

Recovery Act Discussion

NASBO Annual Meeting

July 28, 2010



Presenters

Jim Apperson

Director

Governor's Office of Economic Recovery

State of Arizona

Lisa Esgar

Deputy Director

Governor's Office of State Planning and Budgeting

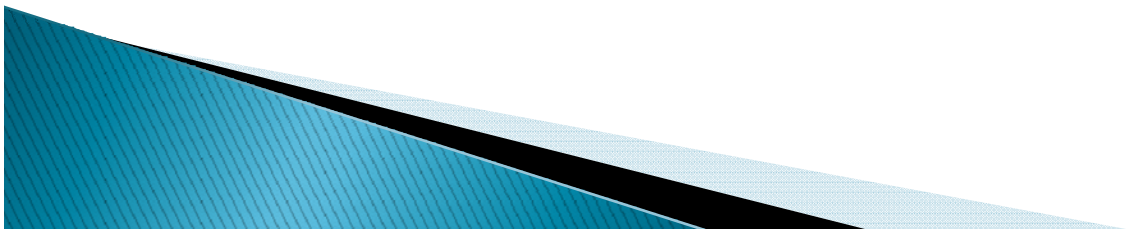
State of Colorado

Mike Morrissey

Senior Advisor

Office of the Governor Rick Perry

State of Texas



ARRA Economic Impact

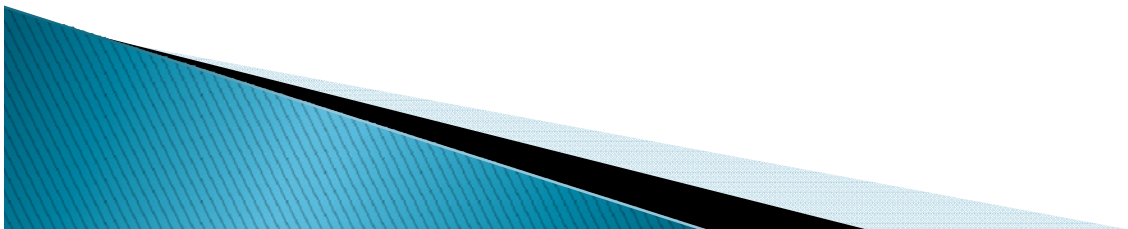
Jim Apperson

State of Arizona

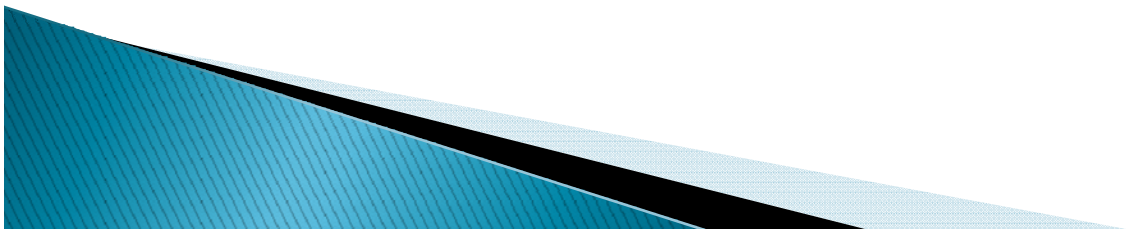
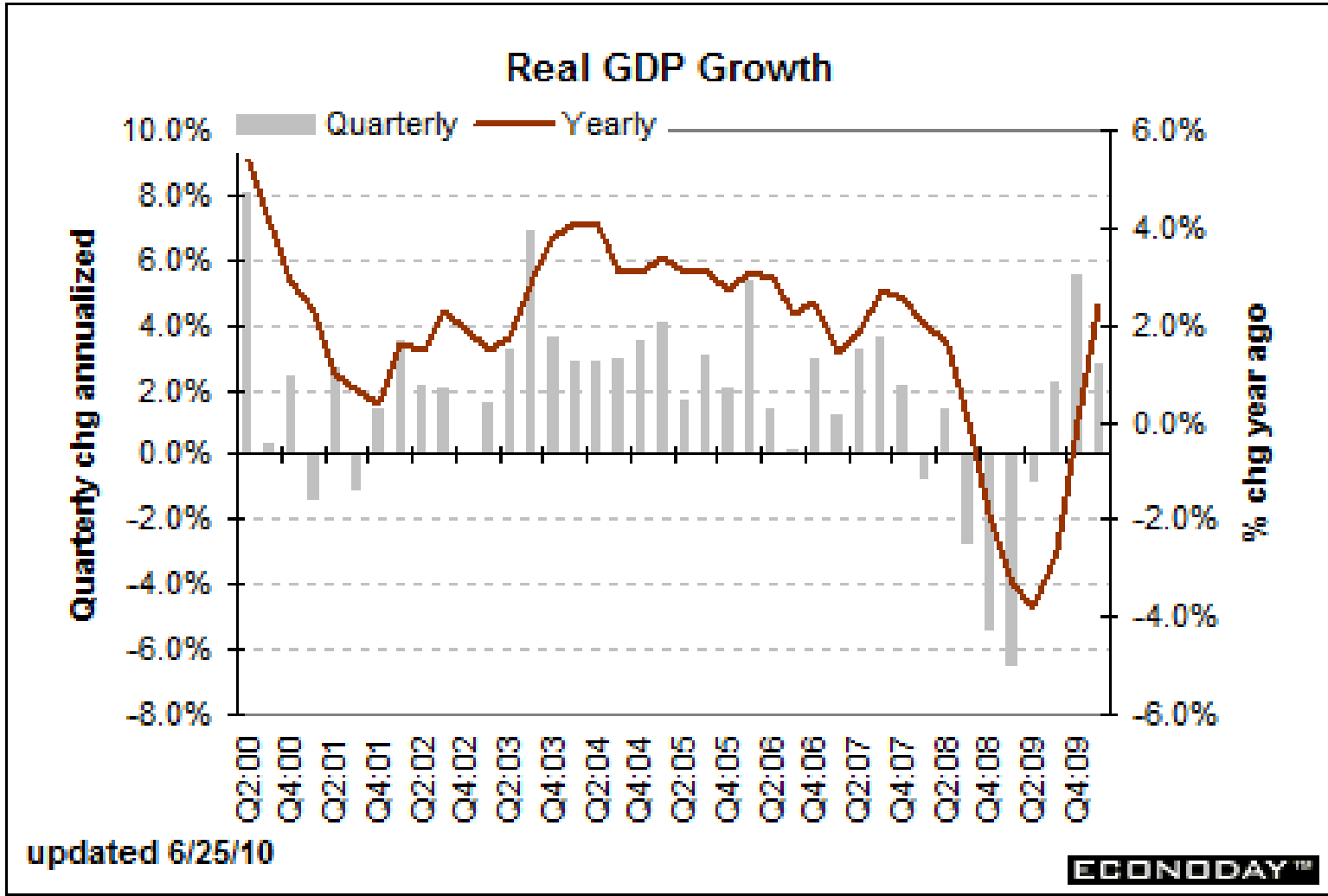


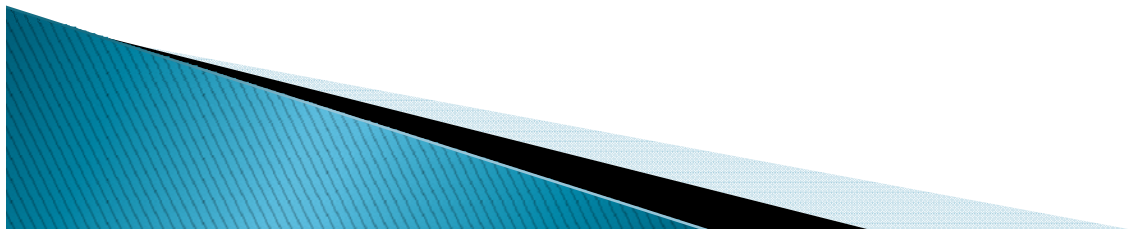
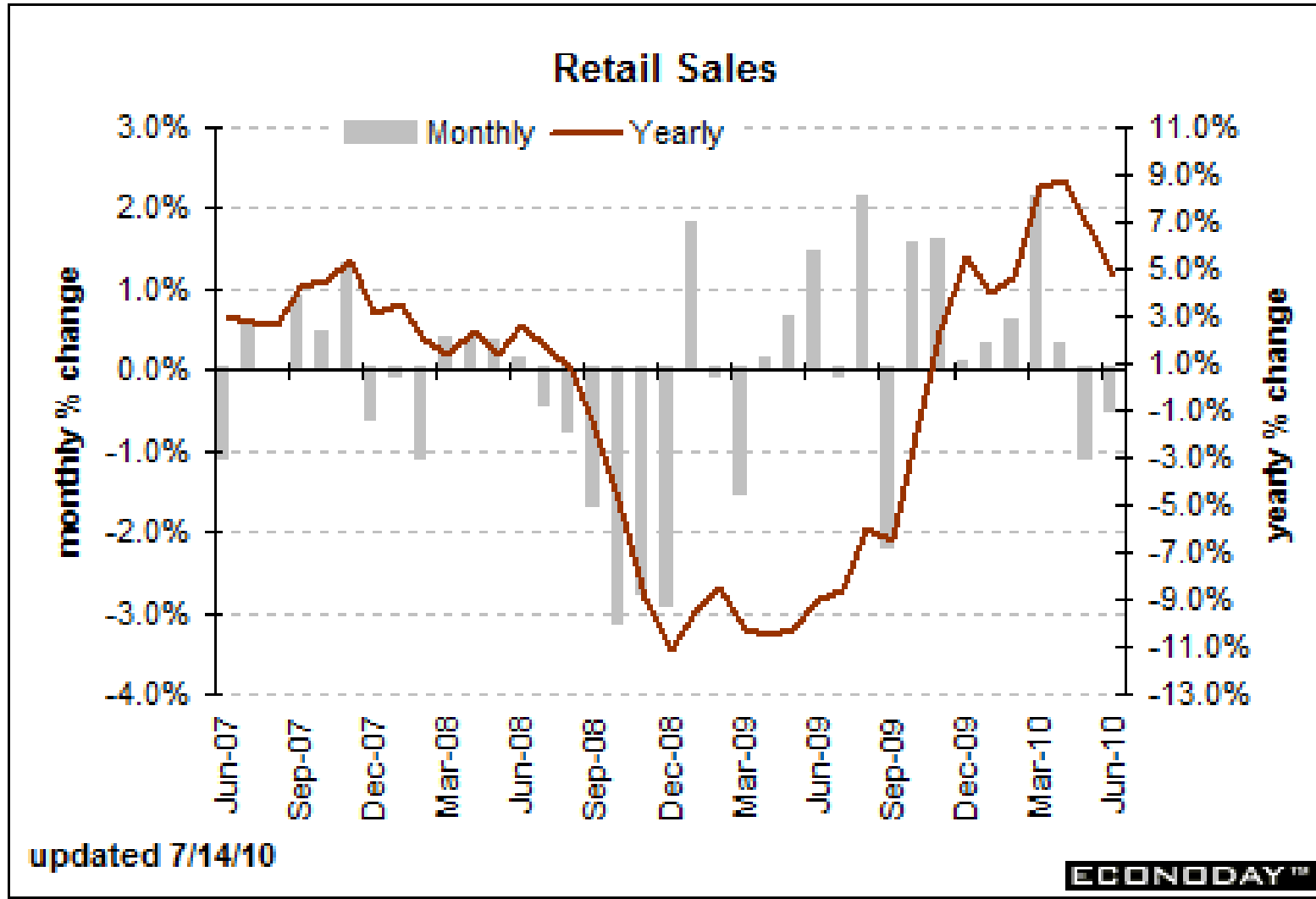
Overview

