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AMERICAN RECOVERY AND REINVESTMENT ACT FUNDING AND MICHIGAN'S STATE BUDGET

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An estimated \$7.8 billion will be appropriated in Michigan's state budget over a three-year period from funds received under the federal American Recovery and Reinvestment Act (ARRA). Approximately half of those funds will be expended for targeted, short-term activities in areas such as transportation infrastructure, K-12 education, assistance to low-income households, workforce development, energy efficiency, and pollution control.

The remaining ARRA funds—an estimated total of \$3.8 billion—have been or will be used to support ongoing items in the state budget. Those funds have allowed budget-balancing actions (beyond those already taken) to be avoided that otherwise would have been required for fiscal year (FY) 2008-09 and FY 2009-10. As the FY 2010-11 and FY 2011-12 state budgets are constructed, however, the unavailability of the \$1.6 billion in ARRA funds built into the FY 2009-10 budget will require budget reductions and/or revenue increases totaling that amount to be adopted in order to maintain a balanced state budget.

Background Information

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA) into law. The act itself states that its purposes include the following:

- (1) *To preserve and create jobs and promote economic recovery.*
- (2) *To assist those most impacted by the recession.*
- (3) *To provide investments needed to increase economic efficiency by spurring technological advances in science and health.*
- (4) *To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.*
- (5) *To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.¹*

The act's total financial impact is estimated at \$787 billion. Of that amount, \$288 billion is being provided in the form of tax benefits for individual and corporate taxpayers. The remaining \$499 billion represents funds that will be expended by the federal government on a variety of programs over a multi-year period.²

¹ Section 4 of the American Recovery and Reinvestment Act of 2009.

² <http://www.recovery.gov/>

The Council of State Governments indicates that up to \$330 billion of that \$499 billion could be available for state governments or state-related programs, as follows:

1. *Almost \$100 billion in flexible funding that SUPPLANTS state spending (Medicaid and flexible funding under the Fiscal Stabilization Fund)*
2. *As much as \$130 billion in formula funding that SUPPLEMENTS state spending (Transportation, Education, Job Training, etc.)*
3. *Up to \$100 billion in competitive grant funding OPPORTUNITIES (Energy Efficiency Grants, Education Incentive Grants, etc.)³*

This report provides information on ARRA funding that has been appropriated in Michigan's state budget to date or has been identified as available for appropriation in the future. An overview of the various purposes of the funds appropriated in the different areas of the state budget is provided, and the outlook for balancing the state's budget once the ARRA funds are no longer available is discussed.

Please note that the information in this report is limited to ARRA funds that have been clearly identified (as of November 30, 2009) for appropriation in the state budget for the period of fiscal year (FY) 2008-09 through FY 2010-11. The following categories of ARRA funding are not included:

- Funds distributed by the federal government directly to local governments or other entities within the state (e.g., public housing-related programs, student financial aid increases).
- Funds that may be received through competitive grant programs that have not yet been awarded and/or received by the state (e.g., High Speed Rail Development Grants, "Race to the Top" education funding).
- A relatively small amount of funds that will be available for appropriation in state budget years after FY 2010-11 (e.g., food assistance; see Human Services section below).

The appropriation totals presented in this report will, therefore, understate the total potential financial impact of ARRA funding in Michigan.

TABLE 1
Total Estimated ARRA Appropriations

<u>Budget Area</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>Total</u>
Agriculture	\$0	\$22,300	\$0	\$22,300
Community Health	1,027,703,900	1,080,092,400	284,400,000	2,392,196,300
Corrections	189,600,000	0	0	189,600,000
Education	925,008,000	0	0	925,008,000
Energy, Labor, Econ Growth	440,992,700	38,040,000	0	479,032,700
Environmental Quality	248,600,000	0	0	248,600,000
Higher Education	0	68,238,000	0	68,238,000
History, Arts, and Libraries	350,000	0	0	350,000
Human Services	533,679,900	436,666,200	233,296,600	1,203,642,700
Management and Budget	2,000,000	0	0	2,000,000
Military and Veterans Affairs	8,147,100	0	0	8,147,100
Natural Resources	2,692,000	0	0	2,692,000
School Aid	600,000,000	450,000,000	184,129,000	1,234,129,000
State Police	99,100,000	0	0	99,100,000
Transportation	912,251,000	0	0	912,251,000
Treasury: MI Strategic Fund	9,300,000	0	0	9,300,000
TOTAL	\$4,999,424,600	\$2,073,058,900	\$701,825,600	\$7,774,309,100

Sources: Enacted/pending appropriations, HFA estimates.

