

OVERVIEW OF THE AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

In February 2009, the federal government enacted the American Recovery and Reinvestment Act (ARRA) to address the nationwide recession. Through FY 2012, Arizona is expected to receive approximately \$4,347,500,000 from the legislation. ARRA funding and its General Fund impacts are outlined in detail below.

General Provisions – Arizona’s allocation of increased funding through ARRA is accomplished via several mechanisms:

- Increased funding for existing federal programs, managed by existing federal agencies.
- Creation of new federal programs, managed by existing federal agencies.
- Expansion of programs, along with new funding, for programs operated by state agencies.
- Direct and indirect state budget relief. (*See Enhanced FMAP and State Fiscal Stabilization Fund narratives below and Table 4.*)

The stated goal of ARRA was to implement increased federal funding in an accelerated manner, coupled with increased accountability and reporting requirements for how these new Federal Funds are spent.

Enhanced FMAP – In order to prevent substantial budget reductions at the state level, ARRA implemented several programs designed to provide direct relief to state budgets. One of these was the enhanced federal medical assistance percentage (FMAP), which ARRA temporarily increased through December 2010. FMAP is the proportion of Title XIX costs that are paid for by the federal government.

Effective October 1, 2008 the enhanced FMAP allows Arizona to reduce General Fund support for Title XIX programs in the Arizona Health Care Cost Containment System (AHCCCS), the Department of Health Services (DHS), and the Department of Economic Security (DES) as the federal government pays a greater share of existing program costs. *Table 1* below compares historical levels of the FMAP with the recent enhanced FMAP.

<u>Fiscal Year</u>	<u>FMAP</u>
2006	67.1%
2007	66.6%
2008	66.3%
2009 (Jul – Sept)	65.8%
2009 (Oct – Mar)	75.0%
2009 (Apr – June)	75.9%
2009 (Total)	72.9%
2010	75.9%

Table 2 outlines the expected General Fund savings associated with the enhanced FMAP through FY 2010.

<u>Agency</u>	<u>FY 2009 FMAP Savings</u>	<u>FY 2010 FMAP Savings</u>
AHCCCS	\$359,648,000	\$581,861,700
DES	59,623,900	100,644,600
DHS	<u>80,728,100</u>	<u>133,171,600</u>
Total	\$500,000,000	\$815,677,900

While ARRA permitted Arizona to realize savings by reducing General Fund support for Title XIX agencies, the legislation imposed several requirements in order for states to qualify for the enhanced FMAP. These provisions are as follows:

- Political subdivisions (e.g. county governments) may not pay a greater share of program costs than they did as of September 30, 2008.
- Eligibility standards, methodologies, or procedures may not be more restrictive than those that were in effect as of July 1, 2008.
- A state must comply with prompt pay requirements.
- Enhanced FMAP savings may not be credited towards a state’s Rainy Day Fund.

During FY 2009, Arizona made several statutory changes in order to comply with the Enhanced FMAP requirements in ARRA. These changes include:

- Reversed a change in the AHCCCS redetermination period (Laws 2009, 1st Regular Session, Chapter 4)
- Reduced County ALTCS Contributions (Laws 2009, 3rd Special Session, Chapter 3)
- Additional County Refunds to Maintain ARRA Compliance (Laws 2009, 3rd Special Session, Chapter 3)

(*See the “Legislation to Comply with ARRA” section of the AHCCCS section on pages 28 and 29 for more information.*)

State Fiscal Stabilization Fund – ARRA also implemented the State Fiscal Stabilization Fund (SFSF), a program which distributed monies to states through a population-based formula. In total, Arizona will receive \$1,016,955,200, which must be obligated within 2 years of receipt. The state is scheduled to receive the first two-thirds of SFSF funds in mid-2009, while the remaining one-third is scheduled to be disbursed in the fall of 2009. ARRA requires that Arizona’s allocation be distributed as follows:

- Education Stabilization Fund - 81.8% for the support of elementary, secondary, and postsecondary education, as well as early childhood education programs/services.
- Government Services Fund - 18.2% for public safety and “other government services”.

