throughout that entire decade. There were a number of reasons for it, but I believe the COPS program was certainly one.

But now we face these huge cuts to the Byrne grant program that have really affected not only our local law enforcement, but our juvenile prevention programs and other things in the State. And when we look at what our budget is really made up of, at these levels it means you have to cut local aids. And I gave an example in my remarks that I do not want to repeat, but it is exactly that kind of specific program that is at stake when the city of Milwaukee comes to the State and says we need help on more police overtime pay in order to have a targeted program directed specifically at reducing violent crime, and homicides in particular, in particular areas of the city, data driven, community-based police kind of efforts, we were able to do that with very demonstrable results.

With this kind of deficit in front of us, and just trying to make sure kids can go to school, it is going to be very hard for us to be able to deal with those kinds of challenges.

Governor DOUGLAS. Mr. Chairman, could I respond to Mr. Mollohan's question as well?

Chairman OBEY. Sure.

Governor DOUGLAS. It is a little different in our State, because we have been through the cycle that Governor Corzine described of smaller classes at our police academy and underfunding our State police resources. So we are now increasing those resources. And despite the fact that we are having to make these tough budget cuts, I am actually recommending additional funding for our State police in the current and next fiscal year. We just have to, because although we are a small State, we are one of the safest in America, we have seen an increase in some areas of criminal conduct. And because we are on an international border we have drug smuggling that comes across. And in addition to the great work that the Border Patrol does, our State and local law enforcement agencies play a key role.

It has gotten to the point in one small city in the northwest part of our State where they are having a very difficult public debate about whether to provide adequate support for the police department or the fire department. This is a serious situation because, as my colleagues have suggested, with cutbacks at the State level, it is going to have an impact on local agencies. So the Federal support for the COPS program and other similar appropriations is certainly welcome.

Mr. MOLLOHAN. Thank you, Mr. Chairman.

Chairman OBEY. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman. Thank you so very much for holding these hearings.

And welcome, Governors. I am really glad to have you here this morning. I wanted to say that I believe getting our economy growing requires that transfer payments, Federal transfer payments to our States, be targeted in a manner that achieves as much economic growth as possible, at the same time as the Federal Government tries to assist the States.

And in that regard, if I look at, for example, the area of energy, I would guess maybe 10 percent of your State budgets, I am not sure, would go into paying energy bills for everything from Guard bases to the Governors' offices.

And one of my questions really is it would seem to me that an investment in green energy in your respective States would have a long-term payout. If you could save 10 percent for the next 25 years, every year, it would get priority maybe over investments that would be dead in the ground, even though they might be important. And I wanted to get your comments on green energy.

And then Governor Corzine, my question to you, New Jersey's economy is more like Ohio's than the other two States that are represented on the panel this morning. Do you agree that the mortgage foreclosure crisis has really helped to precipitate the situation we are facing today? And as a former CEO of Goldman Sachs, let me ask you to comment how you view the administration of the

TARP and what we might do to deal with this mortgage foreclosure issue more effectively.

So, first, on green energy and, secondly, on what you view as the precipitating factors that have tripped our economy into the downward spiral that we are all experiencing. Thank you.

Governor CORZINE. Thank you, Congresswoman. First of all, I think all of us, when we talk about infrastructure—and I tried—in my formal remarks that are a part of the record, I emphasized that green energy investments, conversion and efficiency of buildings, particularly public buildings and others, as one of those things that is ready to go. We know how to do it, we just do not have the resources to bring people in to do it.

We are actually changing some of the structure, working with public utilities to try to get resources to do that on a broad basis across the State as a both an economic stimulus, but also for the long-run benefits that you suggest. And I absolutely believe it should be part of an overall comprehensive economic stimulus program. And I think I am hearing that talked about, and there should be in any $500- or $600-billion program, some allocation that I think actually primes the pump with regard to these directions.

Ms. KAPTUR. Governor, may I interrupt you? Do you know what percentage of the budget of New Jersey goes to energy costs?

Governor CORZINE. I think it is a little less than 10 percent. You know, what most of us do in our budgets, and you have heard it from us, is we pass through, we either pass through to the educational system, our K through 12 or to our higher education. So some of those same kinds of questions, when you accumulate it, how we are spending the money that goes to education, how we are spending the money that goes to our municipalities, is going to energy. We just give a flat-out.

So I think that there is a lot of work in the area that you are talking about that can create tremendous stimulus with long-run dividends.

I am going to identify with the Chairman's remarks at the open. I think I might arrange them just a little bit different. I do think that there is a long-run problem in the country about the failure to have income, real income, grow for individuals for a very long period of time. And that has led to a build-up of debt, consumer debt.

Same sort of thing has happened in government. It is a bigger problem at the State and local level than it is at the Federal, although I think we will, long run, have problems there. There is this accumulating debt that has grown because there has been a concentration of growth of wealth in a very narrow segment. That is a big strategic problem that I think the country has to address.

But there is no question that the housing market, in my view, which is such a fundamental part of our overall economy, that is where savings exist for most people in America. The broad majority of folks, 70 percent, roughly 70 percent of people have home ownership. They save through their home. And when that fell apart, for lots of different reasons, including the greed that somewhat exists in various parts of our economy, both at local and on Wall Street, I think that was a spark that has led to an accumulation of problems. And you have to remember you are talking about probably about 20 percent of our economy associated with that. It impacts our consumer, which is about two-thirds of our economy. And I think unless we get to the roots of that problem, actually get into the mortgage modification and all those kinds of things—and I think that should be done with TARP money—I think we are just going to be suffering from those problems that have resulted in the weakening of the balance sheet of financial institutions as we go forward. I could talk for hours on this. I am sorry.

Governor DOYLE. If I could say something about the green energy, we could get to you the percentage, and I am not sure exactly what it is. I think it is a little less than 10, but it is huge.

I tell you this, when I look at the University of Wisconsin's budget each year, the biggest lift in that budget is energy costs. So before you even start dealing with other issues that you need to deal with at the University, you have to just cover the increased heating bill. And particularly for us in cold-weather States, it is enormous. And let me add, particularly if you are a major research university. University of Wisconsin-Madison is always one of the top two or three NIH fund receivers in the country. Huge medical research building. And those institutions take up a lot and growing amounts of energy.

On the green energy, I would like to bring up one other point to you that you might want to consider. I just recently had a discussion with a major utility. We have very significant RPS standards in Wisconsin. By 2015 they have to be 10 percent renewable. By 2020 they have to be 20 percent renewable. Right now they have a project ready to go, a major wind farm ready to go, that they cannot because of the restrictions in the credit market. The amount of money that they would have to pay in order to go forward with that project is so high that the cost to our ratepayers in Wisconsin would be enormous. The result of this economic crisis in our State is slowing our ability or may well slow our ability to hit the legally stated RPS standards that we have in place.

Ms. KAPTUR. Mr. Chairman, I want to thank the Governor. And I want to say that both Chairman Obey and I spent many years in those cold-blooded Wisconsin winters trudging up Bascom Hill. So I just have to put that on the record, and it is great to have you here, Governor.

Chairman OBEY. Let me ask the cooperation of the members of the committee and the witnesses. We are trying to hold the time frame for both the question and all of the answers to 5 minutes per Member so that every Member gets a chance to ask a question who desires to. With that, Mrs. Lowey.

Mrs. LOWEY. Thank you, Mr. Chairman, for holding this hearing. And I want to thank the Governors for their excellent testimony. You mentioned so many good points. I particularly want to thank you for your focus on FMAP. And certainly we saw in New York that during the last significant economic downturn, a temporary increase in FMAP resulted in an additional $600 million for New York, generated more than $1 billion in additional economic activity.

So I appreciate your shaking your heads, and I do hope that an increase in FMAP will be an important part of our economic stimulus, economic recovery package. And I thank you.

On a related issue, in 2005 for the first time, health care exceeded manufacturing as a percentage of all jobs nationally. Unfortunately, despite the fact that hospitals are often the largest employer in a community, many of them are barely surviving, although we are asking them to expand emergency rooms and prepare, God forbid, we ever had an incident again that needed their involvement. They do not have the capital to do what they really have to do.

So my question, gentlemen, do you agree, number one, that helping hospitals access capital to improve their facilities and operations will ultimately improve health care, reduce costs, and generate jobs? And secondly, would you support a new Federal program to provide grants and low-cost loans to hospitals to make desperately needed upgrades and improvements? And if you could respond, I would appreciate it in the minutes that we have left.

Governor DOUGLAS. Well, as my colleagues and I have suggested, Mr. Chairman, I would hope the Congress would be flexible in its definition of infrastructure, because the priorities differ from State to State. It may be a renewable energy project, as Congresswoman Kaptur noted, and we are proud of the fact that we have more wood-chip boilers in school buildings in Vermont than any other State. And we have three buildings heated by geothermal systems that are very cost-effective. And I hope we can do more.

And obviously in terms of health care facilities, the better the infrastructure, the better the quality of care, means that there will be a favorable impact on the rates that are charged to customers. And of course the State government is a large payer of health care costs. So that certainly would indeed be beneficial.

Mrs. LOWEY. Thank you.

Governor CORZINE. I would concur with Governor Douglas' comments. But I would also emphasize that aid to the hospitals on the operating side, probably through the DISH program, disproportionate share issue, is also fundamental.

Right now, as you all know, when people go through economic stress, one of the first things to go is the remaining folks in our society that have health insurance. That goes fast. They go to the emergency room. We end up picking up charity care. And it is just a vicious circle that is undermining the operating economic health of our hospitals.

And so looking for ways to help get across this bridge, bridge this recession, I think is an important element with regard to the operations of hospitals, as well as their capital plans.

Governor DOYLE. If I could just add how important FMAP is to economic stimulus. Because if in fact, if you are just looking out over the next couple of years, if we have to cut our Medicaid budgets by 20 percent, the result of that in practical terms is that some fairly low-paid person working in a nursing home in the State of Wisconsin will be out of work. Somebody at the hospital, somebody, a technician, others, will not be working there. Those are jobs that are spread all across our States in every community and every place.

And I love the people who build our roads, and we love the operating engineers and the people that do all that, but there are people who hold a lot of other kinds of jobs. And as you pointed out very, very aptly, many of those jobs are in the health care sector, and many are very, very dependent, particularly in long-term care, are very dependent on the Medicaid program.

Mrs. LOWEY. Thank you very much, and thank you, Mr. Chairman.

Chairman OBEY. Mr. Serrano.

Mr. SERRANO. Mr. Chairman, thank you for holding these hearings. And I want to call your attention to today's Daily News to contrast: The bottom is the Sinking City, Mike Bloomberg cutting a million and a half, and the top is the Yankees gave CC Sabathia $161 million. If I was not a Yankee fan I would be outraged, but since I am a Yankees fan——

Governor DOYLE. You know you are saying that to a Brewers fan.

Mr. SERRANO. I just noticed that. I probably should not have said that. I apologize.

But my question speaks somewhat to what I mentioned here. And that is I spent 16 years in the New York State legislature, so I know how difficult it is to put budgets together during difficult times, and these are not just difficult, these are devastating in some ways. The people or the groups that suffer the most in these times, or suffer a lot, are the ones that do not have a constituency to lobby for them: the cultural institutions, the arts, beaches, tourism, recreational programs.

Are we in danger of perhaps devastating our cultural institutions during this period of time to the point where they can never recover? And let me preface my last comment by saying that we understand what the priorities have to be. But at the same time, in the case, for instance, of New Jersey and New York, we worked jointly with our cultural institutions in both States, and they not only provide jobs but they provide a quality of life. And in many cases during difficult times they can make people just feel a little bit better. Are we in danger, as we focus on the needs that we have to deal with, of just having our institutions die to a point where they cannot recover?

Governor CORZINE. Well, I was with you until the last comment. I do not think that we will get ourselves into a position where we eliminate or pull entirely away from cultural and community-based activities. But at least in New Jersey we have made a very clear choice that educating our kids is the priority that we are going to protect the most significantly. Public safety is going to be protected. And that we are going to do as much as we can to protect the most vulnerable.

And these cuts that Governor Doyle and I talked about include—I mean I do not know about in Wisconsin—but they include serious cuts for a lot of those things that you just mentioned, culture and arts. And we are trying to do it in a way that we again bridge until we have resources to come back. But you have to make incredibly agonizing choices, and making sure that our kids get educated, that we protect folks on the streets of our cities and communities and do everything we can for the most vulnerable. And that is why we are here to say we need to be partners in this process or we are going to have a very, very serious outcome at a human level, even on those most important priorities.

Mr. SERRANO. Thank you so much.

Chairman OBEY. Ms. DeLauro.

Ms. DELAURO. Thank you, Mr. Chairman. And I want to say thank you to the Governors for being here today. Mr. Chairman, to you let me say I believe that this is the first hearing where we have focused on what is happening to those who are unemployed. They are not nameless, they are not faceless, they are not statistics. We focused on an industry, we focused on financial institutions. This is the first time we have said, What is going on in the lives of people who have lost their jobs?

I want to focus in on the infrastructure piece if I can. I am supportive of FMAP, of food stamps, but on infrastructure—and I have three very quick questions, and one specifically that has to do with Governor Corzine. We have legislation up here that—we are trying to deal with an economic recovery program, not just stimulus, jobs that will look toward growth in the future.

The legislation—and I will be self-serving in this sense—since 1994 something called the National Infrastructure Bank, which examines infrastructure projects in an objective way, uses proceeds from bond issues to fund the projects. I believe it ought to be part of an economic recovery package.

Governor Corzine, you talked about the New Deal programs, Tennessee Valley Authority, which is similar to the entity that we have been proposing here. As Governors, I would like to get your thoughts on the extent to which your States would take advantage of such an entity that would provide loans for a host of these infrastructure projects.

Specifically, Governor Corzine, what would the global markets do? Do we have an opportunity to get investors to deal with such an entity where they would be attracted to public benefit bonds?

And again to the three of you with regard who is going to get these jobs in your State, do you have the capacity and the workforce development programs to create the opportunities for men, women, and minorities and young people to be able to get these jobs?

Governor CORZINE. Congresswoman, I believe that if you have the U.S. Government imprimatur on an infrastructure bank, which I presume in most models that I have seen, you will get significantly lower-cost financing than I think what we are doing at the States and authorities that are associated with the States, in coming together in raising capital in the capital markets. And yes is the short answer. I think it will actually improve it.

I think the infrastructure bank actually will address some of the needs or concerns that the Ranking Member talked about. We ought to have to scrub to real metrics about the viability and the rates of return that are associated with the projects that go through that. So I am very supportive of that concept. I think it is one whose time has come.

You know, the other questions, I believe that we work all the time in most of our States on our workforce development and to broaden access to encourage our labor unions to make sure that there is equal access to those jobs. Yes, the construction industry is on its back. Housing is down two-thirds in construction from where it was. There are plenty of people to go to work on infrastructure rebuilding. We just have to make sure that we are putting pressure, that it is a diversified workforce, that everyone has access to it.

That is not to criticize organized labor, but we need to make sure that the apprentice programs are open to women and minorities as well as others. And we need to obviously be updating workforce skills for the 21st century. And all of those things are in place. We just cannot fund it to the degree we would like.

Governor DOYLE. On the first point let me, if I could, just tie it back to energy conservation as well, which I think, I hope, is part of infrastructure.

Ms. DELAURO. Absolutely.

Governor DOYLE. And to talk about how such authority would be helpful. One of the things we have done in the last month of trying to really look at how you jump-start an economy is look not only at the public infrastructure needs, but the private needs as well. And we identified over $600 million of energy conservation projects that Wisconsin companies are prepared to do immediately.

The reason we know this is because we have a fund that works through our public utility commission comprised of money that the utilities pay in. That goes out to businesses that come in and say this is how we want to retrofit our factories, this is what we want to do to save energy. And so we have a queue of those proposals and we can fund so many of them. But there is a list of about 600 million of those that are really not able to move forward because of lack of financing right now.

So there are public opportunities, but I just give you this as an example of where we could put a lot of people to work for private companies in energy conservation on projects that they have ready to go.

On workforce development, a huge issue, but I want to just say we recently have completed the biggest public works project in the history of the State of Wisconsin, the rebuilding of what we call the Marquette Interchange, which is the main interchange in the middle of the city of Milwaukee, about a billion-dollar project.

We worked very hard, we figured out ways to get the contracts out in smaller lets so that minority- and women-owned businesses are able to build. And I am very proud to say that 23 percent of the contracts that we bid on that project, which came in under budget and under time, went to minority, women-owned businesses, and that 25 percent of the workforce that worked on that road was minority as well.

So we have developed some real efforts at how we let the bids and how we get them in a way that we are able to make sure that a lot of people are enjoying and having the opportunity to go to work.

And we are now in another huge infrastructure project, which is the whole rebuilding of the Interstate between Milwaukee and Chicago. It is going to be a $2 billion project over the next 6, 7 years. We will do the same kind of work to make sure people who are ready to come and work hard have an opportunity to work on that road.

Governor DOUGLAS. Mr. Chairman.

Chairman OBEY. The gentlewoman's time—Governor?

Governor DOUGLAS. Very briefly——

Chairman OBEY. Briefly, go ahead.

Governor DOUGLAS. Our contractors believe they have the capacity to get the job done. We have energy projects, as Governor Doyle does, ready to go. And we launched a program we call the Next Generation Initiative a couple of years ago to provide more resources for scholarship, for loan forgiveness programs, and also workforce training. And I attended the launch of one recently to train workers specifically to install solar panels, solar installations as a renewable energy project. So I think we have got a lot of work to do to get the job done.

Ms. DELAURO. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Moran.

Mr. MORAN. Thank you very much, Mr. Chairman. And I appreciate Mr. Lewis and Mr. Frelinghuysen being here, but it is particularly encouraging that we have had more than two dozen members on our side of the aisle stay all day today, even though votes have concluded, showing the importance of this. It is encouraging.

Mr. Chairman, clearly State and local government needs have been largely excluded from any of the assistance Congress has already adopted. And I note that both Treasury and Federal Reserve are pointing the finger at each other now for who is responsible for that. But the fact is no serious recovery package will work absent our efforts to focus on their short- and long-term access to the financial markets.

While the TARP and Fed have generously backed corporate access to short-term debt for the corporate sector, both agencies have refused the State and local sector. While the legislation we adopted specifically directed the Treasury to give consideration to cities and counties, no such consideration occurred. I think a key goal of this package ought to include language to free up or at least ease and reduce the cost of access to the State and local credit markets.

I see Governor Corzine vigorously nodding his head. I know he understands the importance of this. It is the single highest priority for a number of municipal leagues and Governors. It will be a prerequisite to any State and local capital investment, not to mention the ability and capacity to meet the matching requirements of Federal programs that we will be considering funding in this effort.

With the Chair's permission, I want to submit statements for the record from the Government Finance Officers Association and the Bond Dealers Association showing the importance of this issue to State and local credit markets.

[The information follows:]

Government Finance Officers Association
1301 Pennsylvania Avenue, NW Suite 309
Washington, D.C. 20004
202.393.8020 *fax:* 202.393-0780

December 10, 2008

The Honorable David Obey
Chairman, Committee on Appropriations
U.S. House of Representatives
H-218 U.S. Capitol
Washington, DC 20515

Dear Mr. Chairman:

As the Appropriations Committee considers various proposals for the upcoming economic stimulus package, the Government Finance Officers Association (GFOA) lends its support to efforts that would provide aid to state and local governments. The GFOA represents over 17,000 members from towns, cities, counties, authorities, and states across the nation and serves to promote the public finance profession.

One of the most important ways Congress can help stimulate the economy is by directing funds to state and local governments for infrastructure projects. Funding critical and ready-to-go projects will immediately create jobs and spur economic growth. This will help to ensure that state and local governments are not forced to scale back spending, which is contrary to the goal of the federal government to stimulate the economy. It is therefore imperative for all levels of government to work together and develop ways to meet our country's infrastructure needs and create the best path to economic recovery.

In addition to direct funding, state and local governments would benefit from proposals that would improve access to the credit markets and allow debt to be issued in a more cost effective manner. Specifically, the proposals within the *Municipal Bond Market Support Act of 2008* (H.R. 6333) as proposed by House Financial Services Chairman Barney Frank, would help alleviate the tightening of the credit markets that have negatively impacted state and local governments who must issue debt in order to fund projects such as schools, roads, police stations, hospitals, mass transit, and water and sewer facilities. H.R. 6333 would reinstate the tax incentives for banks to purchase municipal securities as an alternative to taxable investments, an option that was eliminated in the *1986 Tax Act*. This action would expand the pool of purchasers for municipal bonds and help all governments – large and small – lower their borrowing costs.

The legislation would also raise the allowable limits for smaller governments to place their debt with banks from $10 million to $30 million. Thus, many small governments could access more affordable financing, usually through community banks, and avoid the fees associated with underwriting and selling bonds in the open market. By increasing the bank qualified limit to $30 million and giving banks the same incentives that corporations and insurance companies currently have to purchase municipal bonds, state and local governments would find it easier to finance their capital needs, and save taxpayer dollars.

Providing direct funding to state and local governments is critical for our nation's economic recovery and we appreciate your support to provide such assistance. Furthermore, improving access to the credit markets will help state and local governments solve the economic challenges before them and should also be included in the economic stimulus package that Congress is considering.

Sincerely,

Jeffrey L. Esser
Executive Director and CEO

RBDA | REGIONAL BOND DEALERS ASSOCIATION

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Statement of the Regional Bond Dealers Association

Committee on Appropriations
United States House of Representatives

Hearing on the Economic Recovery Bill and State and Local Governments

December 11, 2008

The Regional Bond Dealers Association (RBDA) appreciates the opportunity to submit this statement for the record in connection with the hearing of the Committee on Appropriations on the economic recovery bill and state and local governments. The RBDA is the association of regional securities firms active in the U.S. bond markets. The majority of RBDA's member firms are active participants in the municipal bond market, underwriting and trading the bonds of state and local governments.

States and localities have suffered as a result of the global credit crisis, and many state and local governments are facing significant fiscal constraints. Tax revenues collected by state and local governments have fallen as a result of the recession, and demands for public services have risen. Borrowing costs for states and localities have gone up sharply, and many investment projects have been postponed because governments are unwilling to lock in interest rates at the current unfavorable terms. These issues are vital, and we commend Chairman Obey and Ranking Member Lewis for conducting this timely hearing. State and local governments need assistance, and while direct cash transfers from the federal government to states and localities would help significantly, Congress and the administration should also provide other forms of assistance to help revive debt financing for state and local investment projects. In particular, we urge that the following steps be taken to help address acute problems in the municipal bond market:

- Congress should enact H.R. 6333, the Municipal Bond Market Support Act of 2008, and its companion bill in the Senate, S. 3518.
- The Department of the Treasury should use its authority provided in the Emergency Economic Stabilization Act (EESA) (PL 110-343) to provide liquidity facilities to support variable rate debt issued by state and local governments.

Background

The municipal bond market represents an outstanding example of a partnership among the federal government, state and local governments and the private sector in financing investment in our nation's vital infrastructure. States and localities borrow from private investors in the capital markets to finance investment in schools, roads, airports, public and charitable hospitals, water and sewer systems, colleges and universities, waste disposal facilities, public buildings, parks and a variety of other public works projects. The federal government assists in financing these projects by exempting most municipal bond interest paid to investors from federal income tax. This results in significantly lower borrowing costs for states and localities than if municipal bond interest were taxable. The federal tax exemption on municipal bond interest saves states and localities hundreds of billions of dollars every year in interest expense and results in significantly more investment in public infrastructure than if municipal bond interest were taxable and is one of the most important forms of federal investment in public works.

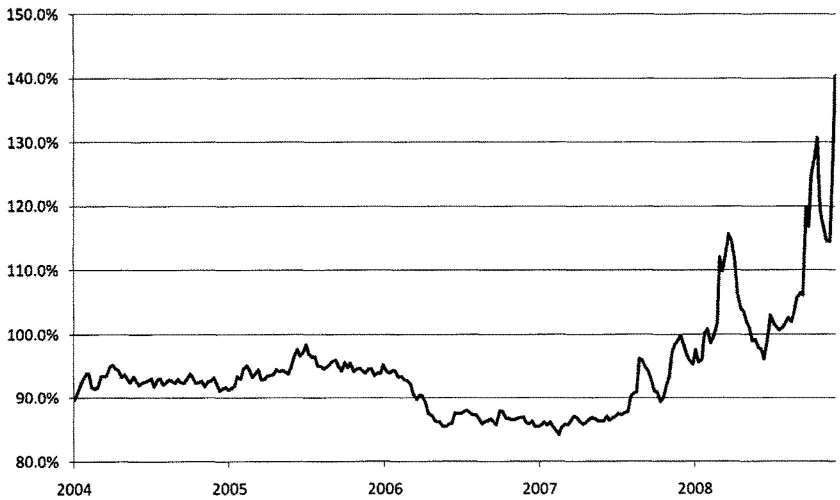

Figure 1. 20-year AA-rated municipal bond yields to 20-year constant maturity Treasury yields. Data source: Federal Reserve.

The municipal bond market has been acutely affected by the broader crisis in the world's credit markets. Throughout 2008 state and local borrowing rates have risen significantly. Figure 1 above illustrates the ratio of yields, or interest rates, on state and local borrowing in relation to yields on Treasury securities. This ratio is an important benchmark indicator of the health of the municipal market. The lower the ratio, the cheaper it is for states and localities to borrow. Historically, this ratio has hovered around 85-90 percent. Today, the ratio is at around 140 percent. (A higher ratio indicates weaker municipal market conditions.)

The spike in the municipal-Treasury yield ratio is in part attributable to lower Treasury yields and in part to higher municipal bond yields. Figure 2 below illustrates the absolute yields on

Treasury securities and municipal bonds and demonstrates that while yields on Treasuries have fallen, yields on municipals have risen. This trend represents a broad "flight to quality" among bond investors globally. Investors are shunning products that carry credit risk—the risk of loss associated with a debt default—in favor of credit risk-free Treasury securities.

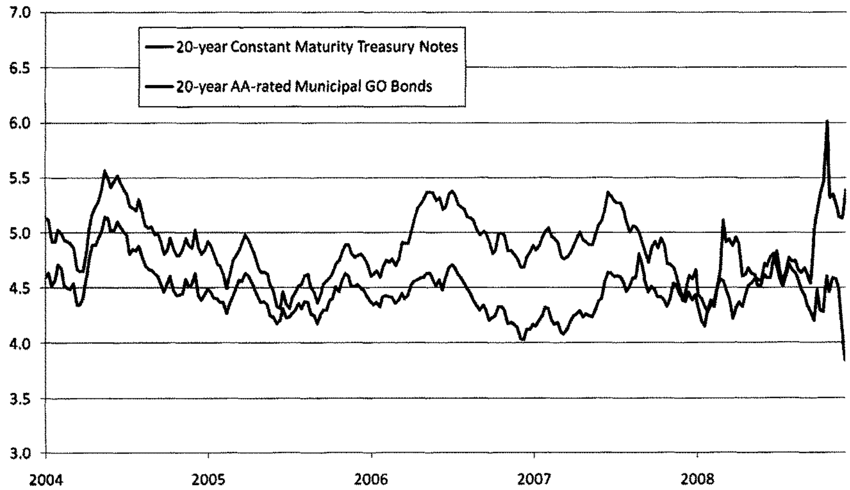

Figure 2. Treasury and municipal bond yields. Data source: Federal Reserve.

The retreat from the municipal bond market among investors is in some important respects without a fundamental basis. The historic default rate among municipal bonds issued for governmental purposes—either general obligation bonds backed by a state or local full faith and credit pledge or revenue bonds issued to finance traditional governmental services—is close to zero. After bonds backed by the federal government, municipal bonds are the safest investment in the U.S. capital markets. The withdrawal from the municipal bond market by key groups of institutional investors reflects two trends. First, certain investors that previously were important marginal buyers of municipal bonds, like hedge funds, have been forced to deleverage, eliminating an important source of demand. Second, investors in general have been shunning any assets that carry the risk of default, no matter how remote.

As a result of the downturn in the municipal market, state and local governments have postponed a significant number of financings because of a reluctance to borrow at unfavorable terms or an inability to access the market altogether. By some estimates as much as $100 billion of state and local financing that would have come to market were conditions more favorable have been postponed or cancelled. As an anecdotal indicator, the Port Authority of New York and New Jersey, a prominent municipal bond issuer, tried to sell $300 million of bonds by competitive auction on December 3, 2008. The offering was cancelled when the Port Authority received no bids for its bonds.[1]

Restoring institutional demand for state and local bonds

One of the primary factors affecting negative conditions in the municipal market has been the loss of demand for municipal bonds among institutional investors like property and casualty insurance companies, hedge funds, tender option bond programs (a type of leveraged municipal investment fund) and others. For reasons outlined above, these investors have significantly reduced their activity in the municipal market, resulting in weakened market conditions.

One source of institutional demand that has been largely absent from the municipal bond market for the last 22 years has been commercial banks. Before 1986 commercial banks were active buyers of municipal bonds. However, provisions of the tax reform act of 1986 imposed negative federal income tax consequences on banks, savings institutions and securities firms that earn tax-exempt income. In particular, before 1986, the tax code imposed a 20 percent pro rata interest expense disallowance for banks that earned tax-exempt interest from municipal bonds. The 1986 tax act raised this disallowance to 100 percent for most tax-exempt bonds. The only exceptions were bonds held at the time the 1986 law was enacted and bonds issued by states and localities that sell $10 million or less of bonds annually, known as "bank qualified" bonds.

As a result of the 1986 tax act, banks divested much of their municipal bond portfolios. Banks and securities firms went from holding $255 billion of municipal bonds, or around 30 percent of total outstanding volume, at the end of 1985 to just $107 billion, or eight percent of outstanding volume, at the end of 1996. More recently, total investment by banks had risen to $255 billion of municipals by the end of last year, but that represented just ten percent of the total $2.6 trillion outstanding.[2] The vast majority of bank investment in municipals is concentrated in bank qualified bonds.

To gauge the importance of bank investment in the municipal market, it is useful to examine the effect of bank purchases on the bonds of bank qualified issuers. Generally, interest rates paid by issuers of bank qualified bonds are 25-40 basis points (0.25-0.40 percentage points) lower than comparable bonds that are not bank qualified. This benefit is entirely attributable to increased demand for these bonds among banks. Being a bank qualified issuer also reduces transaction costs associated with bond issuance, since it is often possible to place an entire bond issue with a bank without offering the bonds publicly.

The $10 million bank qualified issuance limit established in 1986 has not been increased or indexed for inflation in the last 22 years. In real terms, the $10 million limit is worth approximately half of what it was at the time the 1986 tax law was enacted. Also, some state and local issuers sell bonds on a "pooled" basis or they issue through financing authorities. Often the total pooled issuance volume in these cases exceeds $10 million even though the borrowing of an

[1] Maurna Desmond, "A Bond Too Far," Forbes.com, December 3, 2008.
[2] All data on bank and securities firm investment in municipal bonds are from the Federal Reserve.

individual community or other issuer is under the $10 million limit. Because the $10 million issuance test is applied at the level of the issuer, not the borrower, these bonds are not bank qualified.

The penalty on banks and securities firms associated with earning tax-exempt interest does not apply in the same way to non-financial companies. The Internal Revenue Code generally prohibits all investors from deducting the interest cost associated with borrowing to finance the purchase of tax-exempt bonds. Under tax law and regulation banks and securities firms—financial companies—that earn tax-exempt interest (other than on bank qualified bonds in the case of banks) are automatically disallowed a pro rata portion of their total interest expense deduction. Non-financial companies who earn tax-exempt interest and take an interest expense deduction must be able to trace the source of funds used to acquire its municipal bond portfolio and demonstrate that the bonds were not purchased with borrowed funds. However, a 1972 Internal Revenue Service Revenue Procedure (Rev. Proc. 72-18) in many cases permits non-financial companies to hold up to a *de minimis* two percent of their total assets in tax-exempt bonds without a loss of interest expense deduction as a simplification measure.

Bringing banks back to municipal bond market as significant investors would help restore the market to normalcy, reduce interest expenses for states and localities, and allow state and local governments to finance investment projects that would help stimulate the economy. H.R. 6333, introduced earlier this year by Rep. Barney Frank and cosponsored by Reps. Michael Capuano, Emanuel Cleaver, Paul Kanjorski and Richard Neal (and its companion bill in the Senate, S. 3518) is designed to address the loss of institutional demand for municipal bonds by removing some of the tax code barriers to bank investment in tax-exempt municipal bonds.

H.R. 6333 would raise the annual bank qualified issuance limit from $10 million to $30 million, index that amount annually for inflation, and establish for banks a statutory two-percent *de minimis* rule similar to the one included in Rev. Proc. 72-18 for non-financial companies.

By bringing banks back to the municipal bond market and increasing demand for municipal bonds, H.R. 6333 would directly address problems experienced by states and localities as a result of the credit crisis. The bill would establish a solid base of institutional demand for municipal bonds and lower interest rates for states and localities. New investment projects ready to be built could obtain financing, and moving forward on these projects would help stimulate the economy. By eliminating barriers to bank investment in municipal bonds, H.R. 6333 would help direct a portion of the funds allocated under the EESA's Troubled Asset Relief Program (TARP) to bank recapitalization to benefit state and local governments.

Under H.R. 6333 banks would be active buyers of municipal bonds, which fit well with the investment objectives of many banking institutions. Municipal bonds are low credit risk investments that generally entail low regulatory capital charges for banks. Eliminating the tax code barriers to bank investment would draw banks to the municipal market and directly benefit states and localities.

Regional Bond Dealers Association
Statement for the House Committee on Appropriations

December 11, 2008

Helping states and localities obtain variable rate financing

While H.R. 6333 would help address problems associated with traditional long-term, fixed-rate financing for states and localities, the Department of the Treasury can take other, immediate steps to address problems associated with variable rate financing. We believe that authority provided under EESA can help alleviate stress in two important sectors of the financial markets: auction rate securities (ARS) and variable rate demand notes (VRDNs). The market for ARS has been largely frozen since February. The market for VRDNs, while not as dysfunctional as that for ARS, is also quite stressed; there are indications that the VRDN market could suffer a more widespread breakdown if credit market conditions worsen. State and local governments with outstanding ARS and VRDNs would benefit from a program designed to provide government-supported "backstop liquidity" for issuers of these products.

Background on ARS and VRDNs

ARS and VRDNs are two forms of long term, variable rate debt financing. Both have been widely used by state and local governments as a substitute for commercial paper by issuing long-term debt with the benefit of short-term interest rates. ARS have also been used extensively by issuers of student loan-backed securities and by closed end mutual funds. At the height of the market in January 2008 there were approximately $330 billion of ARS outstanding. Now, a significant volume of those securities have been restructured or refunded, but nearly $200 billion remain outstanding. There is no reliable source for the volume of VRDNs outstanding; we estimate that approximately $400 billion are currently in the market.

Although both ARS and VRDNs are forms of variable rate financing, they differ in one key area. For ARS, liquidity—the ability for investors to readily sell their securities at par—depends on the success of periodic Dutch auctions. At an auction, which typically occurs weekly or monthly, ARS investors who want to sell their securities provide their order to their broker-dealer who then submits the offer to an auction dealer, a firm contracted by the issuer to manage the auction process. Potential ARS buyers submit bids to the auction, and—at least by design—sellers are matched with buyers. The auction clearing rate becomes the interest rate paid by the issuer until the next auction. Beginning in February 2008 a large number of auctions began to persistently fail—there were insufficient buyers to cover all the offers from ARS sellers. In those cases, investors are unable to sell their securities, and rates paid by issuers on failed ARS increase to a pre-determined maximum, or "penalty," rate. Today, the vast majority of ARS auctions continue to fail on a persistent basis and many thousands of ARS investors are holding securities which offer no liquidity and cannot be sold.

