



**State of Idaho
Governor C.L. “Butch” Otter**

**Recommendations on Federal Stimulus
American Recovery and Reinvestment Act of 2009**

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Acceptance of Funds

After a careful and methodical review, the Governor has reached the following determination on how to best account for the funds made available to the State of Idaho by the American Recovery and Reinvestment Act (ARRA). A detailed summary of what is anticipated in each of the three state fiscal years covered by ARRA is attached in Appendix A and totals \$1,240,062,000.

In addition to these funds, it is estimated that several state agencies, as well as local and county governments and other entities across the state, will compete for grant funds made available by ARRA. The dollar amount of these competitive grants is unknown at this time and therefore not included in the summary.

Decision Making Philosophy

Throughout the process, the Governor, the Executive Stimulus Committee (ESC) created by Idaho Executive Order 2009-6, and the staff of the Division of Financial Management (DFM) have been guided by the following themes:

- Create and protect jobs in all regions of the state
- Provide for quality education of Idaho's school-aged children
- Provide temporary relief for Idahoans directly impacted by the global recession
- Minimize ongoing costs to taxpayers in the current year as well as future years
- Do not use the funds to create new state programs
- Do not use the funds to expand the size of state government
- Delay use of rainy day funds as a hedge against continued declines in state revenue

State Agency Personnel Costs

One of the earliest decisions state lawmakers will have to confront as they set the budgets of all state agencies for the coming fiscal year is the level of funding for personnel costs (PC). In its preliminary work prior to the passage of ARRA, the Joint Finance and Appropriations Committee (JFAC) determined it would be necessary to lower the rate of PC funding in all agencies by 5 percent.

The Governor recommends keeping this necessary cost-cutting measure in place in all agency budgets drawing from the General Fund. The Governor further recommends that no PC reduction be implemented in funds outside the General Fund (federal, dedicated, or otherwise).

State Fiscal Stabilization Fund

According to specific guidelines outlined in AARA, the State Fiscal Stabilization Fund (SFSF), created by Title XIV, Division A of ARRA, is divided into two portions. The largest of which – 81.8 percent – is dedicated to providing “support of elementary, secondary, and postsecondary

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education and, as applicable, early childhood education programs and services.” Idaho anticipates receiving \$201,700,000 for these purposes – \$166,175,700 of which will be set aside for K-12 activities, and \$35,524,300 of which is reserved for higher education.

From the \$166,175,700 set aside for K-12 activities, the Governor recommends using \$85,097,600 in the current fiscal year (FY 2009) to offset the 6-percent holdback issued by the Governor and now pending in the Legislature. Doing so will hold K-12 education harmless in the current fiscal year while preserving funds in the state’s Public Education Stabilization Fund (PESF) for use in future years.

The Governor also recommends using \$2,583,100 in FY 2010 to complete work on developing and implementing the state’s K-12 longitudinal data system. This essential project will provide much-needed tools to improve education statewide and is required by ARRA as a condition of receiving any SFSF funding.

The Governor believes the remaining funds in the K-12 portion of SFSF – \$78,495,000 – should be held in reserve to cover shortfalls that may occur in the next two fiscal years. Should state revenues improve, upon the Governor’s recommendation the Legislature could allocate these remaining funds when setting the FY 2011 budget in the spring of 2010. While ARRA does not allow for these funds to be deposited within a state “rainy day” account, it does provide the state the opportunity to spread these funds over three fiscal years.

As described below in the education section, the Governor’s recommendation includes implementing the approximately \$62 million in on-going reductions proposed by the Superintendent of Public Instruction starting in FY 2010.

From the \$35,535,300 reserved for higher education, the Governor is committed to working with the State Board of Education and our partners in the Legislature to determine a fair and transparent process to allocate these funds across the state’s institutions of higher education in the next three fiscal years. The Governor believes that emphasis should be placed on those priorities that stimulate economic activity, highlight private/public partnership, and do not create ongoing state obligations.

The second portion of SFSF – the remaining 18.2 percent – is directed by ARRA “for public safety and other government services. . . .” This discretionary portion is estimated to total \$44,877,000. The Governor recommends that these funds be divided between the state’s drinking water revolving fund (\$5 million), clean water revolving fund (\$10 million), and pressing needs within the state’s transportation system (\$29,877,000).

