

# Leveraging Stimulus Funds for the State of Washington



Discussion document

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## Where we are coming from

### Understand both public and private sector

- Unique ability to **bring both public and private sector perspectives together**
- Large and rapidly growing **public sector practice**; over 200 local, regional, and federal agencies in the United States alone; deep expertise and experience
- **Serve 70% of Fortune companies** to make lasting and substantial improvements in strategic, operational, and organizational issues

### Significant investments in research

- Own **internal, independent economic think-tank** – the McKinsey Global Institute –has published groundbreaking research for more than 15 years on important public issues, including productivity, healthcare, capital markets, offshoring and energy
- **Built proprietary research on impact of ARRA stimulus** for public and private sectors, including health care, education, energy, and high-tech/telecom

### Current work underway

- Currently engaged with private companies, state governments, and local agencies on developing strategies and processes regarding ARRA
- See [www.bayareaeconomy.org/recovery](http://www.bayareaeconomy.org/recovery) for the Bay Area example

## Overview of federal stimulus package

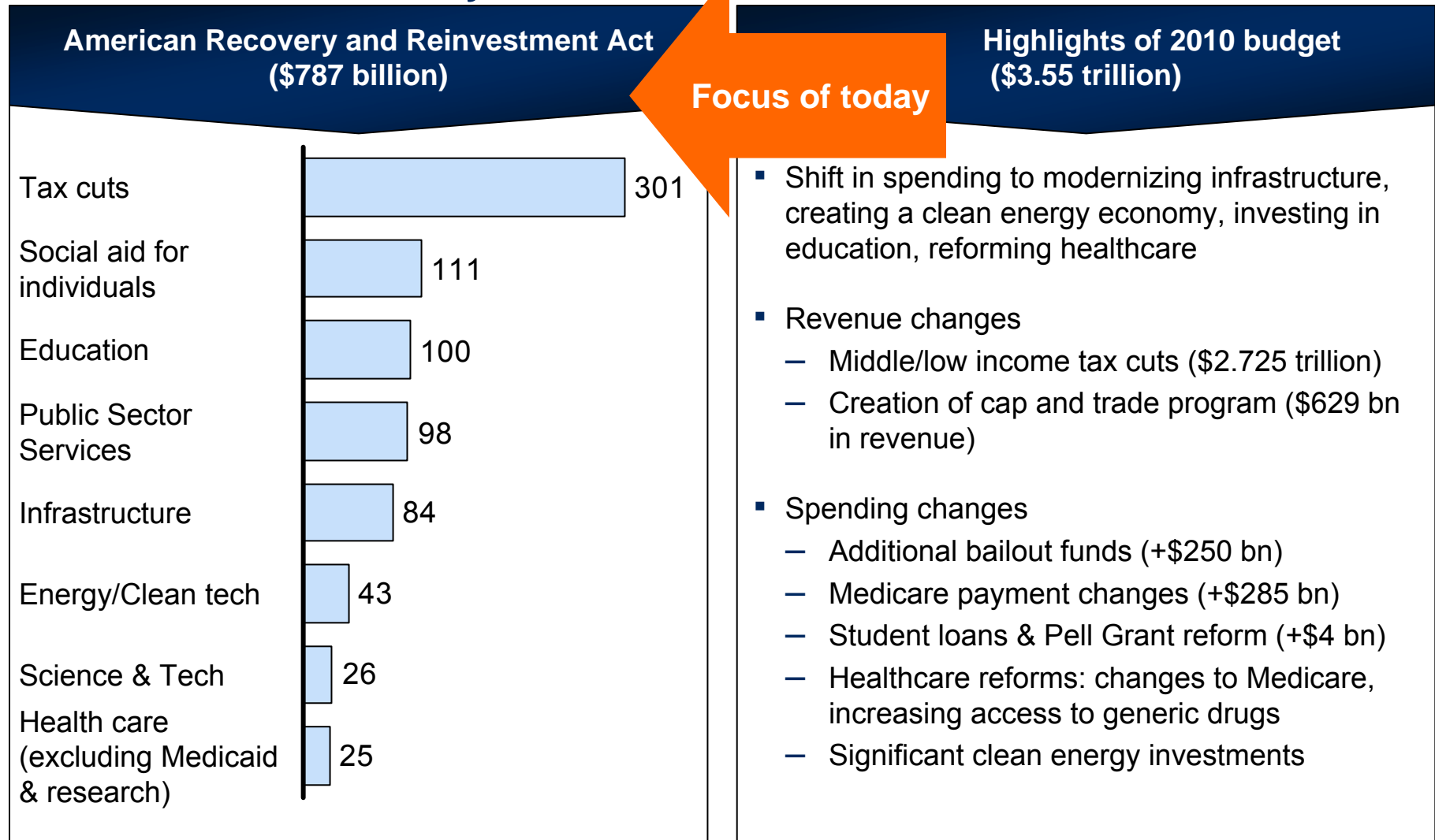
### **U.S. stimulus package will be \$787 billion, including spending and tax breaks**