Since February, some state and local government ARS issuers have been able to refund or restructure their outstanding ARS, curing the problems of high penalty rates for issuers and illiquidity for investors. Some closed end mutual funds have taken similar actions. However, many ARS remain outstanding with no liquidity for investors whatsoever. In particular, many municipal and closed end fund ARS and virtually all student loan-backed ARS remain in the portfolios of investors with little prospect for resolution.[3] Although some broker-dealers who sold ARS have reached preliminary agreements with federal and state enforcement agencies that require those dealers to buy back ARS from certain investors at par, only a minority of outstanding ARS are covered by those agreements. Bloomberg estimates that there are $135 billion of ARS outstanding that are not covered by the settlements.[4] Even for those investors who are covered by settlements, the buybacks simply transfer the illiquidity problems from investors to dealers, many of whom may be facing liquidity or balance sheet issues of their own, thus offering little resolution to the financial stress that currently exist within our financial system.

VRDNs do not use an auction process. Instead, each VRDN issue offers investors the opportunity to sell their securities at par, generally on a weekly or daily basis through a designated "remarketing agent," typically a broker-dealer. When a VRDN investor wants to sell their security, he or she submits an offer through their dealer to the remarketing agent. The remarketing agent surveys the market and determines a rate for the VRDNs that would attract sufficient buyers to cover all the offers. That rate then becomes the rate paid by the issuer until the next reset date. Unlike an ARS, however, if there are insufficient buyers to cover all VRDN offers, investors have the right, through the bond trustee, to place the securities with a third-party liquidity provider. VRDN liquidity providers, typically banks, have obligations under standby bond purchase agreements (SBPAs), letters of credit (LOCs) or similar contractual arrangements to purchase at par any VRDNs that cannot be resold through the remarketing process. When a VRDN is placed with a liquidity provider, the interest rate paid by the issuer on those bonds increases to a pre-determined maximum. After some defined period, frequently 90 days, VRDNs put to banks require accelerated amortization, forcing issuers to rush to refinance troubled securities at high cost and in difficult market conditions.

While no data are readily available, an inordinate number of VRDN remarketings have "failed" in recent months, *i.e.*, there have been insufficient numbers of VRDN buyers to cover all sell orders. The recent turmoil in the bond insurance area has also been a cause of "failed remarketings" because a large portion of VRDNs carry credit enhancement in the form of bond insurance in conjunction with the LOC or SBPA. The confidence crisis which occurred with some money market mutual funds has increased stress in the market and exacerbated the ability to restructure both ARS and VRDNs. As a result, much larger than normal volumes of VRDNs have been put to bank liquidity providers, and those VRDN issuers are now paying high maximum rates on their borrowing.

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[3] On September 25, 2008 the Brazos Higher Education Service Corporation, Inc., a major servicer and arranger of student loan-backed ARS, announced a tender offer for approximately $6 billion of outstanding student loan-backed ARS. See Brazos Higher Education Service Corporation, Inc., "Offers to Purchase or Exchange Commenced in Respect of $6 Billion of Brazos-Serviced Auction Rate Securities," press release, September 25, 2008. On December 4, 2008 Brazos announced that the conditions of its tender offer had not been met and that no securities would be redeemed. See Brazos Higher Education Service Corporation, Inc., "Brazos Announces Expiration of Auction Rate Security Tender Offers," press release, December 4, 2008.

[4] Michael McDonald and Darrell Preston, "Auction-Rate Victims 'Fit to Be Tied' as Accords Ebb," Bloomberg.com, October 24, 2008.

A key measure of the health of the VRDN market is the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, an index of rates on certain tax-exempt municipal VRDNs with weekly rate resets. That index rate went to a record high of 7.96 percent on September 24, indicating a drastic market weakening. (By contrast, the average index rate for the first six months of 2008 was 2.21 percent.) The index has fallen back since then, but the market is still unusually constrained. Anecdotal indications suggest that some remarketing agents may be holding VRDNs on their own balance sheets at rates below the maximums in cases where there are insufficient numbers of investors to cover all offers on reset dates in order to prevent bonds from being put to liquidity providers and prevent issuers from facing maximum rates. If this is the case, the market is in a weaker state than improvements in the SIFMA index since September 24 indicate. While problems in the VRDN market are broad, they are particularly pronounced for issues where investors have lost confidence in the particular banks that serve as liquidity providers.

VRDN liquidity facilities have limited terms that are usually shorter than the maturities on the VRDNs they support. This requires issuers to renew SBPAs or LOCs periodically in order to maintain the liquidity backstop for investors. In recent years, some liquidity providers have agreed to SBPA terms as long as five to six years. Recently, however, with banks facing balance sheet constraints and generally retreating from activities that subject them to credit or liquidity risk, the cost of VRDN liquidity facilities has increased significantly and terms offered by banks have shrunk. Some banks previously active in the VRDN market as liquidity providers have retreated from this business entirely. Many of the banks that remain do not offer liquidity facilities longer than one year. We are concerned that continued constrained conditions for banks will make it increasingly difficult for issuers to renew expiring liquidity facilities and will increase the risk of future defaults. This could cause an increasing number of VRDN investors to exit the market, resulting in ever larger volumes of VRDNs being put to liquidity banks.

Difficulties in the ARS and VRDN markets are occurring despite the fact that the credit quality of most ARS and VRDNs has not deteriorated significantly. Many student loan backed ARS are indirectly guaranteed by the federal government since they are backed by federally guaranteed student loans. Many ARS and VRDNs issued by states and localities have lost the benefit of third party bond insurance that may have originally provided them with "triple-A" credit ratings, but the underlying credit quality of the issuers has not deteriorated significantly in most cases. Problems in the ARS and VRDN markets are principally related to illiquidity, deleveraging and dysfunction in the broader financial markets, not to credit deterioration related to these products specifically.

<u>Using Treasury authority to address problems in the ARS and VRDN markets</u>

The EESA authorizes Treasury to take actions that could significantly improve conditions for ARS and VRDN borrowers and investors and could help avoid a circumstance where liquidity constrained banks are forced to buy a large volume of illiquid securities. Section 101 of the EESA authorizes Treasury "to purchase, and to make and fund commitments to purchase, troubled assets." Section 102 of the EESA requires Treasury to "establish a program to guarantee troubled assets originated or issued prior to March 14, 2008." Section 103(7) of the

EESA requires Treasury to consider in implementing the law "the need to ensure stability for United States public instrumentalities, such as counties and cities, that may have suffered significant increased costs or losses in the current market turmoil." We believe that these authorities and requirements taken together, especially the authority provided in Section 101, allows Treasury to establish a program whereby the Treasury Department would, for a fee, offer the equivalent of SBPAs for VRDN issuers whose liquidity facilities are expiring and for ARS issuers who want to convert their ARS to VRDNs to restore liquidity to investors.

Under the proposed program for ARS Treasury would offer a standby liquidity facility to issuers of ARS originally sold before March 14, 2008 secured by whatever assets are currently supporting outstanding ARS. ARS issuers would pay a commitment fee—in today's market this fee is typically 0.45 to 0.55 percent—for the facility. ARS issuers would exchange new VRDNs backed by the liquidity facilities for outstanding ARS. Many of the new VRDNs would be eligible for investment by money market mutual funds subject to regulation under Securities and Exchange Commission Rule 2a-7, opening up a new source of demand for these issuers whose ARS are generally now not eligible for investment by these funds. The program would operate similarly for current VRDN issuers except there would be no exchange of outstanding securities for new VRDNs. The liquidity facility would be available to issuers of VRDNs whose bank-provided facilities are expiring or as a liquidity "wrap" that would be a backstop to existing bank LOCs or SBPAs. If desired, Treasury could establish a three-year expiration for standby liquidity commitments with the promise of reviewing the effectiveness of the program and the availability of privately negotiated liquidity backstops at the end of that period.

Safe, stable variable rate securities supported by a Treasury-provided liquidity facility would appeal to a broad range of investors. It is unlikely that the facility provided by Treasury would be drawn on to a significant extent, because its mere existence would likely provide confidence to investors and restore normalcy to the market for the affected products. If it did buy assets under the program, Treasury would earn interest at maximum penalty rates that would likely exceed its own cost of funds and would, in that regard, have a "positive carry." In any case, Treasury would earn revenue from commitment fees. As already stated, the credit quality of almost all outstanding ARS and VRDNs is quite high. In the case of ARS backed by federally guaranteed student loans, the federal government already guarantees defaults and losses on the underlying student loan collateral, so providing a liquidity backstop for these issues would entail no new credit risk at all for the government. Since Treasury would purchase VRDNs only in the case of "failed" remarketings—which would be rare if Treasury were the liquidity provider—it is unlikely that this program would use a significant portion of Treasury's $700 billion asset purchase and guarantee authority under EESA.

Key state and local officials have called for similar federal actions to shore up the short-term and variable rate municipal bond market.[5]

[5] See letter from Bill Lockyer, California State Treasurer and 19 other California state and local officials to Reps. Nancy Pelosi and Barney Frank and Sens. Dianne Feinstein and Barbara Boxer, November 21, 2008. Also see Andrew Ackerman, "Student Lenders Urge Liquidity Facilities," *The Bond Buyer*, October 31, 2008.

In sum, the proposed liquidity would provide several key benefits:

- An orderly market would emerge for hundreds of billions of dollars of assets frozen on the balance sheets of banks, broker-dealers and investors.

- State and local ARS and VRDN issuers would be freed from high penalty and maximum rates on their "failed" securities, and VRDN issuers would be spared from forced accelerations.

- Because Treasury would likely not need to purchase a large volume of securities, the program would provide benefits for many times the volume of outstanding assets than the resources the program actually consumed.

- The assets that would be the target of the program, despite being troubled, are for the most part credit-worthy and soundly performing and would not expose Treasury to undue credit risk. In some cases, the assets are supported by loans that are already federally guaranteed.

- The program would preserve the integrity of the municipal finance and student loan systems and would free up resources for student lenders to make new loans and states and localities to pursue projects that create jobs and enhance services.

Conclusion

The global credit crisis has affected every corner of the financial markets. Despite the extraordinary safety and stability of bonds issued by states and localities, the crisis has resulted in significant market disruption for state and local borrowers and investors and has increased costs for state and local governments who are already fiscally strained by the recession. Moreover, construction projects that could be contributing to an economic stimulus have been put on hold by states and localities unwilling to borrow at unattractive terms or unable to obtain financing at all. The federal government could help by implementing targeted, low-cost policies designed to provide direct benefit to state and local borrowing and thaw the frozen municipal bond market.

First, Congress should enact H.R. 6333. This legislation would almost immediately restore demand for municipal bonds among banks and would lower capital financing costs for states and localities. Second, the Treasury Department should dedicate a small portion of its authority under the EESA to providing backstop liquidity facilities to state and local governments and agencies with outstanding ARS and VRDNs. Together, these policies would help restore order to a market that has been caught in the tornado of the global credit crisis.

The RBDA appreciates the opportunity to submit this statement for the hearing record. Please do not hesitate to call on us if we can provide any assistance in the Committee's consideration of economic recovery policies.

Mr. MORAN. But if any of our witnesses would like to comment on their problems with getting access to State and local credit markets, particularly through municipal financing, I would like to hear from them. But that is the principal point I wanted to put on the record, Mr. Chairman. Thank you.

Governor CORZINE. Congressman, you hit a very sore point. Just last week the Port Authority of New York-New Jersey tried to issue $300 million worth of taxable bonds and did not have any bids. It is with strong double A, very, very secure funding source. State of New Jersey, which is not on the upgrade list, but not on the downgrade list either at Moody's and S&P, has good solid double A credit, is paying about 300, 325 basis points over Treasury's at a 10-year yield. There is no benefit to the tax exemption. And the market is very narrow. And it is not just New Jersey. It is those experiences.

One of the most effective housing finance agencies are State mortgage finance agencies, which are basically shut out of the market. They have very low default rates. They could be actively involved in mortgage modification and other elements, and it is basically without ability to access capital. The breakdown of the bond insurance, what previously was mono-line and turned into multiline, has undermined the cost structure of, in addition to the general concerns about it, and as you suggest, the Treasury and the Fed and others have looked at almost every other credit market, but one that is fundamental to the kinds of topics we are talking about in infrastructure today has been ignored.

Mr. MORAN. Thank you.

Governor DOYLE. If I could just add, at a time of the housing crisis, in addition to everything that Governor Corzine has said, I mean we have been out, we have been successful, but at prices we are going to pay for for years to come. But our Housing Authority, a very strong, solid organization, has not been able to get financing at all. And we have actually had to, at the most critical time that people need it, we have actually had to shut down our Housing and Economic Development Authority's ability to go out with new loans. And that has been entirely because of their inability to get access to the credit market.

Governor DOUGLAS. I might just add to that, student loan agencies are having trouble accessing the markets as well, so it is really across the board.

Mr. MORAN. Thanks very much, Mr. Chairman. It is interesting that Treasury's are paying virtually no interest, and yet States and municipalities are having to pay hundreds of basis points to get the access that is really not a credit risk for the lender, and yet you cannot access it. And it really is something that Treasury and Fed are going to have to help us with. Otherwise, even stimulus packages like this are not going to have the effect that they need. So thank you.

Chairman OBEY. Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman. And I too thank the Governors for your testimony today. I have a two-part question. In this recessionary economy, does your State need help to preserve and expand affordable rental housing? And if the answer to that is yes, what would be the most effective mechanisms available for the

Federal Government to deliver economic recovery dollars for you to expend on affordable housing?

Governor DOUGLAS. Well, we certainly have difficulty, for the reason we just cited in response to Congressman Moran's question, access to the capital markets by our housing finance agencies both for single-family homes and for multifamily units. So access to capital I think is the most important problem that we are confronting with our housing finance agency now.

Governor DOYLE. I agree with that completely. We have very good programs in place. And this is a place where with adequate access to capital markets, we have strong housing rehabilitation programs directed at low or moderate home ownership and rental housing, and much of that has just stalled out right now because our Housing Authority cannot get to the market.

Governor CORZINE. Ditto that. But I would say that there is a way that also there could be significant help to tenants and renters. The line, the queue for section 8 vouchers, is so extended in the current environment, and it is growing. As people foreclose and they are unemployed, the application list gets to a point where you are talking 4 and 5 years.

So I would hope that people would look. This is something we administer, it is not a State program, but is administered through the States, could be very helpful to the human beings that are actually struggling with the current market. There is rehabilitation work that needs to go on. And public-financed housing across the country is also a place where infrastructure spending could go.

Mr. OLVER. I think you have answered as concisely as I put the question. But I was surprised that the first thing was credit, provide credit, which is largely in the private market. And Governor Corzine, you got around to what I was wondering, what were the more public programs that would be involved. Thank you. Thank you very much.

Chairman OBEY. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Let me add my thanks to our three Governors this morning for your helpful testimony. As each of you described the cuts that you are being forced to undertake, it seems to me two things are clear. First, that these cuts, as Governor Corzine put it, are dangerously cutting into the bone. And secondly, that they are likely to have a contractionary effect with respect to the overall economy, an effect that is precisely the opposite of the stimulus that we need. So for both of these reasons, we need to tend to this. And your testimony is very helpful.

One item that was not mentioned as much as I thought it might be is your school construction needs. I am aware that this is not traditionally an area of primary Federal responsibility. On the other hand, if your State is like my State, there is a backlog of these school construction needs. There often is not the money available needed to initiate these projects. And where bond issuances have been approved, there are often issues about ratings and the marketing of those bonds. In any event, it has been identified by my State as an area of great need.

And Mr. Chairman, if I might, I would like to insert in the record a couple of memoranda that I think are quite helpful, one from the

State of North Carolina's Governor-elect, and the other from the Town of Cary, North Carolina.

[The information follows:]

FEDERAL STIMULUS NEEDED TO CREATE JOBS, SUSTAIN FAMILIES

NORTH CAROLINA GOVERNOR-ELECT BEVERLY PERDUE

North Carolina dreams big, sets ambitious goals and works hard. Throughout our history, we have been blessed with generous citizens, strong philanthropic institutions and state leadership willing to invest in the future. In normal times, we prefer to make our own way.

But these are not normal times in America or in North Carolina.

The financial crisis at the national level is closing businesses and putting people out of work across the country and in North Carolina. Nearly 319,000 North Carolinians are unemployed, making us the 11th highest state in unemployment.

Since 2001, we have seen tremendous job losses in our traditional manufacturing sectors — furniture, textiles, and tobacco. We have sought to transition our economy to industries of the 21st century, but the current downturn has dealt a heavy blow to our large financial services sector, our information technology sector and our automotive parts industry. Notwithstanding the economic times, our population continues to grow — driven in part by growth in our two largest military bases and by the unemployed moving here seeking work. In a stagnant or declining economy, such population growth is not matched by corresponding growth in revenues.

Our state constitution requires a balanced state budget, and we will meet this imperative, as we do every year. We have already acted on a 5 percent across-the-board cut in budgets this year. Our budget shortfall this year is projected at $1.6 billion and could reach between $2 billion and $3 billion next year — between 8 percent and 14 percent of the state's budget.

States across the country, including North Carolina, need swift action at the federal level that creates jobs and helps maintain commitments to education and essential state services. We do not expect or ask the federal government to fund all of our infrastructure or services needs, but in this extraordinary period, a fair share of federal assistance is critical.

Action I: Fund state-level public infrastructure that will create jobs immediately.
Thanks to our robust business climate, world-class university system, strong work ethic and rich and productive natural resource base, North Carolina has established itself as a national economic leader. People continue to move into the state in search of jobs and quality of life. By 2030, we expect to gain 4 million new residents to become the seventh largest state in the country. This growth places serious pressure on the state's aging infrastructure system at a time when revenues are decreasing and the costs of building projects are increasing. Investments in "ready to go" projects will provide the infrastructure required to support

continued growth. In addition, infrastructure investments will create much needed jobs for the thousands of North Carolinians who have lost their jobs due to massive factory closings since 2000 and for our growing number of workers who are unemployed or underemployed as a result of the current financial downturn.

- ***Transportation Infrastructure:*** As much as $64 billion in transportation needs through 2030

  Roads. North Carolina has the second largest state-maintained highway system in the country. The cost of paving roads and building bridges has skyrocketed. Cost hikes in steel, concrete and asphalt have led to a doubling in the cost of paving roads in six years. Meanwhile, revenues are down. Motorists reduced their driving when gasoline reached $4 per gallon, lowering gasoline taxes paid at the pump. North Carolina has $1.4 billion in "ready to go" road projects, meaning construction could begin in the next 90-120 days.

  Bridges. The state will need to repair or replace as many as 8,300 bridges by 2030 – approximately 400 per year. Delayed action will result in higher replacement, rehabilitation and preservation costs.

  Transit. With the increase in gasoline prices, demand for transit services is on the rise. North Carolina faces extensive infrastructure needs for bus replacement, bus expansion and transit facilities as well improvements to ports and passenger rail systems.

- ***Public school construction:*** Up to $9.8 billion in school construction needs through 2011.

  School construction continues to be a major issue in North Carolina. Over the next five years, North Carolina's student growth is expected to reach more than 110,000 – some resulting from the increase in military families brought to the state by federal base expansions. Accommodating this growth is estimated to require 212 new schools and the renovation of another 50 schools. The cost to build a new school varies by region and size. The cost for recently built schools has been between $7.5 million and $48.9 million. In the current economy, school districts are having trouble obtaining funds to initiate school construction projects. When bond issuances have been approved, ratings and selling have been an issue. This delay, while new students continue to move into North Carolina, will only add to the need for more state and federal government assistance for school construction.

- ***Water and sewer infrastructure:*** Up to $16.63 billion in water/sewer needs through 2030

  North Carolina's water systems are expected to serve 9.8 million people by 2030, a 70 percent increase over the number served today. Wastewater treatment and collection systems will experience comparable increases in customer base. Due to the dramatic reductions in grants available from the federal government, private loans now make up the majority of infrastructure financing in the state. Unfortunately, nearly 60 percent of local governments in North Carolina cannot qualify for private market loans. Old systems with crumbling infrastructure and small systems with few customers will have increasing difficulty keeping pace with the demand for affordable water and wastewater service. State-funded grant programs have helped, but cannot bridge this major gap.

- ***Military construction:*** $5-7 billion in NC-based military installations through FY13

  North Carolina has the fourth largest active-duty military population in the U.S., distributed among seven military installations and 14 Coast Guard facilities. The Department of Defense is projected to invest $5-7 billion in FY 09-13 to accommodate mission growth at N.C.-based military installations. The *2005 Base Realignment and Closure (BRAC)* will move U.S. Army Forces Command and U.S. Army Reserve Command to Fort Bragg. The Marine Corps' *Grow the Force* initiative will add approximately 11,500 new Marines to N.C.-based Marine Corps installations. This growth requires new barracks, administration, and other facilities on base. Overall, the growth at N.C.-based military installations is projected to drive population growth of over 80,000 new residents. It is critical that these investments move forward on time and with full funding.

  Military construction: $80 million in National Guard investment needs ready to go if funded in 2009

  Overall National Guard construction funding has been deferred in recent years as the Army addresses BRAC-related costs. As a result, the National Guard has a number of construction projects that are ready to go in 2009 if funding can be secured. Funding these priorities will support Guard training and readiness for missions at home and abroad and accelerate economic benefits in North Carolina communities. Examples of projects include the $55 million North Carolina Joint Force Headquarters facility in Raleigh, of which $37 million is needed in federal funds; the $5 million-plus Air Guard Maintenance Facility in Stanly County; the $4.3 million N.C. Army Guard Unmanned Aerial Vehicle Facility to be located at Fort Bragg; and two armories costing $6-8 million each in Williamston and North Wilkesboro. In addition, across the National Guard, there is an underfunded need for additional humvees and medium duty trucks. These are dually valuable for training and mission readiness at home and abroad.

Action II: Assist families in current financial crisis.

The unfolding financial and economic turndown has led to rising unemployment and dislocation in North Carolina. More than 700 businesses filed for bankruptcy in North Carolina in 2008, an increase of 56 percent over last year. Manufacturing, the mainstay of many North Carolina rural communities for decades, continues to shrink. Of the 426,504 unemployment claims filed this year, 111,888 were in manufacturing jobs. Unemployment levels are at an all-time high and threaten to worsen. As of October, North Carolina's unemployment had increased to 318,997. In fact, the state's unemployment rate, at 4.7 just a year ago, now stands at 7 percent. The pain is reaching into many North Carolina families. Home foreclosures rose 16 percent statewide for the year ending in September 2008, and personal bankruptcies are up almost 9 percent. More than 1 million North Carolinians received food stamps in October, nearly a 10 percent increase over a year ago.

Federal Medical Assistance Percentage (FMAP)

The Federal Medical Assistance Percentage (FMAP) is the share of the Medicaid program paid by the federal government. Currently, the N.C. Medicaid budget totals $10 billion and covers 1.7 million poor, aged and disabled individuals. FMAP is determined by a three-year rolling average of a state's per capita income as compared to the national per capita income and is adjusted each fiscal year. Thus, states facing tougher economic conditions over a period of years receive greater federal support. North Carolina's current FMAP rate is 64.6 percent. Each 1 percent increase in FMAP reduces our state appropriation requirements by $100 million. Other than open-ended block grants, FMAP provides the most immediate and direct assistance for dealing with a budget shortfall. North Carolina has already cut agency expenditures by 5 percent this fiscal year to ensure a balanced budget on June 30, 2008. Additional FMAP funds would ameliorate the need to make more substantial reductions, which would allow North Carolina to serve the needs of our citizens who need it most.

Additional Action: Spur economic growth for the long-term future

We must begin with fundamental actions to create jobs through infrastructure investments and to ensure relief for our hardest hit citizens, as described above. But that will not be enough. We must restore America's economic leadership through major investments in business and industry that can make us competitive in the years ahead. These investments should be in renewable energy, advanced technology and growth of entrepreneurship and small businesses. North Carolina is poised to lead in these areas and looks forward to a strong partnership with President-elect Obama and Congress in making this state and this country economically strong once again.

TOWN MANAGER'S OFFICE
CARY, NC

The United States economy is in recession. Traditionally, Congress responds to economic recessions by passing legislation to stimulate the economy. President-elect Barack Obama and House and Senate leadership plan to consider a multi hundred billion dollar economic stimulus package in January.

It appears that previous stimulus bills have proven most effective if:

1) Legislation is enacted soon after the recession is identified;
2) Funds are spent quickly while unemployment is high and new jobs are created when needed; and
3) Funds are spent before the economy recovers.

To this end, one of the most efficient ways to distribute federal funding is through existing federal programs. Additionally, economic stimulus legislation should make it as easy as possible for funding recipients to access and spend stimulus funds. As evidenced in past stimulus bills, certain obligations, such as matching requirements, administrative costs, and ability to leverage financing have sometimes proven burdensome and result in low expenditure rates.

In this regard, the Town of Cary, NC respectfully requests that Congress considers the following recommendations as it begins work on an economic stimulus package.

➤ **Include Funding for The Economic Development Administration**

The Economic Development Administration (EDA) was established in 1965. The purpose of EDA programs is to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the United States. Given the mission and nature of EDA programs, the stimulus bill should include funding for the following EDA programs:

<u>Public Works and Infrastructure Program</u>: The Public Works program empowers distressed communities in economic decline to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term, private sector jobs. This program is designed solely for construction and engineering. The Public Works program requires a 50% non-federal match. Not only should Public Works funds be included in the stimulus package, but projects should also receive 100% federal funding.

<u>Economic Adjustment Assistance</u>: The Economic Adjustment Assistance program focuses on areas experiencing adverse economic changes. This economic damage may be a result of, for example, a natural disaster, industrial or corporate restructuring, or depletion of natural resources. This program is designed to fund planning, technical assistance, and implementation of programs, including construction and engineering.

- **Include Funding for HUD's Community Development Block Grant Program (CDBG)**
  CDBG is a proven and effective avenue to target federal funds to localities and states. The CDBG program has remained essentially unchanged since its inception in 1974. CDBG grants are allocated directly to local and state governments based on population and other qualifying factors. CDBG funds can be used to stimulate local economies by creating jobs through: the construction of public facilities and improvements, water and sewer facilities, streets, and neighborhood centers; the conversion of school buildings for eligible purposes; activities relating to energy conservation and renewable energy resources; and assistance to profit-motivated businesses to carry out economic development and job creation/retention activities.

- **Include Funding for Energy Efficiency and Conservation Block Grant Program (EECBG)**
  EECBG is largely modeled after CDBG. Like CDBG, the largest share of EECBG funds is allocated directly by formula to cities and counties. Similarly, each state receives a direct funding share. Having these already established formulas in place enables EECBG funding to move quickly from the federal government to the recipient. Moreover, EECBG funding will give state and local governments the resources to undertake energy efficiency and renewable energy production projects, and ultimately create a significant number of green jobs.

- **Distribute State Revolving Loan Fund Dollars as Direct Grants**
  The EPA's State Revolving Loan Fund (SRF) programs have provided low-cost loan options to communities undertaking important water infrastructure projects for over 15 years. Loans are made available for rehabilitating aging water and sewer infrastructure, complying with sewer overflow issues, and promoting source water protection and availability. In order for economic stimulus funding to be most effective, local financing burdens should be mitigated. Distributing SRF money as loans may deter communities that need it the most from accessing these funds. Therefore, in the context of stimulus funding, SRF dollars should be distributed to communities as direct grants.

- **Do Not Limit The Corps of Engineers' Ability to Spend Stimulus Funds**
  The Army Corps of Engineers has a proven ability to spend economic stimulus funding in a timely manner. Corps projects focus on planning, designing, building and operating our nation's water resources mainly in the areas of navigation, flood control, environmental protection, and disaster response. Recent stimulus proposals included language to prevent the Corps from funding projects that have not previously received federal funding. Given the Corps' ability to expedite projects, Congress should allow the Corps to prioritize spending without mandating that no new projects are eligible for stimulus funds.

- **Distribute Transportation Stimulus Funds Through The Surface Transportation Program (STP)**
  The Federal government distributes roadway funding using a variety of methods. Because stimulus funds are most effective when spent quickly, an appropriate method to distribute these funds is through STP. That said and to reap the greatest benefits, we strongly encourage stimulus funds added to STP be clearly and directly targeted to local county and municipal priorities that will lead to business development and expansion through the roadway improvements afforded by the STP stimulus. It is imperative that this new money not be used by states for routine maintenance and other ongoing responsibilities for which they already receive funding.

Mr. PRICE. In any event, it has been identified as a great need by my State, and also as an area where many construction and renovation projects are ready to go. I mean ready to go as quickly as they could be approved.

So I wonder how one or any of you would evaluate the potential of school construction as a component of a package. And to pick up on Mr. Olver's approach, what would be the mechanism? What would be the best device for rendering some assistance in this regard?

Governor DOUGLAS. We certainly have a backlog in our State. I expect that is not uncommon. We commit 30 percent of the construction costs of a school project to the municipality that undertakes it, and we have not been able to keep up with that in our capital budget. What has happened in a number of cases is that school districts have undertaken that responsibility entirely on their own; and at some point we will pay them, but they are carrying that extra debt service in the meantime.

So I think, as I suggested earlier, a broad definition of eligible infrastructure projects would be very welcome so that States can establish their own priorities and allocate those resources where it is most important.

Governor DOYLE. I really want to echo that comment. We have identified, by taking all of the districts that have recently passed referendums on school buildings, meaning that they have projects ready to go—under Wisconsin law we put these out to the voters, they have been approved, and they are not currently being built. That is all ready to go.

In addition, we have identified those where referenda did not pass, which probably did not pass because of the costs of the building. But those projects are ready to go.

I will say this, though. I really urge flexibility, because in Wisconsin we have had a very, very major school building program over the last 5 to 6 years. You should go to Mr. Obey's hometown and look at Wausau East High School and see the quality of the school. So we have done a lot of really good school building in Wisconsin. We have a lot more to do. But I believe, you know, if the program were strictly school building, States that have made the huge investments in school buildings that we have may sort of lag a little bit behind other States. So I hope we have that flexibility. But that having been said, there clearly are school projects that are ready to go here, ready to go here today.

Governor CORZINE. I think I made the remark, Congressman, in my testimony that we are in the midst of a very significant long-term project of reconstructing schools, particularly in our urban communities. We have already executed a $8.5 billion program that ended about a year ago, and we are in the midst of another $5 billion tranche. And there are $25 billion worth of identified needs. And we have prioritized those already. We already have the blueprints and the plans on most of those. This is a ready-to-go area.

The same thing could be said for higher education. In every one of our State colleges and universities and community colleges, deferred maintenance is a huge problem. Every time anybody gets in trouble, they just put off maintenance and capital expenditures, particularly in our higher educational units. And this is a place that I think is fertile for getting stimulus into the system quickly.

Mr. PRICE. Thank you. Thank you, Mr. Chairman.

Chairman OBEY. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman. Following up on that, on higher education, don't you think if there is ever a time when our young people could use a chance to go to get a higher education, this would be an excellent time? We are finding in my State, tuition fees are skyrocketing because of the lower reimbursement to our State colleges and universities. As you mentioned before, Governor Douglas about the fact that student loan assistance is increasingly difficult because of the markets out there for student loans. Shouldn't we take this opportunity to increase Pell grants and increase other forms of student aid and loans as an opportunity for us to increase the access for education to those students who want to take this time to get an education? You know, we are trying to create jobs on the one hand, but this would also be a good time for people to be getting an education. While we are in a kind of a downturn and a recession, people could also be getting an education. Could you comment on that?

Governor DOYLE. I believe this very strongly. We worked very hard to build more affordable higher educational access. Huge issue all across the country, certainly in our State. We have a great university system. The biggest pressure on it now is how do people get access to it? And you know, this is an area where if we were to impose the kind of across-the-board cuts people are advocating, just take the 17 percent, put it all across the budget, a 17 percent cut to our university would mean about a 30 to 35 percent increase in tuition. It would be devastating for higher education.

I just would make one point about this that is really important. You know, we maintained good schools through the Great Depression. My parents went—my mother went to high school in Wausau, Wisconsin, and my father in Oshkosh, Wisconsin. They both went to the University of Wisconsin in the middle of the greatest depression our country knew. And thank God we made that investment, because those were the people who maybe it did not pay off for immediately, but they went out and won a world war and they came back and built our country over the next 40 years. And that is why it is so essential. And if we are forced to make these kinds of cuts—I am all for the Pell grants, and please do whatever you can on that, but in addition, State budgets, as you cut what you put into a university, it is a dollar-for-dollar increase in tuition; you either limit access or you increase tuition on the other side of that equation.

Mr. KENNEDY. Well, if you could get to us ways—as I said, obviously infrastructure and deferred maintenance is always a way these universities try to make up their deficits. So I know this is one way we could help. But I think a direct pass-through for students and entitlement support for education maybe for State universities and colleges, community colleges, you know, that might be the way to do it alone.

But if you could get us some ideas, because this is the time for us to be educating our people for the workforce for tomorrow and for today, and also a good time for us to keep people, you know, busy when they cannot find work otherwise.

And finally, I could not agree more, Governor Corzine, section 8, forget about it. All I hear is all my constituents who are trying to find affordable—the lists are too long. We need to increase that number substantially. In terms of public housing repair, you know, we have the deferred maintenance has been long overdue; and we need to make a major improvement in our public housing units; and that we have to put more money in as well. So thank you for that.

Last question on the food stamp eligibility. What would you say is the percentage of use in your States of food stamps of those who are eligible?

Governor CORZINE. Well, the eligible is exploding. This is one of those places where unemployment goes up, or people shift jobs to lower paying jobs, then the food stamp usage goes up dramatically. And we have better metrics on the number of people that are actually using food banks, which are at now over 30 percent, and increase year over year. And the lines again, not unlike the unemployment lines, are just swelling dramatically with regard to applications for food stamps. This is a big issue.

Mr. KENNEDY. My big problem in Rhode Island is we do not have our people signing up for them. That is the problem, for those who are eligible. A lot of it is stigma, obviously. But we do have a big turnout at the pantries, but it is a big problem getting all those who are eligible to sign up for them. And that is a lot of missed Federal dollars being put into our economy.

Governor DOUGLAS. We have that problem, too, Congressman. We just expanded eligibility from 130 percent of poverty up to 185 percent and eliminated the asset test, thanks to the flexibility the Federal law allows. So we are trying to get the word out. But you are absolutely right, there are a large number of eligible families who for one reason or another do not participate. And we just want to try to reach them and encourage them to do so.

Chairman OBEY. Mr. Hinchey.

Mr. HINCHEY. Thank you, Mr. Chairman. Governors, I want to thank you very much for being here, for your testimony, and for the very articulate responses to the questions that have been raised.

There is no question that we are facing a very, very serious set of circumstances here in this country, one of the most difficult that we faced in history. And the examples are becoming more and more clear. We will have lost probably more than 2 million jobs by the end of this year, and that job loss is going to continue on into next year, and probably not just continue, but accelerate. The number of job losses is likely to continue. The impact that this is having on States all across the country is very severe.

The budget deficits in the States now constitute I think more than half of the States. Something in the neighborhood of 27, close to 30 of the States have now budget deficits, many of them very, very severe, including the State of New York. So we are dealing with a major problem here.

And the attention that you have been paying to the basic infrastructure I think is very important. Obviously transportation, health care, education, and investment in new technology, technology that is going to deal with the energy issue particularly I think is very important.

The big question that we are going to have to deal with, that this Congress is going to have to deal with coming up early next year, is going to be how much of an investment are we prepared to make in our own country? And that is a question that is very significant, because we have not made any major investment in this country internally in a long time, for decades, many decades. And we know that the last major investment we had was the Interstate highway system back in the 1950s. And we had some water treatment and sewer treatment investment back in the 1960s, when people became aware of the environmental issues that we had to deal with.

So we are overdue. We are facing a country that is falling apart physically, internally, at the same time that we are losing huge numbers of jobs. And the decline in the gross domestic product is going to continue to go down. The estimation is now that by the end of next year, the gross domestic product will have lost at least 4 percent. And if things continue to get worse, that number is likely to be higher.

So the big question that we have to be able to answer here and engage in is, what kind of economic development package program are we going to be able to put together and how big is that going to be? If it is just tiny, it is not going to do anything. So it needs to be significant. Some are suggesting something in the neighborhood of 600, $700 billion, which is going to be probably less than—well, something in the neighborhood of 5 percent of the GDP. Others believe that we need at least 10 percent of that gross domestic product, something at least as high as a trillion dollars, or maybe something close to a trillion-and-a-half in order to make the difference that is going to have to be made to stop the decline of the economy, to stop job loss, and turn that into job creation and upgrowth, and to rebuild, maintain and rebuild the basic infrastructure, all of the things that you have been focusing our attention on very appropriately.