³ <http://www.staterecovery.org/federal-assistance>

ARRA Funds by Fiscal Year

Table 1 shows ARRA funds appropriated or estimated amounts anticipated to be appropriated in Michigan's state budget over a three-year period. The appropriations are categorized by state fiscal year and budget area. Total amounts to be appropriated by fiscal year are as follows:

Fiscal Year 2008-09

As of November 30, 2009, \$5.0 billion in supplemental appropriations to the FY 2008-09 state budget from ARRA funds have been approved by the Michigan Legislature and signed into law by the Governor. Generally speaking, these appropriations have been given work project status, allowing for the funds to be expended over a multi-year period ending with FY 2011-12. The actual length of time over which ARRA funds will be expended varies by the particular program.

Fiscal Year 2009-10

For FY 2009-10, the initial budget acts for the various state departments and budget areas contain a total of \$2.0 billion in ARRA funds. The majority of those funds represents appropriations specific to supporting state budget items for FY 2009-10. Another estimated \$70.6 million in ARRA funds have been or are anticipated to be appropriated through FY 2009-10 supplemental budget bills. Some FY 2009-10 appropriations also have multi-year work project status.

Fiscal Year 2010-11

An estimated \$701.8 million in ARRA funds will be available for appropriation in the FY 2010-11 budget.

In sum, it is anticipated that at least \$7.8 billion in ARRA funds will be appropriated in Michigan's state budget over the course of FYs 2008-09, 2009-10, and 2010-11.

ARRA Funds by Budget Area

Below are brief summaries of the purposes for which ARRA funds have been or will be appropriated in the various areas of the state budget. These summaries are intended to provide only a general overview of each ARRA-funded program. More detailed information on ARRA appropriations and links to outside ARRA-related resources are available on the House Fiscal Agency website.⁴

Agriculture

- \$22,300 for grants to provide assistance to eligible aquaculture producers for losses associated with high feed input costs during the 2008 calendar year. (Anticipated FY 2009-10 appropriation)

Community Health

- \$2.3 billion is available over the 3-year period due to a temporary increase in Michigan's Federal Medical Assistance Percentage (FMAP) rate—from 60.27% to 70.08% in FY 2008-09, with further increases to 73.27% in FY 2009-10 and 75.87% in the first quarter of FY 2010-11. The resulting increase in federal funds for Medicaid-funded services reduces the amount of local, state restricted, and GF/GP funds that would otherwise be needed to fund those services. The estimated amounts of increased federal funds and resulting GF/GP savings by fiscal year are as follows:
 - \$980.8 million in FY 2008-09; GF/GP savings of \$857.9 million
 - \$1,077.1 million in FY 2009-10; GF/GP savings of \$977.5 million
 - \$284.4 million in FY 2010-11 (first quarter of state fiscal year only); GF/GP savings of \$256.5 million
- \$41.2 million for Byrne Justice Assistance Formula Grants, which fund a variety of state and local law enforcement-related activities intended to prevent and control drug-related crime. (FY 2008-09 appropriation)
- \$3.2 million for nutrition and meal programs for seniors provided through area agencies on aging. (FY 2008-09 appropriation)

⁴ <http://www.house.mi.gov/hfa/federal.asp>

- \$2.4 million to support vaccine administration at local health departments and increase child and adult vaccinations. (FY 2009-10 appropriation)
- \$1.5 million for compensation to crime victims who suffer bodily injury and crime victim justice assistance grants. (FY 2008-09 appropriation)
- \$792,000 for Senior Community Service Employment Program. (FY 2008-09 appropriation)
- \$310,000 for a surveillance and prevention program to reduce health care-associated infections in hospitals and in the community. (FY 2009-10 appropriation)
- \$160,000 to improve data quality and support epidemiologic analysis of immunization data in the Michigan Care Improvement Registry. (FY 2009-10 appropriation)
- \$150,000 to improve the quality of health care provided in ambulatory surgical centers. (FY 2008-09 appropriation)
- \$130,000 for the recruitment and retention of health care professions in under-served communities. (FY 2009-10 appropriation)

Corrections

- \$189.6 million from the Government Services portion of the State Fiscal Stabilization Fund revenue available to Michigan utilized in FY 2008-09 to offset existing GF/GP appropriations for payroll costs of parole/probation, health care, and select correctional facility staff.