- The total value of the stimulus is approximately 25% of U.S. federal spending in fiscal year 2008
- Stimulus represents more than 5% of U.S. GDP for fiscal year 2008
- Nearly 75% of the stimulus will be circulating in the economy by September 2010
- Stimulus contains tax cuts, payments to U.S. state governments, payments to individual citizens, and direct federal spending on construction, equipment, research, and other goods/ services

### **Washington State is estimated to receive \$10.4 Billion in stimulus money**

- Largest chunk (\$4.2 Billion) expected to go towards tax cuts (e.g., child tax credit)
- Beyond tax cuts, \$2.8 Billion is expected to go towards protecting vital services and having public sector jobs (e.g., State fiscal stabilization, Medicaid)
- \$1.7 Billion is expected to go towards helping workers hurt by the economy (e.g., training, public housing)
- Though WA falls in the top 15 states in absolute stimulus amount to be received, WA is in the bottom 10 in terms of percent of Gross State Product and stimulus dollars per capita

# The Stimulus and 2010 budget are making significant investments in key areas of the US economy

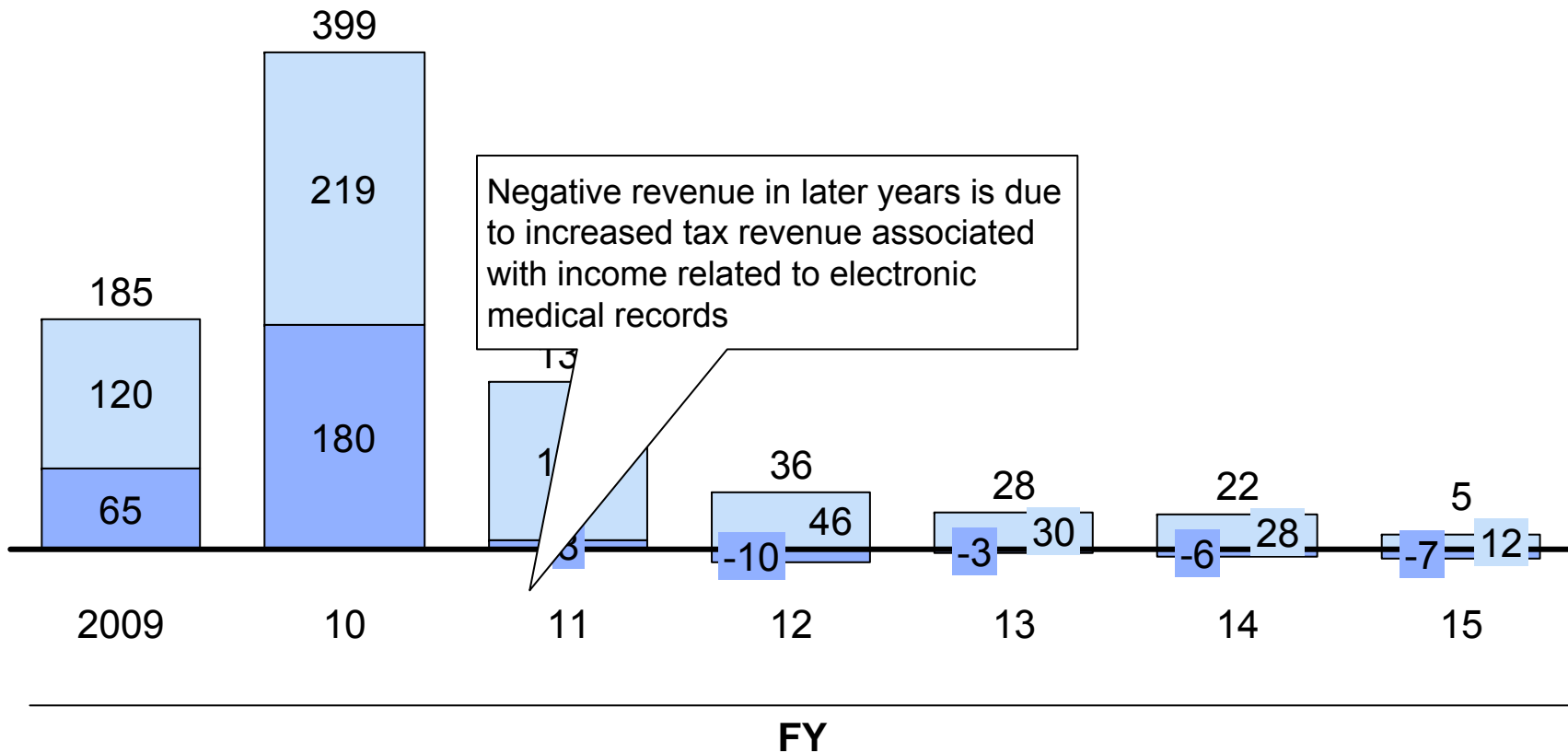


# Over 70% of U.S. stimulus package will be spent within the first 2 years, creating a perishable opportunity

■ Spending  
■ Revenue<sup>2</sup>

Estimated outlays and revenue impact of the stimulus package<sup>1</sup>

\$ Billions



<sup>1</sup> Static scoring


<sup>2</sup> Includes tax credits, accelerated depreciation provisions, tax-free bonds, unemployment and other benefits, health insurance for unemployed workers, and health information technology incentives; negative in some years due to accelerated depreciation and benefits of electronic medical records

# This spend will have significant impact on critical sectors of our economy

NOT EXHAUSTIVE

## A Energy

- Govt. has allocated \$43+ bn for energy-related funding including research, and over \$100b in total spend
- Areas of focus include:
  - Cap-and-Trade
  - Electricity grid
  - Renewable energy




## B Healthcare

- Expanded health coverage
- Faster access to generic drugs
- \$19 bn for adoption of electronic medical records




## C Education

- \$100B in total spend