I am wondering if you will give us any advice as to what we should do and to what extent we should do it. I am worried, frankly, that doing a little bit is not going to be nearly enough. And if we only do a little bit, we are going to be very unhappy about that over the course of time. So what do you think? What do you think we should do and how much should we do it?

Governor CORZINE. Fools rush in. Last week when we were with President-elect Obama, I made the statement that whatever big is, make it bigger. Because I think that what you are hearing from us is that the deterioration of the economy, not only as reflected in our budgets but within the reality of what we see on the ground in our communities, is really quite substantial. And whether it is a 3 or 4 percent decline in GDP or something larger—and I see people revising up, at least for this quarter and next quarter, numbers fairly substantially and looking for a decline through most of 2009, a 3 or 4 percent offset, if you would, would back into about a 450–, $500 billion program just to stay even. And I certainly would argue, if making a recommendation on a macroeconomic basis, that it is a 2-year program. States, for instance, and a lot of our activities, the trouble lags even after the economy turns with regard to revenue flows and where we stand.

And so when I am forced to answer that question, I do talk about 7- or 800 billion, but if I made a mistake I think it ought to be larger over 2 years; a trillion-dollar program would not be unreasonable in my mind, 75- to $100 million in operating and support programs for States, 150- to $175 million for infrastructure, and 225-, $250 billion in tax relief in different programs is sort of the kind—certainly those are the buckets I hear.

And I would argue that a 2-year program, and this is just personal, it is not—no NGA or anybody else is associating with it—I think makes sense. You need to have this be substantial enough that it offsets the decline that is going on in the economy, and hopefully sets in place multiplier impacts that will end up growing the economy.

Governor DOUGLAS. I think, Congressman, we do agree.

Chairman OBEY. If you could respond very briefly, because the gentleman exceeded his time.

Governor DOUGLAS. A 2-year program is critical. Mr. Zandi, the economist from Moodyseconomy.com suggested a $600 billion figure, the number that you cited. But I think the key is, as Governor Corzine said, some of these safety-net programs really begin to increase their demand toward the end of the recessionary period. The people begin to sign up for food stamps and other benefits. So 2 years is critical, and at least that figure that Mr. Zandi suggested I think is appropriate.

Chairman OBEY. Mr. Boyd.

Mr. BOYD. Thank you, Mr. Chairman. Mr. Chairman, this is a very productive discussion. Thank you, sir, for holding this public hearing and welcome. Thank you, Governors.

I want to shift the discussion just to a different element of this whole issue.

Mr. BOYD. All of your States, maybe with the exception of you, have a balanced budget requirement. The Feds do not and most of our States do, as I understand it, many of the States though in the last 8 or 10 years, including my State of Florida, which does have a budget requirement, have followed the Federal Government budget management plan of drastically cutting taxes, revenue, while significantly increasing spending programs and our promise as public officials to provide lots of programs and services on one hand, and less cost on the other. You guys are chief executives unlike us, we are legislators. So you get to sign both sides of the check. We only get to sign the back. You sign the front and the back.

So my question, as we move through this, what is your counsel and advice to us about how we deal with that? Do we take the States and ask them to remove their balanced budget requirements or do we put a balanced budget in place at the Federal level? How do we join hands and work together to do this very important project that is going to be done?

Governor Douglas, it actually frightens me when I hear you say that you have a community that is making a decision whether to cut police services or fire services. Those are very basic services that the community, people should willing to pay for.

Governor DOUGLAS. I don't know if I can offer any counsel in terms of Federal budget policy. Frankly as an American, it is disconcerting to see the level of debt that the national government has incurred, but economists across the political spectrum have made it very clear at this point in the economic cycle an infusion of resources to the States is essential for recovery and will improve the outlook in terms of unemployment, as the chairman indicated in his opening comments, and allow the States to make fewer of those difficult choices, in terms of service cutbacks that we have described. So for the long-term I hope there will be, with all due respect, more discipline in the process into the future. But for the immediate term, where we are really facing these crises, I think the infusion of these resources is essential.

Governor DOYLE. Let me just say I don't think it is practical to say you can take the balanced budget restrictions off the States that are in our constitutions and, frankly, are probably very good. Nor do I think that deficit spending at the State level has any real effect on stimulating the economy. We are talking about a national and international economy, so we are just dealing with the practical side of it.

And let me just emphasize I believe we've got to do our part in this. I don't think any of us are here saying here is our deficit, just pay the bill. We have and we are going to continue to make very deep cuts. We have, and a number of States are going to have to, looked at revenue increases. We are going to have to do our share of this. I guess I would really like to emphasize that.

We we are not here saying, you know, here is how much our shortfall is here, please make it up. We are going to do very, very difficult things. But at the end of the day, you get to this point, are you really going to cut schools? Are you going to cut Medicaid so severely that people lose jobs and people can't get health care? Are you going to cut higher education costs to a point where tuition goes up? Are you going to raise State taxes so high that you actually have a negative effect on what you are trying to accomplish getting more money? I will give you an example in Wisconsin—I don't want to belabor it, but we have made some tax cuts in recent times, but they are exactly the kind that you would want. We no longer tax Social Security income. And I am not going to allow right now for us to go back to doing that because these are people that actually need the help. We now exempt health insurance premiums. They are fully deductible. And that is not one where right now we want to go back to the people in Wisconsin. We now allow families to deduct child care costs. These are exactly the areas that families in Wisconsin are really struggling with, health care costs, child care costs, obviously older citizens with Social Security.

So we may, I hope not, have to do something on the revenue side. We may well come to that point because in the end I am not going to let our schools fall apart and I am not going to let our universities become so expensive. But we have to do our part to help out in this as well.

Governor CORZINE. I have to concur with everything Governor Doyle is saying. It would be a huge mistake to have the States take off fiscal governors like mandated balanced budgets. I think it would lead to a very sharp deterioration in credit quality and undermining elements of it. I think it is a Federal Government responsibility. And we do have a responsibility to cut our budgets and adjust our priorities accordingly in times of stress. I think a lot of us are doing it, and I think a lot of us are actually taking this difficult environment and actually reforming a number of elements within our operations in government at the same time. I think that is good. But we still need to make sure that the Federal Government is a partner in the process and since you don't have that balanced budget amendment I think you need help from it.

Mr. BOYD. Thank you, Governors. Thank you, Mr. Chairman.

Mr. OBEY. The gentleman's time has expired.

Mr. BOYD. For 15 seconds think about as we move through this, how we finance it and who finances it and who pays it back. We could look at history and gain some good ideas. Thank you.

Chairman OBEY. Mr. Fattah.

Mr. FATTAH. Thank you, Mr. Chairman. Let me thank you for holding this hearing. Let me first ask for unanimous consent to enter into the record a statement from the mayor of the City of Philadelphia, Michael Nutter, about the economic circumstances and how they are impacting our home City of Philadelphia——

Chairman OBEY. So ordered.

[The information follows:]

CITY OF PHILADELPHIA

STATEMENT OF RECORD

MICHAEL A. NUTTER

MAYOR

ON THE

ECONOMIC RECOVERY BILL

BEFORE THE

COMMITTEE OF APPROPRIATIONS

FULL COMMITTEE HEARING

U.S. HOUSE OF REPRESENTATIVES

DECEMBER 11, 2008

9:30 AM

TESTIMONY OF MICHAEL A. NUTTER, MAYOR OF PHILADELPHIA

BEFORE THE HOUSE COMMITTEE OF APPROPRIATIONS REGARDING THE ECONOMIC RECOVERY BILL

Mr. Chairman and Members of the Committee:

Thank you for your interest in hearing from America's cities, and I especially thank my long time friend and champion of cities, Chaka Fattah, who asked me to submit this testimony.

As you know, on Monday the US Conference of Mayors, under the leadership of Mayor Manny Diaz, came to Washington, D.C. to implore Congressional leadership to provide direct aid to America's cities as part of any economic stimulus package. I fully support these efforts.

In November, I came to Washington, D.C. to lay out the economic concerns of the Cities of Philadelphia, Atlanta, and Phoenix and others, in light of arguably the worst economic and financial crisis since the Great Depression. The impact on the recession on cities is impossible to ignore, and I would respectively suggest that it is vital to ensure that cities are part of any discussion of an economic stimulus plan. Current census data show that the top 100 metropolitan areas are home to 68 percent of America's jobs and are the origin of 75 percent of the nation's gross domestic product. Cities are the population centers and engines of innovation of this nation and their success during these economic times will ensure that our country emerges from this crisis with a stronger and more vibrant economy.

The economic contraction is causing unprecedented revenue losses and erosion in our budgets, forcing us to make dramatic cuts to the services we provide in order to balance our budgets.

At the same time, we have witnessed significant losses in the value of our pension systems. The Philadelphia pension system lost over $650 million in the first 9 months of this year. That loss increased our projected budget costs for pension contributions by $300 million between FY10 and FY13. Our latest information shows that our pension fund lost an additional 12% in October alone.

Cities like Philadelphia are required by state law to balance their budgets. But, the actions we must take to do so are pro-cyclical. These re-balancing efforts will actually undercut the purpose of the economic stimulus package -- to create jobs and help families -- because we are forced to lay people off, cut services and halt spending that creates jobs, provides service and stimulates the economy.

Reduced spending by government as well as workforce reductions will further dampen personal income and consumer spending. In addition, people who lose their jobs will place an additional burden on state and federal programs, through increased demands for state funded medical assistance and unemployment insurance.

In Philadelphia, my administration has been working to close a budget gap that measures more than $108 million this Fiscal Year, and more than $1 billion over 5 years. To balance our budget, we have had to make some very tough choices.

We raised revenue by increasing business fees. Scheduled wage and business tax cuts were frozen. And we identified efficiency savings across government. I am taking a 10% pay cut, along with my Chief of Staff, and leading members of my Administration will take a 5% pay cut. Further, many government employees making more than $50,000 per year will take five unpaid furlough days this fiscal year and the next.

However these measures only closed around 55% of the budget gap. We needed to make some very difficult service cuts while preserving core services, protecting our most vulnerable populations, and being mindful of the long term financial and economic implications of our actions. The most difficult decisions included: eliminating about eight hundred full time positions; closing eleven city library branches; and opening only 12 of our more than 80 city swimming pools .

Cities are willing to do their part. We have balanced our budget by making some of the most difficult and extraordinary cuts imaginable, at a time when we need to be boosting the economy and helping our families.

Other cities have been engaged in a similar process. Philadelphia has had numerous conversations with other cities, including hosting a conference call with representatives from approximately 20 of the most populous cities in the U.S. We have heard the following issues: pension losses are significant; revenues are rapidly eroding; stimulus dollars are welcome, but may come too late to be counter-cyclical; and finally, current federal proposals do not provide relief for operating budgets, which are bearing the burdens of economic downturns and causing the pro-cyclical layoffs, pay and service cuts and fee increases.

Philadelphia and cities generally, need the federal government to recognize the severity of the issues confronting city and state governments. But please bear in mind that any assistance you provide to state governments will not necessarily translate into immediate relief for cities and metropolitan economies.

Last week, Philadelphia and other cities around the country sent a list of infrastructure projects to the U.S. Conference of Mayors as part of the Main Street Stimulus initiative. The list from Philadelphia provided information on projects that are needed, ready to go and which would create over 30,000 jobs.

As President-elect Obama has called this the most severe economic crisis since the Great Depression, any congressional stimulus, I believe, should provide direct funding to cities for infrastructure and, as the Mayor of one of America's largest cities, I ask federal policy makers to take the following actions to stimulate America's metro economies and prevent municipal budget balancing actions from deepening the recession:

Ensure that a share of federal infrastructure funds goes directly to cities. Funneling all infrastructure investments through the States would both delay and dilute their impact on the economy, jobs and continued vibrancy of America's cities.

Provide cities with comparable pension relief as corporations. As stock market and pension fund values have plummeted, corporations and cities are struggling to fund their pensions. Moreover, the current credit crisis has all but eliminated the ability of cities to borrow in private capital markets to cover their pension liabilities. Congress is expected to include pension relief for corporations in the federal stimulus package and should include comparable relief for cities. Because municipal pensions operate under different rules than corporate pensions, municipal pension relief should be provided through loans to cities that operate pension systems to cover their unfunded accrued actuarial liability. The loans would be repaid at the 30-year Treasury rate plus 100 basis points. Like the proposed corporate pension relief, this municipal pension relief would therefore save money and jobs at no cost to taxpayers. By allowing us to borrow to meet ballooning pension liabilities, we will be able to preserve services and jobs, actions that will temper the worse impacts of our current economic challenge.

Ensure cities can continue to borrow to cover their cash-flow needs. Most cities borrow to smooth their cash flow but the current credit crisis has created uncertainty about the continued ability to borrow. To prevent a crisis, cities should be given the ability to borrow directly from the Treasury at 50 basis points above the 1-year Treasury rate. This would generate revenue for the federal government while both providing relief to cities and preventing a crisis.

This is a partnership that will move us forward. Thank you for your consideration.

Mr. FATTAH [continuing]. In a broader statement, and, Mr. Chairman, a broader statement from the U.S. Conference of Mayors around 11,000 infrastructure projects in America's cities that are ready to go if funding was available. So I ask unanimous consent that they be entered into the record.

Chairman OBEY. Without objection.

[The information follows:]

MAINSTREET ECONOMIC RECOVERY

"READY TO GO" JOBS AND INFRASTRUCTURE PROJECTS

America's Mayors Report to the Nation on Projects to Strengthen Metro Economies and Create Jobs Now

Release #2: December 8, 2008

Infrastructure Jobs in Cities – "Ready to Go"

Today The U.S. Conference of Mayors releases the second in its series of reports on infrastructure projects that are "ready to go" in cities across the nation – projects that can be started quickly after funding is received and generate the significant numbers of jobs that are needed to strengthen the economies of our metro areas and our nation as a whole.

Today we are reporting that in 427 cities of all sizes in all regions of the country, a total of 11,391 infrastructure projects are "ready to go." These projects represent an infrastructure investment of $73,163,299,303 that would be capable of producing an estimated 847,641 jobs in 2009 and 2010.

The Conference of Mayors MainStreet Economic Recovery plan, developed under the leadership of Miami Mayor Manual A. (Manny) Diaz, the President of the Conference, calls for federal investments in 10 sectors that will quickly create jobs in metro areas, improve the infrastructure that the private sector needs to succeed, help the small businesses of Main Street America, and produce lasting economic and environmental benefits for the nation. The following chart summarizes, for each of the 10 sectors, the number of infrastructure projects described by the 427 cities, the total investment that would be required to implement these projects, and the estimated number of jobs that could be generated by these projects.

SECTOR	PROJECTS	FUNDING	JOBS
Community Development Block Grants for Infrastructure	2,412	12,675,711,266	205,184
Energy Block Grant for Infrastructure and Green Jobs	942	6,273,272,563	38,792
Transit Equipment and Infrastructure	628	7,069,333,697	80,883
City Streets/Metro Roads Infrastructure	2,403	17,351,910,359	256,515
Airport Technology and Infrastructure	367	4,036,820,109	30,697
Amtrak Infrastructure	41	1,060,310,000	3,599
Water and Wastewater Infrastructure	2,536	15,366,982,941	133,193
School Modernization	652	3,731,693,882	60,278
Public Housing Modernization	440	1,899,928,687	12,053
Public Safety Jobs and Technology	970	3,697,335,798	26,448

Readers of this report should note that several cities were unable to submit cost estimates and/or estimates of jobs to be created by all of their individual projects. Because this information could not be included in our tabulations, the total project costs and job numbers we are reporting for the cities as a group should be considered conservative.

Further, because these totals reflect projects submitted to the Conference of Mayors by just 427 cities, both the potential infrastructure investment that could be made across all of the nation's principal cities, and the potential number of jobs that such an investment would create, are significantly larger.

In the U.S. today there are approximately 1,200 cities with populations over 30,000, well over two-and-a-half times the number of cities represented in this report. The Conference will continue to collect information on city infrastructure projects that are "ready to go." The next report, scheduled for release in January, will account for a larger number of cities and list a larger number of projects.

Documenting the Need for Infrastructure Investment

In early November, cities across the nation provided the Conference of Mayors with examples of needed infrastructure projects that could be started quickly and completed in 2009 if additional federal funding were made available for them in any of the 10 MainStreet infrastructure investment sectors. For these projects, the cities gave us their estimates of the amount of funding that would be needed and the number of jobs that would be created.

A report describing more than 4,600 projects in 154 cities capable of creating well over a quarter-million jobs was released by the Conference in Washington on November 13.

A week after the release of this first report, President-elect Obama stated a goal of creating 2.5 million jobs in America by 2011 – a goal strongly supported by the nation's mayors. The President-elect described a two-year initiative to rebuild the nation's crumbling infrastructure. In response, the Conference invited cities to again submit information on infrastructure projects, this time on projects that could start quickly in 2009 and be completed by the end of 2010.

Many of the cities included in the Conference's first report submitted additional projects, and many other cities submitted their projects, greatly increasing our total estimates of federal infrastructure funding that could be used and jobs that could be created.

This report combines the information on projects included in the first report and projects submitted in response to the Conference's second request.

The United States Conference of Mayors
MAINSTREET
ECONOMIC RECOVERY

A Call to Action – More Urgent Each Day

Main Street America's economic crisis continues to worsen. Since the start of the recession a year ago, the nation has lost 2.7 million jobs. About 10.3 million American workers are now unemployed. About 822,000 have been added to the long-term unemployment rolls (those jobless for 27 weeks or more) over the past year. The nation's unemployment rate reached 6.7 percent in November – 1.7 percentage points higher than a year ago – and is expected to continue to rise into next year. Claims for unemployment benefits are at the highest level in a quarter-century. Adding to the seriousness of the situation is an underemployment rate that recent calculations put at 12.5 percent.

In today's world, metro economies drive the national economy, currently accounting for 86 percent of national employment, 90 percent of labor income, and 90 percent of gross domestic product (GDP). **It should be obvious that investing in Main Street metro economies is the most direct path to creating the jobs and stimulating the business that can begin to reverse the current economic downturn.**

Washington has bailed out Wall Street, banks, and insurance companies to the tune of $700 billion and hopes that its investment will eventually be returned to the U.S. Treasury and the taxpayer. It is now time for Washington to make another kind of investment, one that guarantees a return: **It is time to initiate MainStreet Economic Recovery – immediate and direct assistance that enables local governments and the private sector to invest in the infrastructure and create the jobs that will help restore this nation's economic growth.**

Opponents of economic stimulus spending assert that, because infrastructure projects could take years to start and many more years to complete, investing in them would not have the short-term impact on the economy that is needed. **We have documented in this report, however, that there are many thousands of infrastructure projects in cities that can get underway immediately and be completed quickly – within one or two years. As we report, projects in just 4 cities are capable of quickly generating nearly 848,000 jobs – well over one-third of the 2.5 million jobs sought by the President-elect.**

MainStreet Economic Recovery – Immediate and Direct

On October 29, Louisville Mayor Jerry Abramson, a Past President of the Conference, presented the Conference's initial MainStreet plan to the House Transportation and Infrastructure Committee. On the same day, our Immediate Past President, Trenton Mayor Doug Palmer, presented it to the House Ways and Means Committee.

The plan they presented was based on the package of programs for a second economic stimulus that passed the House of Representatives in September but was stopped in the Senate. To that House package we added three needed initiatives: Community Development Block Grant for Infrastructure; Green Jobs – Energy/Environment Block Grant; and Public Safety. In most of the programs, 30 percent or more of the funding would go to the states, with the remainder going to cities and counties – the metro areas that account for the bulk of the nation's gross domestic product. In the transportation sector, our plan demands that current-law commitments to local areas be preserved in distributing funds under the Surface Transportation Program (STP).

It is important to understand that our MainStreet Economic Recovery plan calls for funds to flow quickly and directly to cities through 10 federal funding streams that are already in existence; many of these have demonstrated their effectiveness over many years. The 10 infrastructure investments we are recommending are:

- **Community Development Block Grant for Infrastructure** – CDBG would be used to create jobs through: the construction of public facilities and improvements, water and sewer facilities, streets, and neighborhood centers; the conversion of school buildings for eligible purposes; activities relating to energy conservation and renewable energy resources; and assistance to profit-motivated businesses to carry out economic development and job creation/retention activities.

- **Energy Block Grant for Infrastructure and Green Jobs** – The new Energy Efficiency and Conservation Block Grant (EECBG) program would be used by cities, counties, and states to create thousands of energy efficiency and renewable energy production projects. These projects could include energy retrofits of public and private buildings in local areas, installation of solar panels or wind turbines for the production of electricity on local buildings, deployment of new energy distribution technologies (such as distributed generation or district heating and cooling systems) that significantly increase energy efficiency, and development of systems to capture and generate power from methane at landfills.

- **Transit Equipment and Infrastructure** – Transit funding would be used to purchase buses, street cars, rail cars, and other rolling stock and equipment needed to create additional capacity; help stabilize fare increases; and improve reliability. It would also be used to restore and maintain facilities and infrastructure in a state of good repair through projects that could, for example, expand station capacity, improve rail tracks, and provide customer information screens.

- **City Streets/Metro Roads Infrastructure** – Highway funding must be distributed through the Surface Transportation Program (STP); this ensures that it will provide maximum flexibility to cities, counties, and states to undertake bridge, bus and rail, and road projects in metropolitan areas.

- **Airport Technology and Infrastructure** – Projects funded through the Airport Improvement Program (AIP) would include runway and taxi rehabilitations, extensions, and widening; obstruction removal; apron construction, expansion and rehabilitation; rescue and firefighting equipment and facilities; airside service or public access roads; and noise mitigation and abatement (Part 150) associated with aircraft operations, including voluntary home buyout, which would fuel the local housing market, and residential and business insulation programs.

- **Amtrak Infrastructure** – Amtrak would use infrastructure funding to make necessary upgrades to tracks, bridges and tunnels, electric traction, interlockings, signals and communications, and stations on the Amtrak system. In addition, Amtrak could refurbish rail cars that are currently in storage and return them to service.

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- **Water and Wastewater Infrastructure** – Local governments contribute 98 percent of the total investment in wastewater and 95 percent of the investment in water infrastructure. Water and wastewater infrastructure grants would be used to assist with rehabilitating aging water and sewer infrastructure, complying with sewer overflow issues, and promoting source water protection and availability.

- **School Modernization** – Federal school modernization funds would be used to repair and modernize school buildings in both large- and small-city school districts, improve their energy efficiency, and equip them with first-class technology.

- **Public Housing Modernization** – Public Housing Capital Funds would be used for repair and construction projects, including safety repairs.

- **Public Safety Jobs and Technology** – Providing COPS hiring grants to local police departments would allow them to put additional police officers on the streets and in the schools as school resource officers. Additional Byrne Justice Assistance Grant funding could be used to hire personnel, support those personnel, and purchase equipment and new technologies which make law enforcement personnel more effective in their jobs.

"Ready to Go" Report Series – Updates of Infrastructure Projects

For each of our 10 MainStreet infrastructure investment sectors, the following pages list infrastructure projects that are ready to start quickly in 2009 and be completed by the end of 2010 if additional federal funding is provided. The projects are listed by state and city.

The Conference of Mayors will continue to collect information on infrastructure projects from cities – additional cities not included in the first two releases, and additional projects submitted by the cities that are included – and plans to release updated listings of projects on a regular schedule.

Mr. FATTAH. Thank you, and I would say that it is a pleasure to see the Governors here today. I got a chance to sit through the entire meeting with President-elect Obama and the Governors. They met in my home City of Philadelphia on December 2nd, and clearly it was very productive dialogue. First things first, we do have one President at a time and I wanted to know about interaction with the present administration with our Nation's Governors on these critical issues. There seems to be almost selective amnesia at work. We have difficulties for State Governments getting into the credit market and no action by the Treasury Department to respond to these needs.

I used to chair the board of the student financing agency in Pennsylvania, PHEAA, student aid entities, locked out of the market, housing finance agencies. So I am wondering about the absence of President Bush in the middle of this crisis, and rather the Governors who have been on the front line, and I have seen the action that, you know, your program in Milwaukee, which is reducing the crime or Governor Douglas setting aside 400 positions in Vermont, Governor Corzine really led the way in terms of turning this to an economic recovery effort with a job creation, tax credit of $3,000. Would you comment about whether we are wrong, whether the administration is acting, whether the President is not at some undisclosed location, is actually interacting with you as you are dealing with these challenges.

Governor DOUGLAS. Well, the National Governors' Association has a continued relationship with the administrative agencies as well as with the Congress and your staff and we continue to do that, but I think at this point everybody is looking forward, looking forward to the new Congress, the new administration and doing what we can to get through this, and so I appreciate the time that the chairman has set aside for this conversation today and hope that we can get the job done.

Governor DOYLE. Well, I guess I just speak for me personally. There hasn't been any contact, but I do want to say the new administration has been incredibly attentive and focused on this issue. They have been open to us. They have been discussing this with us in great detail. You know, I guess we believe hope is on the way, and certainly there has just been great attention being paid to this issue by the incoming administration, by the President-elect himself and certainly the people around him and the transition team, for which we are very grateful.

Mr. FATTAH. Governor, you know we just sold Treasury notes at auction yesterday at a negative benefit, and we have doubled the national debt. We have 10 million Americans without jobs. I want to know, I understand we have hope for the new administration. They don't have the reins of power right now. And so while you are dealing with these very challenging circumstance, I am just trying to figure out whether the impression that the present Commander in Chief is missing in action is accurate or not. Has he been helpful to you, Governor Corzine, in New Jersey?

Governor CORZINE. I think that the actions that the Congress and the President's administration took at the time of the explosion in the financial markets, while not anything anyone wanted to embrace, was actually a positive response to try to settle credit markets. I think there continues to be a philosophical concern about the involvement in broader aspects of the economy, and that is probably true with respect to some of the things that we have spoken about here, financing in municipal and State finance. I would like to see more action there. I would like, whoever it is, and I am one of those that would like to join my Governors, we are looking forward. But the Treasury should be, I think, seriously focused on the undermining of our ability to use traditional financing mechanisms to support a lot of the things that we have talked about today.

Mr. FATTAH. Thank you.

Chairman OBEY. Mr. Rothman.

Mr. ROTHMAN. Thank you, Mr. Chairman. I want to say good morning to all the Governors and thank you for being here, particularly my own Governor, Governor Corzine, who is one of the hardest working, smartest people I know and doing a great job for New Jersey. If I have heard you all correctly, there are two sides in relation to our jurisdiction here on the Appropriations Committee of the coin for you that need to be addressed if the Federal Government is going to help the States, and that is, number one, that what everybody has heard about, these infrastructure projects, roads, sewers, bridges, tunnels, rail, school construction, affordable housing, and other things, and people can sort of identify with that. We did it in the fifties. It was a real shot in the arm. And it had a lasting effect. As the Governor mentioned, the Golden Gate Bridge, the Lincoln Tunnel, although they were done not all in the fifties, but these major projects have a short-term positive effect for the country and long-term.

But you also mentioned the operating side as well; in other words, the States need money to pay for critical services, police, fire, public colleges, food for the hungry who are lining up more than ever, 30 percent increase at our food pantries in New Jersey, 30 percent increase in the food pantries. That is just shocking.

But it is true. And that indicates that there are terrible problems that people are suffering with. And if the States don't get their money, some help, well, I want to say a couple of things. If you get to the money that is talked about, aren't you still going to have to cut these services anyway? Or are you just going to take this money and just say let's continue things as usual and let everybody get extra bonuses and vacation time?

I think I know the answer but I want to hear it from you, and I would also like to hear from my own Governor. We have this ARC tunnel project which we have invested in from New Jersey, billions of dollars in. Could you tell us about this ARC tunnel project that crosses the Hudson River from New York to New Jersey, a little more about school construction, and why you think affordable housing is a critical infrastructure need?

Governor CORZINE. First of all, there really are three areas where the Federal Government interacts with the State. One——

Mr. ROTHMAN. We don't have the tax part.

Governor CORZINE. Infrastructure, on the subject that we are talking about today, the infrastructure issue, including the ARC which is a program or a project of national significance that, as I said, would service as much as 45,000 commuters. That gets at congestion, that gets at freeing up the ability of northern New Jersey and New York to get cars off the roads, all kinds of green energy kinds of related elements, but it puts 6,000 people to work today.

Mr. ROTHMAN. 45 million passengers.

Governor CORZINE. In a year. Operating budgets, we have talked about FMAP and a few other areas where some people would have just argued that we should have block grants for some piece of operating budgets, not all of them as Governor Doyle talked about. But then there are these whole host of State-administered Federal programs like section 8, like food stamps, where we are the tool of the Federal Government to provide those services. Those are really different.

I am not saying we are mixing apples and oranges here, but the work on infrastructure and the work on the operating budgets is different than State-administered programs where there is a huge need, and so the unemployment compensation funds and other issues all fall into that category. And so I hope that when you sit down and put together a program it is taking into account all three of those areas and recognizing that they need to be comprehensively fit together.

Governor DOYLE. I agree generally on the categories. One of them is economic stimulus and what we can do as states. We clearly have delivery systems that are available as Congress really is working to get a stimulus going, jobs going, and people working. We have an infrastructure built up to——

Mr. ROTHMAN. But if you get the money you have to continue to cut.

Governor DOYLE. Exactly. The stimulus, while very important, isn't going to help us with our education costs and it isn't going to help us with paying for our universities and Medicaid and those sorts of things. So yes, I think in times of scarcity you have to really determine what your priorities are and, as I tell people in Wisconsin now, you are all going to be affected in some way or another. We have to make sure that in the areas that really matter they maybe don't take the hit quite as hard and don't take cuts in a way that really does permanent damage. And I say schools are the number one priority. So schools, they are not going to have a rosy 2 years no matter what you do. They are going to have a very difficult time in these next 2 years. But we have to make sure there are at least good schools and that there are teachers in the classrooms and classroom sizes don't explode and basic education goes on in this country. That is where you and the Congress and the States have to work very, very closely together.

So no, this isn't going to be a great time. In fact, to the contrary, everybody is going to have to do with less over the next couple of years. But for these basic institutions such as education, which I think most important, we just can't cut funding to a point where the kids going to school right now, who have had nothing to do with overspending or too much credit, are the ones that pay the price for the predicament that this country finds itself in.

Governor DOUGLAS. Housing specifically, Congressman, I talk with a lot of employers in my State who say that because of the rural nature the Vermont and the fact that people have to drive a long distance to get to work that a lack of an affordable place to live is more critical to them than health insurance right now because they just can't find a place to live that is within their price range anywhere near where the job is and, although fuel prices have come down a little bit lately, they are still an important part of the family budget. So I think facilitating more affordable housing through access to capital through the section 8 program is critical, and it has the added benefit of stimulating the economy by creating jobs in the construction sector.

I think, as we have suggested earlier, support for a Federal-State shared program like Medicaid is critical not only because of the increased caseload in that program itself but because it allows us to moderate the cuts that will be necessary in other programs in our State budgets.

I also indicated earlier that I don't think it is all bad to force some efficiency and economy of administration of these programs. We have combined several divisions and departments within our administrative structure, and I expect my colleagues are finding ways to deliver services more efficiently than before. So we do need your assistance in this time of economic crisis, but we are certainly willing to do our part.

Chairman OBEY. Mr. Bishop.

Mr. BISHOP. Thank you very much. Let me echo my welcome to you Governors and let you know that my State of Georgia certainly faces the same challenges that you face. But let me, I appreciate all of the comments that I have heard this morning with regard to the infrastructure that is needed in the States. I am particularly concerned about rural infrastructure and of course, Governor Douglas, you are peculiarly sensitive to that. And of course all of you of course have rural areas. But I have a large rural area and of course the transportation and affordable housing is greatly needed. But as we look at bricks and mortar versus innovations in the future that—I mean obviously bricks and mortar will create immediate jobs, but we want to put the bricks and mortar there, but there has got to be some other non-brick and mortar infrastructure such as broadband that will allow accessibility in rural areas, for example. We have got to somehow marry the needs for innovation in our educational system not just to school buildings but into processes for educating our youngsters, improving the quality of teaching for our teachers, particularly the STEM disciplines, science, mathematics, technology, engineering, where we are falling woefully short, we are falling woefully short now. And without some rapid, rapid attention being given to that on a national scale with a national will with all 50 States and the Federal Government, we will quickly lose our status as a superpower because we don't have the expertise. We don't have the generations coming up that are trained in those disciplines.

Don't you think that as we invest in bricks and mortar for immediate infrastructure that we also need to give you the flexibility that you were talking about to also invest in these kinds of long-range innovations? And so that whatever we do, make it flexible enough so that States, and particularly States that have poor rural areas, where they don't have that kind of tax base, to make every aspect, every area in your States, capable of being able to participate now in this global and flat world that we are in.

Governor DOUGLAS. Congressman, I want to thank you for reemphasizing that point. I mentioned broadband infrastructure in my statement for the reasons you articulated. It is important to have that available in rural areas, especially where it is difficult for, or not cost effective, for a telecommunications company to make that investment. We established a telecom authority in Vermont this past year empowering it to issue some tax-supported debt to build out that infrastructure, but we could even do more with some support from the Federal Government. So flexibility is indeed the key. And as you noted, it may be more cost effective in rural areas not to build that additional school building or enhance one that is already there, but to have distance learning through interactive learning experiences. So I agree.

Mr. BISHOP. The same thing with telemedicine.

Governor DOUGLAS. Yes, and NGA has, I should note, a health alliance that we have undertaken to work with the public and private sectors to build out electronic medical records infrastructure that I think would be an important part of our health care future.

Governor DOYLE. Green energy is another area of technological advance that we can make major investments in that has huge advantages in rural areas. Just an example of one that we are very interested in building, a wood chip processing plant, for use of biofuels in an area of the State that is largely forested. It is an area that spreads out not just in our urban areas but across rural areas as well.

Mr. BISHOP. It is a job creator?

Governor DOYLE. It has proven to be a very big job creator, and so far green energy and particularly ethanol production in our State has been one of the great sources of strength in rural areas, and as we move into using our forest, much of, again, Congressman Obey's district is forest land, and as we look into its use to really be part of our energy solution, a lot of jobs are involved in that as well.

Mr. BISHOP. A lot of cellulosity.

Governor CORZINE. I just concur with the folks. I don't think I have much I can add.

Mr. OBEY. Thank you. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chairman, and let me add my thanks to you for your leadership and having this hearing and the presence of the ranking member, also. And I would like to ask for unanimous consent to enter into the record a document that represents the California delegation and also add to the document a discussion on the issue of school modernization, school bonds and new school construction. I think that has been discussed before, but I will ask unanimous consent to have this entered into the record.

[The information follows:]

House Committee on Appropriations
Hearing on
Economic Recovery Bill
Statement for the Record
Submitted by
Reps. Farr, Roybal-Allard, Lee, Schiff and Honda
December 10, 2008

Introduction

From the Gold Rush days to the explosive growth of the Internet at the beginning of the 21st century, California's economic history has been one of constant change, growth and prosperity. Starting as a sparsely populated Western frontier with fewer than 100,000 residents in 1850, California's population now exceeds 34 million. From an economy that was too small to measure before the Gold Rush, California is now the eighth ranking economy in the world, about the size of Mainland China, and larger than Brazil, Canada or Spain. California's gross product exceeded the trillion-dollar mark in 1997, the first state to achieve this record. Last year, it was the first state to top $1 trillion in personal income.

Beyond size, California is also a world technological and economic leader. California is an example of what the future has in store for the rest of the nation. It has been the birthplace of many of the world's most significant technological innovations, social trends, and is a model of economic innovation and prosperity. As this new century begins, there are few economies better suited to this new "information age" than California's.

California possesses a vibrant and diverse industrial tapestry. Historically, the state's remoteness from the industrial states of the East and Midwest caused it, from the beginning, to develop a fairly complex economy, rather than one devoted to a few specialized industries. Over time, new industries were introduced that, rather than displacing established industries, were simply added to the existing base, which heightened its complexity. This pattern of adding rather than displacing industries gives California its rich economic texture in which long-established industries, such as agriculture and mineral extraction, thrive alongside emerging industries, such as biotechnology, telecommunications and the Internet. Thus, from its frontier beginnings, California has become the largest and most diverse economy in the nation.