Education

- \$426.4 million for special education-related formula grants to school districts based on Individuals with Disabilities Education Act (IDEA) criteria. (FY 2008-09 appropriation)
- \$390.1 million for disadvantaged student-related formula and incentive grants to school districts based on Elementary and Secondary Education Act (ESEA) criteria. (FY 2008-09 appropriation)
- \$75.0 million for school improvement grants to school districts based on ESEA criteria. (FY 2008-09 appropriation)
- \$24.5 million for grants to school districts for education technology. (FY 2008-09 appropriation)
- \$4.1 million for costs associated with distribution of commodities under the Emergency Food Assistance Program. (FY 2008-09 appropriation)
- \$2.5 million for competitive grants to school districts for school lunch equipment assistance. (FY 2008-09 appropriation)
- \$2.5 million to improve the academic achievement of homeless children. (FY 2008-09 appropriation)

Energy, Labor and Economic Growth

- \$183.3 million through July 2011 under the Workforce Investment Act to provide employment and training services to adults, disadvantaged youth, and displaced workers. (FY 2008-09 appropriation)
- \$82.1 million over three years for the State Energy Program for projects that reduce energy and fossil fuel consumption, including improved energy efficiency in government buildings, and continued development of the renewable energy and wind energy sectors. (FY 2008-09 appropriation)
- \$69.5 million to the Unemployment Insurance Agency as its "one-third" share for using an alternate base period to determine monetary eligibility for Unemployment Insurance benefits, to be used for administrative costs and information technology improvements. (FY 2008-09 appropriation)
- \$38.0 million to supplement existing Workforce Investment Act displaced worker funds to respond to the needs of communities affected by major economic dislocation events that cannot be adequately remedied with existing formula grants. (FY 2009-10 appropriation)
- \$26.6 million over three years for Energy Efficiency and Conservation Block Grants to fund energy efficiency projects by the state and local units of government. (FY 2008-09 appropriation; actual amount available now projected to be \$19.6 million)
- \$18.8 million in trade adjustment assistance to provide employment and training services to individuals laid off from employment because of trade reasons. (FY 2008-09 appropriation)
- \$15.4 million to the Michigan Rehabilitation Services for occupational and vocational training for individuals with disabilities. (FY 2008-09 appropriation)
- \$14.9 million to the Unemployment Insurance Agency to improve administration of Unemployment Insurance programs, improve outreach to claimants, and make information technology improvements. (FY 2008-09 appropriation)
- \$14.2 million for two years under the Wagner-Peyser Act for re-employment services (job search assistance, assessments, etc.) for displaced workers. (FY 2008-09 appropriation)

- \$9.6 million through February 2012 to provide consumers with a rebate for the purchase of energy efficient appliances. (FY 2008-09 appropriation)
- \$4.0 million to the Michigan Commission for the Blind to provide vocational rehabilitation services for blind individuals. (FY 2008-09 appropriation)
- \$1.1 million for three years to the Public Service Commission to incorporate new energy portfolios and new energy applications into energy assurance and emergency preparedness plans to minimize the impact of energy disruptions. (FY 2008-09 appropriation)
- \$1.0 million for four years to the Public Service Commission to enhance its capacity to implement a number of electricity-related provisions in the ARRA. (FY 2008-09 appropriation)
- \$290,700 for grants to the 15 Centers for Independent Living to provide vocational rehabilitation services for persons with disabilities. (FY 2008-09 appropriation)
- \$100,000 to the Michigan Occupational Health and Safety Administration to enhance its enforcement of health and safety standards at ARRA-funded projects. (FY 2008-09 appropriation)