Education Stabilization Fund - Arizona is expected to receive \$831,869,300 for the Education Stabilization Fund. ARRA requirements focus on 2 major areas:

- Maintenance of Effort (MOE) - Arizona must certify that it will maintain “state support” at least at the level found in FY 2006 for both the K-12 system and the higher education system as a whole. For the purposes of complying with MOE requirements, ARRA treats K-12 and the higher education system as 2 distinct entities; both must be at or above their FY 2006 funding levels.
- Restoration Amounts - Arizona must use these funds to restore “state support” for K-12 and higher education to the levels of spending in FY 2008 or FY 2009, whichever is greater. For restoration purposes, K-12 and higher education are treated as 2 distinct entities as well. If insufficient funds exist, ARRA outlines a formula whereby the remaining funds are distributed between K-12 and higher education proportionally.

Fiscal Stabilization Fund Implementation

K-12 (FY 2009) – For primary and secondary education, ARRA requires that states only consider the amount of state funds provided through “primary and secondary education funding formulae.” For Arizona, this has been interpreted to mean Basic State Aid (BSA) and Additional State Aid (ASA) payments to school districts. It does not, however, include funds distributed from the Classroom Site Fund. (*Please see the Arizona Department of Education Formula Programs section for more information*).

The initial calculation for the distribution of Education Stabilization funds was based on Arizona’s BSA/ASA funding level after the 1st Special Session revisions. At this point, BSA/ASA funding was above the actual FY 2008 level. Therefore, Arizona was under no obligation to restore past reductions made to the K-12 system.

However, the state was free to make additional reductions to our funding formulae and backfill these reductions with ARRA funds. Laws 2009, 1st Regular Session, Chapter 5 required that “if this state receives federal assistance from the federal education stabilization fund,” \$(250,000,000) was reduced from the Arizona Department of Education (ADE) FY 2009 appropriation and transferred to the General Fund. For technical reasons, Arizona did not receive any education stabilization funds in FY 2009, and the \$(250,000,000) reduction was not triggered.

K-12 (FY 2010) – The FY 2010 budget (SB 1188, as amended by HB 2643) originally presumed \$(222,114,000) of savings by reducing ADE’s FY 2010 appropriation and backfilling this reduction with ARRA funds. This provision was line-item vetoed by the Governor.

In order to compensate for the lost FY 2009 savings, Laws 2009, 3rd Special Session, Chapter 11 included a \$472,114,000 “cut and backfill” for ADE (\$250,000,000 + \$222,114,000). While this reduction was signed into law, the Governor line-item vetoed a reference to using the funds for FY 2010 expenses, presumably to keep flexibility in using the funds to pay for expenses from multiple years. As a result, the tables in the *Appropriations Report* only reflect the initial \$(222,114,000) reduction since the full use of \$472,114,000 in FY 2010 is unclear.

Higher Education (FY 2009) – When calculating the restoration amounts for the higher education system, ARRA requires states to only consider “state support,” which is defined as:

- Direction appropriations to Institutions of Higher Education (IHEs).
- May not include support for capital projects or research and development; or tuition and fees paid by students.
- Financial assistance may be considered “state support” when the assistance is appropriated directly to IHEs.

In total, Arizona’s state support for IHEs following the 1st Special Session revisions was \$1,058,069,900. This consisted of \$920,390,100 for the University system and \$137,679,800 for Community Colleges. However, total state support for IHE’s in FY 2008 was \$1,240,879,200; therefore, the higher education system was entitled to approximately \$182,809,300 in stabilization funds to restore past reductions. The amount of \$182,808,000 was disbursed for FY 2009.

The \$182,808,000 in FY 2009 restoration monies were distributed as follows: \$28,671,000 to the Community College system and \$154,137,000 to the Universities. (*See the “ARRA” narrative of the Community Colleges and Arizona Board of Regents sections for more information.*)

Higher Education (FY 2010) – In addition, the FY 2010 budget assumed \$10,000,000 of savings associated with reducing the University system’s appropriation and backfilling this reduction with stabilization funds. Laws 2009, 3rd Special Session, Chapter 11, Section 15 enacts this reduction and states that the Arizona Board of Regents is to reduce funding to the various institutions in proportion to their State General Fund appropriations.

This legislation also states that it is the intent of the Legislature that the University system will receive stabilization funds above and beyond the \$10,000,000 backfill, should the Governor choose to allocate the funds in this manner.

The Universities and Community Colleges incurred another \$(40,596,800) in net reductions. These amounts may also be backfilled with stabilization funds, depending on their availability.