Current Fiscal Situation

California faces a massive budget deficit of at least $28 billion over the next 20 months, as concluded by the state's non-partisan Legislative Analyst. Last week, the Governor called a Special Session to begin the process of addressing this budget shortfall. On December 8, 2008, the Senate and Assembly held a Joint Convention of the Legislature on the State Fiscal Emergency to hear directly from the State Treasurer, State Controller, The Legislative Analyst and the Director of Finance about our state's current fiscal picture and cash shortage.

The budget balancing plan California is currently considering will close the deficit by imposing tax increases on all Californians and slashing more than $10 billion in essential services including education; healthcare; aid to seniors, the blind, and the elderly; public safety; and transportation. These reductions are extremely hurtful, particularly the reductions in safety net programs, when viewed in the current economic climate in which more than 13,000 Californians are losing their jobs each month and may need the benefit of these services.

California needs the federal government to partner with us to help our citizens weather this national economic storm. California is urging Congress and the new Administration to undertake a comprehensive federal aid package, including:

(1) direct federal-state program assistance;
(2) federal funding for infrastructure investment opportunities and
(3) regulatory and policy actions.

Although federal aid alone will not solve all of California's fiscal problems, an infusion of federal funds coupled with economic stimulus programs will provide necessary economic relief to millions of Californians.

Direct Federal-State Program Assistance

As the economic downturn deepens and unemployment increases, investments in existing federal-state programs can quickly distribute funds to the neediest individuals and help avoid cuts to basic services. Additional funding allocations to the following programs can bolster the safety net and be particularly helpful to citizens and states.

Maximize California's Federal Medicaid Assistance Percentage (FMAP)

The FMAP is the federal share of California's Medi-Cal Program. Although California has a large number of low-income and disabled individuals eligible for the program (over 6.6 million people are currently on Medi-Cal), because it has a significant population of high income people, it is considered a "rich" state and receives the minimum 50 percent sharing ratio from the federal government. It is imperative to increase the federal sharing percentage and address the underlying FMAP formula which hugely disadvantages states with high income residents.

Reauthorize the State Children's Health Insurance Program (SCHIP)

Most states, including California, are overspending their SCHIP allocation and have exhausted their prior year unspent allocations. Therefore, reauthorization by March 2009 is critical.

Increase Food Stamp Funding

In California, roughly 1.7 million people receive food stamp benefits. California, however, also has the lowest enrollment in Food Stamps in the nation, failing to collect between $650 million and $1.49 billion in federal food stamp benefits annually. Increased funding means more food purchasing power for children, adults and senior citizens.

Extend Unemployment Insurance Benefits.
California would benefit from a further UI extension, improved UI coverage as well as increased administrative funding for states to deal with the increasing number of applicants.

Increase State Criminal Alien Assistance Program (SCAAP) Funding
Currently, California spends approximately $1 billion per year to incarcerate an estimated 18,000 undocumented felons. However, for the fiscal year 2008-2009, the state will only receive $110,898,000 in SCAAP reimbursements from the federal government. Congress must increase federal appropriation levels to help offset state costs.

Increase Pell Grant Funding
The credit crisis has made it much more difficult for families to qualify for student loans, especially private loans. For FY 09, the estimated overall Pell Grant shortfall is $3.5 billion. Pell Grant funding should be increased to cover the shortfall. This will ensure that adequate federal funds are available for all eligible students.

Infrastructure Investment Opportunities
As Congress deliberates a second economic stimulus package, infrastructure investment is going to be an important part of their proposal. The Administration has identified $28 billion in California's infrastructure needs and ready-to-go projects. Below is a summary of infrastructure investment categories that would benefit California.

Transportation
California has identified over $5 billion in ready-to-go economic stimulus infrastructure projects in the transportation sector. Federal funds should be provided for California's highways, transit systems, passenger rail and goods movements projects.

Housing
Housing economic stimulus proposals fall into three main categories:
(1) housing construction related activities;
(2) foreclosure prevention and mitigation; and
(3) housing market improvement policies.

The following reflects a broad discussion with various housing advocates convened by the California Housing Partnership and outlines recommendations in each category.

• **Additional Funding For Public Housing Preservation**
Fund the preservation of existing public housing via construction work identified in HUD-approved five year capital plans.

• **Provide Infrastructure Funding through the Community Development Block Grant Program (CDBG) or the Economic Development Agency (EDA)**

• **Expand Protections for Low Income Renters and Families that have lost their homes.**
Support measures that will ensure that low income renters pushed out of foreclosed homes and renters indirectly hurt by the increased demand for rental housing, receive assistance.

• Extend the Current FHA High Cost Limit
This limit is set to expire December 31, 2008, and its extension would help prevent further declines in homeownership in the many high cost communities in California and enable existing inventory to be sold.

• Neighborhood Stabilization Program (NSP)
Increase Funding and Revise Formula. Most recently, Congress appropriated $3.92 billion for the Neighborhood Stabilization Program (NSP) which provides emergency assistance to states and local governments. This funding should be made available using a revised formula that focuses more narrowly on the number of foreclosures and loans in default and eliminates or reduces the weight given to "abandonment risk" which unfairly shifted funding away from communities in California.

• Expand Community Reinvestment Act (CRA) Requirements for Banks
Banks seeking to fulfill their CRA requirements are still offering better terms than are available in the general market. Congress should require such additional loans in exchange for the billions of dollars that the Treasury is providing to many of the larger banks.

• Resume Purchases of Tax-exempt Housing Bonds and Low-Income Housing Tax Credits (LIHTC)
Fannie Mae and Freddie Mac should be directed to resume purchase of tax-exempt bonds and LIHTC. The purchase of these tax credits and bonds will enable local housing finance agencies to do leverage their capital capacity for more housing related construction activities and thereby be a part of the solution to the housing crisis.

Clean and Green Economic Sector
California has taken significant legislative steps to strengthen our commitment to address climate change, decrease our fossil fuel consumption, encourage investment in the clean/green technology sectors and foster green workforce job training.

• Congress and the Administration should pursue climate legislation that is at least as strong as California's statutes but that does not preempt and/or undercut our current implementation efforts. California stands ready to provide assistance in the development of this legislation.

• Congress and the Administration to should provide funding or tax incentives for clean/green technology related activities – green buildings, energy efficiency projects, and alternative transportation fuels and vehicle technologies.

• The economic stimulus infrastructure program should specifically provide funding to achieve our renewal portfolio standard (RPS) goals through the siting, planning, and building of transmission lines. Federal infrastructure dollars for transmission lines will stimulate the economy and put California's ingenuity and people to work.

• The economic stimulus package should include Workforce Investment Act funding for green job training programs for displaced workers, at-risk youth and veterans. Congress should consider federal tax credits for businesses that create green collar jobs.

Federal Funding Needed for Flood Control Projects

Numerous California flood control projects and environmental feasibility studies have been authorized by federal and state legislation with costs to be shared among the federal, state and local agencies. California is eligible to receive $15M for flood control feasibility studies and more than $112M for flood control projects. Federal funding should be provided for these important public safety projects.

Pressing Regulatory and Policy Actions

Flexible Implementation of HR 6893

Fostering Connections to Success and Increasing Adoption Act. HR 6893 contains various provisions to help support our vulnerable foster children populations. California needs to ensure that flexibility is provided in the federal regulations so that states can implement the provisions of HR 6893 in the way that most benefits vulnerable children.

CalWORKs: Withdraw Pending Draft Regulations

If this rule is not withdrawn a penalty will be assessed and California may be forced to delete its supportive services from CalWORKs via a corrective action plan. The reduction in these services is punitive for CalWorks recipients struggling to find employment. This rule is ill-conceived and will subject states to undue financial penalties. The Administration should withdraw this draft rule immediately to avoid its potential effect on California and other states.

Reopen Final TANF Reauthorization Rule

California should not be penalized for continuing to retain a safety net component of its CalWORKs program so that children are not harmed by the parent's inability to get or retain employment within the 5-year lifetime limit on assistance. The Deficit Reduction Act (DRA) requires that these safety net families count in the work participation rates (WPR). The federal government should not enforce this final rule and a review of these regulations is recommended especially in light of the economic downturn and its effect on low-income families. The Administration should revise this final rule and not apply financial penalties to states until a new rule is promulgated.

Restrictions on Child Support Enforcement Payments

California along with the National Council of State Legislatures, advocates the repeal of the Deficit Reduction Act (P.L. 109-171) provision that prohibits states from using incentive payments to draw down federal funds. This action will provide additional funding to assist states with collections of child support payments and provide immediate assistance to working families.

Mr. HONDA. Mr. Chairman and Governors, thank you. Thank you very much for being here. I think that one of the things that I think is a positive outcome with this kind of discussion is that not only the folks who are here and the members who are present find this hearing instructional, but hopefully it is instructional for those viewers out there who are watching this and are starting to understand that governments cannot work in isolation, and when things don't work at one level, that stuff rolls downhill and eventually if you don't pay for it now you pay for it later. And I think this is a good example of a crisis that has occurred because of different kinds of missteps by certain industries, and also governments' misstep on how we create or don't create Federal revenues for the kinds of projects we are talking about today. We can disagree on the size of government, but I think that government has a role in people's lives, and I think it has become evidently clear though what role we do play because of the kinds of issues that the Governors are bringing up and the kinds of issues that we concur with.

So I just want to thank the chairman for allowing us to be able to do this and then also prepare for the beginning of the next session. I can't think of anything more than this to be the very first step of the new administration. Although there may be results of the past administration, we still have the responsibilities to take care of people.

These kind of issues are issues that are not evident on a daily basis to the public when times are good. It only rears its head when times are bad and we have to start talking about cutting back on services, and this is when people start to feel the pressure of what happens when we don't have a good economy or we don't have the necessary revenues to fulfill our obligations.

One of the things I heard by the Governors, and particularly by Governor Doyle and Governor Corzine, is the comment about States can be efficient and they have delivery services that can deliver these kind of funds to the rest of the State. But having come from local government also, are there suggestions or are there efficiencies that we can realize in both time and costs by looking at, from the Federal Government's point of view, sending money out, funds out to localities, and municipalities and county governments that have a large size that can do their own distribution and thereby save time and money? And I would like to have some sort of response on that.

Governor DOYLE. I can speak for Wisconsin. There are certainly, if we were going to go in for sort of a wholesale change of our State laws on what is the responsibility of municipalities and counties in the State, it may be very worth doing that but in terms of if you are looking for a quick economic stimulus, we will be locked up in a political battle that will tie us up for several years. We have very clear lines of responsibility of what municipalities can bond for and what their infrastructure needs are and what they do independently and then what comes through the States. As State Governments, our capital budgets dwarf the municipal and county budgets by a large factor. So we can move much more quickly. But I do believe there is a significant role here for municipalities, sewage districts, and others that have their own bonding authority and their own capital budgets to be part of this effort and that they can get jobs moving as well.

Mr. HONDA. I understand that there is that large responsibility, infrastructure, like transportation and others, where it makes sense to award to the States but there are other arenas where counties and cities that are large enough, they have their own mechanisms. Those duties are passed on to local governments anyway, and it seems to me it would save time and money if we figure out how to do that more efficiently.

Perhaps the other Governors have comments.

Governor DOUGLAS. Congressman, there is, as I understand it, a procedure where Federal agencies can proclaim an emergency and use emergency procedures that allow a simplified bid process, and I would think it would be useful in this discussion to allow for that so that the projects can be delivered as quickly as possible.

Chairman OBEY. The gentleman's time has expired.

Mr. HONDA. Thank you, Mr. Chairman. I just want to thank you for this opportunity, and this is a prerequisite to the next session and if we paid attention to this kind of hearing, Mr. Chairman, as we pay attention to Super Bowls, World Series, Olympics, I think that our country and our citizens will understand better the workings of what we try to do on a daily basis. Thank you.

Chairman OBEY. Mr. Schiff.

Mr. SCHIFF. Thank you, Mr. Chairman. Thank you, Governors, for your testimony today. I find myself on the issue of infrastructure torn between two competing impulses, the one to want to get money into construction jobs as quickly as possible. Just look at those projects that are ready to go. California, as my colleague I am sure alluded to, is having a Herculean task trying to balance a budget that may be up to $40 billion out of whack in the next year and a half. So we have a tremendous challenge. But between wanting to put money into construction projects that are ready to go and can immediately stimulate the economy on the one hand and on the other hand wanting to be strategic looking at what the State's greatest needs are, looking at things that we have not been able to invest in for decades, building more institutions of higher learning, investing in the State and in the country in a way that we haven't done in half a century, this is going to be an opportunity we won't see again for maybe half a century. How can we deal with these competing priorities, to pick things that are ready to go on the one hand, stimulate the economy on the one hand, but on the other hand to be a little bit more strategic about what we invest in so we can look back on this period and say, yes, it was an awful recession but look at the good that has come out of it, look at the investment in the America we were able to make? How do we deal with those competing priorities?

Governor CORZINE. First of all, I think that you have a responsibility in a legislative and deliberative process to try to identify the things that have priority, and I don't think one particular bucket actually covers that. We need a comprehensive infrastructure program. One of the reasons that a lot of folks have expressed support for an infrastructure bank is to have the discipline of screening and reviewing those, and one of the metrics that might be asked for that infrastructure bank to review projects on is how do they fit into an overall plan, not just with regard to transportation but also energy, maybe even health care, and obviously, help education. So I think that some judgment with regard to how you allocate those priorities is a perfectly reasonable thing for the Congress to do, and then setting down what metrics would be used would be the kind of debate that I think would go on with respect to what an infrastructure bank would end up accomplishing so that we don't end up with lower priority or at least we have made an effort to try to do the prioritization of the various elements.

But it may very well be, and I know there is a debate about, you know, if you pave roads that is a bad thing or maybe that is not how we spend our money relative to broadband and you know there is some element of that is true, but if we don't have the paved roads, we are not going to have the ships that unload in Long Beach and metropolitan New York be able to get to the areas that are going to deliver the services in the private sector to our community. We need to make sure that we are maintaining our universities in a state of good repair so that our students can actually accomplish it.

So I think there has to be a judgment about how much we want to put into so-called innovation versus making sure that our infrastructure is actually working to accomplish what we want today.

Governor DOYLE. In many of our programs, particularly transportation and building in Wisconsin, I am sure I speak for the States here and others, we have prioritized those projects. I mean you could look out for the next—in transportation in Wisconsin—the next 8 to 10 years, and we basically have the projects that for various rating systems we have determined to be most important, and then we just work down that list as money is available. Same is true with building our capital and university and other State building projects. So I think you can have some faith that in some of those areas that this prioritization has been done. But I really agree with you on some others.

I will just give an example. We have under court order and I think we all support it, trying to get rid of a coal fired heating and cooling plant that sits right in the middle of the City of Madison, and it is at the University of Wisconsin's heating and cooling plant. So we are under the order and if we could get that moving quickly, we know that over the next 5 to 7 years it is going to be a huge drain, it is going to be a big problem, issue that we are going to have to deal with. Now we don't have the design work done. We don't have the engineering work done. So I really do hope, and I think Governor Douglas alluded to this, that while it is important to get us going in 90 or 120 days, although some of us with snow on the ground would have to wait a little longer most economists agree this isn't going to be over in the next year, and so if we can have a way as well that some of these other big term projects that if we can get them done over the next 3 or 4 years instead of the next 7 or 8 years, it will greatly benefit the State of Wisconsin for years and years to come.

So I hope we aren't going to see this just strictly as, boy, this is a 90-day problem, but that we understand this is a multi-year problem we are dealing with.

Governor DOUGLAS. I agree with my colleagues, Congressman. We certainly go through the prioritization process. When a capital budget is formulated in our State the agencies' requests are always multiples of what is available for the coming fiscal year, and so I and ultimately the general assembly have to make those decisions on what is most urgent. And I might suggest again that one size doesn't fit all, that situations do vary quite a lot around the country. Infrastructure and transportation is older in the northeastern part of the country in many cases. We had a devastating flood in 1927 that destroyed huge numbers of bridges and rail tracks in our State. So a lot of our bridges are now 80 years old, having been built right after that flood and beginning to show their wear.

So I believe, as Governor Doyle suggested, that the States can be entrusted with responsibilities of determining their priorities.

Mr. SCHIFF. Thank you, Mr. Chairman.

Chairman OBEY. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair. And I want to thank you all for being here and the fact that you don't just discount, kind of paraphrase what you said, the impact of a Federal stimulus package. And like you I am ready to invest. I am ready to invest in our infrastructure, public works, roads, bridges, water systems, sewer systems, and I am ready to invest in people and education and in health care. And to a statistic that was just handed me today that there are three people waiting for every job now in this country, three people for every job. So we are ready to go. And I understand fully what you have been saying about the States are facing some major, major difficulties right now. But I need some reassurance here. I need to know that the funds that I am going to vote for for reinvestment are going to do just that, they are going to be used to reinvest, not to fill all the gaps that the States are facing; that is, it is not going to be used to balance the budget. And I will tell you, one of the reasons why I am concerned, and my Governor is not here, but I am going to quote from him from the paper, Governor Pawlenty, the former head of the Governors Conference, seems to have a change of heart in recent days for what he thought the stimulus could do. And he says he is going to, he has doubts about the Democratic plan to bolster spending on public works, in fact, and I am going to quote him directly, he doesn't see it doing anything for the looming budget deficit in Minnesota. So this stimulus plan is not supposed to be plugging the holes of the budget deficit. And we have kind of skirted around the issue a little bit in some of the conversations that we have had.

What do I need to do to make sure that the stimulus package doesn't fail; in fact, it does stimulate the economy, it does create jobs, that it is not just used to fill budget holes? Gentlemen, I am asking you what can you tell me that you will do to reassure me that that won't be the case? And to Congressman Honda's point, if it is not going to be the case from the States, should I be looking at direct infusion for investments at cities, at counties and at school districts? Do we need strings?

Governor DOUGLAS. Well, first of all, I think all three of us have said at different times that we are more than committed to sharing in the adjustment process that is brought on by a national recession. The reality is if we don't offset some of the cuts that are going to be imposed in our operating budgets, we can end up reducing employment, cutting our support of our counties and local communities, and our universities by enough to offset everything that we might be doing in an infrastructure program. So we are not saying that you have to fill our budget gaps, but having some help in that makes sense so that we can continue to not have tax increases at a time when we are in a recession, that we don't see tuition hikes that ration out individuals from taking this time when there are fewer jobs to actually enhance their education, and that we continue to support as best we can some of the things that are actually mandated by the Federal Government, like IDEA, Leave No Child Behind. All of those things create budget gaps. They create them in regular economic circumstances. They are more severe now.

Ms. MCCOLLUM. Governor, not to interrupt you. I understand that. I was a State representative. I was a State representative during the nineties. I understand it. I get it. But this is what is happening with education and I can only use my home State as an example. We increase Pell grants, the State decreases student aid. Those were before the times of the budget deficit. Where is my assurance that that is not going to continue to happen? That is my point. If it happened in the good times, what is going to happen as we face the bad times together?

Governor DOYLE. Well, first let me say, we will take the Minnesota part of the stimulus package on the Wisconsin side of the river if you don't want it.

Ms. MCCOLLUM. I don't think so.

Governor DOYLE. But I do believe that, and this is what we really want to work with you on. I do believe that there are ways that if you want to say put strings attached, and I am only speaking for myself, not the NGA here, I think there are ways that you should seek assurance of what you are getting in this package. For example, let's take higher education. The fact is unless you do help us with the budget deficits we face there will be deep cuts in higher education which will result in higher tuition. It is that simple and you understand that.

So, and again I don't know, I don't mean to say this is what, I would have to look at the numbers, but if you were to say that in exchange for help to the States you want to make sure that tuition increases stay below rate of inflation or something like that, I think there are ways that we can work together to try to accomplish this. What we are saying is yes, we want, we believe the stimulus is really important and that does move directly, as you know in Minnesota, I know it is true in Wisconsin, that moves to private companies that are doing that kind of construction and it moves very, very directly. But in terms of education, what we are—I believe that we are all facing deep cuts in education, deep and harmful cuts unless there is help. And I think we are more, I am more than willing to work with you to figure out how you make sure you get that value for what the Federal Government may do in education, how we set metrics or how we make sure that big cuts in education, that you don't give us, you don't help the States with education and then find out that we made the big cuts anyway. I think there are ways that we want to work with you to make sure that you have those assurances.

Governor DOUGLAS. This is a time of recovery, as the terminology of the proposal suggests, and I really believe that unless we take these steps we are going to see the kinds of cutbacks that we all fear. We are going to have to make some decisions. We already made some in our States to adjust expenditure levels to live within our means. But unless we get the support at a time when revenues are declining so precipitously we are going to have to make some decisions that affect the people of the State in ways that we don't want to do.

So I think it is essential. And I am a former legislator as well, and most of them in my State are of the other party, but I trust them to work with me to come to some common understanding as to what we need to do to establish priorities that are in the best interest of our State.

Ms. MCCOLLUM. Thank you, Mr. Chair. And I like your Governor.

Mr. OBEY. I do, too.

Mr. RYAN. Thank you, Mr. Chairman. I represent Ohio, and Governor Strickland is facing about a 25 percent budget cut, which is just unfathomable, and those of us who get into public service don't get into it to cut mental health coverage and all the things that you were trying to deal with. So I just want to say thank you for all of your courage in this very difficult time.

One of the things that, I represent Youngstown, Ohio, Akron, Ohio, and sometimes a crisis provides opportunity. And can you just share with us what do you think the opportunities are for us to restructure maybe from an economic development perspective, how local communities can approach economic development now in a different way, how can local governments—"consolidation" is not always a good word—but streamline and become more efficient, I know you each kind of touched upon it a little earlier, but how can we, when President Obama says we want a government now that can be nimble and flexible in the 21st century reacting to the facts as they change on the ground instead of the industrial style government that we are all left to try to tinker with here, just try to share with us what do you think the opportunities may be to retool our government, and through this stimulus package is there anything that we could do to incentivize that kind of cooperation, that kind of regional economic development, if you have thought about that at all, because I think this is a unique opportunities for us where we are going to be spending a lot of money and I think you have articulated and the Members of Congress have articulated quite clearly what the critical problems are facing you and I think facing our constituents, but within that can we have a piece of this stimulus package that will help us create this new 21st century government based on the technology and communication capabilities that we have?

Governor DOUGLAS. I think the answer is certainly yes. I mentioned several administrative consolidations within my administration. I know my colleagues are doing the same. And at the local level a number of our school districts are looking at similar consolidations. We have had some communities decide to close small schools over the last couple of years actually, and some are considering that now, merging with neighboring communities to achieve that economy of scale. So I think this will facilitate that.

And I want to come back to a point I made earlier. I would not recommend to you that you fill the entirety of a budget gap in the State. I think it is appropriate to force that efficiency, to insist that we be creative, that we use technology more to achieve some economy in our States. One example I like to use in Vermont is our tax department, that warm and fuzzy agency of State Government that has been doing a great job in terms of its responsibilities but has been able to reduce its staffing levels by nearly 10 percent because of the increase in electronic filing of returns. And so there are other ways that we can do that to increase efficiency, lower costs, and provide the quality of service to our residents.

Governor DOYLE. I agree with Governor Douglas. The fact is we shouldn't plug all these holes that the tight budgets are going to drive and are driving in Wisconsin greater efficiencies. But on the regional economic development, just an ideal place to explore, but in Wisconsin we have developed in the last 2 or 3 years regional economic development groups largely, they are primarily business driven and they recognize that, for example, Milwaukee shouldn't be competing against Racine and I am sure you have these same issues but it is regional economies. And to the extent that they help select and drive and focus on what the infrastructure and other economic development needs are as this stimulus package comes out, it will be very helpful again to give a specific example, and Milwaukee has identified water technology as one of its great strengths. We have thousands of people that work in different—because it is on the Great Lakes and that is where they make beer. Water is particularly important in Milwaukee, as it is in parts of Ohio, and there has just been a lot of business. They actually have identified that now and come together and developed an agenda for how to grow that water technology business, and to the extent that we can plug that kind of regional economic development efforts into the stimulus package I think will be very helpful.

Governor CORZINE. There are a number of agencies, I talked about this mass transit tunnel which is really a New York-New Jersey exercise, it would be executed through the Port Authority and—might very well be executed, not necessarily, by the Port Authority of New York, New Jersey, seems to be places where you can encourage the kind of action you are taking. There has been good cooperation on a regional basis, particularly with homeland security and a lot of the allocations of funds from the Federal Government where we are looking at regions and interoperability and some of the elements. I think a similar kind of strategy, both on green energy investments and certainly with regard to electronic medical communication, are all things that I think as the Congress and the administration come to setting those priorities, making bonus investments where people are actually operating in conjunction with that as an objective or part of the mission, I think is a very positive step forward.

Chairman OBEY. Mr. Ruppersberger.

Mr. RUPPERSBERGER. Thank you, Mr. Chairman. I represent the State of Maryland. And I have a letter here from our Governor O'Malley talking about a lot of the issues that you have talked about and I don't want to be repetitive, but I want to address the issue of legal authority. This stimulus package will be as President-elect Obama has said, the largest since we have built our interstate highways. We feel, a lot of us are concerned when we passed, people call it the bailout, I like to call it the recovery package also, initially, that people are concerned that when we gave money to the banks that the banks instead of putting money back in and lending the money it went to their buying other banks. So we want to make sure that we have the right legal authority and also the accountability to make sure if in fact we go forward with this stimulus package, which I feel that we should and that it will create jobs, because that is the key to come out of this recovery is to create jobs. Now, the legal authorities when we are writing the bill, we need to have some legal authority there, not only to make sure that when we give you the money that you are going to have the ability to go forward with these projects that are going to stimulate the economy right away, call them shovel ready or whatever you want to call them.

Now what would you like to see in the bill to make sure that you have the ability to go forward with these infrastructure projects that will create jobs?

Governor DOUGLAS. A couple of thoughts, a reasonable deadline for obligating the funds, I suggested 180 days to accommodate the needs of northern States; secondly, a flexibility as to what type of infrastructure is eligible for the support; thirdly, some provision, as I suggested earlier, to allow emergency procedures to be activated so that the bidding process can be expedited to get the project delivered as quickly as possible; fourthly, not including a maintenance of effort provision or to make sure that any ready to go project is eligible for stimulus funding so that other displaced funding can be used for additional projects. I think those are the key elements of what we need to have in place so we can move forward.

Governor CORZINE. I would add that you probably do need a use-it-or-lose-it provision in this so that this needs to be put with, you know, reasonable debate about how long that should be. But I think actually a fairly short horizon to make sure that we are getting the stimulus that we are expecting from this process, and you are going to have chances to talk about refunding the Transportation Trust Fund and other things, in the next Congress. So some of the other projects I think actually fall to that category, but I wouldn't have any argument with the flexibility emergency procedure issues or maintenance of effort. I would say that I know our State would be more than happy to have to come review after the fact of how we used the money as well.

Mr. RUPPERSBERGER. Accountability is extremely important.

Governor CORZINE. And I think it is a perfectly reasonable thing to be asking since we are accelerating all this process, having an after-the-fact review would be useful.

Mr. RUPPERSBERGER. You are going to have issues on your side, too. When you are going ahead with contracts, do you put it out for competitive bid or do we have these projects ready to go and the obligation for you to be ready because if one State doesn't have the sophistication to be ready and the other does, we need to stimulate jobs. So it is extremely important, I think I mentioned to the

Governors and the mayors, the county executives, and commissioners, that they are ready when this goes forward.

Governor DOYLE. If I could just add from my point of view, use-it-or-lose-it in a very tight decline is very helpful because we are going to have to clear away a lot of sort of regulatory measures on our part that slow things down. And if Congress is telling us very directly you have to move quickly and you are going to lose it if you don't it will help me to get done in our State what needs to get done to get our process as streamlined as possible to get the money out the door.

Mr. RUPPERSBERGER. I suggest you communicate with your attorney generals or your solicitors or whatever because you are going to have your own internal issues, legal issues on contract. And we have got to make sure that the whole purpose for a longer period of time was properly the issue of corruption. So we have got to really make sure that we don't cross over that line either.

Ms. WASSERMAN SCHULTZ. Mr. Chairman, I would like to ask unanimous consent to enter into the record the testimony of the Governor of my home State of Florida, Charlie Crist.

Chairman OBEY. Without objection.

[The information follows:]

Testimony of Charlie Crist, Governor of Florida
Submitted for the Record
House Committee on Appropriations
Hearing on Economic Recovery Bill
December 11, 2008

Chairman Obey, Ranking Member Lewis, and Members of the Committee, I thank you for the opportunity to testify regarding a national economic recovery package and the economic situations of our states. I applaud you for your leadership on this critical issue. I also want to thank the members of this committee from Florida who continue to work tirelessly on behalf of our great state. Thank you, Congressman Young, Congressman Boyd, Congressman Weldon, Congressman Crenshaw, and Congresswoman Wasserman-Schultz.

As you consider our nation's need for an economic recovery package, I would like to take the opportunity to highlight the priorities essential to Florida's future. First, let me express my appreciation for your willingness to listen to the nation's Governors and hear our concerns and suggestions. I look forward to a strong federal/state partnership as we work together to restore consumer confidence, revive our job market and provide relief to families who are struggling under the weight of their financial obligations.

While Florida is facing many of the same economic challenges other states are experiencing, the Sunshine State currently has the third highest home foreclosure rate in the nation, a seven percent unemployment rate, and a projected state revenue shortfall of roughly $6 billion for the current and next fiscal year. Without doubt, these challenges have led us to take decisive and immediate action. At the state level we have taken a hard line against excessive spending and have tightened our belts, practicing fiscal responsibility to protect the residents of Florida from further deficits.

In August, my administration announced a program to accelerate the timeline for previously funded state public works projects. We have expedited up to 179 transportation projects, creating an estimated 38,000 jobs and pumping $1.4 billion into Florida's economy sooner than previously expected. We are also working on a voluntary basis with the state's banking and mortgage lending industry to provide relief to Floridians facing foreclosure. In January, we will implement the Cover Florida plan to assist Floridians who are without health insurance for six months, or who have recently become unemployed. The plan will provide Florida's nearly 3.8 million uninsured with affordable catastrophic and non-catastrophic health coverage options without using tax dollars.

States are limited in their ability to provide broad-based economic development. These conditions require states to partner with the federal government. I strongly support the inclusion of temporary enhancement of FMAP in any economic recovery package. Florida has seen decline in its FMAP since 2004 and such declines have resulted in $213.5 million in additional state expenditures in federal fiscal year 2009. Further decline is expected in 2010. For every percentage point reduction in federal support for Florida, our state loses approximately $150 million and makes it increasingly more difficult to serve residents who need care. This reduction in the federal share of Medicaid funding has placed additional pressure on the state during these economic times.

Recent federal legislative proposals addressing FMAP shortfalls showed promise for a system which is faltering. Any new proposals should include the same tiered system of economic indicators. These measures would provide great relief to a state like Florida which is experiencing increases in Medicaid enrollment, high unemployment rates, a growing food stamp and cash assistance caseload, and a large foreclosure inventory.

Beyond funding, flexibility is needed for states to use the state allocation within the Medicaid program. In addition, any FMAP assistance provided by Congress should be for a period of at least 24 months to provide stability in the program. Even with that time period, some states might lag behind others in recovery due to special circumstances of their economic difficulties. I encourage Congress to develop a method to provide additional enhanced FMAP assistance to those states that continue to lag behind national recovery rates and show signs of economic distress after this period.

In Florida, our goal is to continue to provide quality services to those currently receiving benefits, and those who just now find themselves in need of assistance. As Congress considers providing relief for states, I ask for your support in ensuring Federal Medicaid Assistance Percentage (FMAP) relief is provided in a manner that best enables Florida to serve the most residents in need.

In addition to an FMAP adjustment in a national economic stimulus package, I also support the inclusion of funding for infrastructure projects that can be immediately constructed. The Florida Department of Transportation has identified $7 billion in projects "ready to go" within 90 to 120 days. An infusion of federal support could provide $39 billion in economic benefits and create an additional 195,000 jobs.

Lastly, it is tremendously important that during these global financial challenges, we keep America's goods and services moving through the use of free and fair trade. Florida is the home to 14 seaports, and international trade is vital to our economy. I urge consideration and passage of the Colombia Free Trade Agreement. It is estimated that such an agreement could increase Florida's exports to Colombia by $161 million and create an additional 1,775 additional jobs in the first year alone.

I ask that you act wisely in the application of economic aid to the states. Under an economic recovery package it is imperative that federal stimulus dollars are exempt from all state and local matching requirements. Due to the current budget strains many states are facing, added funding requirements would only exacerbate deficits. Furthermore, I want to again stress how important flexibility is for our states when using these stimulus dollars. Governors need to be able to use federal stimulus dollars in areas that can best serve their individual states.

I thank you for holding this hearing, and for your leadership in achieving a solution to our nation's economic woes. I have no doubt that Florida's economy will once again flourish. I look forward to working with Congress in the months ahead to stabilize our nation's economy, grow jobs and provide relief to our neediest citizens.

Ms. WASSERMAN SCHULTZ. Who by the way after tomorrow will be crossed off the list of eligible bachelors when he marries his bride to be. So we can congratulate him on their celebration.

I want to return to education, and I know we covered the infrastructure needs in terms of education but my State, and my county, I represent the Sixth and I think the third largest school district in the country, Miami-Dade and Broward Counties, and just in the last year Miami-Dade County, for example, had to cut $89 million out of their budget, their school budget.

Ms. WASSERMAN SCHULTZ. My own county, the county that I live in, Broward, had to cut in the last 2 years 128 million. They are facing hiring freezes, potential layoffs of teachers. And for me being a mom of three school-aged children, it is a very present day-to-day issue that I think is incredibly important. Children only go around once. Once they go through the 13 years of their education, if they aren't in a well-funded, high-quality educational environment, they don't get a second chance at it.

So what I wanted to ask you is, obviously I am sure your States are facing a similar situation on the operations side of education. How are you compensating for those cuts? What are you doing? And how do you think we can include the operations side of educational challenges in an economic stimulus?

Governor DOUGLAS. Well, the specific request of the National Governors Association is sort of two parts of the stimulus recovery package: one, the infrastructure support; and, secondly, some support for Medicaid, which is a State-Federal, shared responsibility, and one whose caseload continues to rise. And speaking from my perspective, without the additional support for that safety net program, support for K–12 education is more vulnerable in the budgetary process than it otherwise would be.

Basically I look at the budget of Vermont this way. About a quarter of it is Medicaid, about a quarter is K–12 education, and everything else. And since it is such a significant part of what we do, it is going to be very vulnerable at a time of fiscal stress. So I think that is why the support for the budget and our FMAP participation rate is critical in order to minimize the impact on public education.

Governor DOYLE. In Wisconsin, far more than 25 percent is K–12 education. We at the State level fund two-thirds of the cost of public education in the State. And so when you look at a 17 percent budget deficit, you just can't stay away from our biggest item. We have provided so far—in fact, our schools have gotten a slight 2 percent to 3 percent increase in the fiscal biennium that we are in right now, and we did it, frankly, by making huge cuts to other places, because this has just been my priority. But I believe we are at a point in Wisconsin that, given this deficit, without help that comes in some ways, that education will suffer.

And I would suggest that this is probably our Federal-State most important investment that we are making right now, and that, again, in Wisconsin, the way you would do that is if our budgets—if our budget we can deal with it, then education is going to be my number one priority, and we are going to protect it. And that is really why we need help badly on the operating budget side.

I have told our educators, look, you are going to have to be part of this. It is not like it is going to be wonderful times for school districts. There aren't going to be big increases and big new programs and all of these things. But what we are going to try to do is get through this recession that we are in and will be in in a way that does not do harm and long-term harm.

And I agree with you completely on these kids; this is their chance, and if they are not well educated—and I made the comment earlier, and I don't want to repeat it. But just remember, this country was built, the world war was won, and the country was built by people who got educated in the middle of the Great Depression. So our grandparents and great-grandparents were willing to make this investment in terrible times, and we have to make it, and we need Federal help in order to make that investment.