Environmental Quality

- \$237.0 million to be distributed to municipal waste water system operators for grants and projects under the Clean Water State Revolving Fund and the Drinking Water Revolving Fund. (FY 2008-09 appropriation)
- \$8.0 million for remediation of contaminated underground storage tank sites. (FY 2008-09 appropriation)
- \$1.8 million for diesel emission reduction grants to local governments and nonprofit owners of on- and off-road vehicles and equipment. (FY 2008-09 appropriation)
- \$1.8 million to develop total maximum daily loads for treatment plants and for waste water operating training, as well as local government surface water projects. (FY 2008-09 appropriation)

Higher Education

- \$68.2 million from the Education portion of the State Fiscal Stabilization Fund revenue available to Michigan utilized in FY 2009-10 to partially offset state funding reductions to appropriations for the 15 state universities, the Agricultural Experiment Station, and the Cooperative Extension Service.

History, Arts and Libraries

- \$350,000 for art projects and activities to be determined by the Michigan Council for Arts and Cultural Affairs, subject to federal guidelines. (FY 2008-09 appropriation)

Human Services⁵

- \$772.4 million for a 13.6% increase in food assistance payments. Increase is phased out over the next few years as the annual cost-of-living adjustments catch up to the one-time increase to the new benefit level.
 - \$200.0 million in FY 2008-09
 - \$343.4 million in FY 2009-10
 - \$229.0 million estimated in FY 2010-11
 - Additional amounts available in FYs 2011-12 and 2012-13 under Congressional Budget Office estimates
- \$244.0 million to weatherize the homes of persons with income levels below 200% of the federal poverty level. Funding is primarily distributed to local community action agencies. (FY 2008-09 appropriation)
- \$58.7 million in child care and development funds used to fund child day care subsidies and other early education programs—\$7.7 million of which is earmarked for quality improvements.
 - \$7.4 million in FY 2008-09; GF/GP savings of \$1.7 million
 - \$21.1 million in FY 2009-10; GF/GP savings of \$21.1 million
 - \$30.3 million balance available for appropriation in FY 2009-10; could generate GF/GP savings (not reflected in this report, pending policy decision on use of funds)
- \$36.8 million in community services block grant funding for local community action agencies to support social service programming based on local need. (FY 2008-09 appropriation)

⁵ Not reflected elsewhere in this report, due to the preliminary nature of the information, is \$57.9 million from the Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund to be received for FY 2008-09, which reflects a federal contribution for 80% of the costs of increased spending on eligible activities. For Michigan, this primarily reflects spending on the state Earned Income Tax Credit (EITC). If the state EITC is raised to 20% of the federal credit, as currently scheduled for FY 2009-10, the state could draw down an estimated \$160 million in TANF Emergency Contingency Funds in FY 2009-10.

- \$36.6 million is available over the three-year period due to a temporary increase in Michigan's federal IV-E FMAP rate—initially from 60.27% to 66.47%. The resulting increase in federal funds for IV-E-funded services reduces the amount of GF/GP funds that would otherwise be needed to fund those services.
 - \$15.0 million in FY 2008-09; GF/GP savings of \$15.0 million
 - \$17.3 million in FY 2009-10; GF/GP savings of \$17.3 million
 - \$4.3 million estimated in FY 2010-11 (first quarter of fiscal year only); GF/GP savings of \$4.3 million
- \$33.4 million in GF/GP savings from allowing states to use federal child support incentive payments as match to draw down additional federal dollars, reversing a 2006 change in federal law. Eliminates the need for Michigan to use \$16.7 million annually in GF/GP to hold program harmless in FY 2008-09 and FY 2009-10.
- \$12.8 million for food assistance program administrative expenses. State share is based on state's share of food assistance households and the change in caseload.
 - \$7.2 million in FY 2008-09
 - \$5.6 million in FY 2009-10
- \$4.1 million in STOP Violence Against Women programs, which supports domestic violence prevention and treatment programs. (FY 2008-09 appropriation)
- \$2.6 million to support the AmeriCorps volunteer programs. Funding includes both the formula grant and the competitive grant received by DHS. (FY 2008-09 appropriation)
- \$2.0 million in transitional supportive housing revenues to provide support services and transitional housing for persons who are fleeing a situation of domestic violence, sexual assault, or stalking. (Anticipated FY 2009-10 appropriation)
- \$250,000 in faith-based grant revenues to provide training and technical assistance to strengthen the organizational capacity of faith-based and neighborhood organizations through the Michigan Capacity-Building Recovery Program. (Anticipated FY 2009-10 appropriation)