- ▶ Fiscal Crisis in America and the States
- ▶ Arizona's Action Plan
- ▶ Overall Impact of ARRA in Arizona
- ▶ Long-Term Benefits of ARRA

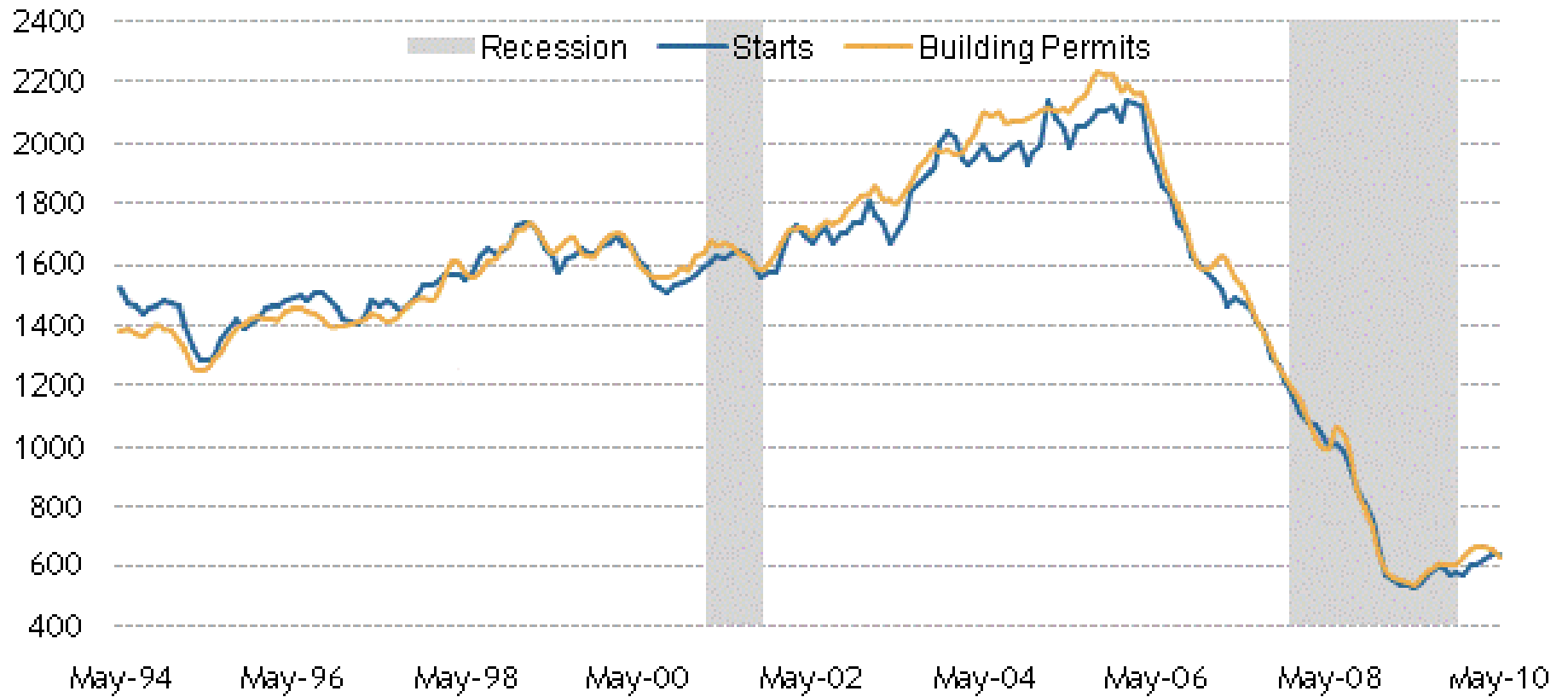


Fiscal Crisis in America and the States



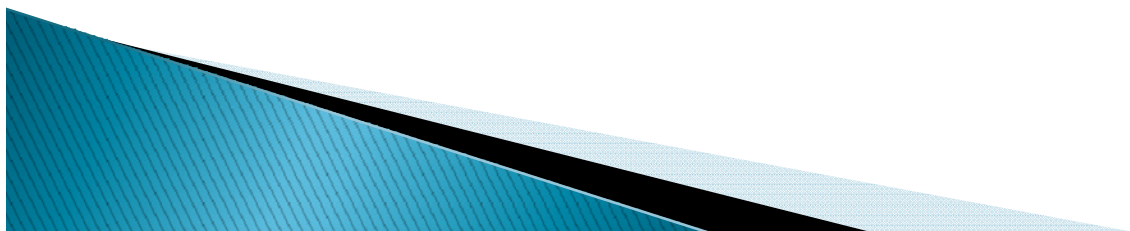


Housing Starts and Building Permits 3-Month Moving Average (thousands, SAAR)



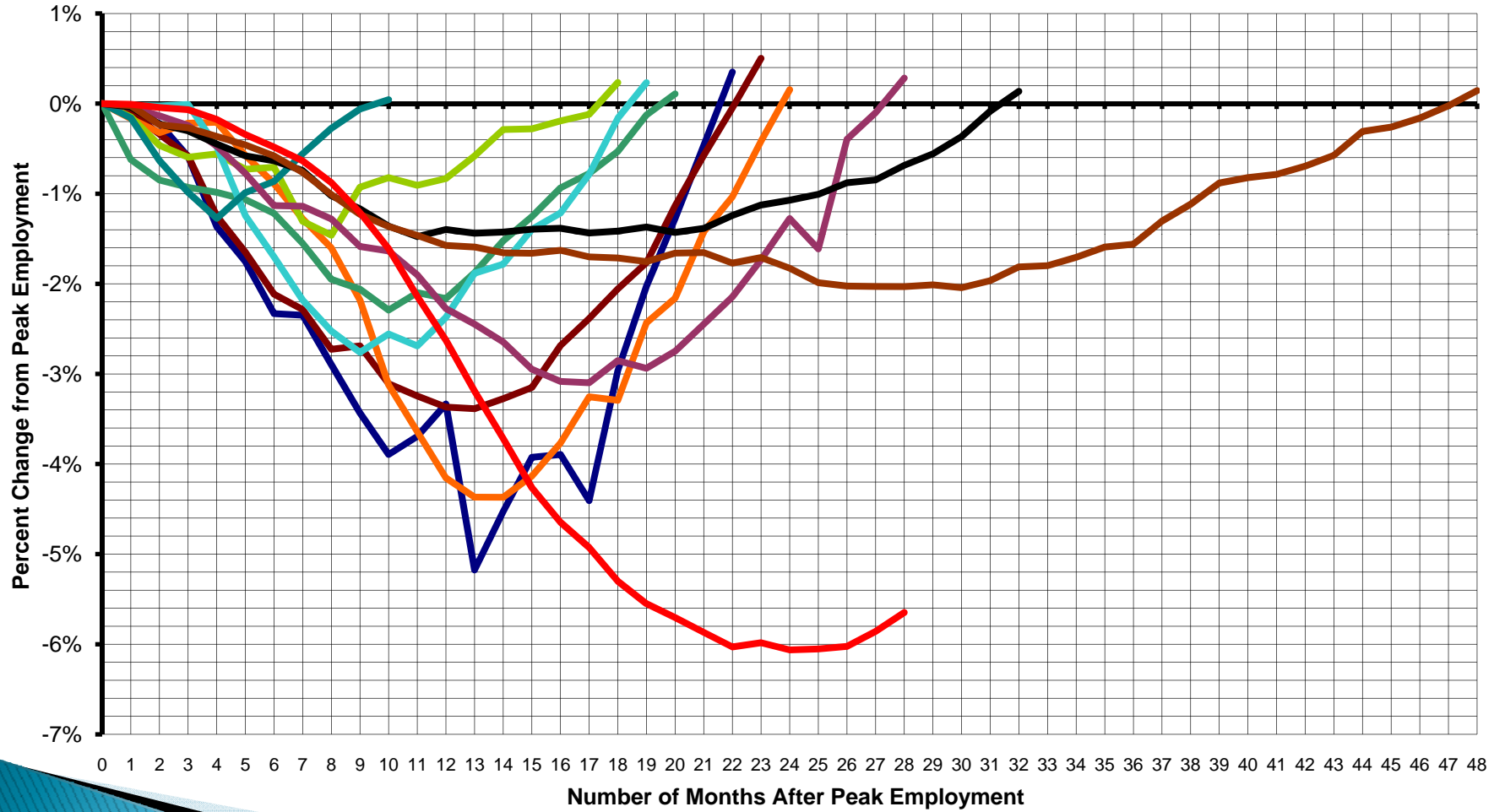
Source: Census Bureau; updated 06/16/10

Briefing.com



National Number of Months needed to surpass a peak in employment.

