

American Recovery and Reinvestment Act

Federal Assistance to Arizona

February 19, 2009

JLBC

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American Recovery and Reinvestment Act

- Overall Federal Budget Impact

	National <u>\$ in B</u>
•Discretionary Spending	\$308
•Entitlement Spending Changes	198
•Tax Reductions	<u>281</u>
Total	\$787

Discretionary Spending Totals \$308 B

	National <u>\$ in B</u>
Fiscal Stabilization Fund	\$54
Education	44
Agriculture	26
Labor/Human Services	26
Environment	11
Energy/Water	51
Transportation	61
Other	36

Key Discretionary Programs

	National <u>\$ in B</u>
<u>K-12 Education</u>	
• Title I – low income	\$13
• Special education	12
<u>Higher Education</u>	
• Increase need-based Pell grants	16
<u>Health</u>	
• National Institutes of Health	10
<u>Transportation</u>	
• Highways/Rail/Transit	45
<u>State Energy/Water Projects</u>	
• Drinking/Clean water	6
• Energy programs	11
<u>Benefit assistance</u>	
• Food Stamp (SNAP) – 13% increase	21

Entitlement-Based Spending Totals \$198 B

	National <u>\$ in B</u>
• Medicaid – Federal match rates	\$90
• Unemployment Insurance/Social Security	57
– Increase UI benefits by \$25 per week	
– One-time \$250 payment for retirees/disabled	
• COBRA coverage for the unemployed	25
– 65% subsidy for 9 months	
• Health information technology grants to modernize records	21
• Other	5

Tax Reductions Total \$281 B
- Represents 10-Year Cost
- Will Have State Conformity Impacts

	National <u>\$ in B</u>
\$400/\$800 tax reduction via withholding	\$116
Extend AMT “patch”	70
Child Tax Credit expanded	15
Renewable energy tax credit	14
Higher Education tax credit	14
1st-time home buyer credit	7
Extend bonus depreciation	6
Increase EITC	5

Arizona Impacts of Federal Assistance

Key Considerations

- Funding mostly available for 2 years
- Not designed as permanent assistance
- Assistance comes with conditions – such as maintenance of effort and non-supplanting
- Supplanting opportunity only if state currently expends General Fund dollars on that activity
- Agencies may be able to use small percent for administration

Key Caveats

- Consider Estimates Preliminary and Subject to Change

- State by state estimates still in flux
- JLBC Staff primarily used joint NGA-NCSL estimates
- Potential federal agency clarification of legislation could further revise the estimates

Two Primary Initiatives Provide Direct State Fiscal Relief

1. Reduced state share of Medicaid cost
2. Fiscal Stabilization funding

Federal Medicaid Match Rate

- Increases federal share of Medicaid costs from 66% to 75% for indigent health care programs
- Reduces AHCCCS, DES, and DHS expenditures
- Cannot lower existing eligibility limits
- Cannot increase county percent of state match
- Level of federal aid tied to unemployment rate

Federal Medicaid Matching Rate Savings

- Match Rate Temporarily Linked to Unemployment Rate
- State Will Qualify for Added Funding if Rate Exceeds 7.1%

	<u>'09</u>	<u>'10</u>	<u>'11</u>	<u>'12</u>	<u>Total</u>
Current 6.9%					
Unemployment Rate					
State	\$487*	\$703	\$380	\$15	\$1,585
County	46	67	37	2	152
7.1% Unemployment Rate					
State	503*	773	418	16	1,710
County	48	73	41	2	164

\$ in Millions

* Special Session legislation assumed \$500 M of match rate savings.