Management and Budget

- \$2.0 million for costs of operating Michigan Economic Recovery Office for three years; office provides statewide oversight, tracking, and accountability of ARRA funds, including maintenance of state ARRA website. (FY 2008-09 appropriation)

Military and Veterans Affairs

- \$7.9 million for maintenance and improvement projects at National Guard facilities (Camp Grayling, Fort Custer, Lansing Headquarters). (FY 2008-09 appropriation)
- \$297,100 for fire suppression sprinkler system improvements at Grand Rapids Veterans Home. (FY 2008-09 appropriation)

Natural Resources

- \$2.7 million to combat invasive species through direct control efforts statewide. (FY 2008-09 appropriation)

School Aid

- \$1.2 billion from the Education portion of the State Fiscal Stabilization Fund revenue available to Michigan utilized over three years to partially offset state funding reductions in School Aid budget.
 - \$600.0 million in FY 2008-09
 - \$450.0 million in FY 2009-10
 - \$184.1 million estimated in FY 2010-11

State Police

- \$98.1 million from the Government Services portion of the State Fiscal Stabilization Fund revenue available to Michigan utilized in FY 2008-09 to offset existing GF/GP appropriations for payroll costs of troopers, other law enforcement personnel, and forensic laboratory staff.
- \$1.0 million for competitive grants to prevent internet crimes against children. (FY 2008-09 appropriation)

Transportation

- \$635.4 million for State Trunkline road and bridge construction. (FY 2008-09 appropriation)
- \$211.8 million for local road and bridge construction. (FY 2008-09 appropriation)
- \$30.4 million for airport improvement projects at five Michigan airports. (FY 2008-09 appropriation)

- \$21.9 million for capital acquisitions, such as bus replacement, by public transit agencies in non-urbanized areas. (FY 2008-09 appropriation)
- \$8.3 million for ferry dock and terminal funding to be passed through as grants to Detroit-Wayne County Port Authority (Detroit City Dock) and Eastern Upper Peninsula Transportation Authority (Ste. Mary's River Ferry system). (FY 2008-09 appropriation)
- \$3.9 million for capital acquisitions, such as bus replacement, supporting intercity bus service. (FY 2008-09 appropriation)
- \$531,500 for bus capital grants to four transit systems to retrofit and refurbish eligible transit buses with demonstration hybrid technology installations. (FY 2008-09 appropriation)