- \$48.6B in aid to states for education and modernization in K-16 to stabilize and reform education
- Additional \$5B in competitive state grants for "Race to Top" and innovation in education



## D High Tech & Telecom

- \$7 bn for expanded broadband access
- First step in national broadband plan due in 2010
- Other HT sectors likely to benefit from grant specific HT spending (>\$60B in HT related spend)



## A Objectives and elements of Obama energy policies

### Objectives

**Create millions of energy-related jobs**

**Reduce dependency on foreign oil by 2-3 mm bbl/day**

**Reduce GHG by 80% below 1990 levels by 2050**

### Legislation

#### Stimulus package (ARRA)

- Feb 17, \$ 787 billion
- Key elements:
  - Energy efficiency, renewables, advanced vehicles
  - Loans for clean energy
  - Tax credits, incentives

#### Energy bill (pending)

- Expected intro April 2009
- Elements likely to include
  - Federal RPS
  - Energy efficiency std.
  - Federal consumption
  - Transmission corridors

#### Climate bill (pending)

- Could be introduced as early as mid-2009
- May be joined to energy bill
- Likely to center on cap-and-trade scheme

#### Obama budget

- 8 proposed tax changes that specifically target the domestic E&P industry in 2012
- Likely \$5-12/bbl impact

## **B** Significant investments in Health IT are expected to transform the healthcare industry



- **SCHIP** (pre-stimulus): **\$32 bn** to expand **coverage of children** of low income workers
- **ARRA: \$25bn in Health IT; \$127 bn in other health care-related funding**
  - \$25 bn **Health IT** funding to providers and states through Medicare and Medicaid incentives and create national health information exchanges
  - \$87 bn increase in federal match for **Medicaid**
  - \$25 bn subsidization of **COBRA** premiums
  - \$10 bn increased NIH funding – including **research grants** for cancer, heart disease, Alzheimer's
  - Additional funding for **comparative effectiveness** research (\$1.1 bn), **wellness and prevention**, and **community health** programs

**The \$25B in health IT investments is expected to transform clinical management industry, creating a \$175B industry over the next decade**

## **C** Department of Education has mission to reform and transform education through use of ARRA funds while addressing short-term funding gaps