State Funding Available Under Stabilization Fund for 2 Years

	<u>\$ in M</u>
Education	\$832
General Purpose	185
Incentive Grants	?
- No Formula, 2% = \$100 M	<hr/>
	\$1,017

Conditions of Stabilization Funding

1. Backfill education reductions – goal of reaching '08 or '09 level
2. Cannot fall below '06 support level (maintenance of effort – MOE)
 - Feds can waive, but state can't reduce education share of budget
3. Method to calculate K-12 “effort” is unclear
 - Option 1a = K-12 General Fund operating
 - Option 1b = Option 1 plus Prop 301/SFB

Education

How Does Current Funding Compare to '06 **- Estimates Not Definitive – Numerous Possible Variables**

	<u>'09 Above '06*</u>	<u>'10 Baseline Above '06**</u>
	\$ in Millions	
1a) K12 – GF only	\$433	\$792
1b) K-12 – GF/301/SFB	364	483
2) Universities/CC	70	78

- Any clarifying Federal instructions may significantly affect calculations.

* '09 includes 1st Special Session reductions.

** '10 Baseline assumes 1st Special Session reductions are repeated.

How Can Stabilization Funds Be Used?

- Backfill existing reductions
- Reduce budget shortfall
 - Education GF budgets could be further reduced and backfilled with Stabilization dollars
 - Any GF reduction cannot drop us below '06 MOE
 - One caveat – Possible Federal waiver of '06 MOE

Using Stabilization Funds to Reduce Shortfall

- Need to decide how to allocate \$1 B between fiscal years.
- As a sample scenario, allocate:
 - \$400 M to '09
 - \$600 M to '10

FY '09
**Sample Budget Scenario
and Use of Federal Assistance***

Possible '09 shortfall up to \$(425) M

Stabilization fund

- General Fund reduction and backfill \$400 M

* Only for display purposes – does not reflect a member or staff proposal.

FY '10
Sample Budget Scenario
and Use of Federal Assistance*

January JLBC Baseline FY '10 shortfall	\$(3.0) B
Continue '09 Special Session changes	0.6
	(2.4)
Revised shortfall	
- Medicaid match savings	0.7
- Stabilization fund backfill	0.6
	\$(1.1) B
Remaining shortfall	

* Only for display purposes – does not reflect a member or staff proposal.

“Secondary” Federal Assistance Impacts

- Totals \$1.5 B for next 2 years
- May provide limited “direct” supplanting opportunities
- Added administrative dollars may cushion other reductions
- State does not spend GF dollars on some of these activities (Transportation = \$600 M)
- State may not meet MOE requirement (Child Care = \$50 M)
- May require state match (Food Stamp administration)

Summary of \$4 B in Assistance

	'09	'10	'11*
1) Primary			
Medicaid Match	\$500 M	\$700- 775 M	\$400 M
Stabilization Funds	← \$1.0 B	→	
2) Secondary – Limited Fiscal Relief	← \$1.5 B	→	

* Dates of availability through FY '11 vary by program.

Staff Recommendations

- Treat 2/19 estimates as preliminary, pending further information and Federal guidance
- Staff continue to monitor Federal implementation
- Suggest Executive provide more comprehensive report

Overview of Potential Federal Assistance in Arizona

- 1) The estimates reflect the enacted version of The American Recovery and Reinvestment Act of 2009.
- 2) Arizona may receive \$4 billion. This estimate represents selected programs in the federal legislation. The document includes the main categories of assistance, but some smaller programs may be excluded.
- 3) These amounts typically reflect multiple year allocations through FY 2010 or FY 2011, depending on the program. Arizona's allocation primarily represents the estimates of the Federal Funds Information for States – a joint project of the National Conference of State Legislatures and the National Governors Association. Estimates have been modified when later information is available. For example, Federal Medicaid matching rate calculation is based on Arizona-specific information from AHCCCS.
- 4) Since there can be multiple interpretations of the state distributions, the Arizona allocations should be considered as preliminary and subject to change. In addition, state by state estimates are still being refined.
- 5) There are two primary programs which could help reduce the state's current General Fund budget shortfall – the Medicaid matching rate and the Fiscal Stabilization Fund. The Medicaid provision may generate \$500 million in FY 2009, \$700 million to \$775 million in FY 2010 and \$400 million in FY 2011. The Stabilization Fund will provide \$1 billion through 2010.
- 6) In addition, there may be \$1.5 billion in “secondary” federal assistance. This added federal funding does not usually translate into General Fund savings that would reduce the size of the budget shortfall.
 - Some programs have maintenance of effort requirements that prohibit states from reducing their own funding in order to receive additional federal dollars.
 - Some programs prevent the state from reducing their support and backfilling with the new federal dollars, otherwise known as “supplanting”.
 - In addition, the state may not currently expend General Fund dollars for some programs in the federal assistance legislation. As a result, additional federal funding may flow into the state as a result of the legislation, but there is no General Fund benefit.
 - There may be some limited opportunity to use the secondary assistance for budget reduction. In addition, state agencies may benefit if they can retain a portion of these funds for their administrative expenses.