Governor CORZINE. I think that education is the number one priority, along with public safety, that we have to address. And while we can't ask you all to fill all the gaps that any individual State has, some basic support—some of that comes through FMAP, through displacement. If we help out on the Medicaid side, then the money that you didn't spend there is available for education, and some people would argue that is where it is.

I would rather be direct about some kind of block grant that, even if it was limited for education purposes, that would sustain these budgets through these difficult times. That is one person's view, not speaking for anybody but myself. I know that there are a number of Governors that would prefer no attachments.

As far as I am concerned, FMAP and then some kind of help within the education arena is the direction I would recommend with regard to the operating side, acknowledging that we are going to have to take up some of this problem on our own actions at our State levels.

Ms. WASSERMAN SCHULTZ. Governor, count two people for that plan. I couldn't agree with you more.

And thank you, Mr. Chairman. I yield back.

Chairman OBEY. Mr. Rodriguez.

Mr. RODRIGUEZ. Thank you, Mr. Chairman. And thank you very much for allowing us this opportunity to talk to the Governors. And I want to thank the three Governors. And welcome back, Governor Corzine. Good seeing you.

Let me just indicate, I served in the Texas House also about 11 years, and I know that there are a lot of mandates including, the special education one, where we fund less than 17 or 18 percent, and I think we should have been funded at about 40 percent. That means, even if we double that amount right now just with special education, it won't even cover what we supposedly should be covering. And I was glad to hear some of your recommendations about a lump sum that might be helpful in some of those specific areas where it may be necessary.

I wanted you to respond to two issues. One, from a congressional perspective; where we have been working on the Middle-Class Working Group on a basis very similar to what Chairman Obey talked about. In fact, one of the major problems is the debt of American families. How do we reach out from a Federal and State perspective in terms of meeting some of the needs of those middle-class families that are having difficulties?

Another point you raised is the tuition for middle-class families that have kids in college, and the possibility of a tax cut or tax incentives for those families. But if there are any other proposals you care to comment on, please do, because I really believe the middle class is the anchor of the economy, and that is where we need to make an economic thrust.

Secondly, another important issue is in Texas that a tornado hit my community and killed seven people. There have also been floods and droughts. Yet, from the Federal perspective, we are not responding appropriately from the State perspective. And so I just wanted to get your feedback on those two areas in terms of natural disasters as well as meeting the needs of middle-class Americans.

Governor CORZINE. Thank you, Congressman.

I think that we have at different points in the hearing talked about ways that you can help the middle class. Section 8. Maybe some people would say that is more moderate, but affordable housing is actually a very serious issue across the country. Certainly if we were moving as President-elect Obama has talked about with regard to tax cuts focused on the middle class in conjunction with some of the things that we have been talking about today with regard to stimulus and recovery, I think it is very sensible; some tax relief, different proposals out there that I think would be very important. Aid in higher education obviously is one of those places.

I think that it has to be comprehensive. Whatever is going to be put together has to try to do as much as you can within the context of however the total amount that you in the Congress and the new President decide is going to have a meaningful impact on GDP. If we have, instead of 3 or 4 percent growth in GDP we have a 3 or 4 percent decline in it, we are losing $800 billion. It is not like doing nothing is without cost. One is an explicit cost in the budget, and the other is a real cost to the public.

And so I think you are asking a question that I want to be supportive of, and the middle class, is how you drive the economy. If you want to stimulate it, you need to actually be working very strongly with the demand side that occurs there. And so I hope you have a very forceful, significant program that includes tax relief for the middle class, but also in some of these basic educational issues, some of the basic housing issues.

Governor DOYLE. I agree with all of that. One other area that we really struggle with as a State is the programs that are designed to get people to the middle class. Obviously, the stimulus package, to me, is the most important part. There has never been a social program created better than a decent-paying job. So we want to cooperate in every way to get people to work.

An area of Federal-State responsibility has been TANF and subsidized child care. The TANF grants that come to our State have not increased since 1996. The result is that a large segment of cost that used to be picked up by TANF dollars now are picked up by State governments. We have a State earned income tax credit. We have work training programs and others that were originally funded out of Federal TANF funds, but since that money has never been expanded, more and more of it is now picked up by the State taxpayers.

The same is true with child care grants, which are directed to help people get to the middle class by being able to go to work and have subsidized child care. Those grants, as I understand it, have not been expanded since 2001. So Wisconsin now puts hundreds of millions of dollars of our State tax money into subsidized child care that was originally funded primarily through the Federal child care subsidy programs.

These are big areas that are directed not at welfare, but actually directed at trying to have people get into the workforce. So somebody working at a moderate—low-, moderate-wage job in Wisconsin—across the country, Wisconsin may be a little higher than other States—we subsidize that child care as we were directed to do under the Federal subsidized child care provisions. But as that money has just been flat-lined over many, many years, we now pick this cost up.

It is an example of something that started as a major Federal-State initiative that the States have taken up more and more and more of the burden on that does really affect working people. These are programs that are the people who are going out into the workplace and who are getting jobs and are doing what they want to do and everybody wants them to do, but the cost of that is falling heavier and heavier on Wisconsin taxpayers.

Chairman OBEY. On that note, I know that a number of Members have statements that they wish to enter into the record. Without objection, they will be entered.

[The information follows:]

House Committee on Appropriations
Hearing on Economic Recovery Bill
Statement for the Record
Submitted by
Representative Sam Farr
December 10, 2008

The economy is slowing rapidly and job losses in November alone topped 530,000. This is the largest jobs decline since 1974. The economy has lost 1.9 million jobs this year and payrolls have fallen for 11 consecutive months and the unemployment rate is at a 15-year high of 6.7 percent.

It's clear that the economy is in bad shape; the pain people are suffering from unemployment and stagnating wages is severe; and it is important to not lose any time passing a serious and effective economic plan for our country.

There is virtual consensus among economists that the federal government must play a major role in the national economic recovery. Congress must ensure that our short- and medium-term plans for economic recovery are bold and far-reaching. And we must ensure that our efforts are not undercut by spending cuts or tax increases by state, county and municipal governments. This would, in effect, erase the impact of new federal spending.

Given the severity of the economic downturn, it's prudent to err on the side of providing too much investment in ready-to-go infrastructure projects, environmentally sound energy production and broadband telecommunication networks, than on the side of doing too little. Furthermore, the economic recovery plan must be a comprehensive effort that includes providing local governments funds necessary maintain public services and infrastructure investment.

In my district local governments are seeing losses both on investments and revenue. The Lehman Brothers collapse and Washington Mutual bank failure cost the public entities that pooled their funds in the Monterey County treasury $30 million. This will translate into $18 million less for

County schools; $7 million less to the County general fund and $5 million less for the special districts in Monterey.

As to the revenue impact, the total countywide decline is currently $7.8 million and a $3.1 million reduction in money from the state. And it is possible that both these figures could increase as the economy continues to sours and the state confronts its financial crisis.

These investment and revenue losses are occurring at a time when the need for public services and infrastructure are not diminishing, but in fact are increasing. In order to keep local economies going and pare job losses around the country, I believe we would be wise to make sure those public services are not interrupted.

I look forward to working with members of the committee to ensure that we fund a genuine and comprehensive economic recovery bill.

STATE OF CONNECTICUT
EXECUTIVE CHAMBERS

M. JODI RELL
GOVERNOR

Statement
of
The Honorable M. Jodi Rell
Governor of Connecticut

Testimony on the National Economic Downturn

U.S. House of Representatives
Committee on Appropriations

Washington, DC
December 11, 2008

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M. JODI RELL
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The Honorable M. Jodi Rell
Governor of Connecticut
Testimony on the National Economic Downturn
U.S. House of Representatives
Committee on Appropriations
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Chairman Obey, Representative Lewis and distinguished members of the Appropriations Committee: thank you for the opportunity to provide testimony about the national economic downturn and how it is affecting both states and their local communities.

Connecticut, the highest per capita income state in the country, has been very fortunate over the last several years with a robust economy that enabled our state to finish each budget cycle with a surplus.

Unfortunately, those days seem like the "ghost of Christmas Past" right now. Today, our state continues to feel the effects of a national economy in deep decline and a financial industry that seems to teeter daily on the brink of crisis.

Although Connecticut is better positioned than many states, including most of our neighbors in the Northeast, we are not immune from these national forces. The Wall Street roller coaster has already had a devastating effect on our revenue stream, slowing it in just one year to a trickle.

Wall Street bonuses and bonuses for top executives, if any, will be dropping dramatically. Because Connecticut is home to many financial services employees, we depend heavily on this sector for much of our income tax revenue. Connecticut's income tax revenues are already down significantly. Sales tax and tribal casino revenues are also down.

In fact, Connecticut is projected to lose $207 million in sale tax revenue during the 2009 fiscal year alone. Income tax revenues are down $132 million from original projections, the corporate tax is generating $80 million less than forecast and revenues from casinos are down an additional $75 million this fiscal year.

The stark reality is that revenues across the board have fallen dramatically and Connecticut now faces budget deficits in the next two fiscal years that total $6 billion dollars.

Over the next two years, Connecticut will not be experiencing *slower* growth, but *no* growth at all -- and actual diminished revenues. In terms of absolute dollars, Connecticut will have fewer revenue dollars in both 2010 and 2011, compared to 2009.

Meanwhile, Connecticut families and businesses are struggling in ways they never have before. They are reeling from inflation, unemployment, loss of housing equity and home foreclosures. They are stunned to learn that their retirement plans have lost nearly half their value, almost overnight.

Like the nation's, Connecticut's housing market is struggling. The median sale price of a single family home in Connecticut is down 7.7 percent over the past year and home sales have declined 26.4 percent during the first eight months of 2008.

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Also mirroring national trends, consumer confidence in Connecticut has plummeted to one of its lowest points in our history. Hard as it may be to connect the fortunes of the automakers in Detroit to workers in Connecticut, the decline in big-ticket purchases is putting car dealers in our state out of business. This is just one example of the ripple effect that is leaving in its wake record numbers in the unemployment line.

In the past 10 months, Connecticut's economy has lost 7,700 jobs. Our unemployment rate, traditionally one of the lowest in the country, is now at the national average of 6.5 percent. As a result of the Wall Street crisis, Connecticut is also bracing for the loss of more than 11,000 financial sector jobs in Fairfield, New Haven and Hartford counties.

Connecticut's employment growth has consistently lagged behind the nation and this trend is forecast to continue through FY 2012. Accordingly, demand for safety net services is increasing and will continue to increase for the foreseeable future.

New York and New Jersey have also been staggered by the seismic changes in the stock market. In fact, it is projected that the tri-state region will lose 82,000 financial services jobs by the end of calendar year 2009. Because the financial industry supports many other related and support businesses, the three states expect to lose a total of 160,000 private sector jobs by the end of this year.

These figures are tremendously sobering. But unfortunately, in many ways Connecticut has moved beyond "sobering." The national economic woes have left us with a hangover that we will be dealing with for years to come.

Never in my time as a public official has the perfect storm of national and international economic factors battered our state economy so severely. Not since the Great Depression will the actions of the federal government be felt so keenly, by so many -- for so many years to come.

In Connecticut, we know that we do control our own destiny to a certain point – but since many of the fiscal problems of the individual states were created by national economic forces, comprehensive federal action is required to address the underlying causes as well as the devastating symptoms that currently plague our economy.

The policies advanced by our state and federal governments will determine how quickly -- and how strongly – we come out of the national recession. They will also go far in determining the fiscal fates of our individual states.

Connecticut's projected budget deficits make one thing crystal clear: Connecticut's government today is larger than our taxpayers' ability to pay for it. In Connecticut, we cannot afford to pretend otherwise. And unlike the federal government, we must close every fiscal year with a budget that is in balance.

To deal with the 2009 fiscal year shortfall, I have already made two rounds of spending cuts under my Executive powers of rescission. I also ordered a hiring freeze, a travel ban and I proposed a deficit mitigation plan to erase about $300 million of our 2009 deficit.

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GOVERNOR

Connecticut lawmakers met in special session three weeks ago to approve some, but not all, of my proposed spending cuts. Distinguished committee members, those were baby steps compared with the giant steps we will need to take to craft Connecticut's next two-year budget.

Declining revenues, a national recession, the credit crisis and the housing crisis: the bad news we read every day has led many in our state to wonder how Connecticut will survive this. My answer is that mere survival is not our goal. If we make the right choices, we will not only survive – we will thrive.

While the challenges we face are daunting, they nonetheless present an opportunity to align our government with the new fiscal reality and to align our programs with what people both need and don't need from their government. In Connecticut, we will recast our government and focus it on our true core missions. To do that, we must determine both what our families and businesses need and what they can afford.

The fact that Connecticut has weathered this economic storm better than many states is of little comfort to those who have seen their retirement accounts evaporate. It is small solace to businesses that have closed their doors or to workers suddenly unemployed.

Difficult days are ahead. For too many Connecticut families, those days are already here. Our middle class – the backbone of this state – has had its sense of security badly shaken.

Our families are not responsible for the mess this economy is in, but they are the ones paying the price and the price is already too high. They can't afford to pay even more in taxes at any level of government. Families and businesses want government to do what they are doing – cut back. They want us to continue making the same hard choices they are making every day.

These are the challenges we face in Connecticut: to help our people thrive, rather than to simply survive; to protect our families, their children and their futures; and to restore prosperity by supporting activities that create jobs.

These are the most tumultuous economic times our nation and state have faced since the Great Depression. As they were then, the state and federal governments should be partners in finding ways to lift our economy from the doldrums.

When Congress considers a second economic stimulus package in January, it is my hope and strong recommendation that funding for roads, bridges, rail and public buildings will be a key part of any stimulus package. The best way out of this economic downturn is by literally working our way out -- by creating as many jobs as possible, as soon as possible.

Turning adversity into advantage has always been the American way. We are a nation of achievers and strivers, a nation of innovation and invention.

The tasks before the Congress are difficult and the road to economic recovery will be arduous. There will be pain and sacrifice and hard work at every level of government because we know that to meet the hopes and expectations of tomorrow, we cannot take the easy way out today.

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Commonwealth of Massachusetts

Governor Deval L. Patrick
Federal Economic Recovery Package Submission
December 2008

Section I: General Principles

Timing: Economic recovery assistance to states should be available over a **two- year period**, and sized accordingly. Most economists have projected that the present downturn will last to early 2010. Further, state income tax revenues trail the economy by 12 months. As such, state revenues will probably not begin to rebound until FY11.

Scale: Think big. Creating enough jobs to reinvigorate our economy will require a **significant federal investment**. The recovery bill should include investment for ready-to-go capital projects, for services whose demand is counter-cyclical (such as FMAP, Food Stamps and Unemployment Insurance), and for unencumbered block grants to use in ways best suited to spur new economic activity in our respective states.

Flexibility: Though the economic downturn is affecting nearly every aspect of state budgets, it does so in different degrees in different states. Therefore, the recovery bill should give states **maximum latitude** to distribute funds quickly to address increased demands for services as we experience them in our unique ways.

Similarly, infrastructure funding should be exempt from all but the most essential federal and state regulations during the economic downturn.

Expansive: "Infrastructure" should be **defined broadly**. In addition to investments in roads, bridges, rail and ports, infrastructure spending should include ready-to-go projects that expand broadband, promote energy efficiency and the growing clean tech industry, and address deferred capital projects at public colleges and universities.

Section II: Regulatory Review

In order to assure quick action and robust job creation from federal investment, the recovery legislation should contain a broad grant of authority to governors to:

- Expend these new federal funds outside of the state appropriation process;
- Submit individualized project plans for projects funded by this bill that meet minimum standards defined in the recovery bill, but that supersede state and federal regulations and laws regarding procurement and construction contracting;
- Submit similar individualized plans for projects that are subject to an environmental review, selecting whether the project shall be subject to either state or federal environmental laws.

In place of (or in addition to) the above grant of authority, Massachusetts requests that transportation projects be granted the following regulatory and statutory flexibility:

- 100% federal funding without a state match;
- Authorization outside of Title 23 to expedite project delivery;
- Exempt many projects from the standard MPO Process;
- Allow recovery funds to be used for public/private partnerships for privately owned transportation infrastructure projects;
- Allow economic recovery funds to be used for system preservation, maintenance and operations support;
- Grant more flexibility for projects to receive a Categorical Exclusion through NEPA;

There are additional requests for flexibility relative to housing programs that are included in separate documents.

Section III: Funding Requests

The Massachusetts funding request is broken into three distinct categories that would help the commonwealth and its residents weather the financial downturn over the next two years: Counter-Cyclical Program Needs, Unrestricted Block Grants and Ready –to-Go Infrastructure Projects.

Counter-Cyclical Program Needs: $4.2 billion

FMAP: $2.3 billion over 2 years
Food Stamps: $134 million over 2 years
Unemployment Insurance: $1.7 billion over 2 years

- FMAP Funds would cover the projected MassHealth deficits as measured against maintenance for FY10 and FY11 as well as projected MassHealth caseload increase.
- Funds would cover anticipated service increases for Food Stamp and UI utilization.
- The estimate is subject to revenue revisions for the remainder of FY09 and for FY10.

Unrestricted Block Grants:

$3.4 billion over 2 years:

- Funds would cover projected state government deficits as measured against maintenance for FY10 and FY11.
- The estimate is subject to revenue revisions for the remainder of FY09 and for FY10.

Ready-to-Go Infrastructure Projects:

$3.399 billion worth of projects commenced within 180 days (under existing regulatory structure)

$18.589 billion worth of projects commenced within 2 years (under existing regulatory structure)

$24.917 billion worth of projects commenced within 2 years

(with fed/state regulatory relief for transportation projects)

- Based on conservative job-creation estimates from EOT and DCAM, it is estimated that the project funding summarized above would result in the creation of the following numbers of jobs directly related to the project (does not include indirect jobs or multiplier effect):

    - $3.399 billion 180 days = 13,611 jobs
    - $18.589 billion 2 years = 69,126 jobs
    - $24.917 billion 2 years = 107,094 jobs

- In accordance with the general principles provided above, "infrastructure" is defined broadly to include the following types of projects:

    - Deferred maintenance and capital projects at public universities and colleges
        - 180-day projects include deferred maintenance and repair projects at campuses across the state, including Bristol Community College HVAC and water efficiency improvements and repairs to the power plant roof at UMass Boston.
        - 2-year projects include major new construction projects across the state, including new science building at MCLA in North Adams, new science building at Framingham State, new academic building at Quinsigamond Community College, new academic building at UMass Amherst, new science building at UMass Boston, etc.
    - Deferred maintenance and related capital projects at public buildings
        - 180-day projects include window replacements in Pittsfield, roof repairs in Everett, facility repairs for State Police barracks in Middleboro, security system replacements at Attleboro, Clinton, Wrentham, Falmouth, Westborough and East Boston district courts.
        - 2-year projects include repairs and renovations to Lynn and Quincy District Courts, window replacement at Holyoke soldiers home.
    - Energy efficiency projects, PV roof panel installations or other green installations at public buildings

  - 180-day projects include energy retrofits at Taunton state hospital, energy efficiency improvements to the state police training facilities, and comprehensive improvements at UMass Dartmouth.
  - 2 year projects for solar panel roof sites include court facilities in Worcester, Plymouth, Haverhill, Lynn, West Roxbury, etc.
- Electronic medical records and prescription systems
- Ready-to-go Transit, Freight, Highway, Aviation and Water transportation projects
  - 180-day projects include parking garage facility in North Leominster, improvements to the Connecticut river freight rail line, maintenance work on route I-93 in Reading, Stoneham, Winchester, route I-495 in Berlin, Hudson, Marlborough, maintenance work on I-95 in Attleboro, Mansfield, Foxborough
  - 2-year projects include Oak Bluffs terminal reconstruction, Winthrop multi-use pier, improvements to Melina Cass boulevard in Boston, rail freight improvements in Ayer, reconstruction of Route 7A in Lenox, Fall River – Freetown interchange construction on Route 24, improvements alond Route 2 in Orange, Conley Marine terminal improvements in South Boston.
  - 2-year projects with relief from federal and state regulations include South Coast Rail, Green Line Extenstion to Medford, Urban Ring improvements, Canton I-93/I-95 interchange improvements, Andover – Lowell junction I-93 interchange improvements.
- Broadband expansion and upgrades
- Water Infrastructure (such as dredging projects)
  - 180-day projects include Oak Bluffs seawall repair, improvements to Nantasket Beach seawall.
  - 2-year projects include Fall River marine terminal, New Bedford State pier, Salem wharf improvements, Oak Bluffs terminal reconstruction, Winthrop multi-use pier.
- Geographic Information System Development (GIS)
- Drinking Water SRF Projects
  - 180-day projects include West Springfield water transmission replacement, Quincy infrastructure rehabilitation, water treatment improvements to Holden, Pittsfield, Spencer, Fall River, Lawrence, and Barnstable

County.
    - 2-year projects include improvements to water systems in Brockton, Bridgewater, Wellfleet, and Billerica.
- Clean Water SRF Projects
    - 180-day projects include sewer improvements Lakeville, Nantucket, Mattapoisett, Newburyport, Framingham, and Barnstable.
    - 2-year projects include sewer construction in Plainville, Nantucket, Mattapoisett, Norton, and the MWRA system.
- Residential Energy Efficiency and Renewable Energy Projects (such as oil furnace replacements and upgrades and the Commonwealth Solar rebate program)
- Parks and Recreation Projects
    - 180-day projects include rehabilitation of Mt. Wachusett summit road in Princeton, improvements to Georges Island visitors Center in Boston harbor.
    - 2-year projects include rehabilitation of Charleston skating rink, improvements to Breakheart reservation in Wakefield.
- Dam Rehabilitation Projects
    - 180-day projects include Charles River dam repair in Boston, East Windsor dam improvements in Dalton, dam repair in Hadley.
    - 2-year projects include rehabilitation of Amelia Earhart Dam in Everett, rehabilitation of Aldrich Lake Dam in Gramby.
- Other

➢ Estimates are based upon the commencement of projects under existing federal and state construction, procurement, permitting and environmental rules (except as indicated above for difference that results from relaxed fed/state regs for transportation projects). As demonstrated by the impact in the 2-year estimate resulting from regulatory relief for transportation projects within the 2-year timeframe, estimates under both time frames would be increased significantly if federal and state rules were suspended, relaxed or amended to accelerate projects across the board.

STATEMENT FOR THE RECORD OF
THE HONORABLE MARK SANFORD
GOVERNOR OF SOUTH CAROLINA

for the

COMMITTEE ON APPROPRIATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

on the

"Economic Recovery Bill"

December 11, 2008

It's in the holiday spirit that I write to humbly yet firmly ask you once again not to advance the growing list of bailouts and nationalizations I believe will do little more than stuff the next generation's stocking with trillions in IOUs. While this certainly is the season for giving, I'd respectfully point out to you the Committee, and more importantly to you as fellow Americans, that when government gives with one hand, it takes with another.

Taxpayers deserve more. Indeed we all deserve more than seeing our hard-earned tax dollars parachuted into uncompetitive industries, unprofitable companies and unsustainable government programs – a surefire recipe, I believe, for only one thing: unmitigated failure.

My frustrations with the bailout mentality now pervading Washington are no secret. I've said repeatedly that these taxpayer-funded bailouts will infect our economy with unnecessary government influence and unintended fiscal consequences. So as yet another bailout train prepares to leave the station, I'd offer the following counterpoints to the proposed "economic recovery plan," and especially the kitchen sink bailout of everything from states and cities to auto manufacturers, homeowners, infrastructure, classrooms, credit card companies and Medicaid.

First, I think we should look to history lest we fall into the same dangerous ruts. Our country faces an economic crisis the likes of which we have not seen since the Great Depression. In the early 1930s, President Hoover's policies worsened the severity and length of the Depression, yet regrettably, it appears that some of those same mistakes are being pursued or contemplated today. In the initial stages of that earlier Depression, President Hoover raised taxes, initiated huge public works spending projects that grew the government's role in the economy, and backed trade protectionism. President Roosevelt raised taxes further, expanded government spending much further, and significantly heightened labor union power.

Not unsurprisingly, these actions had equal and opposite reactions. Raising taxes and limiting international trade took much needed money out of the economy at a time when private capital was scarce. Expanding labor union power made it much more expensive to hire workers. And massive government spending increases displaced private investment and prolonged the downside of the business cycle. A relatively small number of individuals were helped by employment in public works projects, but the vast majority of citizens were harmed by the multi-year weakness of private sector job creation.

Second, I'd argue that at some point down the road the piper must be paid. Last month's deficit alone came in at roughly $165 billion – the largest November deficit ever. Our national debt is now over $10.6 trillion – more than $4 trillion higher than when I left Congress at the end of 2000, and marking the highest debt-to-GDP ration we've had since World War II. We're spending more paying interest on this debt (roughly $20 billion monthly) than we are on the War in Iraq (around $12 billion).

Some have claimed that infusing money into the economy – in great quantities and with great speed – is the answer, but the fact is that the federal government has already committed up to around $7 trillion, according to *Bloomberg*, in the form of bailouts, tax rebates, stimulus packages and various loans. To put this in perspective, Barry Ritholtz, in his book *Bailout Nation*, shows that the 2008 bailouts are the largest expenditure in our nation's history, even when adjusted for inflation – and now costing the American taxpayer more than the Louisiana Purchase, the Marshall Plan, NASA and the Race to the Moon, the Korean, Vietnam and Iraq Wars, the Savings and Loan Crisis, and The New Deal… combined!

From a layman's perspective, there just seems to be something strange about issuing debt to solve a problem caused by too much debt. *The Wall Street Journal* agrees, saying that "Every dollar [government] injects into the economy must first be taxed or borrowed out of the economy. No new spending power is created. It's merely redistributed from one group of people to another."

It's also startling that the United States Government just this week sold $30 billion in four week T-bills at zero percent. In fact, in a telltale sign that public confidence in our government's stimulus plan is sagging, if you were to invest in three month T-bills at today's negative discount rate, you'd actually receive less than you paid for them when they mature – in essence you'd be paying government to hold onto our cash.

Even more disconcerting is that we've got over $52 trillion in unfunded liabilities – over $450,000 per American household – that will not just evaporate with time or clever rhetoric. Former Comptroller General of the United States David Walker points out that by 2030, if we stay on the current path, the entire federal budget will be consumed by just Medicaid, Medicare and Social Security, leaving nothing for national defense or infrastructure. The options to avoid this scenario: double the tax burden; cut government spending by 60 percent, or somehow slow the increasing appetite of these three social programs.

Third, I'd urge government to turn the everyday adage on its head and 'not just do something, but stand there.' This global economic sickness surely didn't develop overnight, and in the same way it won't be cured by morning. Arthur Laffer makes the point that "whenever people make decisions when they are panicked, the consequences are rarely pretty." It's like attacking a gopher infestation in your garden with land mines and TNT – sometimes the consequences of overreaction can far outweigh the original problem. I believe it'd be prudent for those of us who are *political* decision-makers in an overwhelmingly *economic* crisis to take the Hippocratic Oath and pledge to "do no [more] harm."

Our economy was made great by a market-based system that rewarded effort, entrepreneurial spirit, and good decisions, and in turn permitted consequences for those who did the opposite. With a new taxpayer bailout of failing companies seemingly coming every week, I along with many others fear this foundation is shifting given the direction some in Washington seem to be headed. In fact, what's being proposed sends a terrible message to the real stimulus in our economy – people working hard and making prudent decisions – or for that matter the entrepreneur working in the basement on the product of tomorrow.

I am in no way disparaging Congress or President-Elect Obama's professed focus on "creating jobs," but I'd simply ask, to what end? It doesn't seem wise to inhibit entrepreneurship via increased taxation and then create jobs by simply expanding government's payroll. Nor does it seem entirely practical to look to the legion of unemployed – including accountants, salesmen and attorneys – to build the bridges and highways of tomorrow. We might as well, to paraphrase John Maynard Keynes, bury dollar bills in bottles and hire Americans to dig them up.

Economic analyst and author Larry Kudlow responds specifically to the seemingly popular push for funding ready-to-go infrastructure projects: "In 2008 alone the U.S. spent $114 billion on infrastructure… [and $500 billion over the last five years]. Didn't do much for growth did it? … An academic study from the University of Chicago argues that government spending does not stimulate jobs and growth, and in fact crowds out private investment. Infrastructure spending also doesn't create permanent new businesses, jobs, or incomes."

Fourth, and from my perspective as Chief Executive of a state, I'd maintain that "bailing out" the states is not the best course for Congress to pursue. States indeed are important to the national economy, with state and local governments making up roughly 12 percent of GDP; and states are certainly struggling financially, as more than 30 states are in the red for this year's budget. But I believe any direct stimulus to states, while helpful in the immediate, would exacerbate the state's unsustainable spending trends in the long run. Consider that state spending has gone up roughly 122 percent over the last 15 years, versus federal government spending growth of 108 percent over the same time. State debt across the country has also increased by 95 percent over the past decade. In fact, on average every American citizen is on the hook for $1,200 more in state debt alone than he or she was 10 years ago.

A state bailout would also dangerously encourage even more growth in governmental programs like Medicaid, which in state budgets across the nation already grew 9.5 percent per year over the last decade – certainly unsustainable in our state. Moreover, the United States Department of Health and Human Services just last week projected that spending on Medicaid will grow at an average annual rate of 7.9 percent over the next 10 years – and possibly faster if further stimulus package are approved.

Fifth and finally, I'd say we need to think more comprehensively about economic stimulus. For me that includes the following:

- Spending Restraint. Federal government spending grew 57 percent ($1.2 trillion) from 2000 to the beginning of 2008 – and the ongoing bailouts this past year will no doubt make the curve that much steeper. While this pace of spending growth is clearly unsustainable, it's also telling that government spending as a percentage of GDP was only nine percent back in 1930, and is now closing in on 30 percent. This pattern of government spending more and crowding out private sector dollars, I believe, will become increasingly disruptive to what has for 200 years been a fairly successful free market system.

- Competitiveness Issues. If we truly live in Thomas Friedman's "flat world," I think it's more important than ever that we make our products and people more competitive in the global marketplace. Eighty percent of the world's economic activity lies outside our shores, and instead of limiting international trade with protectionist policies, I think we should expand it – starting with the Columbia Free Trade Agreement. Also on the competitiveness front, the so-called "card check" legislation would repeat the expansion of labor union power that harmed job creation in the 1930s and hurt American competitiveness abroad.

▪ Lowering the tax burden on working Americans. Rather than raising taxes, we should cut them, particularly on capital gains and corporations – with our nation's current corporate tax rate putting us at or near the top globally and threatening to drive investment to other more business friendly environments. At a state level, I proposed just such a corporate income tax cut for South Carolina earlier this week.

In summary, I'm asking the Committee to do five things: 1) Take into account the lessons of past economic hardships; 2) Recognize that our nation's IOUs and unfunded liabilities will someday come due; 3) Appreciate that sometimes government involvement may actually make the situation worse, not better; 4) Rethink the plan to bail out states' unsustainable spending habits for the unintended consequences it will have on taxpayers; and 5) At least consider that there are commonsense steps we can take to bolster American competitiveness without boosting the national debt and expanding the scope and severity of government intervention in each of our lives.

Testifying in my capacity as Governor of South Carolina, I'd submit this statement for the official record. Thank you for taking your role in the next chapter of this great nation seriously, and for siding with the American taxpayer when making decisions that could affect us all. I look forward to continuing the conversation.

Sincerely,

Governor Mark Sanford
State of South Carolina

Chairman OBEY. Let me simply thank our three witnesses. I think this has been an excellent hearing. You have really been very helpful, and I wish you luck with the problems ahead. Thanks again.

Chairman OBEY. If I could now ask the second panel to come forward.

Mr. LEWIS. And I thank the Governors very much for being here.

Chairman OBEY. You bet. And let me explain, the first panel consisted of Governors because we wanted to hear from government officials about the impact of this recession on their jobs. And now we want to hear from a number of private individuals who can explain what the human impact of this recession is on a wide variety of people.

We have with us today Dr. Sandy Baum, who is one of the Nation's premier experts on issues relating to college access, college pricing, and student aid policy; Julie Murray, Chief Executive Officer of Three Square, Inc., Las Vegas, Food Bank. I must say, I have never seen a more spectacular effort in the food bank area than that. And Marsha Kreucher, Executive Director of Community Action Agency of Jackson, Lenawee, and Hillsdale, Michigan.

Dr. Baum, why don't we begin with you.

Dr. BAUM. Thank you, Chairman Obey, Ranking Member Lewis, members of the committee, I am very pleased to have an opportunity to be here and talk with you today, and I commend you for your efforts in crafting a stimulus package that is focused on revitalizing our infrastructure.

I am an economist. I do work, as you said, on college access and affordability, student aid, and college prices. I am a professor of economics at Skidmore College. I also do a lot of consulting work for the College Board and publish reports for them. I am here today as an individual, as an economist speaking about my own views on what I think the Federal Government's role in financing higher education in this economic emergency is.

As we have been talking about infrastructure, there has been a lot of reference to higher education. I am pleased to hear that. I want to reiterate the importance of this. We are talking about physical capital and revitalizing physical capital, but we know that a major driver in the economic growth in the United States has been the increase in human capital, in the education, the skills, the training of our workforce. And we have already been concerned even before this crisis about the United States falling behind in educational attainment. We can't allow this crisis to exacerbate that problem.

Historically we know that, in economic downturns, more people turn to higher education. They seek additional training to improve their opportunities in the labor force that they find particularly limited. At the same time that the demand for higher education increases, as we have just heard from the Governors, State budgets are, of course, severely constrained, and it becomes more and more difficult for States to fund their higher-education institutions appropriately. So we have this collision, where we have more people who need higher education, people have less and less money with which to pay for it, and the States aren't able to provide for it adequately.

So what I believe the Federal Government really needs to do now is to increase funding for Pell grants so that students have more money to permit them to pay for higher education; and it also needs to assist the States in maintaining and increasing the capacity to educate these students. We have heard from the State of California, as well as from other States, that they may be forced to diminish the number of students that they can educate because they simply don't have the funds to do this. So I would like to address both of these sides of the question briefly.

First is the increased need for Pell grant funding, which is urgent. We already know that there is a shortfall in the Pell grant program. The Pell grant is the best way for the Federal Government to assure that students will have the funds that they need to enroll and persist in college in these difficult times. Two-thirds of the student aid on which students depend comes from the Federal Government, and that includes about $18 billion in Federal grants, about 80 percent of which are in the Pell grant program.

About 5.5 million students depend on Pell grants to help them finance college, and these funds are incredibly well targeted on students who really need help. Among the dependent students who receive Pell grants, about two-thirds of them come from families with incomes of $30,000 or less. About 60 percent of the Pell grant recipients are independent students. And almost 60 percent of these students had incomes in the previous year of under $15,000. There will, of course, be more and more students who fall into these income categories as the economy continues to sour.

The Pell grant has created a lot of wonderful educational opportunities for people, but it has lost much of its power. Recent increases in the Pell grant maximum have been most welcome, but the current maximum of $4,731 is lower in 2007 dollars than the maximum was 30 years earlier.

So what we have is a situation where, Congress has continued to pour more money into Pell grants, although we now spend about $14.5 billion a year—the reality is that this has only allowed us to cover more and more students. The number of Pell grant recipients tracks closely the increased funding on Pell grants. So what that means is that the maximum Pell grant and the average Pell grant per student have not been able to increase in inflation-adjusted dollars.

In fact, while we talk about the maximum Pell grant all the time, what really is important to individual students is, on average, how much they get. And in 2007–2008, that was $2,649, just about $100 more in constant dollars than was the case 30 years earlier. So, on average, students are not getting nearly enough money from this program. That is even without taking into consideration the increase in college prices. That is just taking into consideration increase in the Consumer Price Index.

In 1987–1988, the maximum Pell grant covered 50 percent of the published tuition fees, room, and board at the average 4-year college. That 50 percent has now declined to just under a third. At private colleges there has been a decline from about 20 percent in 1987–1988 to about 13 percent of total published tuition fees, room, and board now.

The Pell grant helps many independent students and many dependent students. There will be many more adults who are looking for assistance, looking to go back to school as their labor market opportunities are diminished. We have to make sure that we give them adequate funding.