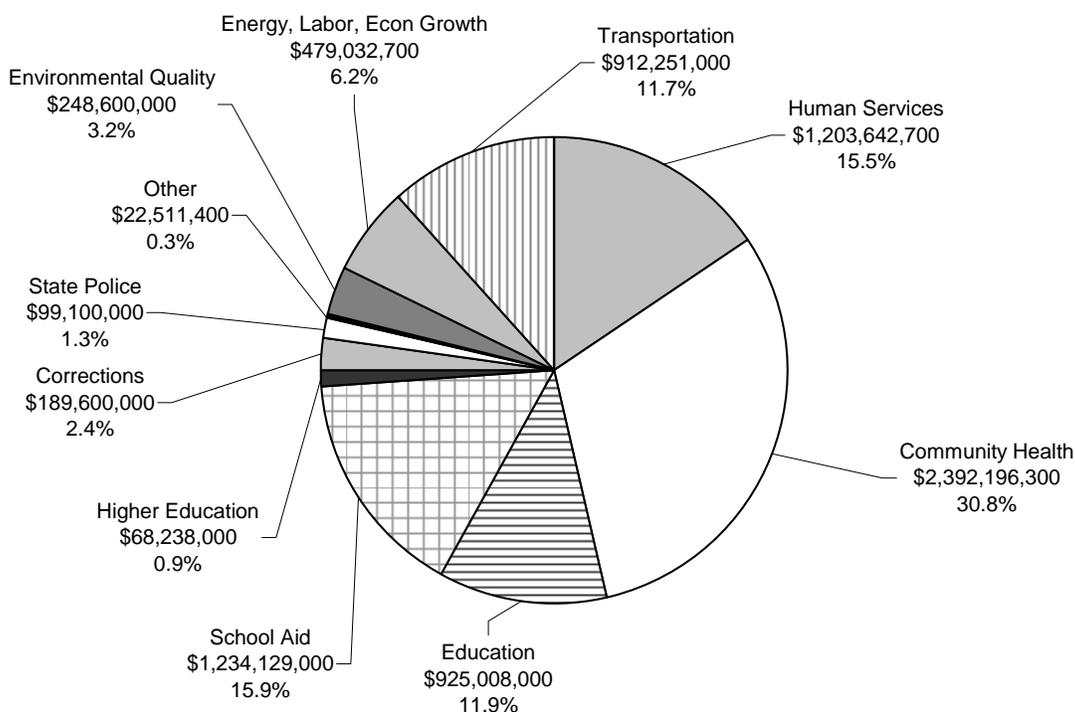
Treasury - Michigan Strategic Fund

- \$9.0 million to reimburse local communities for infrastructure enhancements and housing projects under the Community Development Block Grant Program (CDBG). (FY 2008-09 appropriation)
- \$300,000 for technical support and related services to support the CDBG. (FY 2008-09 appropriation)

Total estimated ARRA appropriations by budget area are shown in Figure 1.

FIGURE 1
Total Estimated ARRA Appropriations by State Budget Area

Total = \$7.8 Billion



ARRA Funds Supporting Ongoing State Budget Items

Most items described above—accounting for roughly half of total estimated ARRA appropriations—represent funds received for targeted, short-term activities in particular program areas. The largest such areas are transportation infrastructure, K-12 education, assistance to low-income households, workforce development, energy efficiency, and pollution control.

There are, however, three types of ARRA funding streams that effectively support ongoing state budget items over the period of FY 2008-09 to FY 2010-11. The estimated funding amounts that have been or are anticipated to be appropriated from those funding streams are shown in Table 2. These streams were constructed to alleviate short-term budget shortfalls faced by states, as follows:

Increased Medicaid FMAP Rate and Other Provisions that Offset GF/GP Appropriations

The temporary increase in the state's Medicaid FMAP rate frees up a total of \$2.1 billion of state General Fund/General Purpose (GF/GP) revenue over three years in the Community Health budget that can be utilized for other purposes. The increased FMAP rate also frees up a smaller amount of revenue in the Human Services budget. Together with two other temporary federal policy provisions within ARRA, the total estimated amount of GF/GP revenue freed up in the Human Services budget over the three years is \$92.8 million.

State Fiscal Stabilization Fund: Government Services

Michigan received a total formula allocation of \$1.6 billion under the State Fiscal Stabilization Fund (SFSF). Of that amount 18.2 percent, or approximately \$290 million, was designated for "public safety or other government services." The use of these funds by states was fairly discretionary in nature. In Michigan, all but \$2.0 million of the funds (the portion used to fund the Michigan Economic Recovery Office) have been appropriated for public safety. For FY 2008-09, \$189.6 million was appropriated in the Corrections budget and \$98.1 million was appropriated in the State Police budget, offsetting existing GF/GP appropriations for payroll costs associated with public safety personnel employed by the two departments. These adjustments helped to bring the FY 2008-09 GF/GP budget into balance.

State Fiscal Stabilization Fund: Education

The remaining 71.8 percent of Michigan's SFSF allocation, equal to \$1.3 billion, was designated to "help restore for FY 2009, 2010, and 2011 support for public elementary, secondary, and postsecondary education to the greater of the FY 2008 or FY 2009 level." Under the state's application for these funds to the U.S. Department of Education, a little over \$1.2 billion will be utilized to partially offset shortfalls in the FY 2008-09, FY 2009-10, and FY 2010-11 School Aid budgets, and \$68.2 million will be utilized to fill a shortfall in the FY 2009-10 Higher Education budget for state university (GF/GP) funding. (No such shortfall existed in the FY 2008-09 Higher Education budget; insufficient funds were available to fill any shortfall for the FY 2010-11 budget.)