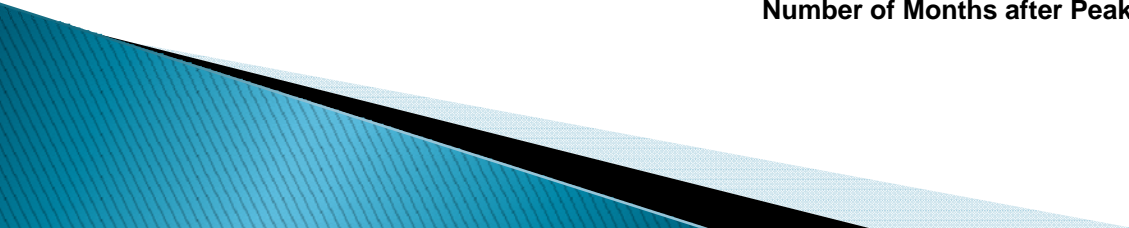
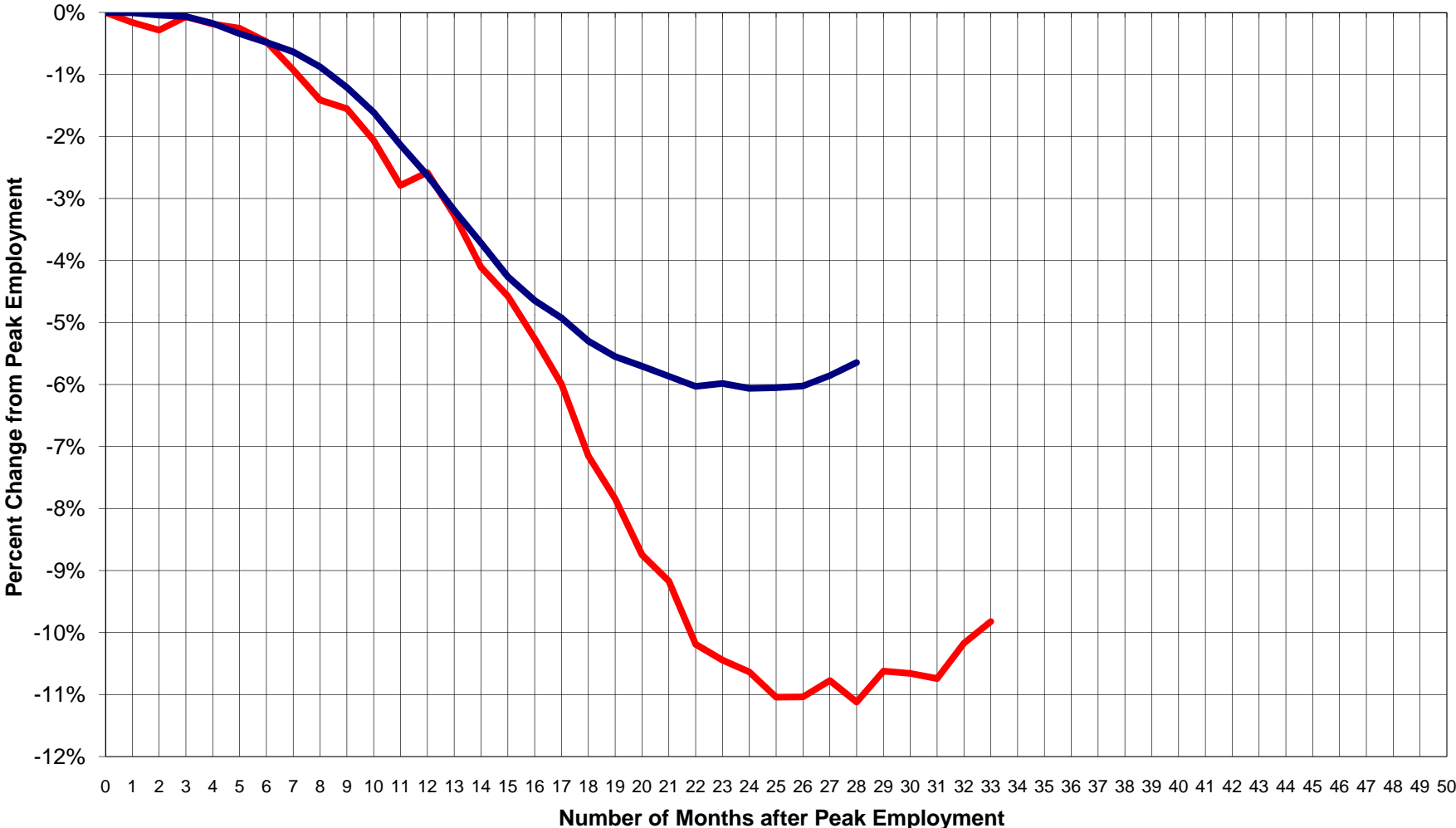
1948 1953 1957 1960 1970 1974 1980 1981 1990 2001 2007



Current Employment Cycle

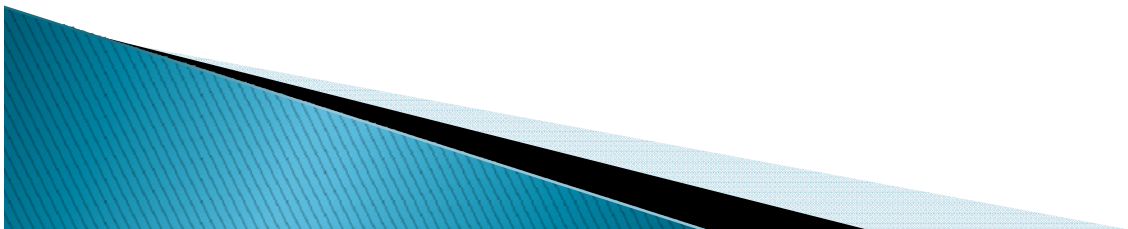
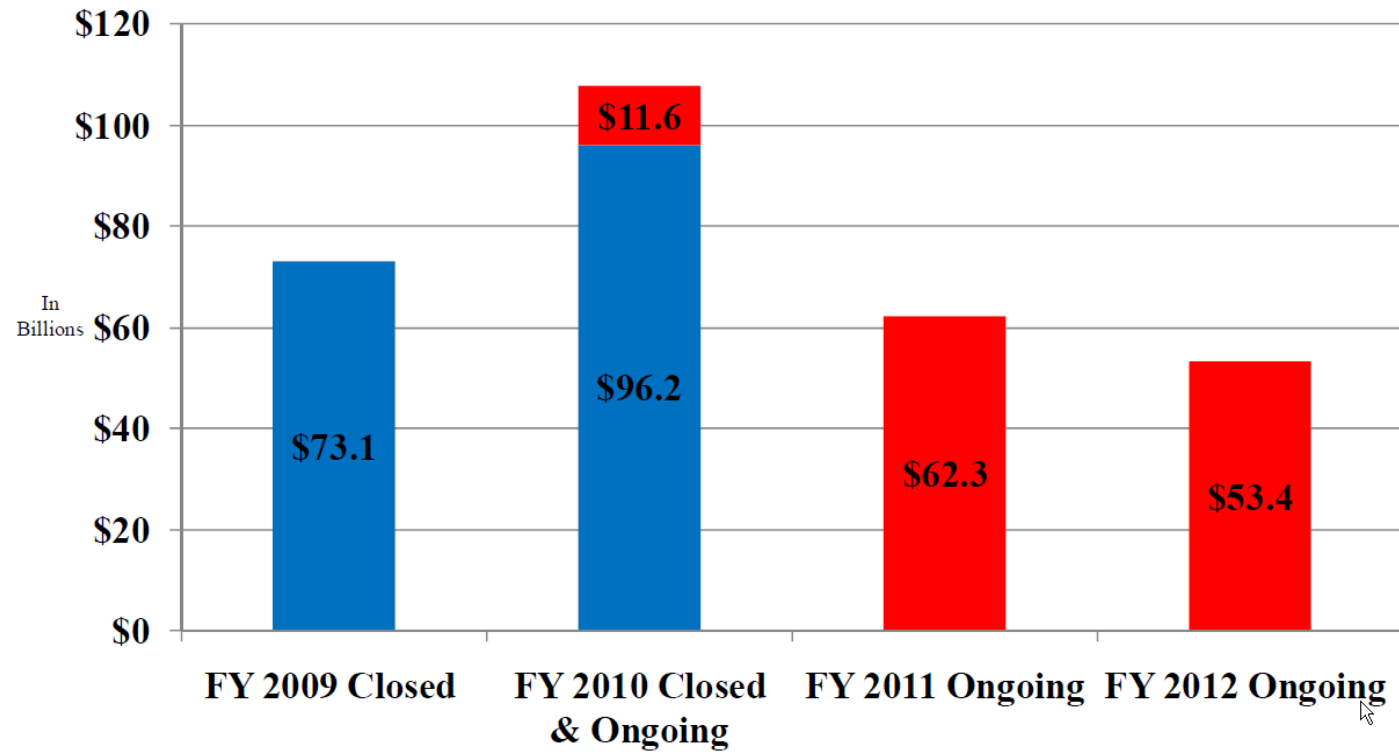
Number of Months needed to surpass a peak in employment.