Overview of		
Allocations for Selected Grant Programs in House and Senate Stimulus <u>1/2/3/</u>		
Arizona		
		<u>\$ in Thousands</u>
1.	Fiscal Stabilization Fund - Education	831,869
2.	Fiscal Stabilization Fund - General Purpose	185,086
3.	Fiscal Stabilization Fund - Incentive Grants	TBD
4a.	AHCCCS/DHS/DES - Medicaid Matching Rate (Lower FMAP) <u>4/</u>	1,583,863
4b.	AHCCCS/DHS/DES - Medicaid Matching Rate (Higher FMAP) <u>4/</u>	1,709,678
5.	AHCCCS - Dispro Share	TBD
6.	Commerce - Weatherization	46,576
7.	Commerce - State Energy Program	44,746
8.	Commerce - Energy Efficiency Block Grant	TBD
9.	ACJC - Byrne Criminal Justice Grants	39,437
10.	DES - Title IV-E Programs - Foster Care/Adoption Matching Rate	18,924
11.	DES - Elderly Nutrition	2,640
12.	DES - Child Care	50,877
13.	DES - Child Support	24,000
14.	DES - Community Services Block Grant	8,267
15.	DES - Vocational Rehabilitation	10,252
16.	DES - TANF	TBD
17.	DES - Food Stamp Admin	TBD
18.	DES - Food Stamp Benefits	--
19.	DES - Homelessness Prevention Emergency Shelter Grant	22,195
20.	DES - Emergency Food (TEFAP)	1,927
21.	DES - Community Service for Older Americans	1,268
22.	DES - Unemployment Insurance State Administration Grants	10,370
23.	DES - Employment Service	6,881
24.	DES - Workforce Investment - Adult	7,693
25.	DES - Workforce Investment - Youth	18,011
26.	DES - Dislocated Workers	12,046
27.	ADE - Head Start	12,109
28.	ADE - Title I - Education	254,180
29.	ADE - IDEA Education	194,167
30.	ADE - Education Technology	12,436
31.	ADE - Education for the Homeless	2,000
32.	ADE - School Lunch-Equipment	1,881
33.	ADEQ - Drinking Water Revolving Fund	55,768

		<u>\$ in Thousands</u>	
34.	ADEQ - Clean Water Revolving Fund	26,881	
35.	Governor - Violence Against Women	4,435	
36.	DHS - Immunization	5,013	
37.	DHS - WIC	TBD	
38.	Housing - Public Housing Capital Fund	12,129	
39.	Housing - HOME - Housing Assistance	32,261	
40.	Housing - Community Development Block Grant	TBD	
41.	Housing - Neighborhood Stabilization Program	TBD	
42.	DPS - Victims of Crime Act Assistance	1,296	
43.	ADOT - Highways & Bridges	521,958	
44.	ADOT - Transit Capital	99,922	
45.	ADOT - Fixed Guideway Modernization - Rail	640	
46.	Universities - Pell Grants	TBD	
47.	Veterans' Services - Veterans' Homes	TBD	
	TBD = To Be Determined		
	<u>1/</u> Represents selected programs in enacted Federal legislation.		
	<u>2/</u> These amounts typically reflect allocation through FY 2010 or FY 2011, depending on the program. Arizona's allocation primarily represents the estimates of the Federal Funds Information for States – a joint project of the National Conference of State Legislatures and the National Governors Association.		
	<u>3/</u> The added federal funding for items 5 - 47 does not necessarily translate into General Fund savings that would reduce the size of the budget shortfall. Some programs have maintenance of effort requirements that prohibit states from reducing their own funding in order to receive additional federal dollars. Some programs prevent the state from reducing their support and backfilling with the new federal dollars, otherwise known as "supplanting". In addition, the state may not currently expend General Fund dollars for a program in the federal assistance legislation. As a result, additional federal funding may flow into the state as a result of the legislation, but there is no General Fund benefit.		
	<u>4/</u> State share will depend on unemployment rate, which will affect the level of state savings. State will receive either 4a or 4b, but not both. Estimates from AHCCCS.		