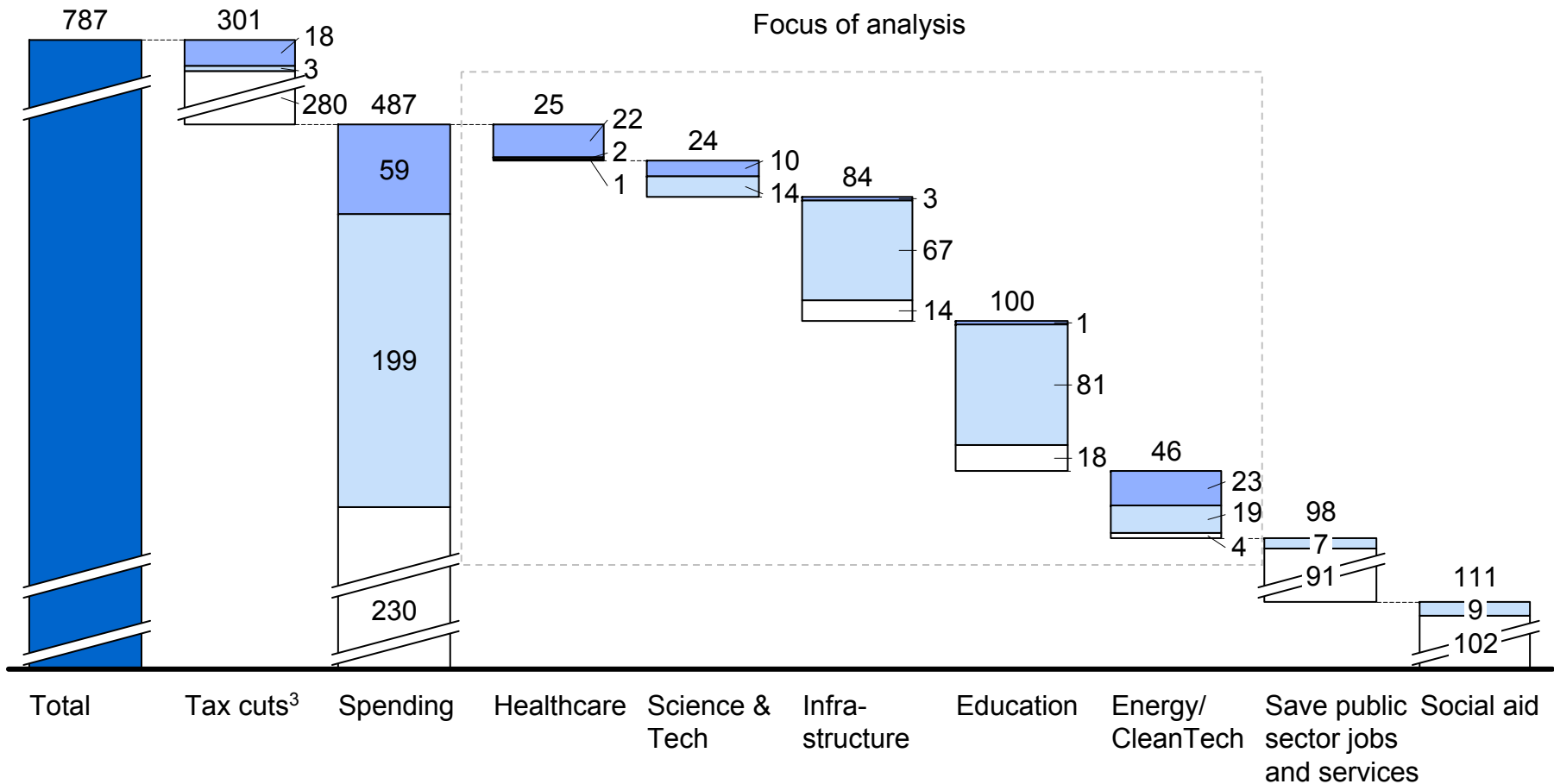
<b>Objectives</b>	<b>Details</b>
<b>Speed &amp; Economic Impact</b>	<ul style="list-style-type: none"><li>▪ Over \$100B in total spend, most of which is to assist cash strapped states and students</li><li>▪ Most funds must be spent within 3 years (“use it or lose it” riders), with goal of saving/creating jobs</li></ul>
<b>Transparency and Impact</b>	<ul style="list-style-type: none"><li>▪ Strong accountability stipulations and frequent reporting requirements, including impact on student outcomes and teacher effectiveness</li></ul>
<b>One Time Investments</b>	<ul style="list-style-type: none"><li>▪ Funds available for only two to three years– therefore must be invested in ways that do not result in unsustainable continuing commitments</li></ul>
<b>Advance Reform</b>	<ul style="list-style-type: none"><li>▪ States/local education agencies must work to close the achievement gap through:<ul style="list-style-type: none"><li>– Improved college/career-ready standards/assessment</li><li>– Improving teacher effectiveness and support</li><li>– Education data tracking systems</li><li>– Intervene and support in poorest performing schools</li></ul></li></ul>