AZ US

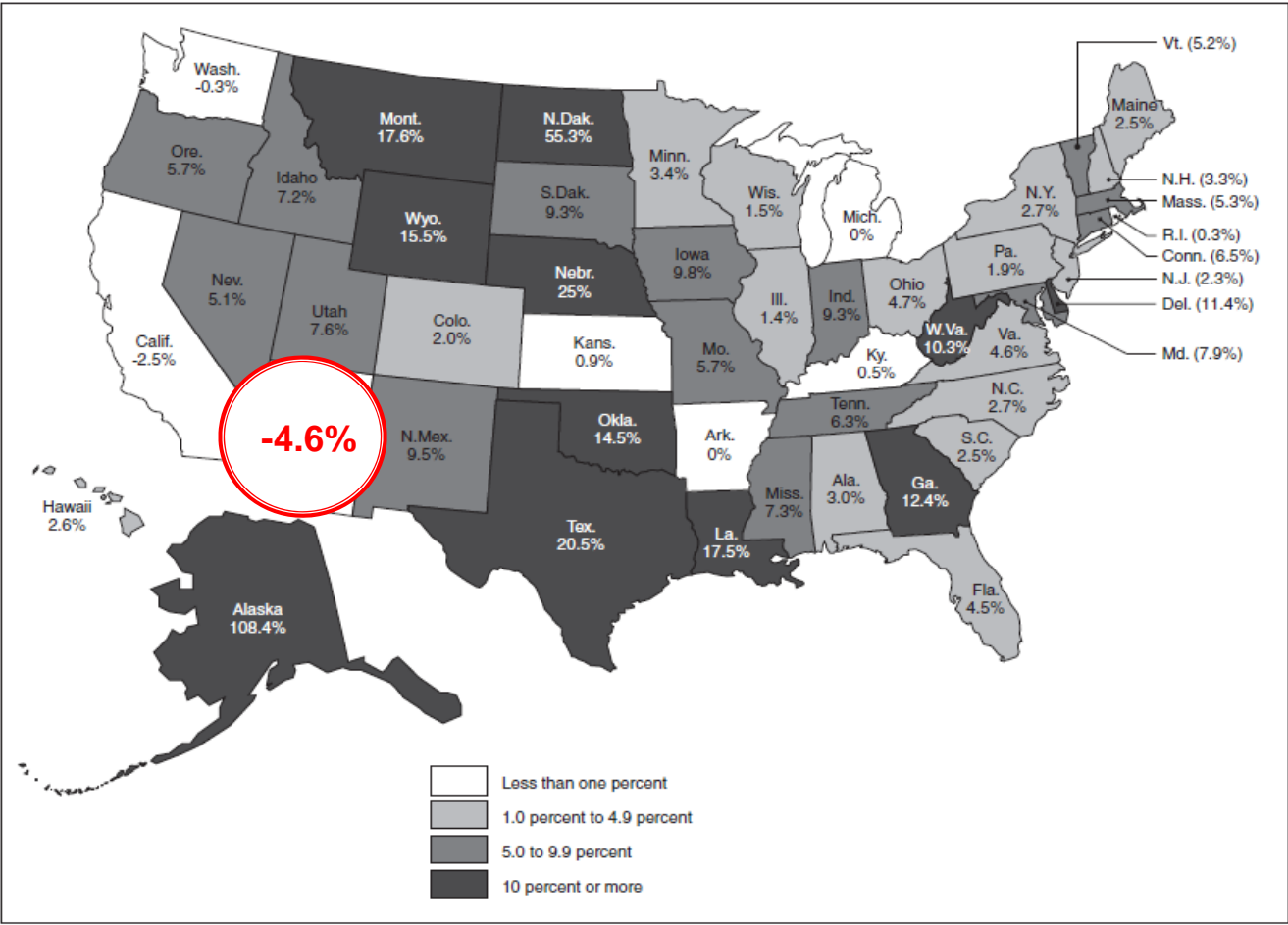


NASBO – Spring 2010 Fiscal Survey

- ▶ States Have Closed Budget Gaps of \$169 Billion – Still Face \$127 Billion in Gaps



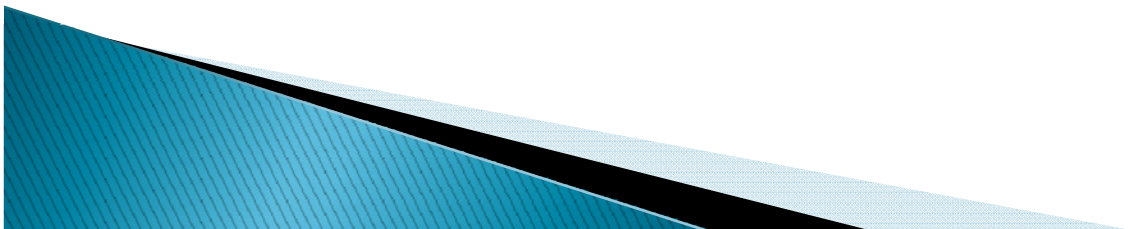
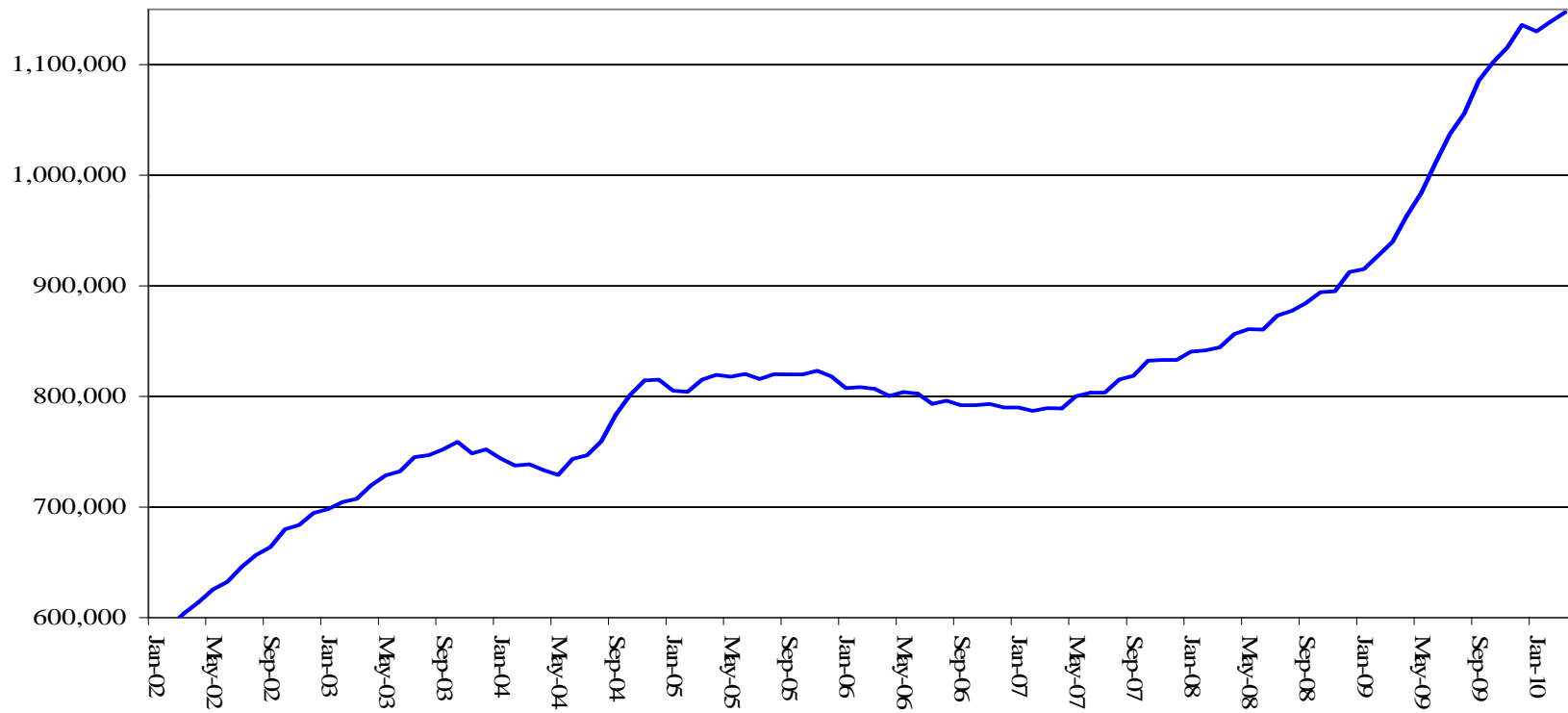
Total Year-End Balances as a Percentage of Expenditures, Fiscal Year 2009



Source: Copyright © Corel Corp. All rights reserved (map); GAO analysis of U.S. Bureau of Labor Statistics data.