Detailed Federal Assistance Summary
\$ in Millions

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>	<u>Comments</u>
PRIMARY					
1. Fiscal Stabilization - Education				831.9	<ul style="list-style-type: none"> ● Would be a lump sum payment to the state. State determines allocation between fiscal years. ● It may be used for primary, secondary, and postsecondary education, including building renewal. ● Funds must be committed within 2 years. ● Funds are to be allocated between K-12 and higher education "in proportion to relative shortfall in state support." ● Maintenance of Effort (MOE) - State must maintain the same level of support for K-12 and Higher Ed. in FY 2009-2011 as it did in FY 2006. K-12 based on principal funding formulas. (See attachment). ● The Feds can waive the MOE requirement, but the state must keep education spending as a % of total budget at least as high as in the previous FY.
2. Fiscal Stabilization - General Purpose				185.1	<ul style="list-style-type: none"> ● These funds may be used for general government services, including public safety and education (including building renewal). ● Subject to Education MOE requirements
3. Fiscal Stabilization - Incentive Grants				TBD	<ul style="list-style-type: none"> ● Discretionary funds - no formula. Monies are awarded to states which have made significant progress in: achieving equity in teacher distribution, improving the collection and use of student data, testing the achievement of students, and ensure compliance with low performing corrective action plans. ● If AZ receives 2%, would be \$100M - But no guarantee.

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>	<u>Comments</u>
ACJC					
9. Byrne/Justice Assistance Grants				39.4	<ul style="list-style-type: none"> ● The grant must be used to fund law enforcement or court programs, as well as areas that generally improve the criminal justice system. ● 78% is required to be passed through to local governments. ● Supplanting not permitted. ● Up to 10% of the grant may be used for administrative expenses.
ACJC Subtotal				39.4	
DES					Need further information from DES on its ability to use a portion of these \$ for indirect costs.
10. Title IV-E Programs - Foster Care/Adoption Matching Rate	6.3	8.4	4.2	18.9	<ul style="list-style-type: none"> ● Would increase the share the federal government pays through 12/2010. ● Reduces state spending level.
11. Elderly Nutrition				2.6	<ul style="list-style-type: none"> ● Provides congregate and home delivered meals to the Elderly. ● Confirming status of match and supplanting.
12. Child Care				50.9	<ul style="list-style-type: none"> ● No supplanting. ● DES is allocating \$24M of its '09 reduction to child care. ● If state funding not reduced, DES would need to expand eligibility and/or increase payments to use \$50M.
13. Child Support	9.0	12.0	3.0	24.0	Reverses need for annual \$3M backfill of federal \$ in '08.
14. Community Services Block Grant				8.3	<ul style="list-style-type: none"> ● Confirming supplanting status - may be able to backfill existing or future reduction. ● May retain % for administration.
15. Vocational Rehabilitation				10.3	No match required. Confirming supplanting status.
16. TANF				TBD	Added funding available if caseload increases.
17. Food Stamp Administration				TBD	Added funding available, but requires 50% state match.
18. Food Stamp Benefits (SNAP)				--	Not typically counted as state expenditure. 13% increase is \$118.8M on an annual basis. Attempting to confirm duration of benefit increase.
19. Homelessness Prevention Emergency Shelter Grant				22.2	<ul style="list-style-type: none"> ● Short-term Rental Assistance, Housing Relocation and Stabilization Services. ● Confirming supplanting status. ● Prior to reductions, DES spent \$1.2M on Homeless.