TABLE 2
Estimated ARRA Appropriations Supporting Ongoing State Budget Items

<u>Budget Area</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>Total</u>
<i>Increased FMAP Rate and Other Provisions that Offset GF/GP Funds</i>				
Community Health	\$857,941,900	\$977,546,100	\$256,500,000	\$2,091,988,000
Human Services	33,317,900	55,104,800	4,328,700	92,751,400
Subtotal	\$891,259,800	\$1,032,650,900	\$260,828,700	\$2,184,739,400
<i>State Fiscal Stabilization Fund: Government Services</i>				
Corrections	\$189,600,000	\$0	\$0	\$189,600,000
State Police	98,100,000	0	0	98,100,000
Subtotal	\$287,700,000	\$0	\$0	\$287,700,000
<i>State Fiscal Stabilization Fund: Education</i>				
Higher Education	\$0	\$68,238,000	\$0	\$68,238,000
School Aid	600,000,000	450,000,000	184,129,000	1,234,129,000
Subtotal	\$600,000,000	\$518,238,000	\$184,129,000	\$1,302,367,000
TOTAL	\$1,778,959,800	\$1,550,888,900	\$444,957,700	\$3,774,806,400

Sources: Enacted/pending appropriations, HFA estimates

In sum, these three ARRA funding streams are providing an estimated \$3.8 billion over a three-year period to support ongoing state budget items (also shown in Figure 2):

- \$1.8 billion in the FY 2008-09 budget
- \$1.6 billion in the FY 2009-10 budget
- \$445.0 million in the FY 2010-11 budget

These funds have allowed the state to avoid the total level of budget reductions and/or revenue increases that otherwise would have been required to balance the state's budgets for FYs 2008-09 and 2009-10.

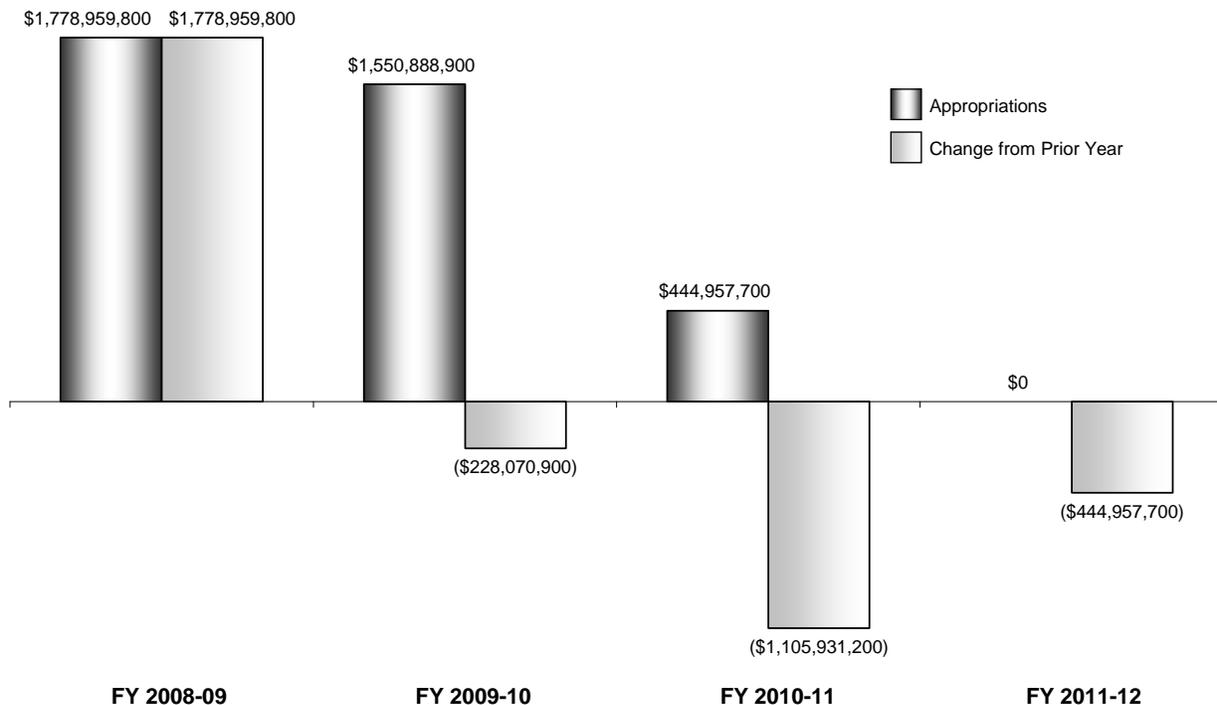
Outlook for Balancing Future State Budgets