Using these limited resources in this manner will result in immediate job creation in almost every region of the state.

The Governor requests that the funding allocated to the state Department of Transportation (ITD) be used by the ITD Board for projects within the state highway system and that none of these funds be used for ITD administration or allocated to other transportation authorities.

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While preparing this recommendation, the staff of DFM and the ESC reviewed more than 1,000 requests for stimulus funds from entities outside of state government. These requests were in addition to those submitted by state agencies for the SFSF funding. The vast majority of the dollars requested were in the fields of drinking water, waste water, and transportation. While ARRA does provide funding for these areas (see below), the Governor believes that using the SFSF funds to supplement these important programs will enable the state agencies that administer them to assist more localities with their pressing needs. Likewise, expending the SFSF funds in this manner provides for an orderly process that already is established, with clear lines of accountability and reporting.

Spending the SFSF money for drinking water, waste water, and state highway needs is the quickest way to put the most Idahoans back to work.

Education

In addition to the SFSF money allocated to education, several other sections of ARRA will aid Idaho's schools. More than \$90 million will go to local school boards and the state Department of Education led by the Superintendent of Public Instruction. These funds will be used, in accordance with the plan submitted by the Superintendent, to provide much-needed relief to local districts and – it is hoped – to the Idaho taxpayers who support them.

In accepting these federal funds, the Governor strongly urges local school boards, their administrators and all those connected with the education of Idaho's youth to be mindful of the one-time nature of these additional funds. School leaders must pay special attention to avoid building any ongoing or long-term costs into their base budget assumptions. It also is imperative that, wherever it can be avoided, federal money not go to add new staff at any level of the state's educational operations. Hiring staff with limited, one-time federal funds would create ongoing expectations that the state's General Fund would be unable to meet in future years and would be inconsistent with the associated federal guidelines. Similarly, using these funds to provide salary increases to existing staff would be shortsighted.

Furthermore, the Governor recommends that every effort be made by local school districts to find ways of consolidating administrative responsibilities, especially in the area of Special Education.

Local school boards are elected by their constituents and entrusted with the greatest of responsibilities – our youth and the future of the state. Now is the time for these frontline leaders to demonstrate the control and level-headedness that we know they possess.

However, even this influx of taxpayer dollars from the federal government will be insufficient to keep education whole during our nation's deepest recession since World War II. While it would be improper to cut support levels in the last quarter of the current fiscal year (FY 2009), steps must be taken to trim state support and avoid what the Superintendent of Public Instruction describes as the steep cliff of budget shortfalls looming ahead if we fail to act. Accordingly, the

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Governor supports implementing the reductions outlined by the Superintendent with the hope that taking these reductions now will be sufficient to avoid deeper cuts in the future.

Health & Welfare

The largest influx of ARRA funding is in the area of human services. The state Department of Health and Welfare (H&W), its partner organizations across the state, and the thousands of Idahoans they support are positioned to receive more than \$400 million in ARRA support. The relief cannot come soon enough for many citizens across the state. Increases in food stamp benefits, home weatherization, assistance to victims of crime, and other H&W responsibilities will help Idaho care for its most needy and vulnerable citizens.

Like all programs associated with ARRA funding, it is vitally important that state agencies administering each of these programs, and the programs' beneficiaries, all realize the one-time and temporary nature of these funds. While the helping hand will be appreciated by many, becoming dependent on this higher level of federal funding is contrary to the fiscal policies of the State of Idaho and risks overextending the state in future years.

For example, support for the child immunization program provided by ARRA will enable the state to continue this service for another year without the changes proposed in the Governor's budget recommendation. It does not, however, eliminate the need to make these systemic reforms; it only delays the change for one additional fiscal year.

The Governor recommends that the additional federal funding allocated through ARRA be expended in accordance with the prescription put forth by the H&W Director. This detailed plan was developed by staff from H&W, DFM, and the Budget and Policy Division of the Legislative Services Office.

Labor

Similarly, many of Idaho's neediest families – those who have suffered from the loss of a job – will benefit from temporarily increased levels of support in the unemployment benefit afforded by ARRA. This temporary federal money already has added \$25 each week to the benefits being received by Idaho's unemployed. The Governor opposes the state continuing this added benefit once the federal money ends.