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>	<u>Comments</u>
20. Emergency Food (TEFAP)				1.9	Provides commodities and congregate meals through regional food banks.
21. Community Service for Older Americans				1.3	<ul style="list-style-type: none"> ● Part-time work training for unemployed low income persons older than 55. ● Confirming supplanting status.
22. Unemployment Insurance State Administration Grants				10.4	No current DES GF expenditures on this and following 4 employment programs.
23. Employment Service				6.9	For re-employment services for UI claimants.
24. Workforce Investment - Adult				7.7	Not subject to state appropriation.
25. Workforce Investment - Youth				18.0	Program grants for summer jobs up to the age of 24. Not subject to state appropriation.
26. Dislocated Workers				12.0	Not subject to state appropriation.
DES Subtotal				195.4	
ADE					
27. Head Start				12.1	Direct pass to local level. Does not appear to be supplanting option.
28. Title I				254.2	Grants based on poverty level by district. Federal law prohibits supplanting. Intent statement that \$ available through '11.
29. Special Ed./IDEA				194.2	<ul style="list-style-type: none"> ● Individuals with Disabilities Education Act. Intent statement that \$ available through '11. ● Federal law prohibits supplanting, but can use stabilization \$ to meet IDEA specific MOE.
30. Education Technology				12.4	Funding must be used for hardware, software, or technology related staff, services, or professional development. Intent statement that \$ available through '11.
31. Education for the Homeless				2.0	
32. School Lunch - Equipment				1.9	No direct state GF support.
ADE Subtotal				476.8	
DEQ					
33. Drinking Water				55.8	No match required. No current GF support. Confirming status of administrative dollars.
34. Clean Water				26.9	No match required. Our ability to supplant is unclear. \$1.5M in GF support. Confirming status of administrative dollars.
DEQ Subtotal				82.7	

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>	<u>Comments</u>
Governor					
35. Violence Against Women				4.4	No supplanting.
Governor Subtotal				4.4	
DHS					
36. Immunizations				5.0	<ul style="list-style-type: none"> ● Increase in the CDC Section 317 grant program. ● Probably in the form of vaccines not cash. ● Confirming supplanting status.
37. Women Infants Children (WIC) Food Program				TBD	No current GF support.
DHS Subtotal				5.0	
Dept. of Housing					
38. Public Housing Capital Fund				12.1	<ul style="list-style-type: none"> ● Pass-through program. ● No supplanting. No similar GF program.
39. HOME - Housing Assistance				32.3	<ul style="list-style-type: none"> ● Funds a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. ● 1% for administration. ● Confirming supplanting status.
40. Community Development Block Grant				TBD	Provides funds for affordable housing, anti-poverty programs, and infrastructure development.
41. Neighborhood Stabilization Program				TBD	<ul style="list-style-type: none"> ● May be \$19M to mitigate impact of foreclosures in neighborhoods. ● 10% for administration. ● No similar state program.
Dept. of Housing Subtotal				44.4	
DPS					
42. Victims of Crime Act Assistance				1.3	<ul style="list-style-type: none"> ● Also goes to ACJC. ● Confirming supplanting status.
DPS Subtotal				1.3	
ADOT					
43. Highways				522.0	<ul style="list-style-type: none"> ● 70% may be used by the state for any purpose and 30% distributed to local governments through existing funding formulas. ● No match required. No current GF support. ● State maintenance of effort required for all projects planned through 9/2010.
44. Transit Capital				99.9	<ul style="list-style-type: none"> ● Same MOE as Highways.