# D Over \$60B of ARRA spend has direct high-tech implications, with \$200B of indirect benefit to the high-tech industry

## Stimulus spend breakdown<sup>1</sup>

Billion USD

- Direct technology implication
- Indirect technology implication<sup>2</sup>
- No technology implication



1 Sum may not add to total due to rounding

2 "Indirect tech" refers to the category spend that could result in tech spend. For example, new bridge/road construction spend could result in technology spend on CAD/CAM software and traffic control technology; in this case all the spend for infrastructure would be included

3 Direct and indirect technology tax cuts apply to CleanTech applications

# ARRA will create significant implementation challenges for states...

	Description
Capacity	<ul style="list-style-type: none"><li>▪ Short funding timeframes with size of dollar flows will create capacity issues for agencies to spend money effectively</li></ul>
Transparency	<ul style="list-style-type: none"><li>▪ New, more stringent accountability and transparency requirements will challenge state/local agency reporting systems in both detail and frequency</li></ul>
Coordination	<ul style="list-style-type: none"><li>▪ Hundreds of projects/sub-projects involving multiple agencies must be managed simultaneously, with cross-agency coordination challenges</li></ul>
Impact	<ul style="list-style-type: none"><li>▪ Must also track social impact including job creation and impact towards policy goals</li><li>▪ Will need to balance trade-offs between quick-spend impact and long-term investments to drive economic growth</li></ul>

*“Implemented work will exceed our bandwidth... for accounting and compliance”*  
– Governor of Colorado

*“...Absorbing the money, making sure it's spent appropriately and gets into the [right] hands . . . are going to be significant challenges*  
– Greg Friedman, IG, DOE

*“There is no question that it's a daunting task for states...”*  
– Scott Pattison, National As'n of State Budget Officers

## ...But also opportunities as significant portions of the funding are still being determined and/or will be competitive

NOT EXHAUSTIVE

### Examples

#### Education

- One-third of \$38.6B state stabilization funds will be reserved for release in round two, based on performance of spend from wave one
- \$5B in performance based grants for states “Race to the Top” fund and innovation fund

#### Broadband

- States and critical community institutions (e.g. libraries, community colleges) can apply for \$7.2B; preference for larger/state-wide grants and leveraged funding
- Multiple rounds of funding

#### Energy

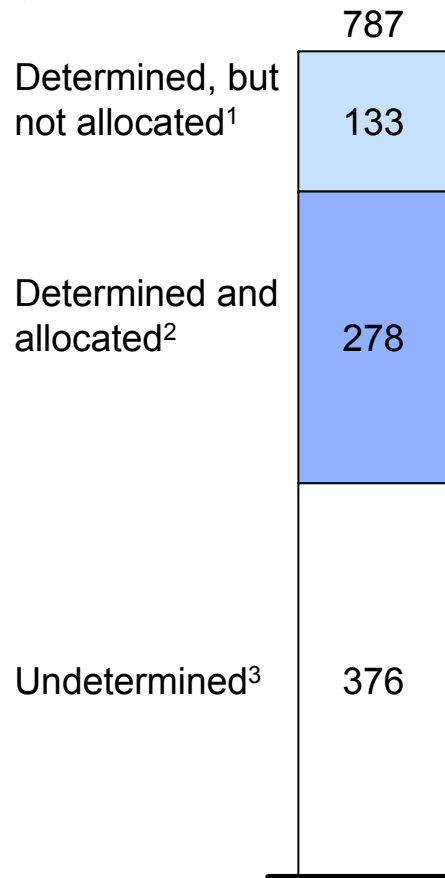
- Over \$10B in grants/loan guarantees for research and development in renewable/ alternative energy technologies, including research institutions/ universities and private companies

- **Still significant additional funding opportunities for states that execute quickly and well**
- **Stimulus funds are just the start—additional spending in key areas coming over next few months**

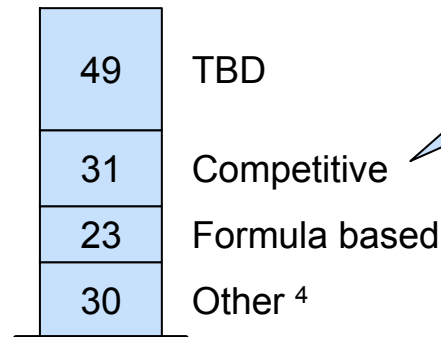
# Most federal funds disbursed to date have been formula based allocations; competitive funds remain available

