

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. As of the end of calendar year 2009, Arizona has been awarded \$2,075,065,100 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.*)

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.

Although the enhanced FMAP is set to expire in December 2010, Congress may pass legislation to extend the enhanced FMAP through June 30, 2011. If the extension is approved, Laws 2010, Chapter 232 allocates these savings to the continuation of the Proposition 204 program. The FY 2011 budget display in the Appropriations Report assumes the extension of the enhanced FMAP. (*Please see the Federal Health Care Legislation section for more information.*)

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.

In addition to these savings, the federal government announced in February 2010 that it would apply the enhanced FMAP to Medicare Clawback Payments. This results in additional savings in FY 2010 and FY 2011 across AHCCCS, DES, and DHS.

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%
2011	75.9%

Table 2 outlines the expected General Fund savings associated with the enhanced FMAP and the Medicare Clawback through FY 2011.

<u>Agency</u>	<u>FY 2009 FMAP Savings</u>	<u>FY 2010 FMAP Savings</u>	<u>FY 2011 FMAP Savings ^{1/}</u>
AHCCCS	\$320,238,700	\$586,724,100	\$652,651,700
DES	57,812,900	84,648,700	85,122,900
DHS	<u>83,168,300</u>	<u>145,702,700</u>	<u>142,810,600</u>
Total	\$461,219,900	\$817,075,500	\$880,585,200

^{1/} Represents savings from the full-year extension of the enhanced FMAP.

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.

States are allowed to reduce per person benefit levels, however, as long as they comply with other federal regulations. These limitations are applicable only during the time in which a state receives the enhanced FMAP and do not apply to Title XXI populations (KidsCare), administrative services (typically funded at 50%), disproportionate share hospital payments, nor any program which already receives an enhanced FMAP.

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 was eligible to receive approximately the first two-thirds of SFSF funds in mid-2009, while the remaining one-third is

scheduled to be disbursed before September 2010. 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.

ARRA includes a process whereby a state can apply for a "waiver" from the maintenance of effort provisions, which would allow the state to spend below its FY 2006 spending level and still receive stabilization funds. However, ARRA requires states seeking a waiver to meet a separate criteria — a state's total education spending as a percentage of "total revenues available to the state" must not have declined from the prior fiscal year for the fiscal year in which the waiver is sought.

- 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, the Governor has chosen to define this as Basic State Aid (BSA) and Additional State Aid (ASA) General Fund payments to school districts and charter schools. 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.*)

While the state originally planned to use \$250,000,000 in stabilization funds to offset FY 2009 State General Fund spending, for technical reasons, however, Arizona did not receive any education stabilization funds in FY 2009. (*Please see the FY 2010 JLBC Appropriations Report -*

Overview of the American Recovery and Reinvestment Act (ARRA) section for more information.)

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.

K-12 (FY 2011) – The FY 2011 budget assumed a "cut and backfill" of \$92,800,000. The amount of this reduction that is actually backfilled may be lower, due to the limited availability of SFSF funds and the possible additional use of these funds in FY 2010.

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:

- Direct 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.

The higher education system was entitled to approximately \$182,809,400 in stabilization funds to restore past reductions. This amount was disbursed for FY 2009. The \$182,809,400 in FY 2009 restoration monies were distributed as follows: \$28,671,000 to the Community College system and \$154,138,400 to the Universities. (*Please see the FY 2010 JLBC Appropriations Report - Overview of the American Recovery and Reinvestment Act (ARRA) section 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.

Current estimates indicate that Arizona’s higher education system will receive \$83,147,900 at the end of FY 2010, with these funds being distributed as follows: \$11,398,300 to the Community College system and \$71,749,600 to the Universities. (Please see the “ARRA” narrative of the Community Colleges and Arizona Board of Regents sections for more information.)

Higher Education (FY 2011) – The budget does not include funding to the University system to restore the \$(10,000,000) reduction made in FY 2010. Current estimates indicate that Arizona’s higher education system will not receive SFSF funds in FY 2011.

Government Services Fund (2010) – 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 previously.

The FY 2010 budget assumed \$78,900,000 of savings related to the 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 Developmental Disabilities
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.

During budget discussions in 2009, the Governor’s Office stated their intent to use \$26,000,000 for DES caseload growth in Child Protective Services, Adoption and Children Services.

In addition the Governor has also made the following awards:

- \$1,700,000 – To repair the Arizona State Fair Veterans’ Memorial Coliseum roof.

- \$2,000,000 – To Teach for America for teaching training programs
- \$20,000,000 – Local public safety grants, half of which will be distributed as border law enforcement grants.
- \$10,000,000 – Job training program

Given the above distributions, approximately \$46,485,800 of the \$185,085,800 in Government Services funds would be remaining for use in FY 2011.

Government Services Fund (2011) – The budget includes no savings related to the Government Services Fund. The remaining balance may be used at the Governor’s discretion.

FY 2010 Federal Assistance Savings

Combining the impact of the enhanced FMAP and the Stabilization Funds, the budget includes \$1,339,189,500 worth of one-time savings in FY 2010 associated with ARRA. These savings are displayed in Table 4 and are distributed as follows:

<u>Agency</u>	<u>FY 2010 General Fund Savings</u>
AHCCCS	\$586,724,100
ADC	50,000,000
DES	84,648,700
ADE	472,114,000
DHS	<u>145,702,700</u>
Total	\$1,339,189,500

FY 2011 Federal Assistance Savings

The budget includes \$973,385,200 worth of one-time savings in FY 2011 associated with ARRA, which consists of reductions related to the enhanced FMAP and the ADE “cut and backfill”. These savings are outlined in Table 5 below, and are as follows:

<u>Agency</u>	<u>FY 2011 General Fund Savings</u>
AHCCCS	\$652,651,700
DES	85,122,900
ADE	92,800,000
DHS	<u>142,810,600</u>
Total	\$973,385,200

Table 6 includes information on both FY 2010 and FY 2011.

Table 6

**FY 2010 AND FY 2011
ALLOCATION OF ARRA FUNDS AND IMPACT ON STATE AGENCY BUDGETS**

<u>State Fiscal Stabilization Fund</u>	<u>FY 2010 Estimated</u>	<u>FY 2011 Budgeted</u>
<u>K-12</u>		
ARRA General Fund Reduction <u>1/</u> Stabilization Fund Backfill	(472,114,000) 472,114,000	(92,800,000) 92,800,000
<u>Community Colleges</u>		
Restoration	11,398,300	0
<u>Universities</u>		
Restoration	71,749,600	0
<u>Government Services Fund</u>		
Dept. of Corrections ARRA General Fund Reduction <u>1/</u> Dept. of Corrections Stabilization Fund/Backfill	(50,000,000) 50,000,000	0 0
Total GF Reduction - Stabilization Fund	<u>(522,114,000)</u>	<u>(92,800,000)</u>
<u>FMAP General Fund Reduction</u>		
AHCCCS DES DHS	(586,724,100) (84,648,700) (145,702,700)	(652,651,700) (85,122,900) (142,810,600)
Total GF Reduction - FMAP	<u>(817,075,500)</u>	<u>(880,585,200)</u>
Total General Fund Reduction	(\$1,339,189,500) <u>2/</u>	(\$973,385,200)

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/ The original FY 2010 budget assumed an additional \$38.9 M of one-time federal assistance savings. However, these reductions were not specifically backfilled. They include:

DES ARRA General Fund Reduction (Autism and State-only DD)	(\$17,300,000)
DHS ARRA General Fund Reduction (Community Health Centers)	(\$11,600,000)
Universities ARRA General Fund Reduction	(\$10,000,000)