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Total</u>	<u>Comments</u>
45. Fixed Guideway - Rail				0.6	<ul style="list-style-type: none"> • Modernization of rail infrastructure. • Same MOE as highways.
ADOT Subtotal				622.5	
Universities					
46. Pell Grants				TBD	<ul style="list-style-type: none"> • Provide need-based grants to low-income undergraduate and graduate students. • US Dept of Education estimates increase at \$331M, but that includes all AZ Higher Ed institutions, including private for-profits. Public institution students have received 33% of Pell Grants in the past.
Universities Subtotal				0.0	
Veterans' Services					
47. Veterans' Homes				TBD	<ul style="list-style-type: none"> • Bill provides \$150M nationwide for veterans' nursing homes. • AZ may not receive in '10 for Tucson, but accelerates place on waiting list. • State budget has \$10M for state share.
Veterans' Services Subtotal				0.0	
SUBTOTAL - SECONDARY				1,563.2	
TOTAL - PRIMARY AND SECONDARY (Lower FMAP)				4,164.1	
TOTAL - PRIMARY AND SECONDARY (Higher FMAP)				4,289.9	
TBD = To Be Determined.					

Federal Maintenance of Effort Calculation for ARRA ^{1/ 2/ 3/}

2/19/2009

Without SFB & Prop 301

	<u>FY 2006</u>	<u>FY 2009 ^{4/}</u>	<u>FY 2010 Baseline ^{4/}</u>
Primary and Secondary Ed.			
Department of Education ^{5/}	3,497,734,500	3,926,655,700	4,284,505,700
ASDB ^{6/}	16,766,400	21,273,700	21,273,700
Total	3,514,500,900	3,947,929,400	4,305,779,400
Difference from FY 2006		433,428,500	791,278,500

With SFB & Prop 301

	<u>FY 2006</u>	<u>FY 2009 ^{4/}</u>	<u>FY 2010 Baseline ^{4/}</u>
Primary and Secondary Ed.			
Department of Education ^{5/}	3,497,734,500	3,926,655,700	4,284,505,700
ASDB ^{6/}	16,766,400	21,273,700	21,273,700
SFB ^{7/}	455,677,700	331,611,600	128,688,300
Prop 301 ^{8/}	466,140,800	520,285,400	484,405,000
Total	4,436,319,400	4,799,826,400	4,918,872,700
Difference from FY 2006		363,507,000	482,553,300

Postsecondary Ed.			
Universities ^{9/}	851,120,800	918,571,700	918,571,700
Community Colleges ^{10/}	132,746,000	135,235,800	143,255,600
Total	983,866,800	1,053,807,500	1,061,827,300
Difference from FY 2006		69,940,700	77,960,500

^{1/} The ARRA requires the state to “maintain state support for elementary, secondary education at least at the levels in fiscal year 2006” in order to qualify for Fiscal Stabilization Fund monies. There is a similar requirement for higher education, but excludes support for capital for research and development. The U.S. Department of Education, however, may waive the MOE requirement.

^{2/} The Act does not provide further definition of state support. Another section of the bill sets forth the goal of restoring state support to the greater of FY 2008 or FY 2009. In that section, support is linked to the “State’s primary elementary and secondary education funding formulae”. Until there is further guidance from the federal Department of Education, it is unclear whether K-12 MOE is determined by the state’s main Basic State Aid formula or whether it should include other formulae, such as Proposition 301 funding and School Facilities funding. As a result, both scenarios are presented.

^{3/} This chart attempts to illustrate the difference between possible Arizona MOE levels for FY 2006 and currently assumed state funding levels for education programs in FY 2009 and FY 2010.

^{4/} FY 2009 includes reductions from Laws 2009, 1st Special Session. FY 2010 uses JLBC Baseline as starting point and assumes that the dollar value of the 1st Special Session reductions are continued in FY 2010.

^{5/} Includes all monies actually appropriated for Basic State Aid, Additional State Aid, Special Education Vouchers, and Other State Aid to Districts.

^{6/} GF monies only.

^{7/} GF and non-appropriated monies for New School Construction and Building Renewal, including lease-purchase debt service monies.

^{8/} Sales tax and land trust monies for Classroom Site Fund and Additional School Days.

^{9/} GF monies only, including lease purchase payments, but excluding ABOR.

^{10/} Operating State Aid and Equalization Aid only (excludes Capital Outlay State Aid).