I had a conversation recently with a 31-year-old single woman who makes $16,000 a year working full time. She wants to go to her community college to increase her skills; and the Pell grant for which she is eligible is under $700. So she wanted to know how she is supposed to go back to school. That is her full income, if she can keep her job, $16,000. The child of a single parent making $40,000 a year would be eligible for a Pell grant of less than $1,500.

So we have to think about the number of dollars we are giving to students, in addition to the aggregate amount of money, the maximum Pell grant, and the number of students we can serve. Raising the Pell grant is the most important thing that the Federal Government can do for students now in the short run to help them pay for college.

Many students are going to continue to borrow, and Congress has done a good job of making sure that Federal loans remain available, but we have to do a better job of protecting those students who, through no fault of their own, get into trouble when it comes time to repay their loans. Of course, many more students will find themselves in that circumstance now because of the high rate of unemployment.

In addition, if we want the Federal aid system to be more effective, and we want our taxpayer dollars to be used more efficiently, we have to simplify the system and make sure that students can access it with a simple application process and that we don't keep adding more programs.

It would be wonderful if we can increase the Pell grant and make sure there is enough money in every student's hands, every potential student's hands, to make sure they have the opportunity to pay for college. But even if they have the money, but States are unable to fund institutions to have the capacity to educate those students, we won't accomplish our goals.

There is an urgent need on the part of the States for help from the Federal government to provide these educational opportunities. In particular, community colleges and broad-access, public 4-year colleges are going to find many more people knocking on their doors looking for improvement in their skills, looking to be more successful in the labor market. Obviously, we want to get these people off of the unemployment roles and into environments where they can constructively be improving themselves for the jobs that we hope will be awaiting them when they finish.

Assuring access to higher education is important from an equity perspective, but it is also important in terms of the efficiency of our economy. It is good economic policy. It will help us to reduce the excess supply of labor. It will help us to increase over the long term our human capital. And our economy will reap the benefits far into the future. If we don't do this, if we don't strengthen the Federal aid system, the Federal Pell grant program, if we don't assist educational institutions to provide opportunities, make sure they have capacity to educate our students, we will feel that pain far beyond the time that the economy begins to recover. So I urge you to make higher education a clear focus in your stimulus package designed to revitalize the infrastructure. Thank you.

Chairman OBEY. Thank you very much.

[The information follows:]

Economic Recovery and Educational Opportunity:

The Role of the Federal Government in Financing Higher Education

Testimony

United States House of Representatives

Committee on Appropriations

Dr. Sandy Baum

Senior Policy Analyst, The College Board

Professor of Economics, Skidmore College

December 11, 2008

As Congress faces the daunting task of developing economic policies that will jumpstart the economy and contain the damage to American households resulting from the current crisis, I urge you to make educational opportunity a high priority. As we discuss the importance of infrastructure – of assuring that our housing stock, our public transportation, our highways and our bridges are revitalized – we must not forget our human capital. A large portion of our economic growth in past decades has been the result of increases in the knowledge and skills of Americans. The transformation of our society that resulted from the GI Bill has been profound. There is broad understanding that higher education is not and must not be the province of the economic elite and that the federal government has a central role to play in creating this reality.

There is a very real danger that the changing circumstances of students, families, state and federal governments, and educational institutions could interact to significantly diminish educational opportunity in the United States. Even before so many economic indicators plummeted, educational attainment and a shortage of highly skilled workers were matters of grave concern. As household wealth has diminished, families are struggling with unemployment, and state budgets are strained beyond limit, we risk irreparable long term damage to our economy and our society if we do not focus on assuring continued and improved access to higher education for qualified students, regardless of their financial circumstances. An even greater than anticipated increase in the unemployment rate in the coming months will be only one of the most visible results of neglecting to accommodate larger numbers of students in our higher education system.

While state governments have primary responsibility for financing public higher education in the United States, the federal government has primary responsibility for assuring access to those with limited financial means. Increases in Pell Grant funding and assistance for colleges and universities striving to accommodate growing demand in the face of declining resources are the best routes for Congress in the short term. In the longer run, Congress would be well-advised to build on these efforts and reform and simplify the entire federal student aid system to make it more effective for students and more efficient for taxpayers. The recent report of the Rethinking Student Aid Study Group, which I led under the auspices of the College Board, contains detailed proposals for accomplishing these goals.

Pell Grants

Let me focus first on the central federal role in providing student aid. In 2007-08, undergraduate students in the U.S. received about $107 billion in grants, loans, tax benefits, and work aid to help them fund their studies. Two-thirds of that aid came from the federal government, including $44 billion in loans, $18 billion in grants, $6 billion in tax credits and deductions, and $1 billion in federal work-study funds. Congress has taken impressive steps to assure that federal loans will continue to be readily available to students, but it is vital that federal grants, which provide the foundation for making college financially accessible to low- and moderate-income students, receive at least as much attention.

About 80% of federal grants to undergraduates come through the Pell Grant program. Another 11% take the form of veterans' and military benefits. The good news is that Pell Grant funds are very well targeted to students with the most limited financial resources and that the number of students who have benefited from this program has skyrocketed as more and more Americans – and more Americans with very limited means - participate in higher education. The number of Pell Grant recipients increased from 2.0 million in 1977-78 to 2.9 million in 1987-88 and 3.7 million in 1997-98. Pell Grants supported 5.4 million students in 2007-08

As indicated in Table 1, among recipients who were dependent on their parents in 2006-07, 39% come from families with annual 2005 incomes below $20,000 and another 27% came from families with incomes between $20,000 and $30,000 per year. Only 5% came from families with incomes exceeding $50,000 per year. Among independent students, for whom income in the year preceding enrollment is more difficult to interpret, 58% had incomes $15,000 or lower and another 28% had incomes between $15,000 and $30,000. It is clear that these are students who are very vulnerable to small changes in their financial circumstances and for whom federal grants are critical to their ability to enroll and succeed in college.

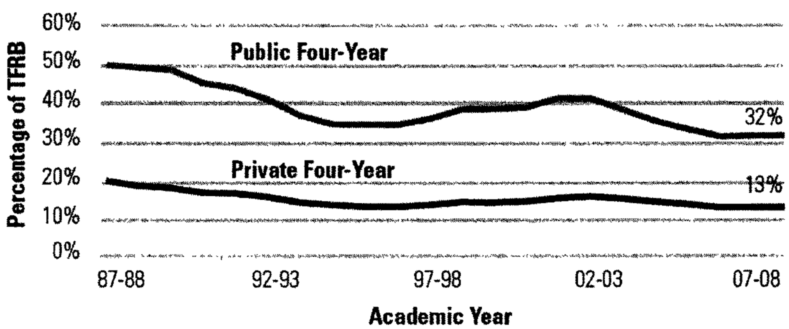
Table 1: Distribution of Pell Grant Recipients by Family Income And Dependency Status, 2006-07

2005 Family Income of Dependent Students	*Percentage of Pell Recipients*
$20,000 or less	39%
$20,001-$30,000	27%
$30,001-$40,000	20%
$40,001-$50,000	9%
$50,001 or more	5%
Dependency Status	*Percentage of Pell Recipients*
Dependent	42%
Independent	58%
Source: U.S. Department of Education, Federal Pell Grant Program 2006-07 End of Year Report	

The news about Pell Grant levels is much less encouraging. After remaining at $4,050 for four years, the maximum Pell Grant increased to $4,310 in 2007-08 and $4,731 in 2008-09. These were welcome increases, but measured in 2007 dollars, the maximum Pell Grant was $4,781 thirty years ago, in 1977-78. In other words, even without considering the rapid rise in college prices relative to other goods and services in the economy, the maximum Pell Grant has lost ground. In terms of coverage of college expenses, the story is even bleaker. In 1987-88, the maximum Pell Grant covered 50% of total published tuition, fees, room, and board at the average public four-year college. As illustrated in Figure 1, that proportion declined to 36% by 1997-98 and 32% by 2007-08.

Parallel figures for the average price of a private four-year institution are 20%, 14% and 13%.

Figure 1: Maximum Pell Grant as a Percentage of Tuition and Fees and Room and Board (TFRB), 1987-88 to 2007-08

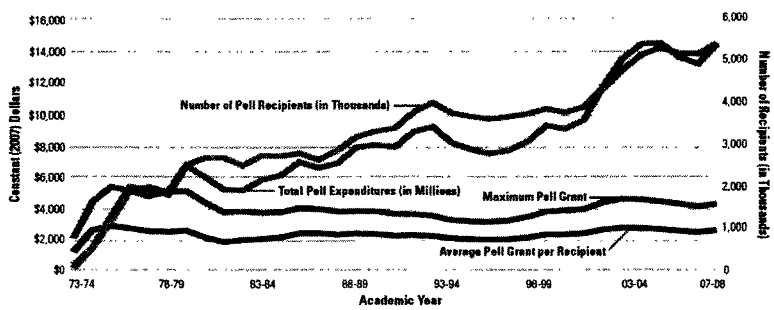


Source: The College Board, *Trends in Student Aid 2008*

While the maximum Pell Grant is the policy focus, the need for larger Pell Grants can be made clearer by focusing on average grants and on estimated grants for individuals in particular circumstances. Only students who have no ability to contribute at all to their own educational costs receive the $4,731 grant that covers a third of the charges at the average public four-year college.

In 2007-08, the average Pell Grant was $2,649. Thirty years earlier, in 1977-78, the average Pell Grant was $2,588 in 2007 dollars. Annual expenditures on the program increased from $5.2 billion to $14.4 billion in 2007 dollars over this time period, but as Figure 2 reveals, the increase in funding closely tracks the increase in recipients. Increases in total funds can easily obscure the circumstances of individual students. The welcome increases in the Pell Grant maximum implemented in the past two years were required to compensate for the erosion of the value of the Pell Grant in earlier years.

Figure 2: Total Pell Expenditures (in Millions), Maximum Pell Grant and Average Pell Grant in Constant (2007) Dollars, and Number of Recipients (in Thousands), 1973-74 to 2007-08



Source: The College Board, *Trends in Student Aid 2008*

Pell Grants are important to both dependent and independent students. Almost 60% of recipients are independent, qualifying for Pell Grants on the basis of their own financial circumstances, rather than as a result of their parents' resources. Table 2 reveals that about one-third of Pell recipients are 20 years old or younger, and another 21 percent are between the ages of 21 and 23. The majority of these students are classified as dependent. But in 2006-07, 48% of Pell Grant recipients were 24 or older and all of these are independent. Current economic conditions are likely to create more Pell-eligible dependent students, as parents lose their jobs or suffer declines in wages. But the independent proportion is likely to rise if, as in past recessions, more adults go back to school as they see their labor market prospects dimming.

Table 2: Distribution of Pell Grant Recipients by Age, 2006-07

Age	*Proportion of Recipients*
20 or younger	32%
21 to 23	21%
24 to 30	26%
31 to 40	14%
41 or older	7%

Source: U.S. Department of Education, Federal Pell Grant Program 2006-07 End of Year Report

Increasing funding for Pell Grants is the most practical way for the federal government to assure that students will have the funds they need to enroll and persist in college in these difficult economic times. We already face a significant shortfall in the Pell program because of under-budgeting. The situation is likely to be exacerbated as the financial circumstances of students and their parents deteriorate and as the number of individuals seeking to enroll increases because of the weak labor market. No change in the program itself is required to provide more funding for individuals whose ability to pay declines. However, in addition to the extra appropriations required to fund the increased demand on the existing program, it is critical that we also look at the adequacy of current award levels.

I recently received an inquiry from a 31 year-old single woman interested in going to her local community college to earn a certificate that would allow her to increase her earnings. She had been informed that she would receive a Pell Grant of under $700 and was trying to figure out how, with this amount of assistance, she could study full-time and still manage to pay tuition and live. I confess that despite my familiarity with the system, I was taken aback by the meager level of her award. But this is, in fact, what the formula yields. Even if she is able to keep her $16,000 a year job, this young woman is likely to struggle with the competing demands of work and school, while still accumulating debt. For the many people like her whose jobs will have evaporated, it is hard to see current Pell funding as adequate to make college possible at all.

A dependent student from a family of four with a combined income of $35,000 could expect a Pell Grant of about $4,200. A student with two working parents, each earning $20,000 a year would receive about $3,400 from the federal government, while the only child of a single parent supporting her on $40,000 a year would be likely to get less than $1,500 in Pell funding. The total tuition and fees at a public four-year college averages $6,585 and like everyone else, students require food and housing, not to speak of books and other education-related expenses. States and institutions will be hard-pressed in the current environment even to maintain their existing aid programs, let alone to respond with greater generosity as need expands.

If Congress succeeds, as I hope will be the case, in providing more generous funding for Pell Grants, students will still be dependent on the continuing availability of federal education loans – and particularly dependent on protection against impossible repayment demands if their post-school earnings do not meet expectations. The new Income-Based Repayment plan Congress has initiated will go a long way towards ameliorating this problem. However, weaknesses in the program will still allow too many borrowers to fall through the cracks. Strengthening the program need not be very expensive, but is a vital component of the college financing safety net. Students will also need the continuing support of states, institutions, and other participants in the education financing partnership to assure adequate resources to pay for college.

In addition to the urgent need for increased funds, it has become more important than ever that we use existing funds more effectively. Now is the time for the federal government both to dramatically simplify the application process for student aid and to reverse the trend of frequent additions to the array of different programs it offers. The federal government and educational institutions, in addition to families and students, are wasting considerable time and money on a complicated application process and an increasingly confusing set of financial aid programs and policies. Many eligible students never receive their funding because of the bureaucratic barriers. At a minimum, avoiding further complexities and, ideally, significantly streamlining the system, could have a major impact on the efficiency of federal student aid efforts. State governments must follow suit and support the federal government's efforts to make applying for publicly funded financial aid a painless process. The recommendations included in the recent report of the College Board's Rethinking Student Aid Study Group provide a strong basis for simplifying and improving the system.

The Capacity Problem

Even an improved and more generous student aid system will not suffice to support educational opportunity if the capacity of our colleges and universities to educate students is seriously constrained by diminishing state appropriations. In past recessions public institutions have been forced to reduce their course offerings in response to funding shortages and many students have been turned away from institutions that could have accommodated them in a stronger economy. The statement by Charles Reed, Chancellor of the California State University system, that his state's budget difficulties could force a reduction of 10,000 students in that important set of institutions next year is only one indicator of the looming problem in this unusually deep downturn.

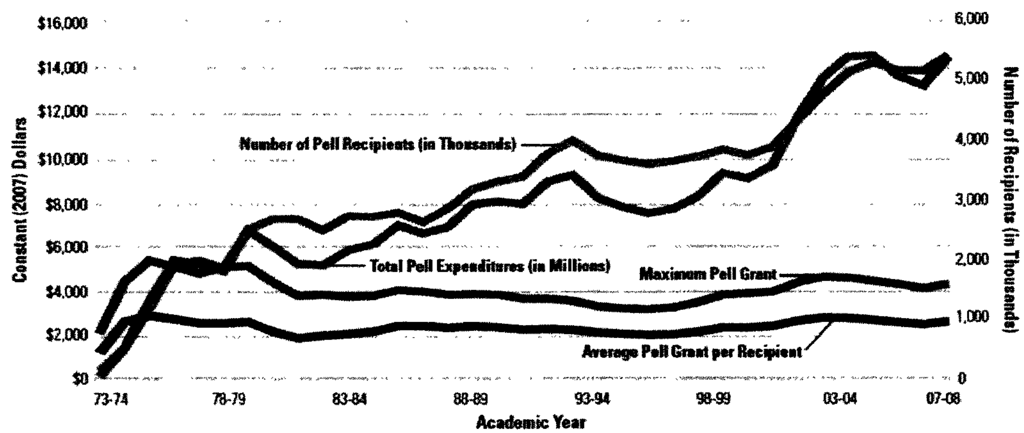
Congress should focus not only on maintaining its role in propping up demand for higher education among low- and moderate-income students, but also on taking some responsibility for assuring that the students they fund will find seats at public two-year and four-year institutions, or at private colleges that have excess capacity. State governments are not likely to be able to do much on their own to address this serious capacity issue. Most states are not able to finance near-term investments by engaging in deficit spending, and priorities other than higher education also understandably demand attention under these dire economic circumstances.

Ensuring an adequate supply of places in higher education, as well as adequate funding for students to finance their attendance, deserves attention as a component of the economic recovery plans that the new Administration and the incoming Congress will be focused on in the coming months. An important part of the challenge is to provide additional financial aid resources to people who want to begin or return to school. But the fact is that financial aid by itself will not solve the problem for those unable to find places in higher education, despite their qualifications. It would be a real tragedy if people who want to take the opportunity to improve themselves find the college door slammed in their faces.

The federal government needs to help states and individual institutions as well as individual students to weather the current recession. One part of an effective program would be assistance to help community colleges and broad-access public four-year colleges meet increased enrollment demands, including those from laid-off workers who need to update their skills. The federal government needs to find a way, and quickly, to give these institutions resources to meet the demand. At the same time, many states have private colleges and universities that are broadly accessible and have excess capacity. The federal government's focus on increasing capacity should include support for these institutions.

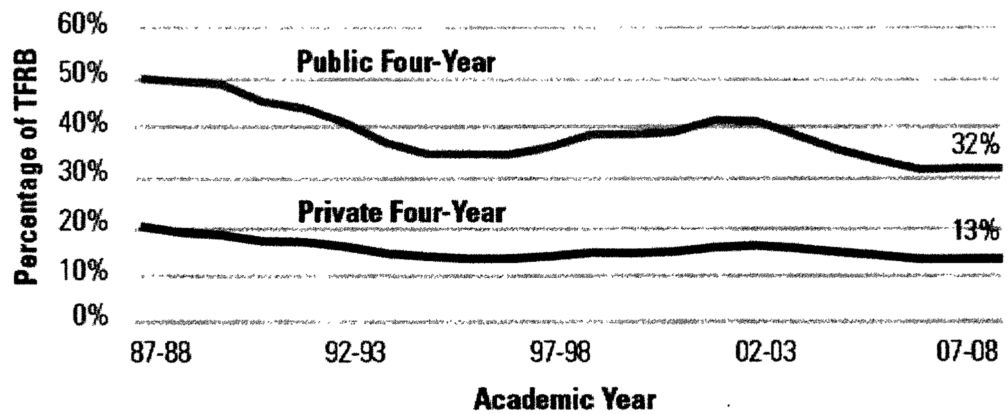
Assuring access to higher education is important not only for humanitarian reasons, but also because helping people who have trouble finding jobs during the recession to enroll in school is good economic policy. Not only does it reduce the excess supply of labor; it also represents a great opportunity for investment in human capital. Helping people enroll in college is an investment in human infrastructure, which is just as important as the investments in physical infrastructure that we all agree are needed. To assure that we avoid a long-term decline in the health of our economy and society resulting from reduced educational attainment, we must address both the demand and the supply sides of this problem.

Total Pell Expenditures (in Millions), Maximum Pell Grant and Average Pell Grant in Constant (2007) Dollars, and Number of Recipients (in Thousands), 1973-74 to 2007-08



Sources: *Trends in College Pricing, The College Board, New York, NY; The Federal Pell Grant Program End of Year Report, 2006-07.*

Maximum Pell Grant as a Percentage of Tuition and Fees and Room and Board (TFRB), 1987-88 to 2007-08



Sources: *Trends in College Pricing, The College Board, New York, NY; The Federal Pell Grant Program End of Year Report, 2006-07.*

Economic Recovery and Educational Opportunity:
The Role of the Federal Government in Financing Higher Education

Dr. Sandy Baum
Skidmore College and the College Board

U.S. States House of Representatives Committee on Appropriations
Summary of Testimony, December 11, 2008

Investing in higher education should be a central part of the economic recovery effort aimed at infrastructure and the long-run strength of the economy.

In economic downturns, an increasing number of people seek additional education and training, but their ability to pay is limited. Moreover, strained state budgets make it difficult for colleges and universities to accommodate them.

The federal government should increase funding for Pell Grants and assist states with financing campus capacity.

The need for increased Pell Grant funding is urgent.

• In 2007-08, 5.4 million students depended on Pell Grants to help finance college.

• The family incomes of two-thirds of dependent Pell Grant recipients are $30,000 or less.

• In 2007-08, the average Pell Grant was $2,649. Thirty years earlier, in 1977-78, the average Pell Grant was $2,588 in 2007 dollars.

• In 1987-88, the maximum Pell Grant covered 50% of total charges at the average public four-year college. That proportion declined to 36% by 1997-98 and 32% by 2007-08.

• Increasing funding for Pell Grants is the best way for the federal government to assure students will have the funds they need to enroll and persist in college in these difficult economic times.

• To use existing funds more effectively, the federal government should dramatically simplify the aid application process and streamline the programs on which students depend.

States and institutions need federal assistance to make it possible for them to provide needed educational opportunities.

• In past recessions public institutions have been forced to reduce their course offerings in response to funding shortages and many students have been turned away from institutions that could have accommodated them in a stronger economy.

• Funding to help colleges meet increased enrollment demands, including those from laid-off workers who need to update their skills, should be part of the recovery package.

Helping people enroll in college is an investment in human infrastructure, which is just as important as the needed investments in physical infrastructure. To avoid a long-term decline in the health of our economy and society resulting from reduced educational attainment, we must address both the demand and the supply sides of this problem.

Chairman OBEY. Ms. Murray.

Ms. MURRAY. Good afternoon, Mr. Chairman and members of the House Appropriations Committee. As Chairman Obey mentioned, my name is Julie Murray, and I am the chief executive officer of the Three Square Food Bank in Las Vegas, and I am honored to have been invited to come and speak before you today. I always like to speak during the noon hour before the meal has been served, because then all of us can feel hunger and just have a really great understanding of how challenging it is. If I would have estimated my speaking time better, I would have brought food boxes for you from Las Vegas. But let me tell you first thank you for being here and for staying for our testimony. I appreciate it.

So the Three Square Food Bank started over a year ago at the inspiration of Eric Hilton—he is the youngest son of Conrad N. Hilton—along with numerous other think-outside-the-box kind of community leaders in Las Vegas who declared that it was not acceptable in our community for people to go hungry.

I am proud to say that we are the newest member of Feeding America, and are proud to be distributing food in southern Nevada. We are the 206th member in this network of food banks.

If I would have testified a year ago, I would have said that thousands of families in my home State are living paycheck to paycheck and are just one disaster away from being in total ruin. However, I am sad to tell you that, as I testify before you today, those families have had that one crisis occur, and that crisis is the recession. And due to the recession, they are now living their biggest fear, which is living without a paycheck.

Nevada's unemployment rate is no different than any of the others who have testified before me today. We have risen to 7.6 percent, which is a full point higher than the national average, when traditionally we are about 1 percent or more lower than the national average. One out of every 91 homes in Nevada is in foreclosure, and nearly half of our State homeowners owe more on their mortgages than their homes are worth. New construction has screeched to a halt, causing job losses not only in construction, but in related industries. At our Three Square Food Bank, we see the people affected by these statistics every day, and I have four points that I want to share with you in my 5 minutes of testimony.

Number one, the children who are facing hunger. In Clark County School District, nearly half of our children, which is 132,000, qualify for free or reduced lunch. Picture that: 5 out of 10 children who are crossing the crosswalk on our way to school are struggling with hunger. When half of our children are struggling, we are living in a crisis mode.

At the beginning of this school year, my Three Square Food Bank launched a weekend feeding program called the BackPack for Kids program that provides bags of nutritious, kid-friendly food to approximately 3,000 children weekly. I recently visited one of our BackPack partner schools where every one of the 733 students qualifies for a free or reduced lunch. I asked one second-grade student, Isabel, what she thought about the bag and the food. She had a huge smile on her face and said how proud she was to be able to take food home for her family. Her mother had just been laid off, and this 8-year-old girl carried the 5-pound bag of food home on her back in the backpack every Friday and shared the food with her mother, her younger brother, and her dog.

The next example: middle-class families who are living in crisis. So for every child in need, there are family members struggling to make ends meet. The ongoing layoffs in our normally recession-proof gaming industry are bringing more people to our food pantries. Representative Serrano asked if tourism and the arts are being impacted. Our gaming industry and other related industries are being impacted in ways we never could have imagined. There are people who have never before sought food assistance that are doing so. And let me illustrate a story of what Congressman Obey mentioned in his opening remarks when he said that it is so amazing what the loss of a job does to someone's dignity when they go through that experience.

So while filling my gas tank recently on a Sunday afternoon, a white car pulled in next to me with a middle-aged man and two little girls in the back seat. The man approached me with a very ashamed look on his face and said he had never been out of work before, was recently laid off, and could not afford gas or food for his family. My heart broke for him, but my heart broke for the little girls who were in the back seat having to watch their dejected father beg for money. I gave him cash, and told him how to find a local food bank agency where he could receive some free groceries.

As Nevada's unemployment rate grows, such stories will only become more common. Indeed, as the unemployment rate grows nationwide, you will hear such stories in every congressional district across the Nation.

Number three, I would like to address the growing demand at charitable agencies. At our 1-year anniversary next week, which you are all invited to come to our food bank for, our food bank will announce that we have distributed 10 million tons of food, which represents 8.5 million meals that we have distributed. That food reaches hungry people——

Chairman OBEY. Did you say 8.5 million?

Ms. MURRAY. Yes, 8.5 million meals per year—this year, in our first year of operation. That food reaches hungry people through our 211 agency partners. These community partners include food pantries, homeless shelters, rehabilitation homes, and programs for at-risk youth and seniors. Forty agencies who joined us this year never had been engaged in food relief before, but are doing so in response to the economic crisis. And our existing food pantries are hit particularly hard, many of them seeing a doubling of clients—a doubling of clients—over the course of this year.

And, number four, my recommendations. My food bank will continue to work diligently, as will food banks across the country, to assist the people in their States. However, there is only so much that we can do to meet the overwhelming need; but there is so much that Congress can do to address hunger in America with the upcoming economic recovery package. Specifically, three points.

Number one, an increase in the SNAP/food stamp benefits along with administrative funds for cash-strapped States.

Number two, a boost to TEFAP and CSFP, the two commodity programs that provide nutritious food through food banks and other charitable organizations.

Ms. MURRAY. Number three, increase funds to meet the growing demand in the WIC program.

These crucial measures to strengthen our Nation's Federal nutrition programs will go a long way towards meeting the needs of millions of Americans devastated by the recession. Moreover, the inclusion of additional funding for SNAP food stamps and emergency food assistance will support economic recovery and help stimulate local economies. I can tell you, with food prices having risen so much, when cash-strapped families receive the higher food stamp benefit they will immediately spend it in their grocery stores.

So in conclusion, I wanted to share with you that when my three children, who are all in college, come home for the holidays and are gathered around my kitchen table, we talk about you as if we know you. They have worked for you as congressional pages and as interns. We look at the decisions that you are making and the things you are doing. Please know that to my family and to millions of Americans, you are heroes; you are the ones who can and will pull this country out of the crisis we are in. We have faith in you and we are cheering for you.

I would be happy to respond to any questions at the end of our time allotment. Thank you.

Chairman OBEY Thank you very much.

[The information follows:]

Testimony by Julie Murray, CEO of Three Square

to the House Appropriations Committee

December 11, 2008

Good Morning Chairman Obey, and Members of the House Appropriations Committee. My name is Julie Murray and I serve as the Chief Executive Officer and President of the Three Square Food Bank in Las Vegas, NV. I am honored to have been invited by Chairman Obey to provide testimony today. I will address the hardship the Recession is causing in terms of the lives of children and families and the work of charitable organizations.

My testimony follows the reports from the three distinguished Governors from New Jersey, Wisconsin and Vermont; the challenges they have articulated are similar to those being experienced in Nevada. In fact, our State Legislature met this week to address our state's $340 million budget shortfall. This shortfall comes on top of the $1.1 billion cut earlier this year.

As a lifelong resident of the state of Nevada, I have been a passionate and dedicated leader for many years in the non-profit arena having worked with tennis star and philanthropist Andre Agassi to build a national model charter school for at-risk youth, and have led other endeavors involving at-risk youth, and senior citizens. However, my passion over the past two years has centered around hunger.

If I would have testified one year ago, I would have said that thousands of families in my home state of Nevada are living paycheck to paycheck and are just one crisis away from disaster. However, I am sad that as I appear before you today, those thousands of families **have** had that "one crisis" occur. Due to the Recession, they are now living their biggest fear: living without a paycheck. Nevada's unemployment has risen to 7.6%, the highest it has been since May of 1985.

The ongoing budget cuts to our school district, higher education system, and health and human services mean that people in need will have access to fewer services at a time when they need it most! Prior to the Recession, our state has tended to rank high on the bad lists and low on the good lists. For example, we rank at or near the top of states in rates of:

- Suicide and depression
- Teen pregnancy and high school drop-out
- Children lacking health insurance
- Home foreclosures
- Unemployment

The economic crisis makes the situation even worse.

At the Three Square Food Bank, we see the people affected by these statistics, and by these budget cuts, every day. I would like to provide three examples—of children, of middle-class families, and of agency service providers—who are struggling in this economic crisis.

1. <u>Children Facing Hunger</u>

In our school district, the nation's fifth-largest, 42.5% of the children qualify for "free or reduced lunch." In other words, four in ten children—132,000 of them—in our school district struggle with hunger. At the beginning of this school year, the Three Square Food Bank launched a weekend feeding program called the "BackPack for Kids" program that provides bags of nutritious, kid-friendly food to nearly 3,000 children at 120 schools who otherwise would not have enough to eat on the weekend. Let me tell you about one of these children.

I recently visited Rex Bell Elementary School, where each and every one of the 733 students qualifies for a free or reduced lunch. (In other words, each family's income is below 185% of poverty, just over $20,000 per year for a family of four.) The teacher who oversees the distribution of food told me that she can always tell which children are struggling with hunger by the look of despair on the children's faces as the weekends approach. Most children are delighted to know that they will have two days off from school. However, children who struggle with hunger are scared when the weekend comes because they often don't have enough food to eat. During my observation of the BackPack distribution, I asked one second-grade student what she thought about the food in the bag. She had a huge smile on her face and said how proud she was to be able to take food home for her family. Her mother had recently lost her job, and this eight-year-old shared her food with her mother, younger brother and dog.

This young girl is one of 132,000 students in Clark County who struggle with hunger. These children face additional struggles in learning the skills they need to lead successful lives. Our school district superintendent believes that over 50% of students—an additional 18,000 -- will need a free or reduced lunch by the end of the school year. When half of children struggle with hunger, we are living in a crisis mode.

2. Middle-Class Families in Need

For every child in need, there are family members struggling to make ends meet. The on-going layoffs in our gaming, hospitality, and construction industries are bringing more people to our food pantries. These are often people who have never sought assistance before. Let me tell you one family's story.

While filling my gas tank on a Sunday afternoon, I saw a white Chevrolet pull in, driven by a middle-aged man with two girls in the backseat. This scene would not normally have attracted notice, but the man came out of his car and approached me for assistance. He had been out of work for a month, and, having been living paycheck to paycheck, now could not afford gas or food for his family. My heart broke as the two girls watched their dejected father beg for money. I put my hand on his shoulder, looked him in the eye, and told him how to find a local food bank agency where he could receive some free groceries.

As Nevada's unemployment rate grows, such stories will only become more common. Indeed, as the unemployment rate grows nationally, you would hear such stories in every Congressional district across the nation.

3. Growing Demand at Charitable Agencies

When the Three Square Food Bank opened one year ago, we served 80 agencies. We now serve over 200 community agencies, including food pantries, homeless shelters, rehabilitation homes, and special programs for at-risk children and seniors. Of the last 50 agencies that have joined Three Square, two-thirds are community and faith-based groups starting food pantries in response to this economic crisis.

Many of our agencies, particularly food pantries, are seeing more families come through their doors. One story brings home just how hard this crisis can hit. The Virgin Valley Community Food Pantry in the small town of Mesquite, Nevada, served 200 families in January. By September, they were serving 300 families each month, an increase of 150%. After the Oasis Casino laid off 500 workers last week, they served 100 families in just one day this week.

This situation—an increase of over 100% this year—are what many of our 200 agencies are facing every day.

4. Recommendations

Our agencies work passionately to feed hungry people, and while we will continue to work diligently to assist the people of our state, there is much Congress can do to address hunger among Americans in the upcoming economic stimulus legislation.

- Supplemental Nutritional Assistance Program (SNAP)/Food Stamps:
  - Increase the SNAP/food stamps benefit by 20% over 24 months. Between the economic crisis and increased food prices over recent months, food stamp recipients struggle to provide enough food for their families. This increase will help them purchase healthy foods, while providing an immediate boost to the gross domestic product of $1.73 for every $1 spent.
  - Provide additional funds to states to administrate SNAP/food stamps. While Nevada has seen a 20% increase in food stamp use this year, 15% of our Department of Health and Human Services positions are vacant, with the potential for more to be cut. Our state needs caseworkers to help manage the growing demand.
  - Encourage states to choose SNAP/food stamp options that will stream-line case handling for eligibility workers and ease paperwork requirements for applicants. One example is categorical eligibility.
- The Emergency Food Assistance Program (TEFAP)
  - TEFAP provides food directly to people in need through food banks and other charities. An annual increase of $100 million in TEFAP purchase commodities over two years, or the duration of the Recession, will help food banks across the country meet the growing demand.
  - An additional $50 million for state and local transportation and distribution of TEFAP commodities will offset skyrocketing costs to transport store, and distribute commodities to the growing number of people requesting food assistance.

- <u>Commodity Supplemental Food Program (CSFP)</u>:
  - An increase of $30 million annually is needed to maintain CSFP participation and replenish food supplies. In Nevada alone, funds are only sufficient to serve 20% of seniors who could qualify for this program (Approximately 6,000 out of 30,000 eligible seniors receive benefits in Nevada).
- <u>Food Bank Infrastructure Grants</u>
  - Congress authorized $15 million for transportation and infrastructure grants in the Farm Bill. No funding has been provided for this critical initiative, which will be especially helpful to food banks delivering food to hungry people in rural communities.
- <u>Women Infants and Children Program (WIC)</u>:
  - WIC provides nutritious supplemental foods for low-income mothers and their children. Program participation has grown by 5% this year, compared to rates between 1 and 3% in previous years, while food prices have increased. Supplemental funding is necessary to keep this important program serving all who are eligible.

This combination of a major increase in SNAP/food stamp funding and a more modest increase in funding for food banks and other emergency feeding organizations, coupled with increased resources for States to effectively staff and operate these programs, will go a long way toward meeting the needs of millions of Americans who are most devastated by the Recession. Moreover, the inclusion of additional funding for food stamps and emergency food assistance will support economic recovery and help stimulate local economies.

Thank you for the opportunity to provide testimony today. I am happy to respond to any questions you may have.

Julie Murray
Chief Executive Officer
The Three Square Food Bank

Julie Murray is one of Nevada's leading Social Entrepreneurs. For the past 25 years, she has served in leadership positions and founding roles of several key organizations within the State.

Currently, Murray is the Chief Executive Officer for The Three Square Food Bank, a collaborative effort in Las Vegas, Nevada with a focus on ending hunger. In this role, she is leading the organization's work to build a national model facility that will house a food bank, meal program, food recovery and job training program. Since joining Three Square in 2006, Murray has helped to create awareness both in the local community and nationally of hunger related issues.

Prior to that she served as the National Campaign Director for the Andre Agassi Charitable Foundation where she led the $36,000,000 campaign to build a charter school, the Andre Agassi College Preparatory Academy.

She is the co-Founder of the Las Vegas "I Have a Dream" Foundation and currently serves as the Board President. She also co-founded the Las Vegas Fire and Rescue Foundation, where she serves as the immediate past President of the Board. In her co-founders role with the "I Have a Dream" Foundation, she adopted 55 children in 1996 Kindergarten through 3rd grade, from a City of Las Vegas Public Housing Project Site and promised to stay with them through high school and help pay for college. This "I Have a Dream" project is one of the most successful models in the country.

Additionally, she served as a consultant to Harrah's Entertainment for seven years providing guidance on their national strategic philanthropy. In this role with Harrah's, she served as the co-chair to Nevada Assembly Speaker Barbara Buckley of the Model Assisted Living Advisory Committee (MALAC) which built the country's first senior citizens' assisted living, affordable housing site utilizing BLM land from the 1998 Southern Nevada Public Lands Management Act.