Other ARRA provisions will require changes in how Idaho calculates its unemployment benefits in order to receive \$33 million in one-time money – funds needed by the state Department of Labor (DOL) to continue its high levels of customer service. By modernizing the state's system and adopting an alternative base period for determining benefit eligibility, DOL will be able to access these funds and minimize future tax increases to support the unemployment insurance program.

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This effort will require legislative approval of the changes, which include providing additional benefits to those workers in approved training who have exhausted all other benefit programs and providing benefits to qualified claimants who only want to seek part-time work. While ARRA provisions prohibit the state from including sunset language on these legislative changes, the Office of the Attorney General as well as federal officials have confirmed that the state would be free to reverse this policy at a future date should it so desire. With that understanding, the Governor supports these changes and calls upon the Legislature to act on the DOL proposal as soon as practicable.

Transportation

One of the most pressing needs facing every region of Idaho is the growing backlog of maintenance and expansion projects on the state's highway system. The Governor continues to work with lawmakers and civic leaders from across the state to build consensus during this session of the Legislature on addressing this ongoing, long-term need. Solving this problem now remains the Governor's top priority.

ARRA provides \$181,935,000 in additional federal funding for highways and bridges. Of this total, 3 percent – \$5,458,000 – is set aside for enhancement projects. The Governor recommends that all the enhancement funding be allocated to existing priorities within the state highway system as per the recommendation of the state Transportation Department (ITD). Another \$27,804,000 of these funds will be distributed to local jurisdictions to address needs that are not part of the state highway system. The remaining \$148,673,000 will be used by ITD for construction projects as detailed below.

The Governor supports the ITD Board's determination to use the funds made available to it for the following eight projects, with the understanding that such support is dependent upon the Legislature's passage of further bonding authority for the Connecting Idaho program, as outlined in the Governor's budget recommendation. If additional bonding authority is not approved, the Governor intends to ask the ITD Board to reevaluate the list of projects with an emphasis on funding those items that would have been covered by the issuance of bonds. Provided that the bonding authority request is approved, the eight projects receiving stimulus funding would be:

- US 2, Dover Bridge, Bonner County
- US 95, Moscow Mountain Passing Lane, Latah County
- US 95, Top of White Bird Grade to Chain-up Area, Idaho County
- I-84, Vista Avenue Interchange, Ada County
- US 93, Twin Falls Alternate Route, Twin Falls County
- I-86, Chubbuck Interchange to Pocatello Creek Interchange, Bannock County
- US 20, Henry's Lake Flat Passing Lanes, Fremont County
- SH 48, Rigby High School to Yellowstone Hwy, Jefferson County

Further, due to the very prescribed nature of the reporting requirements associated with the transportation funding included in ARRA, the Governor recommends that ITD distribute funding

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to local highway districts and cities on a quarterly basis, and that only those jurisdictions complying with all of the reporting requirements and ITD instructions receive their allocation.

Finally, the Governor recommends that the ITD Board exercise its authority to direct, to the extent possible, the work of the local highway authorities in an effort to ensure that as much of the ARRA funding as possible is directed to road maintenance and rehabilitation. The Governor recommends that none of these funds be used to obligate future state funds.

Other State Functions

Included in ARRA is significant funding for programs already in place under the stewardship of the following state entities:

- Department of Environmental Quality
- Idaho Housing and Finance Association
- Aging Commission
- Arts Commission
- Attorney General
- Commission for the Blind and Visually Impaired
- Department of Commerce
- Bureau of Homeland Security
- Industrial Commission
- Office of Energy Resources
- State Independent Living Council
- Idaho State Police
- Division of Vocational Rehabilitation

The Governor recommends accepting this one-time federal assistance and that the Legislature review its implementation as part of the routine budget-setting process. Each entity already has in place the necessary structure, governance and reporting mechanisms to ensure the successful and efficient use of these additional funds.

The only issue of concern raised during the review of these programs by the ESC is a difference of opinion between the Division of Vocational Rehabilitation and the Commission for the Blind and Visually Impaired regarding their internal division of federal Vocational Rehabilitation money. The Governor does not recommend any change in the current ratio (88 percent to Vocational Rehabilitation and 12 percent to the Commission for the Blind and Visually Impaired) at this time.