Government Services Fund – Arizona is expected to receive \$185,085,800 for the Government Services Fund. The uses of these funds are largely unrestricted, except that Arizona’s use of the funds is contingent upon meeting the MOE requirements discussed above.

The FY 2010 budget assumes \$78,900,000 of savings related to Government Services Fund by making the following reductions:

<u>Agency</u>	<u>FY 2010 Reduction</u>	<u>Reduction Area/Program</u>
ADC	\$50,000,000	Correctional Officer Personal Services
DES	17,300,000	Autism and State-only DD
DHS	<u>11,600,000</u>	Community Health Centers
Total	\$78,900,000	

In its original form, Laws 2009, 1st Regular Session, Chapter 12 and Laws 2009, 3rd Special Session, Chapter 11 included language that stated it was the intent of the Legislature that monies from the Government Services Fund be used to backfill the above reductions. These intent statements were signed into law, with the exception of the ones pertaining to the DES backfill. In Arizona, the Legislature does not have the authority to appropriate Federal Funds.

In addition, the Governor’s Office has stated their intent to use \$26,000,000 of the Government Services funds for DES caseload growth in Child Protective Services, Adoption and Children Services. In combination with the budgeted amounts, approximately \$105,000,000 of the \$185,085,800 in Government Services funds would be allocated.

**FY 2009 AND FY 2010
ALLOCATION OF ARRA FUNDS AND IMPACT ON STATE AGENCY BUDGETS**

	<u>FY 2009 Actual</u>	<u>FY 2010 Budgeted</u>
<u>State Fiscal Stabilization Fund</u>		
<u>K-12</u>		
ARRA General Fund Reduction <u>1/</u>	-- <u>2/</u>	(222,114,000) <u>3/</u>
Stabilization Fund Backfill	-- <u>2/</u>	222,114,000
<u>Community Colleges</u>		
Restoration	28,671,000 <u>4/</u>	To Be Determined
<u>Universities</u>		
ARRA General Fund Reduction <u>1/</u>	0	(10,000,000)
Stabilization Fund Backfill	0	10,000,000
Restoration	154,137,000 <u>4/</u>	To Be Determined
<u>Government Services Fund</u>		
Dept. of Corrections ARRA General Fund Reduction <u>1/</u>	0	(50,000,000)
Dept. of Corrections Stabilization Fund/Backfill	0	50,000,000
DHS ARRA General Fund Reduction (Community Health Centers) <u>1/</u>	0	(11,600,000)
DHS Stabilization Fund/Backfill	0	11,600,000
DES ARRA General Fund Reduction (Autism and State-only DD) <u>1/</u>	0	(17,300,000)
DES Stabilization Fund/Backfill	0	17,300,000 <u>5/</u>
DES Restoration (CPS/Adoption/Children Services)	0	26,000,000 <u>5/</u>
Total GF Reduction - Stabilization Fund	0	(311,014,000)
<u>FMAP General Fund Reduction</u>		
AHCCCS	(359,648,000)	(581,861,700)
DES	(59,623,900)	(100,644,600)
DHS	(80,728,100)	(133,171,600)
Total GF Reduction - FMAP	(500,000,000)	(815,677,900)
Total General Fund Reduction	(\$500,000,000)	(\$1,126,691,900)

1/ General Fund Reduction due to availability of American Recovery and Reinvestment Act funds. These reductions are taken in addition to other reductions and are backfilled with Stabilization Fund monies.

2/ Laws 2009, Chapter 5 enacted a \$(250,000,000) reduction and included an intent statement regarding the use of Federal Funds to backfill this reduction. The reduction was conditional upon Arizona receiving "federal assistance from the federal education stabilization fund". Because Arizona did not receive these funds in FY 2009, the \$(250,000,000) reduction did not occur.

3/ The budget as transmitted on July 1, included a reduction of \$(250) million in FY 2009 and \$(222) million in FY 2010 due to the receipt of the federal government's State Fiscal Stabilization Fund monies. In the September 4th budget, this amount was modified to \$(472) million since the FY 2009 savings had not been achieved. Only \$(222) million is reflected in this table, however, as it is unclear when the expenditure of Federal monies will occur. The Governor line item vetoed the fiscal year reference for when these monies would be used.

4/ These funds are calculated based on FY 2009 spending, and will be disbursed in the first half of FY 2010, and may be spent through FY 2011.

5/ Line-item veto of intent statement regarding use of stabilization funds.