PRELIMINARY

## Federal stimulus spend \$ Billion

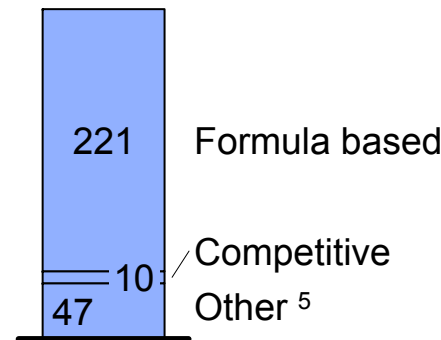


## Breakup of unallocated spend \$ Billion



This is where Washington state can increase its share

## Breakup of allocated spend \$ Billion



- So far, mostly formula based funding has been committed
  - ~80% of allocated funds are formula based
  - 90%+ of formula based funds have already been assigned
- ~60% of unallocated funds are competitive or still being categorized

1 Funds have been announced at the federal level but not yet allocated to states

2 Funds have been assigned to states

3 Expected to include tax cuts

4 Categories under Other are discretionary, incentive and loans/grants

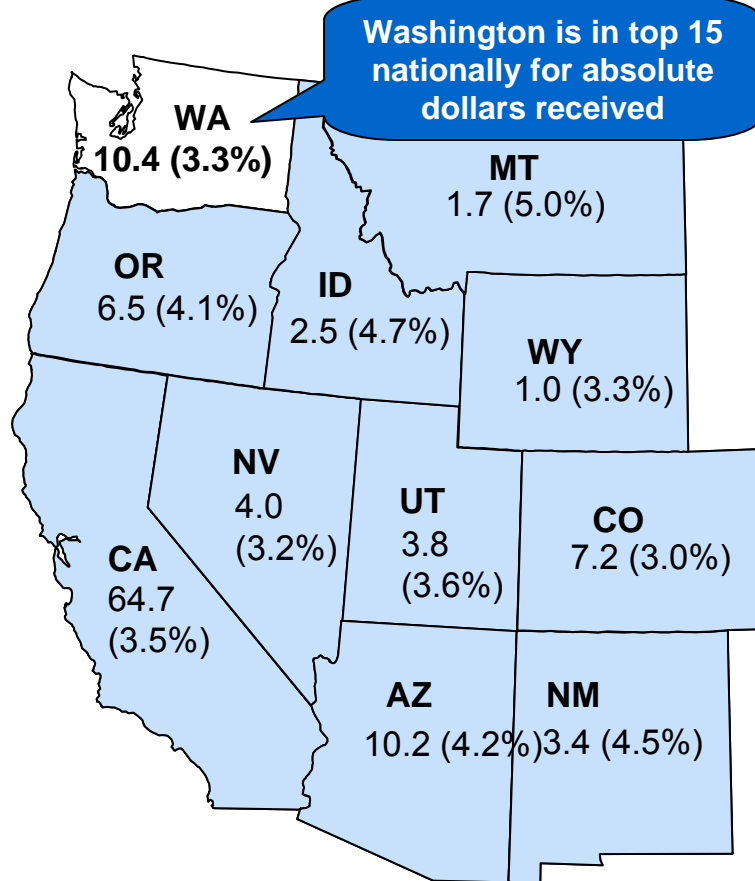
5 Categories under Other include need-based grants, block grants, discretionary, formula and discretionary, increase in allotment, and TBD

# Washington State will receive large absolute funding, but is comparatively low on a per capita/GDP basis

ESTIMATES

While WA is expected to get a large amount of absolute dollars...

\$ Billions (% of Gross State Product)