She was appointed in 2005 by Nevada State Governor Kenny Guinn to serve on the state's Grants Management Unit, in the State of Nevada Department of Health and Human Services, which helps to guide the state on the distribution of state grant dollars. Julie also serves as a Board of Trustee Emeritus member for the University of Nevada, Reno.

Julie is a mother of three and is a lifelong Nevadan who graduated from Bishop Gorman High School, and received her Bachelor's and Master's degrees from UNLV. She has received many awards and accolades including the "The Most influential Women in Nevada", "Who's Who of Nevada" and the "Athena Award", a prestigious international recognition that identifies individuals who have contributed to the success of women in leadership positions

12/9/2008

Chairman OBEY. And now Ms. Kreucher.

Ms. KREUCHER. Thank you. My name is Marsha Kreucher, and I am the CEO of a community action agency in the southern central part of Michigan. And I am honored to be here today. I was asked by our new Congressman-elect Mark Schauer to talk a little bit about the face of poverty in Michigan and some community development-type projects that community action agencies get involved in that he thinks have potential for good economic development policy.

I know that you have all heard that Michigan is facing some huge challenges. We may be leading the way of the downward momentum that has been discussed today. Our unemployment rate is well above the national average, over 9 percent; and median income, which in Michigan has always been high, has plummeted 12.5 percent last year to put us below the national average for possibly the first time. We have record numbers of homes in foreclosure, housing values are falling, and we have one of the highest child poverty rates in our county right now at 40 percent. It is just a stunningly dismal picture. In the 20 years that I have been a community action director, I have never really seen things quite so bad.

In the counties that our agency serves, we are mostly rural, we have three cities. The largest city has a population of 37,000; 13.5 percent of those residents are now unemployed, and 15 percent fall below the poverty level. We are heavily reliant on the automobile industry, mainly in our area of the State on the smaller parts suppliers and light manufacturing. We have lost thousands of jobs in the last 5 years and almost 2,000 jobs just in this year alone. And these are working-class jobs. We have talked about the middle class and working-class jobs, and this has been a middle-class community. The erosion in income and the quality of life has just been stunning. People are frightened, I think, and that is one thing that we all feel.

One of the things that I think can really help, and I would ask for your support, is the request to increase the eligibility for CSBG, which is the base funding for community action agencies, to help people that are at 200 percent of poverty as opposed to 125 percent. And that is because when you are looking at, like we are, legions of Michigan people who are unemployed and living on unemployment insurance, or who are working at low-wage jobs that are kind of piecemealed together, 200 percent of poverty is barely enough to make ends meet. And it would, I think, really help to be able to reach a lot of these people.

When people are laid off, they come to us for any variety of reasons. They may come to us because they have missed a house payment or they have had a utility shut off. It is generally not a population that is used to coming in to ask for help. They are people who, more often than not, now are looking at foreclosure. In our small city, we have about 400 homes that are owned by banks, that are vacant and are for sale.

The banking industry is worried, the housing industry is worried. It drops—housing values. Crime is on the rise. There is an uptick in homelessness. And we have many, many families who, although we are a HUD-certified counseling agency, we are getting maybe

30 calls a week to help renegotiate loans with banks, and we have really no resources to help people who have gotten caught in the subprime loan mess. Sometimes we see grandparents losing homes that maybe it would be $3,500 or $5,000 to fix, and there really isn't very much help available to help these people. I think that we would all think that stabilizing neighborhoods is probably one of the key things that we can do.

One of the projects we have been involved in, which I think is probably a good example of a community action agency in general, is that we got involved in a community revitalization project in the city of Jackson, which targeted 23 blocks immediately adjacent to the downtown; and we have mobilized about $12 million in investment in that area through private investors, Federal dollars, State dollars, local community dollars. We have been working with five churches and have built new homes, demolished blighted property, rehabbed many homes, both homeowner and rental property homes.

And because we are a community action agency we also work with the Neighborhood Association, which has now become incorporated and has received some funding of their own, is hiring staff, running an after-school program for kids. And because we run the IDA program, we are helping people to increase home ownership in that area.

We are working with Youth Build to add job skills and construction, and Habitat for Humanity to provide more housing there too.

So what we have seen, just in that little project over 5 years, is it has created a lot of jobs, and I think has probably shown one of the things community action is good at, which is, we are good multi-taskers and we are able to leverage funds from the private sector as well as the public sector and bring together the community to make things work.

I won't talk too much about energy and home weatherization. I mean, that has been discussed today. I know it is on the radar screen of everybody. Clearly, there is great potential. We have been weatherizing homes since the 1980s. There are a lot of creative projects going on across the country with renewable energy and community action agencies with private investors.

I will tell you that we have waiting lists for every one of our programs. Unprecedented. I would estimate that we have probably increased our waiting lists and people coming in for help 35 or 40 percent just over the last year alone. Children don't have food; they are on waiting lists to get—adults are on waiting lists to be able to get money or be able to afford to go to college. Children don't have winter coats; they are coming to school with sweaters on. It is just a terrible picture.

So we encourage you. Congress has been very supportive of community action agencies over the years, and we appreciate that. We have always been on the front lines. This year it seems very dramatic; the front lines are much more complex; our problems are more complicated. And we appreciate your support and are enthusiastic about all that you are doing with the economic stimulus. Thank you.

[The information follows:]

FINAL

Statement of Ms. Marcia Kreucher
Executive Director
Community Action Agency of Jackson,
Lenawee, and Hillsdale, MI

Before the
House Appropriations Committee
U.S. House of Representatives
Washington, DC

December 11, 2008

Testimony Provided to Congressional Appropriations Committee, Dec 11, 2008

My name is Marsha Kreucher and I am the CEO of a Community Action Agency in South-central Michigan. I was asked my our new Congressman Elect, Mark Schauer to put a human face on some of the problems that Michigan's citizens are facing right now and to discuss community development solutions being worked on by Community Action that he thinks have good economic development potential.

As you know, Michigan is facing huge challenges this year, maybe leading the downward momentum referenced by Chairman Obey. Our unemployment is well above the national average and median income has fallen by 12.5% to bring Michigan's income below the national average for the first time in many years. Record numbers of homes are in foreclosure; housing values are falling; and we have the highest child poverty rate in the country – 40% in my county.

In the counties our agency serves, the largest city, Jackson has a population of 37,000. It has an unemployment rate of 13.5% and a poverty rate of 15%. The rest of the district of about 300,000 is mainly rural with two smaller cities. We are heavily reliant on the automobile industry, especially small part suppliers and light manufacturing. The area has lost thousands of jobs over the past 5 years, almost 2,000 jobs this year alone. These are working class jobs and middle class communities that have seen a serious erosion in their income and quality of life. People here are scared. They are not sure what will come next. The poverty rate, which was below the national average in 2000 in Michigan, is now double digits and above the national average. Everyone is working to find solutions for our citizens and communities. One help from Congress would be to support the request to increase CSBG eligibility to 200% of the poverty level which would help us help those that are living on unemployment insurance, and workers that have pieced together a mishmash of low wage jobs but still can't make ends meet.

People come to Community Action after they have lost their jobs and perhaps get behind on credit payments or face a utility shut off bill or have lost their health insurance and need coverage for their children, or maybe to enroll in a skill building class. And more and more often, they come to us because they are facing foreclosure. Families that couldn't have conceived of losing their homes are now facing that. It's a huge problem in Michigan. In Jackson County, almost 400 foreclosed homes are owned by banks, vacant and for sale. The banks are concerned about the impact of these vacant homes on property values already falling and the further destabilization of neighborhoods. Cities are worried about rising crime, and everyone is worried about an uptick in homelessness. In this county we saw 200 homes foreclose in 2000; 1200 homes in 2007, and we are on track to match that number again this year. Our agency is a HUD certified Housing counseling agency but funding doesn't come close to meeting the need for counselors receiving 20-30 calls per week from families that need help with loss mitigation and with negotiating with banks to refinance. So, we use CSBG to fill in those funding cracks. And we still need more financial resources to help people save their homes. We've seen of grandparents that have lost their homes for as little as $3,500 or $5,000 after being hurt by sub-prime loan scams.

I do want to take a minute to discuss a couple of community development projects that we think are good economic development solutions – creating jobs, improving community infrastructure. One is a comprehensive neighborhood revitalization project that we undertook in partnership with the City of Jackson and many other public and private partners to revitalize a 23 block area in the city immediately adjacent to downtown. We have facilitated the investment of more than $12 million dollars in the neighborhood, both public and private. We've demolished blighted property, built new single family homes and rehabilitated both owner and rental properties. There are new streetlights and sidewalks. And because we're a Community Action Agency, we also worked closely with five churches in the neighborhood, and the Neighborhood Association which is now incorporated, preparing to hire staff and running an after school program. We've increased homeownership through our IDA program; and Youthbuild program which also trained youth with construction skills, and partnered with Habitat for Humanity. We're not done yet, but it has opened doors to increas ed partnerships with local government and private investors for new neighborhoods. I mention this because it's a good example of what Community Action is really good at - multi-tasking and leveraging public and private dollars as well as to gain the support and trust of local citizens.

A second area is in Home Weatherization/Energy Efficiency programs which both help low income citizens, conserve energy and create jobs, but I know that is on your radar screen, so won't discuss today.

All of our programs have waiting lists. Every one. From basic needs and emergency help to credit counseling. Children need coats and shoes. If we enrolled 500 people in a program last year, we enrolled 1,000 this year. If it was 1,000 last year, it's 2,000 this year. We have a six month waiting list for Weatherization and rising utility bills.

I would end by saying that Community Action Agencies have always been on the front lines, and CSBG has been our lifeline. But this year is different. It's the worst that I have seen in my 20 years as a CAA Director. The problems are very dramatic, more complex and impacting all segments of our community.

Chairman OBEY. Well, thank you all. Let me just ask one question of all of you, a little differently to each of you, but it is the same basic question.

Dr. Baum, some Members of Congress might say to me, "You know, Obey, student aid is fine and Pell grants are fine, but you guys are just using the recession in order to bump up spending for these student aid programs." I would ask you, Why should we be looking at student aid in a recession? Is there really a significant impact on American families with respect to their ability to send their kids to college during the recession?

Ms. Murray, with you I would simply ask, Why should we add more money to food and nutrition programs? If this is a serious problem, why can't we expect the private sector and charities to pick up the slack in your area?

And Ms. Kreucher, with you, the same question I asked Dr. Baum. Some people will say, "Well, you just like this Community Service Block Grant and so you are using this recession as an excuse to pump money in." Why is there a qualitative or quantitative difference in terms of the job that you have to do in your locality? What kinds of things are you having to do today that county boards, city councils, are sloughing off on you because they just don't have the money in these times? Why don't we begin with you, Dr. Baum?

Dr. BAUM. It is certainly a reasonable question because everyone has been saying all along that we need more money for student aid.

That said, there are several aspects to this. One is that if we do nothing, then the demand for Pell grants is going to increase because as more people are in these serious economic circumstances that have been described, they will simply qualify for Pell grants. So even without changing any of the provisions, clearly more money will have to be appropriated, or the amount of money that we provide to individual students will have to be diminished.

But more than that, it is the issues that I touched on which involve the repercussions of an economic downturn. There will be more and more people who will not find labor market opportunities. And we can either have them be unemployed, we can try to provide unemployment compensation for them, or we can help them to go to school. And it is obviously in both the short-term and the long-term interests of the economy to make sure that we can have these people using their time constructively and developing their human capital. And that is true for higher education institutions as well. There have been struggles all along, problems of State funding pressures. But the reality is that right now there is much increased demand, as there always is in economic downturns. And to turn these students away would be a serious mistake. This is the result of the recession, that there is this kind of increased demand and this increased need.

Chairman OBEY. Thank you.

Ms. MURRAY. Thank you, Mr. Chairman. Your question is, Why should you add to the food and nutrition programs currently in place?

Chairman OBEY. My question is simply, If this is an economic stimulus package, why should programs for nutrition be included?

Why can't we simply rely more on private sector churches, charity, et cetera?

Ms. MURRAY. Thank you for the clarification. I will give one example. I mentioned the children in the schools. In order for us to go communitywide with our BacPack program and be in every one of our schools, we had to collaborate with a lot of people. We had to collaborate and find a donor to fund the food; we had to collaborate and find someone to deliver it; we had to find community groups who would come out and load thousands of bags of food every week. And as food bank, we are doing everything we can to leverage what we have in the communities to provide as much food as possible. And you saw our food bank. We are very creative. We think outside the box, and we collaborate with lots of people.

We are doing just as much as we possibly can to keep up with the demand. And just when we think we have met it, then we will go through a round of thousands and thousands of more layoffs. And our agency partners report that they are seeing increases of 66 percent in the numbers of families that they are feeding.

So even though we are calling on our corporate leaders and our community and individuals and foundations, they can only give so much. And they are reeling from the tough economic times and giving as much as they possibly can.

So just know that in States like all over the country and like mine, my food bank is doing everything we can to collaborate and think outside the box, but we just can't keep up with the demand because the numbers are so huge. So we do need help with what you have offered. Thank you.

Chairman OBEY. Ms. Kreucher.

Ms. KREUCHER. I would say that community action with Community Service's Block Grant just has a long history of mobilizing resources and working in collaboration with many, many sectors. There is no sector that has the ability to handle all of these problems alone. City dollars aren't going to do it, county commissions can't do it. Revenue sharing has been lost. Private sector, in places like Michigan, is a problem for investment. We have to be able to work with people who have had a history of working with us before and are willing to kind of step forward and help out during difficult times. I think we have a track record.

One thing that I think is really important is the psychological and kind of morale-boosting piece. As we go in and start working in neighborhoods within the city of Jackson and in our communities, we are finding people who are saying that they are afraid. They feel like they have been forgotten. They don't know what is going to happen next. What are the next jobs that are going to happen?

And there is something to be said about moving forward and creating jobs and working to renovate neighborhoods to show that they are still safe, to show that people are still involved; that there is going to be an infrastructure that makes people think that it is going to be okay in the end; that things still are happening as normal, and we will be continuing. And I think that is really an important piece.

Chairman OBEY. Thank you. Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman. And thank you all for not only being here but for the work that you are about. I was going to approach this a little differently when I began this meeting, but please forgive me.

Dr. Baum, I will begin with you because I think you should know that two of my twin sons are both college professors, and so I am very empathetic to the challenges of a college professor, a professor at Skidmore. But in the meantime, I am curious to know what exactly the College Board is. You indicated that you were testifying as an individual not representing Skidmore or the College Board, but I would like to know exactly what the College Board is and what role you play there; is it a paid position or is it just additional compensation beyond being professor, et cetera.

Dr. BAUM. The College Board is a nonprofit membership organization with members being colleges, universities, high schools, and other kinds of educational organizations. And the College Board works on issues relating to college access, college success, the transition from high school to college. Everyone knows they have the SAT and the AP. They run some high schools in New York City. They have a lot of college preparation and curricular programs, a lot of college counseling programs and so on.

I am not employed by the College Board; I am a consultant to the College Board. I do their publications on trends in student aid and trends in college pricing, and I spend a lot of time consulting for them. I also consult for other organizations, and I am employed by Skidmore College.

Mr. LEWIS. I appreciate that. That helps clarify some of the questions I had relative to that, because I noted when you testified before the Senate and also, in the presentation you gave on NPR in 2007, the testimony was very similar to that which you have presented today which would be very much a reflection of what you just described as the College Board's work, the work that you do for them.

Dr. BAUM. I would say that one of the wonderful things about my relationship to the College Board is that they subsidize me to do my research and to express my views, and not to be just a voice for the views of others. And so that is one of the contributions that they make.

Mr. LEWIS. One of the areas of concern I have that leads to just a very brief line of questioning, is the fact that we operate here under our rules in the House with a truth-in-testimony process. And sometimes when people describe themselves as speaking as an individual, that causes them not to feel like they need to respond to some very specific requirements.

So let me ask this. Can you provide for the record a list of all grants, sub-grants, contracts, subcontracts received by the College Board in fiscal years 2008–2009, prospectively 2009?

Dr. BAUM. The College Board obviously has such a list. I am here presenting my own views. No one told me what to say. I am not——

Mr. LEWIS. Can you provide such a report?

Dr. BAUM. I am just here expressing my own views, and I have no—I am sure that the College Board as an organization could do that, but they have not—I am not testifying——

Mr. LEWIS. Let me say this. In our records you are listed as——

Dr. BAUM. I am a consultant to the College Board and I am employed by Skidmore College.

Mr. LEWIS. So the second question is we would appreciate a list also, if you could consult with the College Board and provide a list of all grants, sub-grants received by the College Board in fiscal years 2007 and 2008.

CHAIRMAN OBEY. Let the Chair simply interject at this point to say that I am certainly interested in obtaining all of the legitimate information that we can obtain. But I think it is an open question as to whether someone who is a consultant to an organization has the authority or the ability, in fact, to provide the kind of information that has just been requested of the organization. I would think the organization itself would have to make that decision, and I would think they would make it at a time when someone was testifying on their behalf.

Mr. LEWIS. I appreciate the Chairman making that clarification for me. The listing we have for Dr. Baum is as a senior policy advisor for the College Board, and it seems to me that she might be able to provide that.

But in the meantime, moving on, if I could. I wanted to mention to Ms. Murray that beautiful downtown Las Vegas is important to us, because in North Las Vegas there lives one of our daughters and two of our grandchildren and a very, very attractive donkey as well as a pig, two cats, and two dogs as well. It is a very prolific family.

But in the meantime, just a few minutes away from here, is an organization in Mr. Moran's district, the Arlington Food Assistance Center just about 3 miles away. And it just occurred to me that— I am sure you experience this but all of us should think about— the work that you are about, which I think is fabulous work, can be accomplished and needs to be expanded by a lot more than just some stimulus package on the part of the Federal Government. Citizens being involved, volunteering, helping with the programs that you are about are a fundamental force as well. Some of my own staff participates in this Arlington organization, and they too are involved in providing and delivering food to thousands and thousands of people. And that work is not just commendable, it is very stimulating and exciting work. So thank you.

I am interested in having at least the Chairman bear with me a moment. He doesn't really know this, but from about the time I went to college I thought I might want to be in public affairs one day, and I knew absolutely that if I was going to be, I would run as a Democrat. And between my junior and senior year in college, I had the privilege to participate in one of the early People to People programs that preceded the Peace Corps, known as Project India. And 12 of us, together with advisers, went to India and spent 3½ months. I will never forget walking down a mud pathway and turning, just as we were going to a village, and watching a mother with her baby lying in the mud brushing the flies away, and literally we watched that child starve to death. It was that and many another experience in the world's newest and largest democracy at the time that caused me to know I would be involved in public affairs one day.

And indeed when I came back to school, knowing that, I knew I would be a Republican and not a Democrat. And I will let my Chairman guesstimate what that is all about. But in the meantime, we very much appreciate your work and thank you all.

CHAIRMAN OBEY. I would simply say that when I was growing up, I was a Republican and I converted to a Democrat. I guess what that demonstrates is the old rule of physics: To every action, there is an equal and opposite reaction. I am sorry the gentleman moved in the wrong direction, however. Mr. Dicks.

Mr. DICKS. That was very interesting. First of all, I want to congratulate each of you for your testimony, but also for your careers, what you are doing to help other people. I can remember in the State of Washington in 1969, 1970, 1971, we had a huge downturn. We lost the SST. And I was at the time working for Senator Magnuson and we had 16½ percent unemployment in King County, and people who had been engineers, who had always had a job were unemployed. So we went through this. And it was interesting; kind of the way we worked through this was we did a number of congressional—I worked for Senator Magnuson in the State of Washington, and we had emergency extensions of unemployment compensation. I think you got three of them. But this was only for States with high rates of unemployment.

Now, I am not sure you could do that in this era, Mr. Chairman.

We also then, we had direct funding for the food banks. And I was interested in your emergency food assistance program. Does that program allow for direct funding of the food banks right from the Health and Human Services?

Ms. MURRAY. Thank you, Congressman Dicks. Yes, there are food banks throughout the country. And not 100 percent of them have that direct, but most of them do. That is correct.

Mr. DICKS. So they get some money from the Federal Government to operate the food banks.

Ms. MURRAY. Correct.

Mr. DICKS. Then you add surplus commodities and food stamps. Now, most States, you only could have one or the other program, you couldn't have both. Is that still the rule?

Ms. MURRAY. Do you know, Congressman Obey knows this because he has visited our food bank. Our food bank is 11 months old, so we do not currently have any of those items that you just outlined. So the 10 million pounds of food that we have achieved this year just have been through sheer donations; and so we are looking forward to our strategic plan in 2009 to be able to add those items that you just mentioned.

Mr. DICKS. But can a State now have both a food stamp program—I think in those days, this is a long time ago, you either had a food stamp program or you had a surplus commodity program, and, in other words, to deal with the problem. But now I think you can have both?

Ms. MURRAY. Yes. That is correct. Yes, you can.

Mr. DICKS. So what else? Now, the WIC program—and I know these are all programs that the Chairman's committee is responsible for—does a fantastic job of making sure they are adequately funded in terms of what we can do with the reality of the situation.

Ms. MURRAY. Let me just tell you that we are grateful for the funds that we have through programs like WIC and TEFAF and CSFP. But what has happened, though, even though the funding is good, with the huge growing numbers of people who need help, we just can't keep up. So when you look at food stamp—and I was sorry that Congressman Ryan isn't here because I know he did the Food Stamp Challenge—is that with the new Farm Bill people now on food stamps will get $1.33 per meal. And so even though we are grateful for that, it just needs to be more, because the suffering that is going on is just so great.

Mr. DICKS. Let me ask you this. You talked about the school lunch program and it is at 50 percent. I have many schools in my district—and you mentioned one that was 100 percent—that are 70 percent. So I am very sensitive to what you are talking about. But, again, there is some limit to the funding for these school lunch programs.

And you talk about the weekends, and I love your pack program where you can take these packs home and they can help their family help themselves. What would you recommend there? I mean, what should we do in terms of the meals that are provided at the school, through the school system; and what do you do about the summers? That is another part of the situation.

Ms. MURRAY. Thank you so much for asking. As food banks, what we do is we work to understand where the children are who are food insecure, and then we look at tackling it in a very strategic way. So with the weekend program, we know how to get BackPacks in their hands so that they can have the bags of food for the weekend. Those same children often struggle with food in the summertime, and there is a program, the Summer Food Service Program, (for which we as food banks do get reimbursement from the Federal Government, which comes to the State which comes to us. However, with most of my colleagues in the food banking world, it is not nearly enough. The money that we get reimbursed isn't enough to cover it. So what we do is we raise money from donors so that it is a partnership; that if the Federal Government is helping to give some funds to the State, of which we get some at the food bank and it is not enough, we believe that we just all need to do it together. And if we are raising funds and you are helping and the States are helping, that is the only way we are going to get through these tough economic times is if we are all in it together, which I believe we are.

Mr. DICKS. So it isn't just infrastructure alone. You have got to deal with the human element of this crisis, besides—and we all want to do infrastructure. I don't like the idea of just sending checks back to people and saying, You go spend the money. To me, I would rather see us do infrastructure, but have a response to these very legitimate social needs of the people that are going hungry.

I mean, I think we made a pledge to ourselves during the Johnson era that we were not going to let people be hungry in this country. And yet what you are telling us is that that in fact is happening today. So I just congratulate you on your work.

Andre Agassi, by the way, is a friend of mine, and he has come here to Washington to help us with the Washington Tennis and

Education Foundation. You couldn't have a better person to work with.

Ms. MURRAY. We are so happy to have him in our State. Thank you, Congressman.

Chairman OBEY. Does he give you free lessons?

Mr. DICKS. It is beyond me. I am beyond hope.

Chairman OBEY. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman, for bringing this excellent panel of really outstanding American women to testify and become a part of our record.

I have two sets of questions, one for Dr. Baum, if you could just think about this while the other witnesses are testifying. I understand that the dropout rate across our country in colleges is at least half, and in many community colleges where the economy is not good, upwards of 75 percent. And my question is really, as we look at increasing Pell Grants and doing what we must in this arena, are there private companies that are targeting these dollars at the expense of students who then drop out? And what can we do about it?

I have heard figures as high as 75 percent dropout rates, where companies benefit and churn the Pell Grants, and with open enrollment, then students go to another school perhaps. So I have a question about the efficiency, the quality, and what happens to the student, as well as the existence of the program itself.

But in the food arena, I serve on the Agriculture Committee. I am passionate about agriculture. I know several things about our government. Number one, Federal programs do not integrate well at the community level. That is number one.

Number two, we do not often use Federal subsidy dollars to spur opportunity, certainly in the food area.

And thirdly, we do not use Federal dollars to create sustainable food systems and improve nutrition. It is not just food, it is nutrition that is so important, with just unbelievable rates of diabetes now and obesity among our population.

And I also believe that there is no neighborhood in America that is poor. I know that there is income poverty many times and personal poverty, but it is a question of how we use those subsidy dollars. Are those dollars going in a given neighborhood for income—whether it is a veteran's check, a Social Security check, are they going to a payday loan company, or are they going into a community development credit union that could augment what you are doing?

So these are views that I hold. And in the food arena, we are particularly bad at turning food subsidy dollars into opportunity. Several members of our subcommittee, including Congressman Jackson of Illinois, Congressman Farr of California, I, Congresswoman DeLauro, are very interested in how to use Federal dollars, to use food subsidy to spur opportunity. And let me just mention this and see how you react.

First of all, how can we use Federal dollars in this program to deploy food technologies that are advanced? For example, 12-month-out-of-the-year Hoop Houses to engage some of the residents in producing their own food, including in inner-city areas.

Number two, the expanded use of community gardens in communities across this country which can be picked to the ground for free. How do we work with our botanical gardens and others to do that, including in urban areas, where technology with drip irrigation and with aquaculture can now produce protein and excellent vegetables at a very reasonable price.

How do we use gleaning across this country in Michigan, in Ohio at a much expanded rate with processing in order to provide canned goods and year-round food that we are now plowing under? A third of the production in this country is plowed under. How do we use these Federal dollars more creatively?

And finally, how do we use the EBT transfer mechanism for our food stamps, the electronic benefits transfer machines, to empower local people setting up farmers markets and food production sites even in the heart of our cities where we have food deserts now.

I am interested in the dollars. With rising prices in the food stores, my greatest fear is that, yeah, we can increase the amount of money in food stamps, but that does not mean you create empowerment or you use dollars going into communities wisely so that people are not perpetually poor, but we, rather, use food production as an economic opportunity in some of the poorest communities in our country that are absent supermarkets, that are absent community development credit unions, that are absent ways of helping themselves improve their lives.

And let me just say in one neighborhood in my community of Toledo, Ohio, very close to Michigan, just one building of 146 people that are mentally ill, elderly, fragile people, in one year $1.4 million comes into that building in the form of income from Federal subsidy alone. Where do those dollars go? They go up the street to a beer distributing place because there is no place for them to cash that check. That particular site could have a Hoop House, it could have an electronic benefits transfer machine working with other high-rise buildings in the area. We could produce food in the heart of the inner city and employ local people raising their own food.

I would like you to react to that as you think about how we can make the food system help create opportunity and not just be a permanent subsidy trying to beg product from others. I know there is a transition that has to occur. But that is the part of the food system that excites members like myself.

I will let Dr. Baum comment and then the two representatives of community action.

Chairman OBEY. I would ask them to be very brief, because the gentlewoman has almost reached the end of her time.

Dr. BAUM. Thank you. I am glad that you raised the question of graduation rates, because we as a society have done much better at providing access to higher education, despite all the gaps in access, than we have in helping, supporting students through to graduation.

There are a variety of explanations, and the data are, first of all, quite poor, because it is very difficult; some people go to college and take a class, and that is all they wanted to do, and then they are counted as dropouts. But part of this has to do with people's academic preparation, part of it has to do with not having enough money.

You are asking questions about certain types of institutions. And we know that in all sectors of higher education there are some institutions that do a great job, and then there are, unfortunately, a few institutions that do not. And certainly there have been institutions in the for-profit sector that have been found to be abusing Federal funds, but many of them also provide very high-quality educational opportunities to students.

In terms of a solution, my proposed solution for that, which actually was articulated by a study group that I recently headed with foundation funding as well as help from The College Board, a group of scholars and public policy experts, we proposed that institutions should actually get a subsidy, a campus-based subsidy based upon the number of low- and moderate-income students that they not just enrolled, but that they helped to progress and graduate so that they would have funds that would help them to provide mentoring services, emergency funding, and so on. And they need to be pushed to see students through, not just to enroll those students.

Ms. MURRAY. Thank you.

The first thing that came to my mind is, I would love to be able to have much longer to talk to you because these ideas are brilliant. But just to answer in a very brief period of time, I will share with you the idea of wrap-around services, what you described of having the EBT and other services, food produced all in one hub. I love it.

What we are doing in Las Vegas, our university is the University of Nevada-Las Vegas, UNLV. They are studying our ZIP codes to understand where are the hungry people and where are there pockets where they have no grocery store, no nonprofit agency, and no church. And what we are working to do then is strategically put hubs into those neighborhoods to get our fresh produce there.

So, as an example, we have 55 grocery stores in our valley that have food that in 48 hours will expire. We have trucks on the road Monday through Friday picking that food up, and the grocery stores get the tax write-off, and we get fresh food and we deliver it. We are going to be delivering that fresh, perishable food, which is meats and cheeses and produce, for free to these hubs because of a donor who has said, I want to do this.

So I love your idea about the wraparound services, about the EBT, about having all of those things in different pockets to effect change, and I would love to be able to have more than this time limit to further discuss it with you, Congresswoman.

Ms. KAPTUR. I would welcome that opportunity, and a number of my colleagues would as well.

Ms. MURRAY. Thank you.

Ms. KREUCHER. I think those are great ideas as well. And sometimes I wonder if part of the issue is not what is being reported, because we may be reporting kind of in a siloed way for funding that we get from the Federal Government about a project.

For example, in the revitalization project we are working in, we are looking at putting a supermarket in a neighborhood that does not have one. And we would probably use a small amount of CDBG or CSBG money as we are working to pull that together. But much of it would be private investors, and so we might not be reporting up in a way so that you are gathering the full impact.

Ms. KAPTUR. I hope you become a partial owner in that, and then you can fund your organization. You will not need Federal subsidy anymore over the years, really, when you look at the amount of food dollars that go into these neighborhoods.

Ms. KREUCHER. Actually, that is true. We run the WIC program in one of our counties. And so we have instituted a farmers market as a piece of it, just as a little kind of economic development project for them. I mean, we have it in our parking lot and open it to the community, as well as the WIC participants, to be able to get vegetables and food.

We have community gardens at a neighborhood resource center, but I am not sure how they are all being reported up, because there may be a very small percentage of Federal dollars that are involved, even though it may be a Federal project to start with.

So we may need to take a better look at that to make sure that you are very well informed of what we are all doing.

Ms. KAPTUR. Thank you.

Chairman OBEY. Thank you.

Mr. Olver.

Mr. OLVER. Thank you, Mr. Chairman. And I want to thank the panel for your truly fine testimony today. And as one of my fellow colleagues previously, I think, has suggested, it would be wonderful if this kind of testimony would be available to every person, this kind of interaction that we have been able to have would be available and used by every Member of the Congress.

Each of us, as Members, has a multiplicity of community action agencies and food banks. And, for instance, I myself have five community action agencies covering the territory of my district, and two food banks that cover central and western Massachusetts, a small State in area, and dozens of farmers markets. And the work you do in those areas is really and truly very important.

You have reminded me that the programs that you are describing grew out of the war on poverty, basically, which may be forgotten by younger members. I am at an age where it is possible to remember quite back into that range.

And we are in danger of a really severe and long recession here, and that will inevitably produce, if it comes to pass in its full form, a great increase in poverty, a huge increase in poverty, in the number of poverty families in this country. And it is heartbreaking to see that happen—after such real progress was made in the last third of the 20th century at reduction of poverty, to see that happen before our eyes. So what you are doing is very important indeed.

And I just want to say that I, who follow the trajectory much more like the chairman of the committee, as he described it earlier—I would just like to say that I am a very strong supporter of all of the programs that you have been talking about this morning, this afternoon.

I did want to just make an observation and a brief question. I am not really going to go through—I am having a good time listening to what your answers are to other people here and learning more and more by it. But I do want to just mention for Dr. Baum that Pell Grants, just a little bit of the statistics which—I bothered my staff here; I have gotten up a couple of times, you may have noticed.

We will have—in this 2009 fiscal year, we will have issued something like 17 billion of Pell Grants. And, yes, we do need more and we should do more. No question. You stressed the Pell Grants, but the student loan capacities that are out there, the student loan values, the sum total of student loans that are extant now are something like $500 billion worth of student loans outstanding. And the yearly volume of student loans is roughly four, or a little bit more than four times, four to five times what the Pell Grant value is.

And I just want to ask you, are we now yet seeing any statistics at all about what the student loan market is or is not? Just really for the fall loans, we were pretty much before the crash in credit, but when there are renewals of student loans for a second semester or subsequent semesters, there must be quite a problem with the credit crunch.

Do you have any insights as to what is happening there and what we should be watching for?

Dr. BAUM. Well, all of the evidence is that the efforts that Congress and the administration have made to assure the availability of Federal student loans have been successful. A few lenders have gone out of business, it is true, but there are other lenders making these student loans. Many schools have joined the direct lending program because of concerns about the availability of student loans from banks.

The credit crunch is having a significant impact on the private student loan market. These are loans that maybe about 10 percent of undergraduate students take. Those who borrow do borrow a lot of money from these programs, and many of them are finding that those funds are not available.

But this is a very separate issue, and my personal belief is that we would be much better off if students had all the funding they needed through their own income, savings, and assistance from Federal and State governments and they borrowed through the Federal Government and not through private loans, because these loans can get people into significant trouble. They do not have as favorable terms, they do not have good protection.

So the Federal loans appear to be—I mean, I am sure we will find some individual students who run into some problem, but Federal loans are available. And I think that Congress has done a good job of making sure that is the case.

Mr. OLVER. Thank you very much.

Chairman OBEY. Mr. Hinchey.

Mr. HINCHEY. Thank you very much, Mr. Chairman. And thank you very much for this hearing. I think it has been very, very interesting.

And all three statements that you delivered to us were fascinating and very, very important; and I am deeply grateful to you for taking the time to be here. What you are focusing on, among other things, of course, is the need to improve human capital, and through three essential elements: education, nutrition, and income. These are the most fundamental things that we have to deal with.

And we have been dealing with some very adverse circumstances here over the course of the last number of years. What we have to do here in this Congress now with this upcoming new administration is, stop the damage that has been done and reverse it, go back, start making progress, start moving this country in the right direction.

Oddly enough, there are such a number of people who for some mysterious reason are opposed to internal investment in our own country. They are in favor of spending money in a lot of reckless ways, but they do not want to spend it here to improve the circumstances in our own Nation—a real mystery to me, but nevertheless it seems to be the case.

I would just ask you, if you could, all three of you, just tell us individually what you think should be the main focus of our attention and what you think we should do in the context of these next 2 years.

Ms. MURRAY. Congressman, lives are being impacted and people are hurting; and I do not know any other way to describe it other than through what I see with the children and with the seniors and the families. And people who have never been unemployed before have been laid off and are suffering.

And so when you go to meet in January and you look at what to pass with the economic stimulus package, we just really humbly ask you to be swift, to be aggressive, and to provide all the help you can. We realize that we have a responsibility on our end; if we as food banks and we in our State are not doing everything we can do to trim and to be creative and to fund programs, then we are not doing our job.

But we are. We are being creative. And we ask you to be as generous as you can be. Because it is human beings, it is children and seniors who are suffering. And we will only do this if we all do this together.

Dr. BAUM. I think it is very important that we provide short-term relief and also that we think about our recovery in terms of the long-term implications of it.

So, clearly, people have to be healthy and nourished in order to survive and to get through and to be productive citizens; and that is of primary importance. But, fortunately, if we give money for short-term relief to people who really need it, that from an economic perspective is money that people will spend immediately, and that has the biggest impact. It has to be given to people who will spend it.