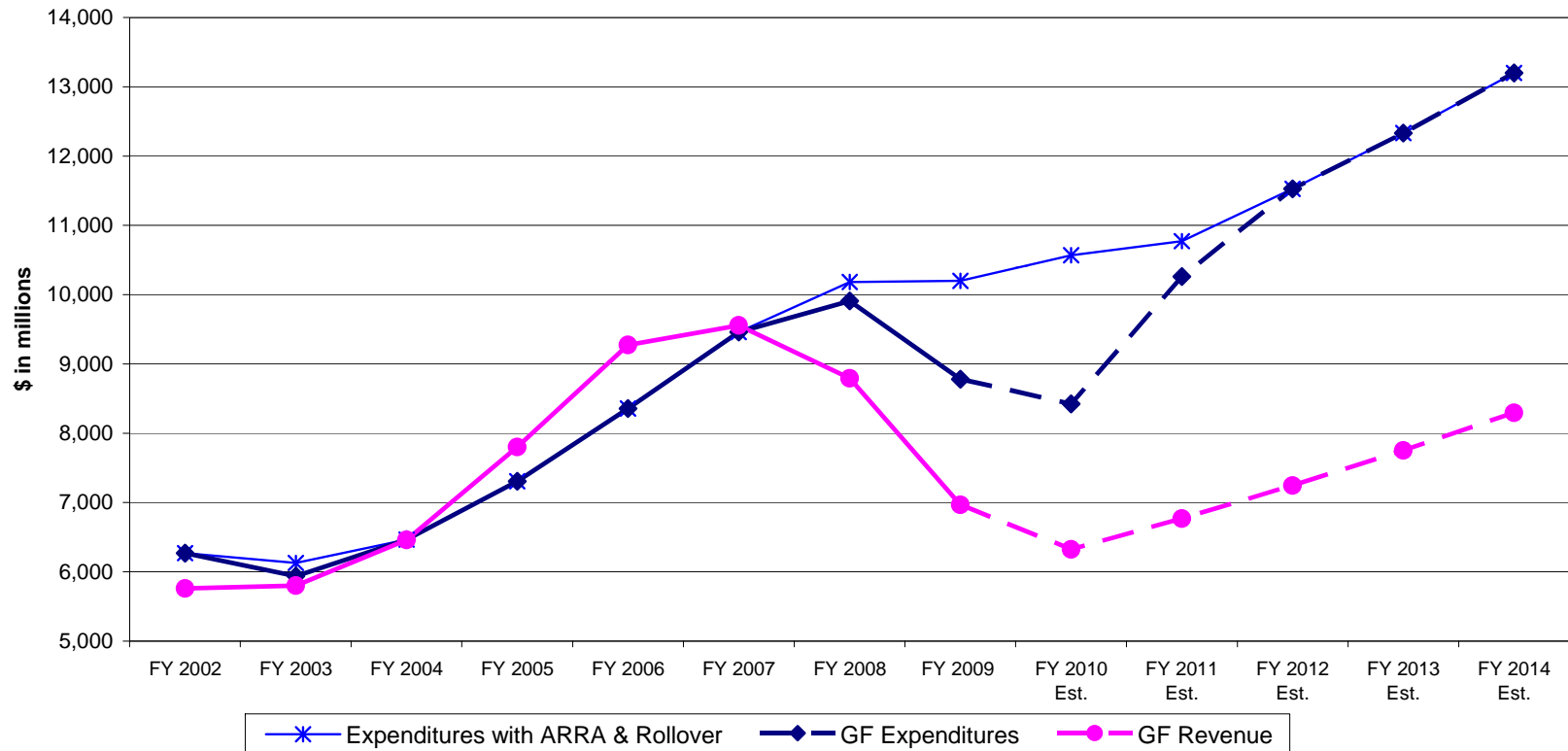
AHCCCS (Medicaid) Enrollment Growth

**AHCCCS All TXIX Capitation Member Months
Actuals Only**



Arizona's Problem – Structural Deficit

General Fund Ongoing Revenue and Expenditures before Solutions



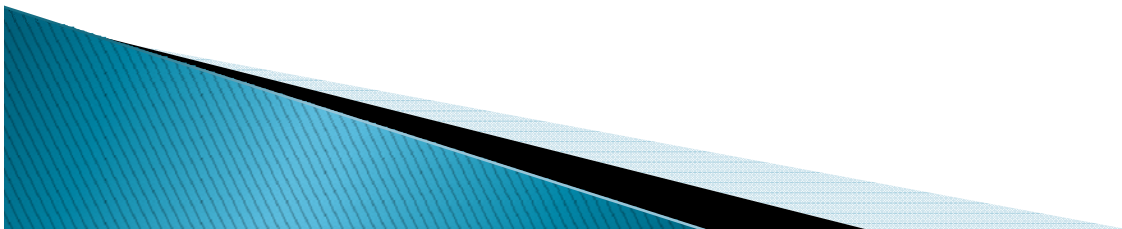
Assumptions: **Revenue:** Ongoing revenue does not include one time items such as fund transfer, asset sales, etc. Growth rates assumptions: FY10: -9.2%, FY11:7%, FY12 and 7%. **Expenditure:** Ongoing expenditure does not include rollover or ARRA. FY10 and FY11 estimated Expenditure from most current S&U, FY12 and beyond assuming 7% growth.

Arizona's Action Plan

Record Cuts

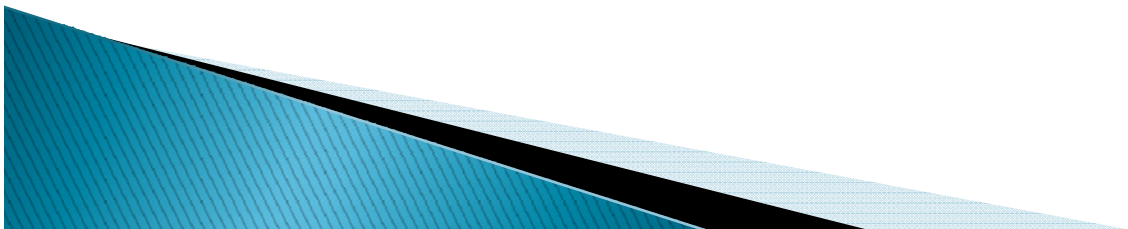
- **\$2 Billion Cut Permanently from the State budget in three years**

Budget Reductions	Total
AHCCCS (Medicaid)	\$ 153,000
K-12	\$ 700,000
Universities	\$ 197,000
DES	\$ 396,000
DHS	\$ 114,000
Corrections	\$ 179,000
Other	\$ 315,000
Total (in thousands)	\$ 2,054,000



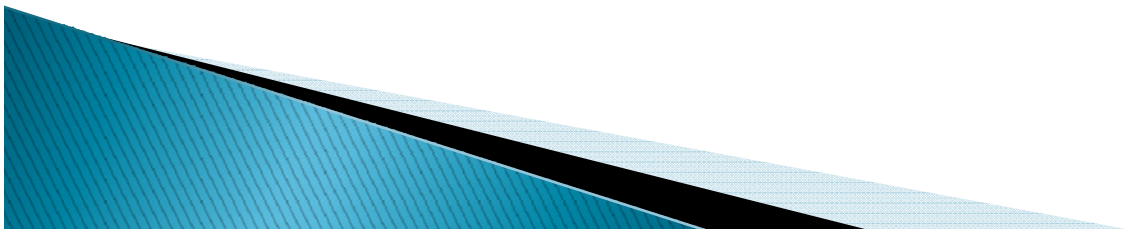
Additional Budget Balancing Actions

Temporary Solutions	Total
K-12 & University Rollovers	1152.6
BSF Sweep (Rainy Day Fund)	710
Fund Transfers	1284.8
DPS to HURF and SHF	254
Midnight Reversion	50
SFB NC Recapture	344
SFB New Construction	237
DES & AHCCCS Rollovers	184.9
K-12 Local Fund Balances	184
Lottery Debt	450
Sale Leaseback of State Buildings	1035.4
Total (In millions)	7039.9



Increase State Revenues

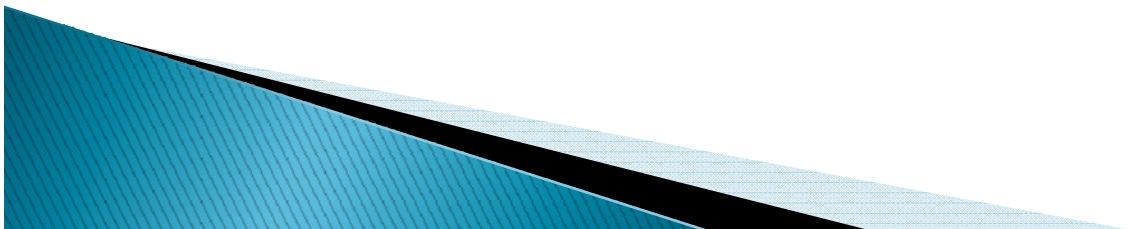
- ▶ Passed temporary “1 cent” sales tax increase in May 2010 which will generate an estimated \$1 Billion in revenue each year for 3 years.
 - 64% of Arizona Voters voted “Yes”!



1-Cent Sales Tax

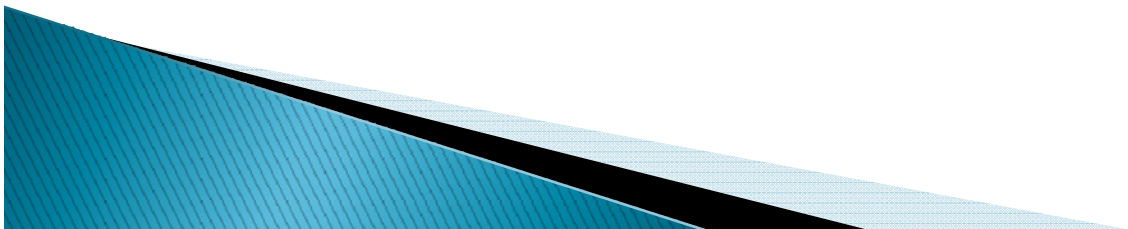
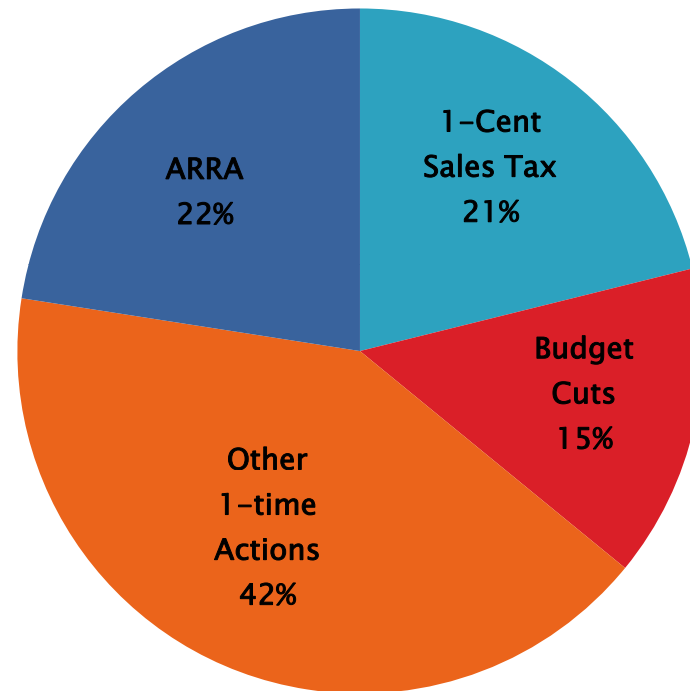
“The checkbook is overdrawn, the credit card is maxed out and we’ve mortgaged the house. If we don’t do what’s right today, we will pay for it for years to come.”