... It ranks very low on a per capita or GDP basis

### Stimulus dollars per capita (ranked)

38. Florida	\$1,602
39. Arizona	\$1,591
<b>40. Washington</b>	<b>\$1,587</b>
41. Wisconsin	\$1,577
42. Texas	\$1,564

National average \$1,721

### % of Gross State Product (ranked)

41. Massachusetts	3.5%
42. Alaska	3.4%
<b>43. Washington</b>	<b>3.3%</b>
44. Wyoming	3.3%
45. Texas	3.2%

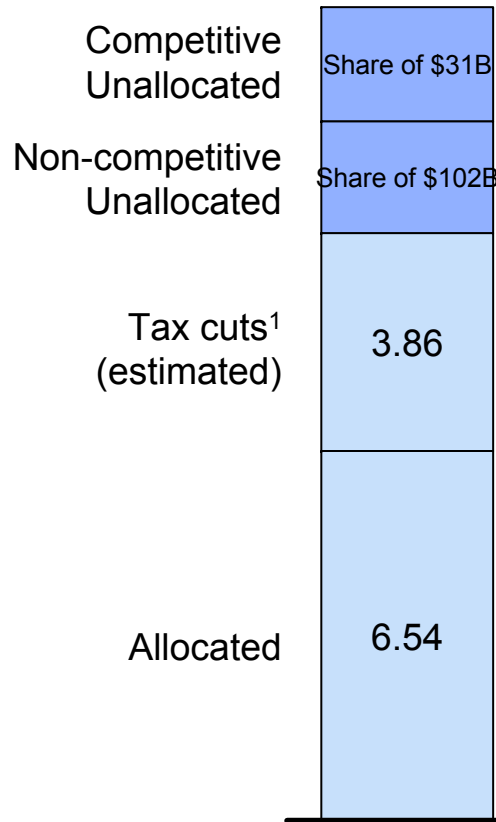
National average 4.0%

WA ranks comparatively low because money has been distributed to states in greater difficulty than WA or based on energy consumption, population, repeated weather troubles, etc.

# There is a significant opportunity to draw additional funding to the State of Washington

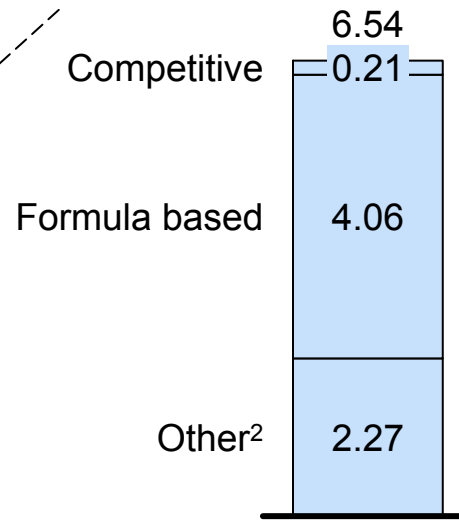
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## Projected WA funds received \$ Billion



This is where Washington state can increase its share

## Breakup of currently allocated WA funds \$ Billion



Expected funding from unallocated \$133B

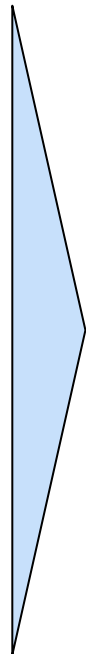
- Only a small portion of current WA funding comes from competitive programs
- The competitive portion of funds is where the biggest opportunities exist for WA

<sup>1</sup> Tax cuts under the 'Making Work Pay' and AMT initiatives

<sup>2</sup> Includes \$1.7B for cleanup of Hanford nuclear site; \$369M for need based grants, \$98M for block grants and \$80M under discretionary and formula/discretionary