But we also have to be thinking about—I think the infrastructure direction is terrifically important. It will provide jobs. It will have an impact in the long run. And again, I would reiterate that that includes both physical and human infrastructure, and making sure that people have the opportunity both for quality elementary, secondary education, and for access to higher education; and training is a critical part of this effort.

Ms. KREUCHER. It is really hard to choose in times like this, but, you know, we talk about being investors in people and being investors in our neighborhoods. Clearly, that is what Congress is doing, making those investments.

When I look at poverty, I do not think there is any question that education is the number one pathway out of poverty. We are a Head Start grantee, we are very deeply engaged in and believe in early childhood education as the way to start. And I think the quality of our school systems is tremendous. I think every child should be able to go to college. I think that is going to solve many of our long-term problems.

But at the point where we are at right now in this country, I also think there has to be a hardy investment in economic development. I am looking at it through the lens of Michigan. We have many people who have been working people their entire lives, but there needs to be the creation of work for them as we move forward, providing education and some other long-term supports so that we can choose our new technologies and our new path for the future. That is going to be very, very important for us.

Mr. HINCHEY. I just thank all three of you for the insight you provided and the help you are giving us. Thank you very much.

Chairman OBEY. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chair.

And to the three of you, thank you very much for your work. I guess I was listening to the kind of work that you do and how you respond to our questions, and it just struck me that you are partly exemplifying the kinds of teachings that are found in the Book of Ruth, where you go out and you use your talents gleaning the fields. But what you are gleaning are the different kinds of philanthropic programs that are out there, government programs, and bringing them together for the purpose of helping those who need the help.

And when times get bad, it seems like there is even less help out there. And so I was wondering whether, over these years that you have been doing this work, have you ever thought of the question, are there other ways that we can sustain this kind of effort, the kind of efforts that you are involved in on a daily basis when times do get tough?

Because when times get tough, resources become more scarce, as you have described. But it is at that time when resources have to at least maintain themselves or increase a little bit. In the past, I guess we used to pool our wealth for the common good of others so that they could make it through.

But as a government, as a society, what are some of your thoughts that if I only—if we only could persuade people to change the way we do things, this is what I would like to see so that we could sustain this kind of effort? Because a recent study just indicated that—a study that we had led—that among developed countries, the United States is the one that leads in poverty and in the gap between the wealthy and the poor. And you are the ones that are helping people make it.

But I am just wondering about my question, whether you have any thoughts about that or some vision of how it can be done better.

Ms. KREUCHER. I would like to say that there are many community action agencies that are really leaders throughout the country that have done much work in developing for profit subsidiary corporations that have subsidized the work. I think it is important. Things have been changing dramatically in our universe in the last 5 years. I think there is much more fee-for-service-type work. There is much more entrepreneurial kinds of activity.

I will give you an example. One of the programs we run is home weatherization and energy. There is a lot of time and energy being spent right now in talking about how we can move forward with renewable energies, how we can make low- and moderate-income neighborhoods more sustainable with renewable energies. There is an amazing amount of entrepreneurial activity out there right now in working with families that are upper-income families that may be able to pay for some of these services that will help subsidize the work that we do for the lower-income families, which I think makes a lot of sense.

There are also private investors out there, and I know California has a great project that is getting ready to start with Morgan Stanley, with solar roof panels, that is a wonderful example of really entrepreneurial work that is going to boost the property value of homes, make energy sustainable for low-income families and be doing it with private investment dollars that are recouping their investment basically from carbon tax credits and incentives from State and Federal Governments.

So I think there are plenty of examples out there, and I think it is the wave of the future.

Mr. HONDA. Taking it perhaps another step, if there are ways that moneys can be saved, perhaps through the technology, some of that money can be an income stream for public access funds for groups like yourself, so that when this technology works 24–7, is part of creating revenue 24–7, a portion of that should probably go into a particular fund.

I was just wondering if that is something else that might work.

Ms. MURRAY. Congressman, that is an excellent question. Two things to your point and your question is that an endowment fund—we are working so hard right now to raise the operational funds to keep our food bank going and to raise funds for our new kitchen, but the best process is to have an endowment fund so that when times get tough the endowment fund is producing revenue.

Additionally, for non-profits, it is just so smart for any of us to try to find something that can provide recurring revenue. Paul Newman was one of the greatest examples I can think of, in that, for his foundation, he sold salad dressing. And there is something—I know in my arena of food banks there is something we can do to have recurring revenue coming in.

So with the combination of endowments, a secure set of funds that produce revenue whether times are good or bad, and recurring revenue projects is what we are looking at doing. Thank you.

Mr. HONDA. Thank you.

Chairman OBEY. Thank you.

Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair. Mr. Chair, I think there has been a lot of statistical information that was given in the introductory remarks by our three panelists, but quite often we refer to percent of poverty. Percentage of poverty, even to most Members of Congress, they could not translate that into what is an actual salary, income level for a family of one, two, three, or four.

So, Mr. Chair, I think especially with the advantage that we have at times of having America view and listen in on these important conversations that we are having, I would ask the Chair if we could maybe look at using numbers and dollars rather than percentages in the future to make the hearing more relevant in the information that is presented to people who might be listening. Just a suggestion.

I have kind of three things, and I am going to be really brief:

Pell Grants. Pell Grants, wonderful, fully support them. What we found in doing some research, though, quite often the Federal Government would increase Pell Grants and States would turn around and decrease their support of financial aid by the exact amount, because then it was a win-win for them. So if we were to increase Pell Grants, I would ask you if you think that there need to be strings attached; or if the States decrease their amount of financial aid by that amount, should they not be eligible for a Pell Grant increase in the future? Because if that is really to be an investment and increase from the Federal Government, an investment, then in my opinion it needs to truly be that, an investment.

And then I would ask the other two panelists—and thank you so much for your testimony—when a child comes to school hungry, goes home hungry, is worried about the next meal, whether there is going to be a roof over their head, or whether they are going to see a doctor, or a sibling sees a doctor if someone at home is really, really sick, how successful should we expect that child to be at school? How accountable should we hold that school? How accountable should we hold ourselves as a community?

I have heard, you know, the testimony about all the wonderful volunteers and needing to have more volunteers. But maybe if the two of you—and Doctor, you might have some personal stories to even share with us, because I am going to wrap up here so I can listen.

I have been out visiting some food shelves and food banks, seen a lot of empty shelves, talked with a lot of staff, staff that has looked at maybe having to be laid off because of shortage of dollars coming in, volunteers who for years either helped with Christmas funds for the Toys for Tots-type of examples, drove for Meals for Wheels, stocked food shelves; they are now on the receiving end.

Could you share with me a little more about what you are hearing and seeing out there—and without asking you to, personally, maybe have someone feel uncomfortable if they are listening to this testimony—some personal anecdotes you could share with the committee?

Ms. MURRAY. Thank you, Congresswoman. First to your first item, I agree with using the dollar figures instead of the percentages. So to start with the BackPack program, the children that were in that school, their families have an income level of $20,000 or less for a family of four. And that school has 100 percent of the children. But I agree that it is a better descriptive term.

In terms of children and test scores and ability to learn, let me share with you one chickenpox story. So one of the children also that was at this school that I visited, the teacher said that when the child had chickenpox for 2 days and had to stay home from school there was no food at the home, and so the child reached out to the teacher and said, “Can I come back? I have no food. I need to come to school to get the meals.”

And so how accountable should we be holding people? It is tough. When parents are laid off, it is not a reason for it, but for some reason children get the brunt of what is going on in the economy. When a parent is suffering, the child is the innocent one that does not have the ability to get the food.

So I think it is inherent on all of us, whether it is us representing our organizations or you in Congress or folks in our States to work on this together. It is that important.

And what we have are some tests that are being done now by our university partner to show the results of what is happening when children have a consistent supply of food. And what we think will happen is, we think that it will show that test scores will go up, that attendance will be better, that there will be less violence in the schools, and that all the bad factors will go down.

Just one quick example to keep my story short is, we recently had a volunteer session with some executives from MGM Mirage, and we always invite some of our clients to come in and just join in together because we are all in this together. Two of the clients that came in were from homeless teen shelters, and they spoke about what they are seeing. So one beautiful 17-year-old girl said, "Well, my mother was laid off. There were five kids, I was the oldest, so she asked me to leave."

The other girl that was with her to provide testimony, just because I like to have our volunteers and our community leaders understand who is getting the food we provide; the other young woman said—I asked her what her biggest challenge was, and she said it is the anger. She said, "My father also just left me and abandoned me. We are angry, and we go to school or we go into our lives and we have so much anger that we have to control."

So what I am looking at is just a single focus of food. If I can make sure that we are providing that one basic element of food and we can eliminate that from what people are worrying about, then social services and education will be so much better if kids have food.

So it is a huge challenge. And, again, the only way I know that we are going to come through this is if all of us are in it together at a local level, at a State level and a Federal level. The problem is so severe that if all three entities are not in it together, I worry what will happen to the kids if we do not get this under control.

Thank you.

Dr. BAUM. I will address that Pell Grant question.

First of all, there are 50 States with 50 different State grant policies. And in most of them, certainly getting a higher Pell Grant does not diminish the State grant that you will get.

We have seen State grant funds for students rising very rapidly over time. There is a problem that an increasing portion of those dollars are going to students who do not have financial need. And I think that is a very big issue, because right now there are—you know, everybody is struggling, but there are some people who really cannot afford to pay and others who use that money, extra money, for other purposes and would go to college anyway.

In States that have need-based State grant aid, the focus is the people who cannot afford to pay.

I do think that the Federal Government has a role in providing incentives for States. I would not attach strings to Pell Grants; that would complicate the program and make it problematic. The Pell Grants have to be for students.

However, there is a small, federally funded LEAP program that provides matching funds to States for need-based grants. That has over time deteriorated because there is hardly any funding. I think it is totally appropriate for the Federal Government to provide matching funds to States for need-based aid where they provide the incentive for the States to give the money to students who really need it, and there is, of course, considerable overlap between the Pell Grant recipients and recipients of other need-based grants.

Many States do provide aid farther-up-the-income-scale than Pell Grants. And we all know that there are families with incomes above $45- or $50,000 a year who do need some assistance. So I think it is not clear that the State grants have to match the Pell Grants, but certainly it is appropriate for the Federal Government to provide incentives for States to both maintain and increase their State grant funds to students and to make sure that there is an incentive for those funds to be appropriately targeted to the students who need them.

Ms. MCCOLLUM. Thank you.

Ms. KREUCHER. I will also mention numbers. When we look at a family of three, when we look at the Federal poverty level, that is $17,600. So, frequently, when we are enrolling children in our Head Start program, which would often be a single mom with two children, that is their income cap, $17,600.

We talked earlier about encouraging changing eligibility requirements for many of the programs to what we call 200 percent of poverty level, in the business, that is really $35,200. And a family making $35,000 a year is generally still making some compromises in just getting through paying their basic needs. So what we call poverty really does not have a lot to do anymore with what it really takes to live in the community.

I wanted to mention, kind of starting at your last question, which was about layoffs of people that were working in organizations; and I think when I mentioned that education is the primary pathway out of poverty, that certainly counts with the staff that we have as well. There was a time in the early days of Community Action and Head Start that probably 60 percent of our employees were former Head Start parents. The idea was, you brought people in from the neighborhood, taught them how to teach children, and then they were hired and became child educators.

Well, now things are really different. Now the majority of our Head Start teachers have college degrees, many of them have ZA endorsements for teaching certificates. And sadly, but true, the first people when we have to cut back that get laid off, just as with any other organization, I think, are those who are the least skilled and have the least education, because requirements are changing everywhere. And I think that is a problem.

We, as an organization, do a lot with providing tuition reimbursement and everything we can to support families in doing that, but it is a changing world with education as well.

As far as children—we run the Head Start program—it is devastating. We see so many families in tremendous need.

We have been involved in research projects with the University of Michigan and Michigan State University about nutrition, weight gain, obesity, all kinds of things using Head Start children. And it has been very interesting that those are all very positive. And the structure of a Head Start classroom and the meal structure does seem to decrease, demonstrate a decrease in weight gain and obesity problems. A full-day classroom seems to have even more gains than a part-day classroom, because we know children for a longer period of time in the day are getting better nutrition.

I am an advocate. I think, when I look at schools, I know that teachers and others are struggling with trying to reach academic requirements and dealing with tremendous needs in the family. I am a supporter of school-based health clinics, because I do think that that does help.

When I was a kid, we had nurses and we had social workers, and the schools really had a lot of support.

And I am not quite sure how we can help children. I do not want to tag the, you know, responsibility onto the school district. But at the same token, we do know that if children are not healthy and are not eating well and do not have appropriate brain development when they are really little, their odds of success are going to be much slimmer.

Chairman OBEY. Thank you.

Mr. Lewis, you wanted to comment?

Mr. LEWIS. Thank you, Mr. Chairman. We are about to wrap this up, but I want all of you to know that we are very appreciative of the work that you are about.

Ms. Kreucher, fabulous responsibility and job.

Dr. Baum, we appreciate very much your efforts as well.

And, Julie Murray, you will hear more from me somewhere out there.

In the meantime, Mr. Chairman, I want them to know that we may have some questions for the record. And if the witness could try to be responsive and come forward in a timely fashion We would appreciate it.

Mr. LEWIS. And further, just by way of our work here, because we are going to be receiving some kind of a stimulus package at some point, it may be that we will need additional witnesses and testimony.

And so, Mr. Chairman, pursuant to section 5 of the committee rules and clause 2 of Rule XI of the Rules of the House, I am invoking the minority's right to call witnesses selected by the minority with respect to the matter being discussed at this hearing. I have a letter signed by 25 of our 29 members invoking that right.

[The information follows:]

Congress of the United States
House of Representatives
Committee on Appropriations
Washington, DC 20515–6015

December 11, 2008

CLERK AND STAFF DIRECTOR
ROB NABORS

TELEPHONE
(202) 225-2771

Dear Chairman Obey,

We are deeply concerned that today's Appropriations Committee hearing was scheduled without any consultation with the Minority regarding the subject matter, witnesses, or timing.

Based on the hearing statements we have received it appears that much of the testimony will in fact address matters not in this Committee's jurisdiction, but rather, matters that fall under the purview of House authorizing committees. Further, while there has been much media discussion about negotiations between the Democrat leadership and the incoming Administration on stimulus legislation, we have yet to see any draft or submission of such a bill.

We believe the timeliness, utility, and appropriateness of today's thematic hearing is not only questionable, it politicizes the legitimate work of our Committee. And, more importantly, we believe American families and our national economy would be better served if the Committee focused instead on marking up and completing the unfinished fiscal 2009 Appropriations bills. However, we also must insist that the rights of the minority within this hearing process are upheld.

Therefore, pursuant to Section 5(d)(1) of the Rules of the Committee on Appropriations and clause 2(j)(1) of Rule XI of the Rules of the House of Representatives, we are invoking our right to call witnesses selected by the Minority with respect to the matter under consideration during at least one day of hearings.

We look forward to your prompt attention to this matter so that we can ensure the Committee fulfills its appropriate oversight responsibilities on any taxpayer expenditure intended to stimulate the economy.

Sincerely,

Jerry Lewis	James T. Walsh
Todd Tiahrt	Rodney Alexander
Virgil Goode	[illegible]
Ray LaHood	Frank R. Wolf
[illegible]	Jo Ann Emerson
Ken Calvert	[illegible]
Mike Simpson	Jo Bonner
Dave Hobson	Tom Latham
Zach Wamp	Robert B. Aderholt

Hal Rogers

John Culberson

[illegible]

Ander Crenshaw

Kay Granger

[illegible]

[illegible]

Chairman OBEY. I thank the gentleman.

Let me simply thank all three of you. You have provided spectacular testimony today as far as I am concerned, and I think you made quite clear that when we consider the kind of actions that should be taken to deal with the economic downturn that we are experiencing that it is not enough just to try to pump dollars into the economy for the purpose of raising consumer purchasing power; it is also necessary to deal with some of the human fallout that occurs. And I think you painted a very clear picture today of what some of that is.

So thank you all very much. I appreciate it.

The meeting is adjourned.

QUESTIONS FOR THE RECORD
SUBMITTED BY MR. MORAN OF VIRGINIA

RESPONSES FROM THE HONORABLE JIM DOYLE, GOVERNOR, STATE OF WISCONSIN

1. **Regarding your request to increase the so-called FMAP or federal share of Medicaid, is that a straight bailout for the states or does it have some ability of being countercyclical, i.e., help minimize the depth and length of the economic downturn?**

A temporary increase in FMAP would provide much-needed counter-cyclical assistance to states by alleviating Medicaid obligations and preventing cuts to state programs that are especially important to residents during the fiscal downturn. Because of balanced budget requirements, states typically react to downturns by cutting spending and raising taxes, which make the downturn more severe. A direct federal payment to states through Medicaid to help offset these actions, is therefore one of the most effective countercyclical actions the federal government can take.

2. **How much are you asking for FMAP and over what time period?**

We recommend that Congress appropriate a minimum of $250 billion toward countercyclical programs through FY2011, the majority being dedicated to increases in FMAP.

3. **Are you seeing any growth in Medicaid now or is it generally later in the cycle?**

In Wisconsin, Medicaid and SCHIP enrollment has increased by 73,000 individuals during calendar year 2008. Although a portion of this growth is the result of simplifying the enrollment process for low-income families and expanding eligibility for children and pregnant women, some of it is likely attributable to economic changes. We anticipate this trend to continue through at least the beginning of calendar year 2009.

4. **How large is Medicaid as a percentage of your state budget?**

Medicaid accounted for 13.6 percent of state expenditures in fiscal year 2008.

5. **Do you think a stimulus plan ought to have a fiscal assistance component for local communities? Is there any assistance which might be crucial to provide fiscal capital assistance for projects for which there is no other funding stream (such as economic development, capital grants to non-profits, water and sewer grants, and grants to public or non-profit hospitals)?**

In Wisconsin, state funds are essential to local communities' ability to provide police and fire protection along with many basic services. A stimulus plan that recognizes the needs of local communities would be very valuable for keeping people's basic expectations of government intact. Capital projects have their own value in providing jobs and investing in our future, but assistance here will not have a dramatic affect on local communities' ability to continue basic services and avoid property tax increases.

6. **With rising unemployment resulting in more uninsured, what has the effect of the current recession been on safety net healthcare providers in your state? Do you anticipate these healthcare providers will continue to see increasing numbers of patients?**

Yes, we expect that this economic crisis will create more demand for all of the basic safety nets, particularly healthcare. Hospitals in Wisconsin have reported that both charity care and bad debt have increased over 19 percent each during the first three quarters of 2008, indicating that people are having difficulty affording necessary health care. Based on a projected decline in state employment, it is likely that these figures will continue to grow.

7. **Many states have had to make tough decisions when revising their budgets; what effect has the state budget deficit had on the state-generated revenue support that traditionally goes to public health systems? Many of the safety net providers have also seen decreases in private funds because of decreased giving and pressures on other private sources of funding such as foundations. Do you anticipate that these organizations will have to cut services without an infusion of federal financial support?**

Yes, we anticipate that these organizations will have to make cuts without an infusion of federal support, and, just like state government, they will make cuts without it. We all recognize that this is a time when we will have to make careful use of our resources and find all possible efficiencies. What we are trying to avoid are devastating cuts that will have irreparable effect.

8. **What kind of vital community services will have to be cut because of your state's budget deficit? What will be the specific impact on public health programs?**

We are currently working on a state budget that does as all it can to protect our core priorities, but without federal assistance it is obvious that the cuts we will have to make in Wisconsin will be very severe and will have real and lasting effects on vital community services.

QUESTIONS FOR THE RECORD SUBMITTED BY MR. MORAN OF VIRGINIA

RESPONSES FROM THE HONORABLE JIM DOUGLAS, GOVERNOR, STATE OF VERMONT

1. Regarding your request to increase the so-called FMAP or federal share of Medicaid, is that a straight bailout for the states or does it have some ability of being countercyclical, i.e., help minimize the depth and length of the economic downturn?

FMAP is quite effective in providing stimulus. Basic economic principles clearly demonstrate the relationship between state economic activity and the national economic picture. When states face budget shortfalls, they must balance budgets by either increasing revenues or cutting spending. Both of those activities are pro-cyclical in that they prolong economic downturns. FMAP enhancements reduce the need for these actions while helping provide health services to those in need and speeding economic recovery. Noted economist Mark Zandi has testified before Congress several times that enhancements to FMAP is one of the best counter-cyclical investments Congress can make to jumpstart the economy.

2. How much are you asking for FMAP and over what time period?

The governors' position is that to achieve the maximum counter-cyclical effect, funding for a temporary increase in the FMAP should be linked to the aggregate reported state shortfall amounts, and should be between one-third and 50 percent of the total shortfalls to maximize the macro-economic effects. State shortfalls are currently estimated to be about $60 billion in 2009 and $120 billion in 2010.

3. Are you seeing any growth in Medicaid now or is it generally later in the cycle?

While the largest growth in Medicaid enrollment tends to fall later in the budgetary cycle, signs are already emerging that Medicaid caseloads are growing, with many states experiencing growth of more than 5 percent in their family and child populations in the past 10 months. The effect of this caseload growth is compounded by the increasing cost of health care, which has outpaced state revenue growth for several years.

4. How large is Medicaid as a percentage of your state budget?

While the actual proportion of state budgets that is consumed by Medicaid varies, on average it represents 22 percent of total state expenditures. In Vermont, Medicaid accounts for 28 percent of our state budget and 23 percent of Vermonters are covered by a Medicaid program. It has been growing faster than state revenue growth for many years, and has been consuming larger and larger proportions of state budgets. Medicaid's growth forces it to compete for scarce state resources with education and public safety, typically the other two largest categories of state spending.

5. Do you think a stimulus plan ought to have a fiscal assistance component for local communities? Is there any assistance which might be crucial to provide fiscal capital assistance for projects for which there is no other funding stream (such as economic development, capital grants to non-profits, water and sewer grants, and grants to public or non-profit hospitals)?

Investments in ready-to-go infrastructure projects are a cost-effective creator of high-paying jobs and these investments should include a broad array of infrastructure projects including highways, broadband, transit systems, clean water, sewers, airports, and perhaps environmental and higher education infrastructure. States should be given the flexibility to determine where their dollars would provide the most effective stimulus. Governors also welcome the opportunity to work with you on the details of the infrastructure provisions to target high priority projects, reduce the bureaucratic red tape and obligate and expend funds quickly.

6. With rising unemployment resulting in more uninsured, what has the effect of the current recession been on safety net healthcare providers in your state? Do you anticipate these healthcare providers will continue to see increasing numbers of patients?

The safety net is the default system of care for the tens of millions of low-income individuals and families with no or limited health insurance as well as more than 59 million Medicaid beneficiaries. While remarkable in its reach, this safety net system is not uniformly available throughout the country. It is a patchwork of institutions, clinics, and physicians' offices, supported with a variety of financing options that vary from state to state and community to community.

Even in good economic times, the safety net system is not financially secure, though it has continued to survive. In fact, many safety net providers already see patients at a loss (whether due to charity care, or low reimbursement rates). Caseload growth will certainly put additional pressures on the health care safety net. It becomes harder for safety net providers – who themselves are feeling the pinch of the recession – to take on greater workloads of patients with no or low reimbursement. As noted above, while the largest growth in Medicaid enrollment tends to fall later in the budgetary cycle, signs are already emerging that Medicaid caseloads are growing, with many states experiencing growth of more than 5 percent in their family and child population in the past 10 months. The effects of this caseload growth is compounded by the growth in health care costs, which have out paced state revenue growth for many years.

7. Many states have had to make tough decisions when revising their budgets; what effect has the state budget deficit had on the state-generated revenue support that traditionally goes to public health systems? Many of the safety net providers have also seen decreases in private funds because of decreased giving and pressures on other private sources of funding such as foundations. Do you anticipate that these organizations will have to cut

services without an infusion of federal financial support?

States do not have the option of running deficits. In fact, 49 states have balanced budget requirements and in the 50th state, my own state of Vermont, the legislature and I work diligently together to ensure our budget is balanced. As states seek to fill the budget gaps, they undertake comprehensive reviews of all programs to determine the most efficient use of taxpayer funds. In doing so, governors and lawmakers are making tough decisions that may have an impact on public health programs. In Vermont we have already enacted significant rescissions for SFY 2009 and for SFY 2010, we are requiring departments to develop budget submissions that reduce General Fund appropriation requests by an additional 13 percent. Vermont is working hard to address this downturn and we are currently looking at all options to reduce expenditures. These reductions, however, will undoubtedly impact state services, including those services supporting Vermont's most vulnerable citizens.

States are continuing to do what they can to ensure critical public health services are available to those most in need. Over the course of its development, this fiscal crisis has taken many new, unexpected turns and its impact continues to ripple through many sectors. Reports are emerging that some charitable organizations, including health care safety net providers, are facing shortfalls in their charitable donations. As noted earlier, safety net providers often see patients at a loss (whether due to charity care, or low reimbursement rates). These providers are themselves feeling the pinch of the recession and it becomes harder for them to take on greater workloads of patients with no or low reimbursement. A temporary increase in FMAP would reduce the need for pro-cyclical actions by states and help bring the national economy out of recession sooner. In turn, enhanced FMAP can lessen the negative effects of the recession on safety net providers and the people who receive their health care services from them.

8. What kind of vital community services will have to be cut because of your state's budget deficit? What will be the specific impact on public health programs?

As states seek to fill the budget gaps, they undertake comprehensive reviews of all programs to determine the most efficient use of taxpayer funds. In doing so, governors and lawmakers must make tough decisions that can affect public health programs. Vermont is consistently ranked among the healthiest states with the lowest uninsured population. Public health programs have a direct impact on our community and are responsible for health and well-being across a broad spectrum of areas. Unfortunately the severity of the current recession may require states to cut spending in all areas, including public health services. As we look to balance the budget in Vermont, all programs are currently on the table.

QUESTIONS FOR THE RECORD SUBMITTED BY MR. MORAN OF VIRGINIA

RESPONSES FROM THE HONORABLE JON S. CORZINE, GOVERNOR, STATE OF NEW JERSEY

1. Regarding your request to increase the so-called FMAP or federal share of Medicaid, is that a straight bailout for the states or does it have some ability of being countercyclical, i.e., help minimize the depth and length of the economic downturn?

With the worsening economic downturn facing our nation and our State, Medicaid enrollment will continue to increase. Currently, many of our local County Welfare Agencies are experiencing long lines and overwhelming delays due to the increase in individuals and families needing assistance.

Increasing the Federal Medical Assistance Percentage (FMAP) will allow New Jersey to fund the Medicaid program and the anticipated increasing enrollment. Without this additional funding, the State would be faced with the difficult decision of terminating benefits or, worse, terminating eligibility at a time when more people are going to need these services. It is important to understand Medicaid serves a highly vulnerable population, i ncluding our aged, blind, and disabled, who have many chronic conditions. Clearly, an increase in the FMAP will help minimize the impacts of the economic downturn.

2. How much are you asking for FMAP and over what time period?

The State of New Jersey is requesting at least an 8% FMAP increase over two years, or $1.5 billion.

3. Are you seeing any growth in Medicaid now or is it generally later in the cycle?

Medicaid enrollment has increased by 15% since December 2005. In the past 6 months, enrollment has increased almost 5%. Our local County Welfare Agencies determine eligibility for many of the programs of the New Jersey Department of Human Services, and these agencies have already seen increased volumes to the point of lines out the door and the need for people to return another day due to limits on the administrative capacity. From January 2008 through November 2008, all County Welfare Agencies have experienced an increase in caseloads. For example, Atlantic County had a 35.4% increase; Camden County had a 21.8% increase; Hunterdon County had a 22.1% increase; Middlesex County had a 29.4% increase; and Sussex County had at 13.5% increase.

4. How large is Medicaid as a percentage of your state budget?

Medicaid is 11% of the State's budget.

5. Do you think a stimulus plan ought to have a fiscal assistance component for local communities? Is there any assistance which might be crucial to provide fiscal capital assistance for projects for which there is no other funding stream (such as economic development, capital grants to non-profits, water and sewer grants, and grants to public or non-profit hospitals)?

Yes, it would be extremely beneficial if the stimulus plan included assistance for local communities to address revenue shortfalls faced by municipalities and the capital needs of local governments. There have been state, county, and local funds used in the past to support economic development as well as water and sewer projects, for example, but those funds are in jeopardy given the fiscal crisis the State and our communities are facing. Similarly, hospitals in New Jersey need assistance to move forward on construction projects and major equipment purchases that are at risk of being postponed due to the uncertainty in the credit market. To address credit and liquidity issues, New Jersey hospitals have suggested some form of federal guarantee for loans or mortgages that secure bonds issued by state and local healthcare financing authorities for new hospital construction projects and major equipment purchases.

6. With rising unemployment resulting in more uninsured, what has the effect of the current recession been on safety net healthcare providers in your state? Do you anticipate these healthcare providers will continue to see increasing numbers of patients?

Federally qualified health centers and other primary care safety-net providers are seeing increased numbers of patients. We expect this trend to increase sharply as employer coverage is reduced.

Safety-net hospitals are facing not only increased utilization by the uninsured but also reduced utilization by insured patients. Insured patients are deferring elective procedures due to cost-sharing burdens in the poor economic climate. This generates intense fiscal pressure on safety net hospitals.

7. Many states have had to make tough decisions when revising their budgets; what effect has the state budget deficit had on the state-generated revenue support that traditionally goes to public health systems? Many of the safety net providers have also seen decreases in private funds because of decreased giving and pressures on other private sources of funding such as foundations. Do you anticipate that these organizations will have to cut services without an infusion of federal financial support?

NJ Medicaid Fee-For-Service utilization at Federally Qualified Healthcare Centers (FQHCs) during the last 4 months of 2008 has increased by nearly 30% when compared to the same period in 2007. The number of unique Fee-For-Service Medicaid individuals utilizing these services has increased by nearly 34% when comparing the same time periods. It is expected that these trends will continue to

escalate as the State and the nation's economy continue to struggle and more individuals look to safety net providers to access needed healthcare. Providers that are reliant on public funding will be forced to evaluate maintenance of services if State and federal funding does not keep pace with the demand.

New Jersey relies on Medicaid to support community health centers, hospital outpatient clinics, outpatient psychiatric care, and a strong mandate on private hospitals to provide inpatient care to the uninsured. Both mid-year cuts to the current FY 2009 budget and cuts to the State's FY 2010 budget are currently in process, so the tough decisions referenced in the question are still to be finalized. The size and nature of federal stimulus, in particular an increase in the Federal Medical Assistance Percentage (FMAP) and an increase in our Disproportionate Share Hospital (DSH) cap, will be a significant factor in our ability to maintain a minimally adequate level of subsidy for care of the uninsured.

Furthermore, safety-net hospitals are facing reduced private donations, sharply higher borrowing costs, and dramatic losses in their pension and foundation funds. New Jersey is working with bonding agencies and regulators to manage these pressures on hospitals. But these efforts can only go so far without alleviating the underlying cash flow problem by ensuring adequate direct reimbursement for care of the uninsured and for care of Medicaid beneficiaries. New Jersey needs federal help to be able to prevent cuts to safety-net hospitals at a time when they need increasing support.

8. What kind of vital community services will have to be cut because of your state's budget deficit? What will be the specific impact on public health programs?

Even with a sizable federal stimulus package, we anticipate potential cuts to vital health care programs. These include cuts to cancer education and research programs, stem cell research, our Early Intervention program, and other public health surveillance and education functions. Additionally, the State's budget difficulties will make it difficult for the State to support our safety-net providers, including hospitals and community health centers, at levels they need to maintain their services.

The State of New Jersey is facing an immediate budget cash flow crisis and will experience great difficulty in balancing our State's budget without significant cuts, including programs run or funded by the New Jersey Department of Human Services. These include vital programs for people who rely upon Medicaid for healthcare coverage and those with developmental disabilities or mental health needs. Cuts to these and other programs not only impact the health and welfare of our most vulnerable residents, but they also reduce vital funding to our community providers, who supply direct care to individuals served by the Department.

9. Most of the attention this morning has been on "shovel ready" infrastructure -- roads, bridges, water projects etc. I would like to turn your attention to

another investment area --the rehabilitation and preservation of affordable supportive senior housing so that seniors can age in place and perhaps savings down the road in Medicaid and Medicare as we prevent premature admission to nursing homes or repeat hospitalizations. Could you provide this committee with estimates of the number of affordable housing properties, including Section 202 and other subsidized properties that could be renovated and preserved if funding were available for rehabilitation grants or gap financing for refinancing now that the credit markets are so stressed. And if possible could you provide estimates of foreclosed multifamily properties that could be redeveloped as affordable supportive senior housing in your jurisdictions if funding were available?

Such estimates are not available at this time.

QUESTIONS FOR THE RECORD
SUBMITTED BY MR. LEWIS OF CALIFORNIA

Responses to Questions for Dr. Baum, Senior Policy Advisor to the College Board and Professor at Skidmore College

- *As an employee of Skidmore College – one of the top 20 most expensive institutions in the country in terms of tuition, room and board according to BusinessWeek – and an expert on access to higher education, what steps is Skidmore taking to control tuition increases?*

  Since I am not an administrator or a representative of the College, I am not in a position to provide an answer to this question myself. I will provide an official response from Skidmore College as soon as it is available.

- *Are there any cost-control models at other institutions of higher education you think can be replicated across the country in order to ensure low-income students can afford to continue their education?*

  Institutions across the country are searching for ways to reduce the cost of providing quality higher education and it is imperative that they succeed. Too many of the cuts being made in this time of financial crisis are temporary measures that cannot be sustained over the long run without seriously diminishing educational opportunities.

  The best cost containment strategies will change the basic costs of doing business. Many colleges are increasing their cooperation with other institutions to avoid duplicating all programs and services. Further work on using technology to reduce the cost of effective instruction is necessary. Examination of administrative and student service operations is also likely to be productive.

  The financial aid strategies being employed by the most selective private colleges and universities in the country do not provide a model that can be followed in most institutions. The number of institutions with large endowments was small even before the recent decline in asset values. Few schools can continue to provide quality educational opportunities while supporting students to prevent them from borrowing or providing free tuition to a large group of students. This is of course particularly true for institutions that enroll large numbers of low- and moderate-income students. A focus on need-based aid is important for all institutions, but generous state and federal support will continue to be required to assure widespread access to higher education.

- *In your opinion, are there any other strategies universities can employ independent of Federal programs to control costs or otherwise expand access for low- and moderate-income students?*

There is no question that higher education will continue to be expensive and that the price will continue to rise more rapidly than average prices in the economy. The reality is that the only way to provide access to low- and moderate-income students is to assure adequate financial aid. Colleges and universities themselves provide about twice as much grant aid as the federal government does. The most important direction in this area is assuring that the institutional aid is directed at those with limited ability to pay, rather than being directed towards increasing selectivity and competing for more talented students.

Cost containment is vital. But in examining the impact of college prices on access to higher education, it is important to focus on the net price that students pay in an environment where individual students receive very different discounts. It is also important to consider the wide variety of educational experiences available to students in the United States. Forty percent of full-time students in public four-year institutions (and 29 percent of full-time students in all four-year institutions) attend colleges and universities with published prices under $6,000 per year. The average tuition and fees at public two-year colleges are $2,402 in 2008-09.

House of Representatives Disclosure Requirements

Please provide the following information:

- *A list of all Federal grants, subgrants, contracts and subcontracts received by the College Board in fiscal years 2007, 2008, and 2009 (to date).*
- *A list of all Federal grants, subgrants, contracts and subcontracts received by Skidmore College in fiscal years 2007, 2008, and 2009 (to date).*

As I made clear in my testimony, I was representing only myself as an individual and an expert on higher education finance. I identified myself as associated with both Skidmore College and the College Board because those associations clarify my qualifications to speak as an expert. I did not, however, ask either of these organizations for approval of my statement, nor did I in any way consider their interests in composing my testimony.

While I am confidant that both of these organizations have the requested lists and would be happy to supply them on your request, I do not have the information in my possession. I believe that since I was not representing them, it would in any case be inappropriate for me to provide that information on their behalf.

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