– Governor Jan Brewer

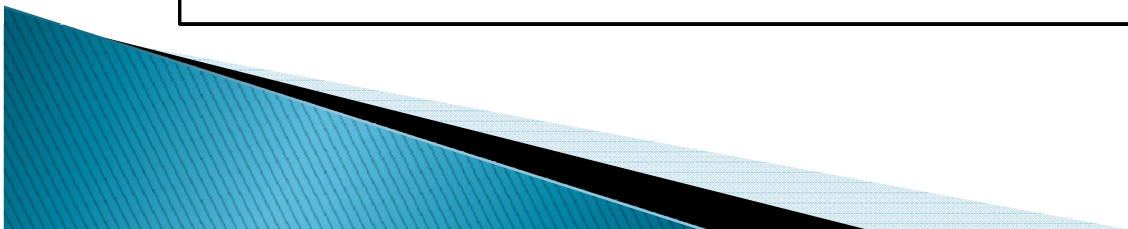
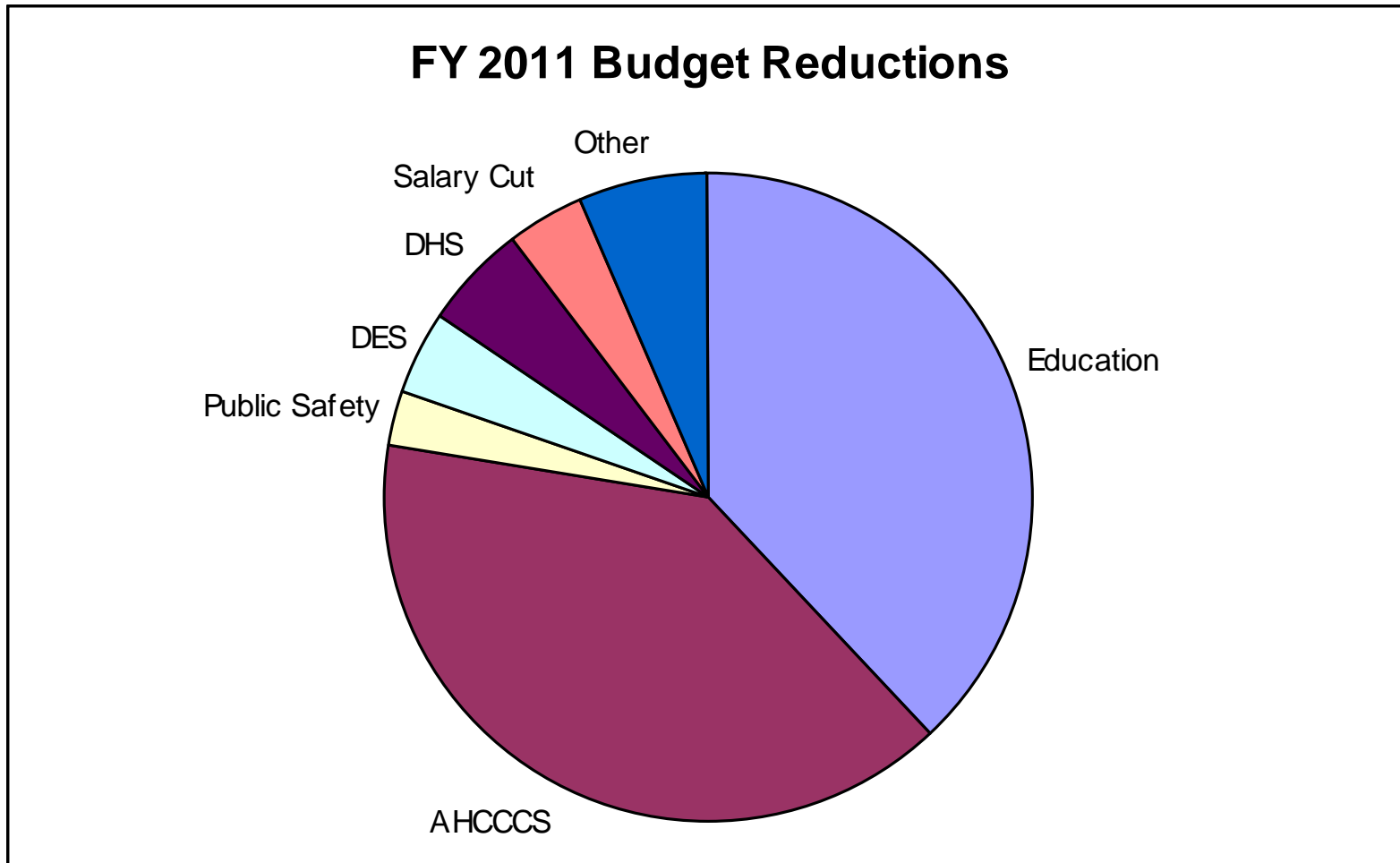


Arizona Budget Actions

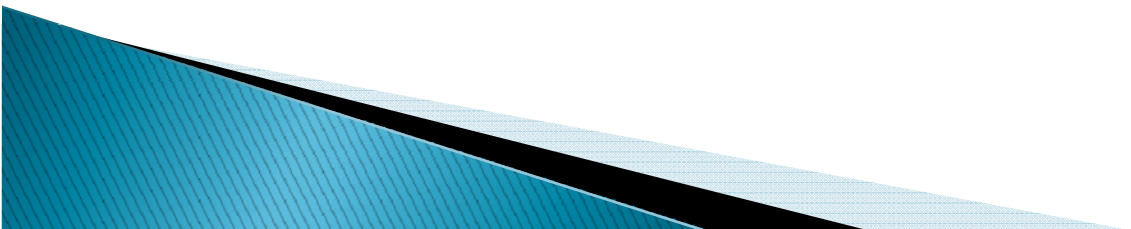
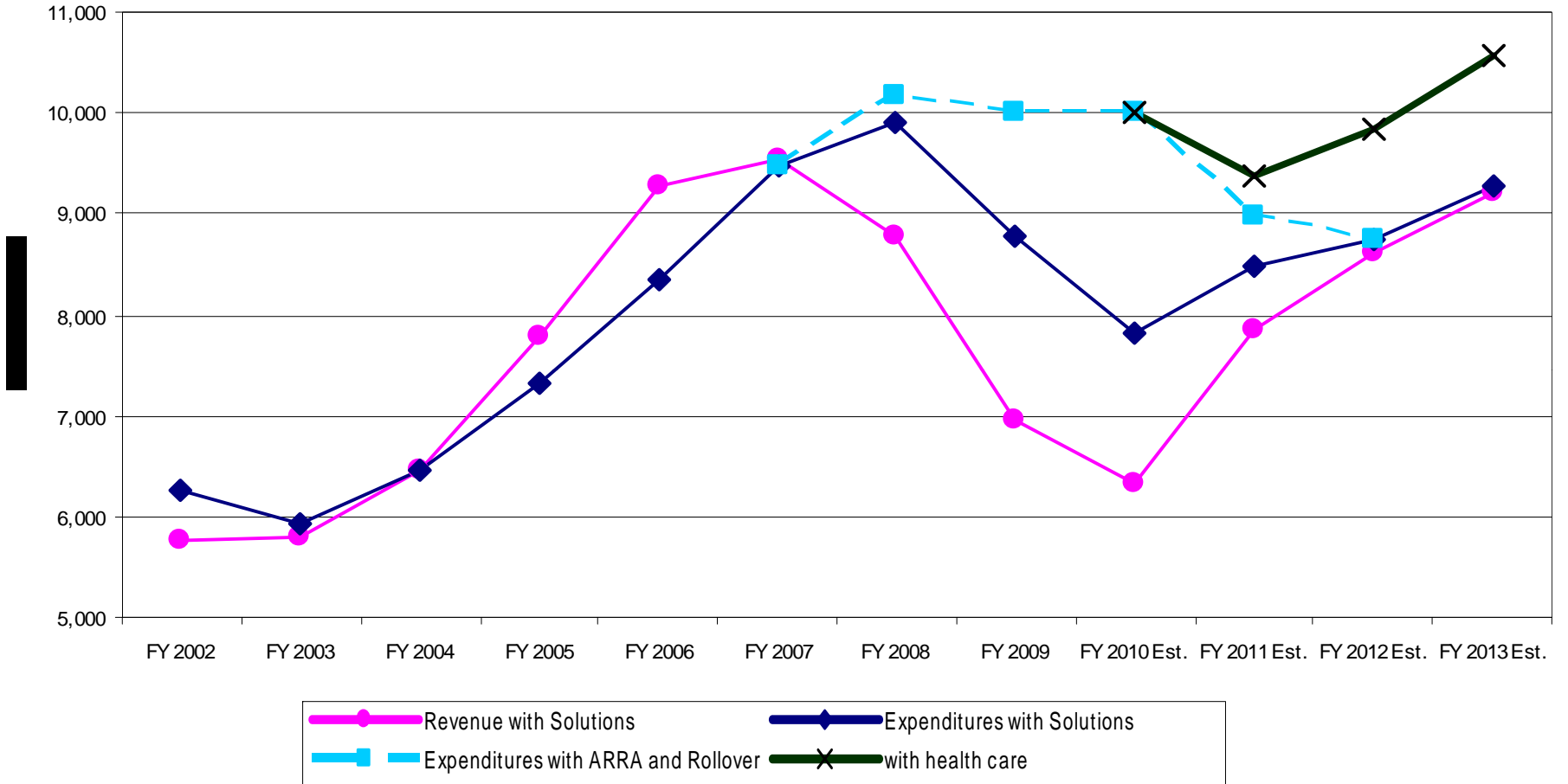
Actions (FY08 - FY11)	Amounts
1-Cent Sales Tax	3.0B
Budget Cuts	2.1B
Other 1-time Actions	5.9B
ARRA	3.2B
Total	14.2B



Budget Reductions by Category



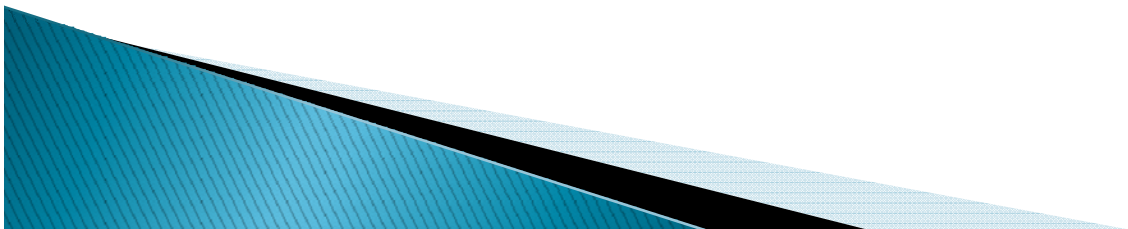
General Fund Ongoing Revenue and Expenditures Adopted Budget