Even accounting for ARRA funds available to support the state budget, substantial state funding reductions were implemented in the FY 2008-09 and FY 2009-10 budgets:

- Executive Order 2009-22 and an associated supplemental budget bill contained FY 2008-09 budget reductions that resulted in GF/GP savings of \$301.4 million.
- Total GF/GP appropriations in the FY 2009-10 state budget are \$441.1 million lower than FY 2008-09 year-to-date amounts.
- Reductions of \$346.3 million were made to restricted fund items (Revenue Sharing, Promise Grant Program, etc.) to redirect resources to the state's General Fund for FY 2009-10.
- Appropriations from School Aid Fund revenue were reduced by \$278.2 million from FY 2008-09 levels in the initial FY 2009-10 School Aid budget. The proration letter issued by the state treasurer in October reduced state funding in the FY 2009-10 School Aid budget by an additional \$212.0 million, for a total year-to-year reduction in School Aid Fund appropriations of \$490.2 million.

In sum, at least \$1.6 billion in budget reductions have been adopted by policy makers over a two-year budget period. Absent available ARRA funding, though, even larger reductions, or revenue increases, would have been necessary to balance the FY 2008-09 and FY 2009-10 state budgets.

**FIGURE 2
Estimated ARRA Appropriations Supporting Ongoing State Budget Items**



As the FY 2010-11 and FY 2011-12 state budgets are constructed, the declining availability of ARRA resources will require policy makers to make offsetting budget adjustments:

- In FY 2010-11, \$1.1 billion less in ARRA resources will be available to support ongoing state budget items than is available in FY 2009-10.
- In FY 2011-12, the remaining estimated \$445.0 million in ARRA resources for FY 2010-11 will no longer be available to support the state budget.⁶

Enactment of a balanced FY 2010-11 state budget will be further complicated by ARRA provisions requiring state support for K-12 and higher education operational funding to be maintained at no lower than FY 2005-06 levels (absent a federal waiver) and prohibiting the state from restricting Medicaid eligibility standards.

Conclusion

The current outlook for flat state economic growth in FY 2010-11 and the state income tax rate reduction (from 4.35 to 4.25) scheduled to occur at the beginning of FY 2011-12 means it is unlikely that growth in state tax revenues will replace a significant amount of ARRA funding over the next two budget years. Some combination of the following state budget actions will be required, therefore, to offset a total of \$1.6 billion in ARRA funding available to help balance the state GF/GP and School Aid budgets in FY 2009-10 that will not be available in FY 2011-12:

- Continuation of reductions in state funding for K-12 school districts and/or state universities, without the federal ARRA funding to offset them, resulting in reductions to the ongoing payment amounts received from the state by those entities.
- Reductions to other items in the state budget that are currently supported by GF/GP revenue freed up by ARRA funds.
- Replacement of ARRA revenues utilized in the FY 2009-10 budget to support ongoing state budget items with new or increased revenues, presumably from state-level sources.

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NOTE: The information in this report was prepared by House Fiscal Agency analysts. Kyle I. Jen, Associate Director, coordinated the writing of the report. Kathryn Bateson, Administrative Assistant, prepared it for publication.

⁶ Proposals currently being considered by Congress could potentially extend the increase in Michigan's Medicaid FMAP rate beyond the first quarter of FY 2010-11, but the outlook for such an extension being enacted into law remains uncertain.