# The Governor has outlined 7 key priorities, of which 4 would receive a direct boost from the stimulus

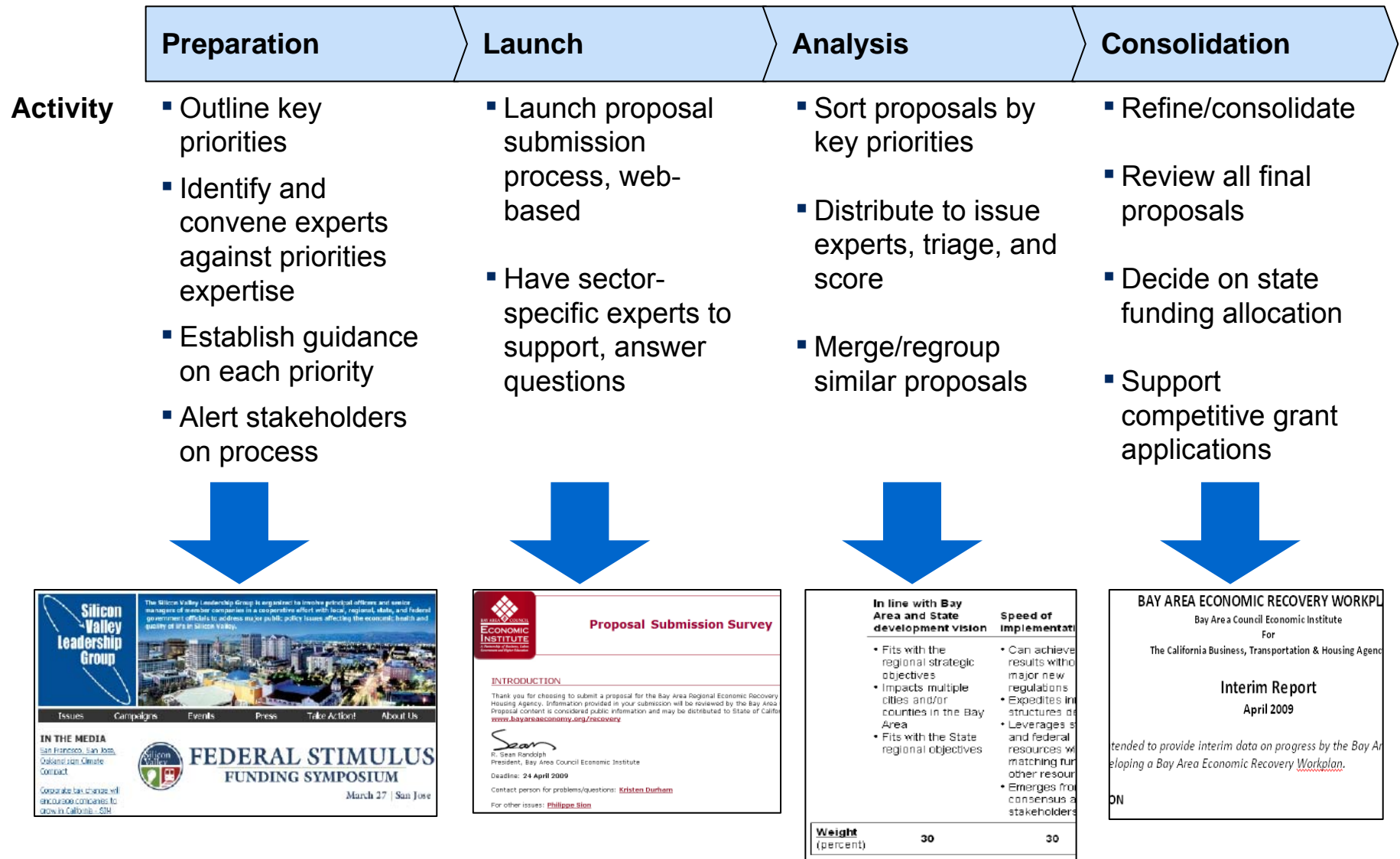
PRELIMINARY

WA key priorities <sup>1</sup>	Description	
<b>Washington Jobs Now</b>	<ul style="list-style-type: none"> <li>Jump-starting the economy through targeted investments in job creation alongside other economic supports</li> </ul>	
<b>Economic Security</b>	<ul style="list-style-type: none"> <li>Expanding opportunities for family-wage jobs and promoting business growth while maintaining the environment</li> </ul>	
<b>Healthy Families</b>	<ul style="list-style-type: none"> <li>Increasing access to affordable, high-quality healthcare and making WA one of the top 10 healthiest states</li> </ul>	
<b>Education</b>	<ul style="list-style-type: none"> <li>Creating a world-class, learner-focused, seamless education system</li> <li>Equipping highly skilled workers with right training and learning</li> </ul>	
<b>Washington's budget</b>	<ul style="list-style-type: none"> <li>Balancing the state budget through bold policy measures while maintaining essential services/care to families</li> </ul>	<ul style="list-style-type: none"> <li>Job creation, education/training, and healthcare are the common priorities</li> <li>WA state budget should benefit indirectly from Federal tax cuts and spend on infrastructure</li> </ul>
<b>Storm information</b>	<ul style="list-style-type: none"> <li>Preparing and protecting families from natural disasters such as floods</li> </ul>	
<b>Community Safety</b>	<ul style="list-style-type: none"> <li>Ensuring that families are protected against crime and natural threats</li> </ul>	

<sup>1</sup> Other priorities are Environment, Government Accountability, Energy, Agriculture, Social Services, Transportation, Veterans, Diversity, Bill Action, Trade Missions & Visitors, and Feeding Washington

# Example: The Bay Area has launched a comprehensive, coordinated process to capitalize on opportunities in ARRA

BAY AREA EXAMPLE



SOURCE: bayareaeconomy.org/recovery

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## Questions for discussion

- What strategies and processes are in place to balance twin goals of short-term job recovery and long-term investments to drive economic growth?
- What kind of public-private partnerships can be engaged in at the state level to help state and local governments leverage stimulus funding? What is currently in place? How are multiple stakeholders coordinating efforts?
- What can be done to help target competitive grants?
- What sources of funds can be leveraged in addition to the Stimulus to drive economic impact (e.g. public, private investment, universities, philanthropy)?
- How are the state/regional groups currently planning to manage the spend/ execution of stimulus funds? What processes/ systems are in place to track spend and impact and revise strategies as needed?