Overall Impact of ARRA in Arizona

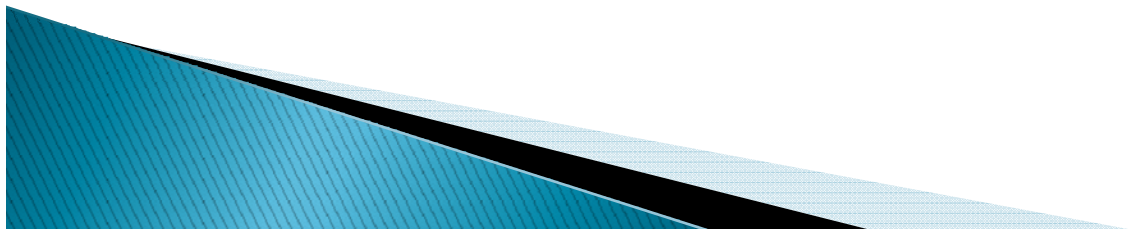
American Recovery and Reinvestment Act (ARRA)

- ▶ **What is the impact of ARRA on Arizona....**
 - Approximately \$244 billion appropriated for stimulus expenditures in U.S.
 - Arizona will receive approximately \$6.5 billion



Top 10 ARRA Grants – Arizona

▶ SFSF Education	\$832M
▶ Transportation Projects	\$535M
▶ Title 1 Local Ed	\$195M
▶ SFSF Govt. Services	\$185M
▶ IDEA Grants (Part B Section 611)	\$178M
▶ Weatherization Assistance	\$57M
▶ State Energy Program	\$55M
▶ Drinking Water	\$55M
▶ Child Care and Development	\$51M
▶ Workforce Investment	\$41M

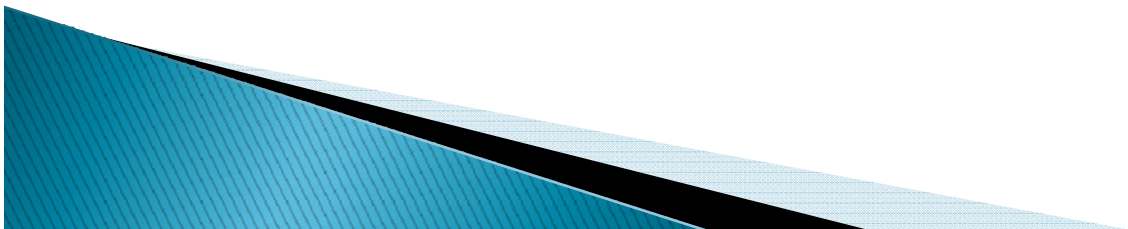


ARRA – Benefits & Tax Credits

▶ Housing

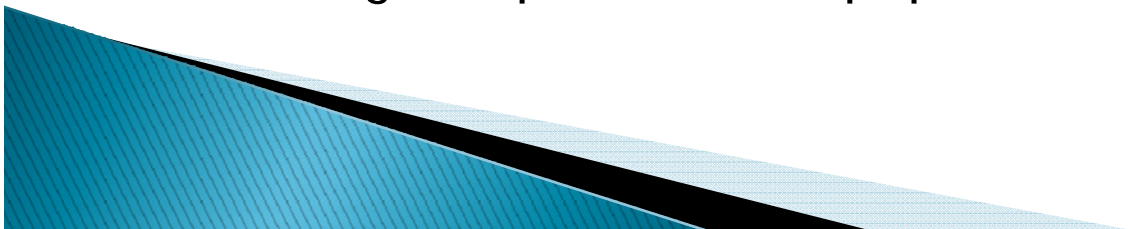
- First-Time Homebuyer Credit - \$8,000 credit
- Mortgage Refinancing and Modification - Estimated 3 to 4 Million homeowners nationally helped by 2012
- Weatherization Funding - \$5B nationally to low-income families

▶ Extended Unemployment Benefits



ARRA –Tax Credits

- ▶ **Making Work Pay Tax Credit** - Eligible taxpayers received \$400 for individuals and \$800 for joint returns.
- ▶ **Child Tax Credit** - More people eligible (reduced earned income amount) and payment increases.
- ▶ **Earned Income Tax Credit** - Temporary increase up to \$5,657 for taxpayers with 3 or more qualifying children.
- ▶ **Appliance Rebate** - Arizona received \$6.3M in rebate funding. Proportional to population.

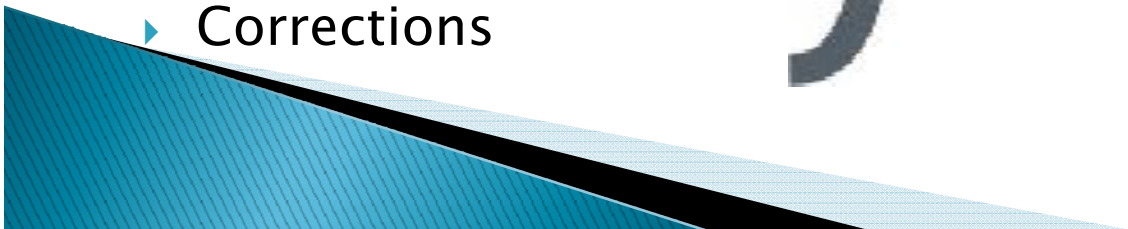


FY 2011 Funding Cliffs

- ▶ AHCCCS (Medicaid)
- ▶ Health Services
- ▶ Economic Security
- ▶ K-12 Education
- ▶ Universities
- ▶ Community Colleges
- ▶ Corrections



Over \$1 Billion

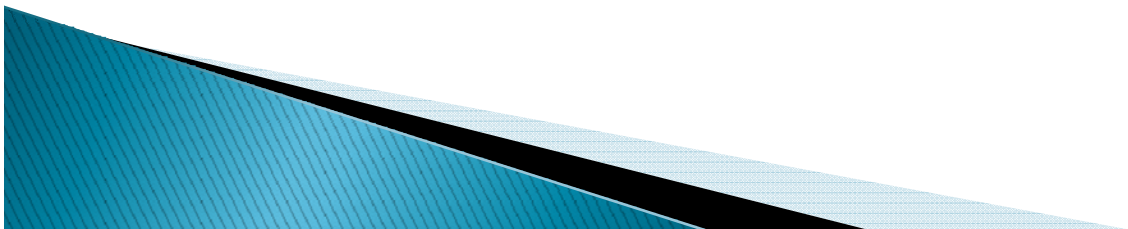


Long-Term Benefits of ARRA



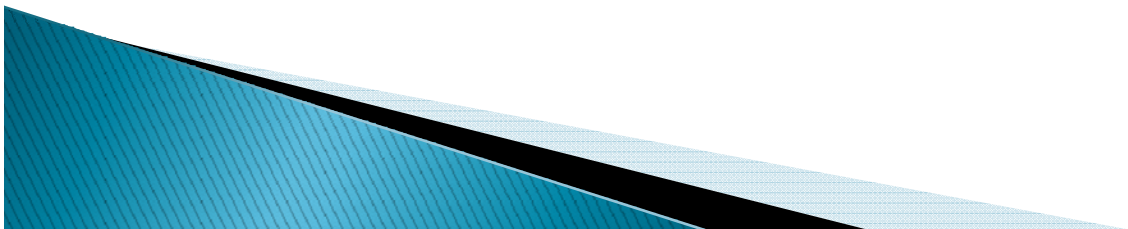
Transparency & Communication

- ▶ State and Federal Websites
 - ▶ AZRecovery.gov
 - ▶ Recovery.gov



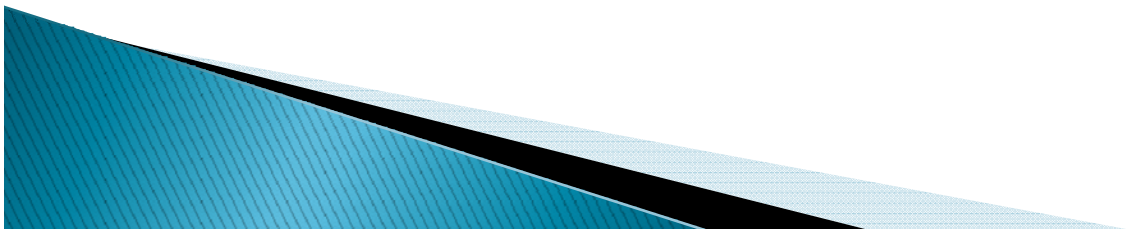
Future of Transparency

- ▶ ARRA Section 1512 Reporting Model
- ▶ Federal Fiscal Accountability and Transparency Act of 2006 (FFATA) Model
 - USAspending.gov



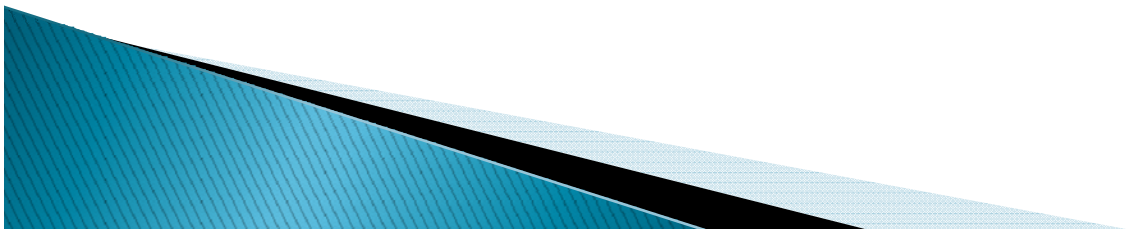
Arizona Opportunities

- ▶ Better Financial Management of Federal Grants
- ▶ Centralized Grants Management



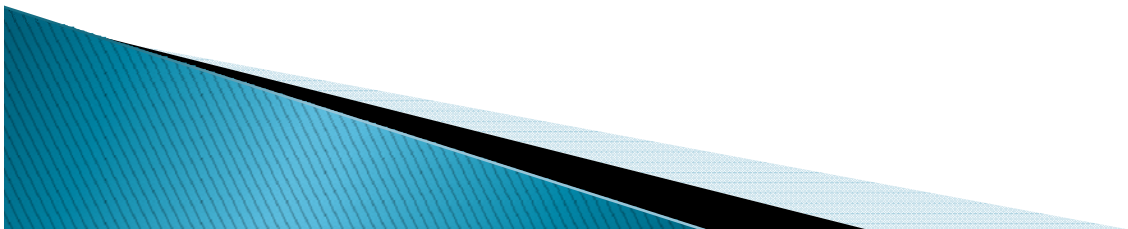
ARRA Downside

- ▶ Long Term Federal Debt
 - How are we going to pay for this?
- ▶ Federal Influence on State Policy
 - Race to the Top
 - Healthcare



...In Conclusion

- ▶ ARRA funds provided Fiscal Stabilization for State budgets
- ▶ ARRA Reporting introduced a new level of Government Transparency & Accountability
- ▶ ARRA Collaboration is improving Grants Management and Comprehensive Fiscal Management



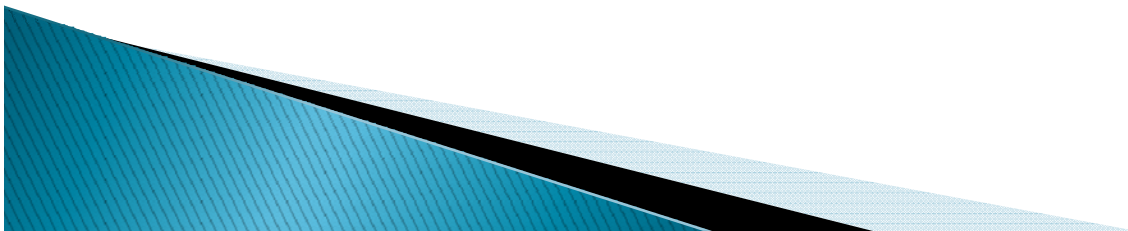
...And Now

Lisa Esgar

Deputy Director

Governor's Office of State Planning and Budgeting

State of Colorado



How States are Affected by ARRA

Lisa Esgar
Deputy Director
Governor's Office of State Planning and Budgeting



July 28, 2010
National Association of State Budget Officers

Outline

1. Maintenance of Effort
2. Administrative Costs
3. 16 States: GAO Review
4. Can We Affect the Past: Monitoring
5. Continuing Oversight as Administrations Transition

State Budget Status



Source: Colorado
Department of
Transportation

Governor Ritter's Office of State Planning and Budgeting
Colorado

Federal Stimulus Funds



Although the American Recovery and Reinvestment Act of 2009 (ARRA) helps Colorado address the economic downturn in many ways, the most direct ways it helps with the State Budget are through:

- The enhanced federal match for Medicaid (FMAP);
- Backfilling cuts to higher education with State Fiscal Stabilization Funds (SFSF); and
- Governor discretionary funds in the SFSF.

Budget Impacts in Colorado

Fiscal Year	FMAP	SFSF Education Stabilization Fund	SFSF Government Services Fund
2008-09	\$215,721,373	\$150,676,055	\$34,337,983
2009-10	\$331,409,119	\$382,008,243	\$100,188,305
2010-11	\$378,734,227	\$89,194,099	\$3,605,498
Total	\$925,864,719	\$621,878,397	\$138,131,786
Grand Total			\$1,685,874,902

Source: OSPB. For Education Stabilization Fund, based on January 27, 2010 Higher Education request "S-04, BA-03". For FMAP, based on March 5, 2010.

- Less \$211.7 million in FY 2010-11

Maintenance of Effort

- On May 1, 2009, the U.S. DOE submitted guidance saying "the level of state support may be actual amounts or projected amounts that are based on the best available data."
- Sept 2009 Colorado submitted waiver request for FY 2009-10.
- On October 28, 2009, e-mail communication notified Colorado that the waiver would not be approved unless the actual numbers matched the numbers on the waiver application.
- In January 2010, US DOE changed the guidance to say: "the level of state support must be final amounts or projected amount unlikely to be revised" and that DOE "will not make a final determination...until after the conclusion of the fiscal year."



So ...



- No decisions on maintenance of effort waivers until actuals have been reported
- If revenue or expenditure actuals change significantly at the end of the year, states may have to return funds collected under an MOE waiver?
- If a state has budgeted, received, and expended funds under an approved MOE waiver, what would the state do should the waiver not be approved ... after the year has closed?
- It is my understanding that no FY 2009-10 waiver requests have been approved.
- As year is closing, not an issue? But what about FY 2010-11

ARRA Administration

- Office of Management and Budget (OMB) Memo M-09-18 set 0.5% to be taken from all ARRA federal grants for states to cover administrative costs associated with the Act (May 11, 2009)
- States were prohibited from using current indirect fund sources to cover those costs (July 2, 2009). The U.S. Department of Health & Human Services Division of Cost Allocation (DCA) required the ARRA administrative costs be charged to ARRA grants and not other federal grants.

ARRA Administration (continued)

- ARRA Section 1552 provides federal agencies with authority to "reasonably adjust applicable limits on administrative expenditures for federal awards to help awards recipients defray the cost of ... requirements ... pursuant to this Act."
- OMB M-10-14 March 22, 2010: Requires federal agencies to "not implement any additional limits or caps." Federal agencies should report to OMB by April 30, 2010 any additional limits or caps placed on the recovery of administrative costs."

Colorado's Plan



- The State of Colorado submitted and received approval of its ARRA State Wide Cost Allocation Plan (SWCAP) from the Federal Division of Cost Allocation.
- \$4.6 million estimated to be paid under SWCAP, with an additional \$1.7 million direct billed = \$6.3 million
- Roll-forward spending authority for FYs 2010-11 through FY 2012-13
- 0.2% not 0.5%

Centers for Medicaid and Medicare Services (CMS)

- At first, CMS stated that the reimbursement of any administration related to the enhanced FMAP was disallowable (March 10, 2010).
- CMS revised its position to say federal regulations only permitted it to pay 50% of the administrative costs (March 31, 2010, June 22, 2020)
- DCA stated that "program specific limitations are allowed to apply."
- CMS stated that it doesn't have explicit authority to cover the admin costs.

US DOE

- May 12, 2010 teleconference with Arizona, California, Massachusetts, Ohio: Adamant that by establishing limits in the formal rule making process and federal register, they followed ARRA requirements.
- Higher Education and Education in Colorado had to come up with other sources to fund their administrative obligation.

GAO Audits



- Nationally, as of July 9, 2010, the U.S. Department of the Treasury has paid out \$137.1 billion in Recovery Act funds for use in states and localities. \$84.2 billion of that amount has been paid since October 1, 2009.
- The latest GAO report was released May 26, 2010.

Source: <http://www.gao.gov/recovery>

GAO Audits

- The Government Accounting Office has statutory responsibility under Section 901 of ARRA to conduct reviews every two months.
- Colorado is one of 16 states selected by the United States Government Accountability Office (GAO) for additional oversight.
- The GAO is expected to coordinate with State Auditor Offices.

In Colorado, the GAO reviewed ...

- The state's use of Recovery Act funds and its reporting of Recovery Act expenditures to federal agencies
- State Fiscal Stabilization Funds (SFSF)
- Highway Infrastructure Investment
- Individuals with Disabilities Education Act, Part B
- Elementary and Secondary Education Act, Title I, Part A
- Clean Water and Drinking Water State Revolving Funds
- The State's system of internal controls
- By visiting local governments to better understand their use of and controls over Recovery Act funds

Next Steps with GAO Audits

- Past: Bi-monthly reports from a GAO Colorado Team
- Future: After this next report, Colorado will continued to be reviewed, but by program-specific teams



Monitoring



- Get the money out fast
- Guidance on program requirements comes as grants are already going out the door
- States will be "monitored by US DOE for how they are monitoring."
- There are no guidelines or requirements for state monitoring.

GAO Monitoring of SFSF

- How is the state determining what level of review is necessary for each entity receiving SFSF funds?
- When do you expect to have initial monitoring reports, with recipient feedback and any necessary corrective actions?
- What challenges do you face, if any, in implementing your SFSF monitoring efforts?

Continuing Oversight as Administrations Transition

- How do we keep the lessons learned for new administrations?
- Will GSF awards already made but not expended be supported by future administrations?
- Can we maintain reporting expertise if staff turnover during transition?



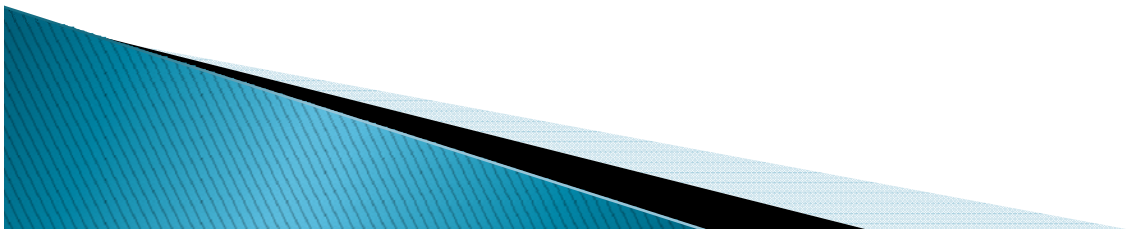
...And Finally

Mike Morrissey

Senior Advisor

Office of Governor Rick Perry

State of Texas



Addressing ARRA Challenges


Mike Morrissey

Senior Advisor

Office of Governor Rick Perry



Potential Improvements (Lessons Learned?)

- I. Fewer federal strings for states
 - II. Feds should pay state costs of administering federal requirements
 - III. Clear, consistent guidance, milestones, timelines (centralized if necessary)
 - IV. Better coordinated audits / inspections
 - V. Clear delineation of responsibility for money coming to states outside of state government
 - VI. Continue to refine / add clarity to federal reporting sites, especially if they are to serve as models for future reporting
- 

Texas on Recovery.gov

Category	Ending September 30, 2009	Ending December 31, 2009	Ending March 31, 2010
Jobs Reported	-	33,541.50	43,480.71
Amount Awarded	\$ 10,663,444,173	\$ 11,325,573,400	\$ 13,202,094,760
Amount Received	\$ 1,814,652,769	\$ 2,724,765,119	\$ 2,901,446,624
Expenditures	\$ 451,611,738	\$ 1,289,266,443	\$ 2,515,961,785

Questions?

James Apperson

p. 602.542.6402

e. japperson@az.gov

Lisa Esgar

p. 303.866.3024

e. lisa.esgar@state.co.us

Mike Morrissey

p. 512.463.1778

e. mmorrissey@governor.state.tx.us

