

FEDERAL STIMULUS DOLLARS ARE WORKING FOR ARIZONA

(December 2009) As difficult as Arizona’s current fiscal situation is, it would have been much worse were it not for the infusion of American Recovery and Reinvestment Act (ARRA) dollars. Arizona governments will receive more than \$6.2 billion in ARRA funds between October 2008 and December 2010; \$4.3 billion will flow through Arizona state government, while \$1.9 billion will go directly to other governments, including Indian Tribes, school districts, and cities and towns.

The advantages to Arizona come in a variety of forms. Some Arizonans are getting a cushion to their own incomes through unemployment insurance or Food Stamps. Other Arizonans are able to keep their jobs as teachers or prison guards. Parents and children benefit because Arizona has been able to avoid some of the increases to school class sizes and cuts to child care and health care that would have happened without ARRA. And business owners and employees benefit because more products and services are being bought in Arizona for ARRA projects and for basic family needs.



WHERE
ARIZONA’S
GOVERNMENTAL
ARRA FUNDS
ARE

Health Coverage	\$1.8 billion
Education	\$2.4 billion
Human Services	\$690 million
Transportation	\$623 million
Stabilizing Government Services	\$185 million
Commerce/Energy	\$176 million
Environmental Quality/Water	\$101 million
Housing	\$99.5 million
Public Safety	\$30.1 million
Health Services	\$3.7 million
Other	\$93.4 million
TOTAL	\$6.2 billion

Source: Arizona Office of Economic Recovery. This total does not include funds going directly to individual benefits or competitive grants to businesses or governments.

JOBS SAVED AND CREATED

The American Reinvestment and Recovery Act is working in Arizona. The Governor's Office of Economic Recovery has detailed information reported by state agencies showing that thousands of Arizona jobs have been saved or created directly with ARRA funds. But jobs funded directly by ARRA funds tell only part of the story. Private economists, the GAO and Congressional Budget Office, and Moody's Economy.com agree that ARRA dollars have a ripple effect because they are used to purchase goods and services in local communities. **The most comprehensive analysis by the Council of Economic Advisers estimates that ARRA has saved or created about 21,400 jobs in Arizona as of August 2009.**

Some Examples of Jobs Saved Directly through ARRA Funds:

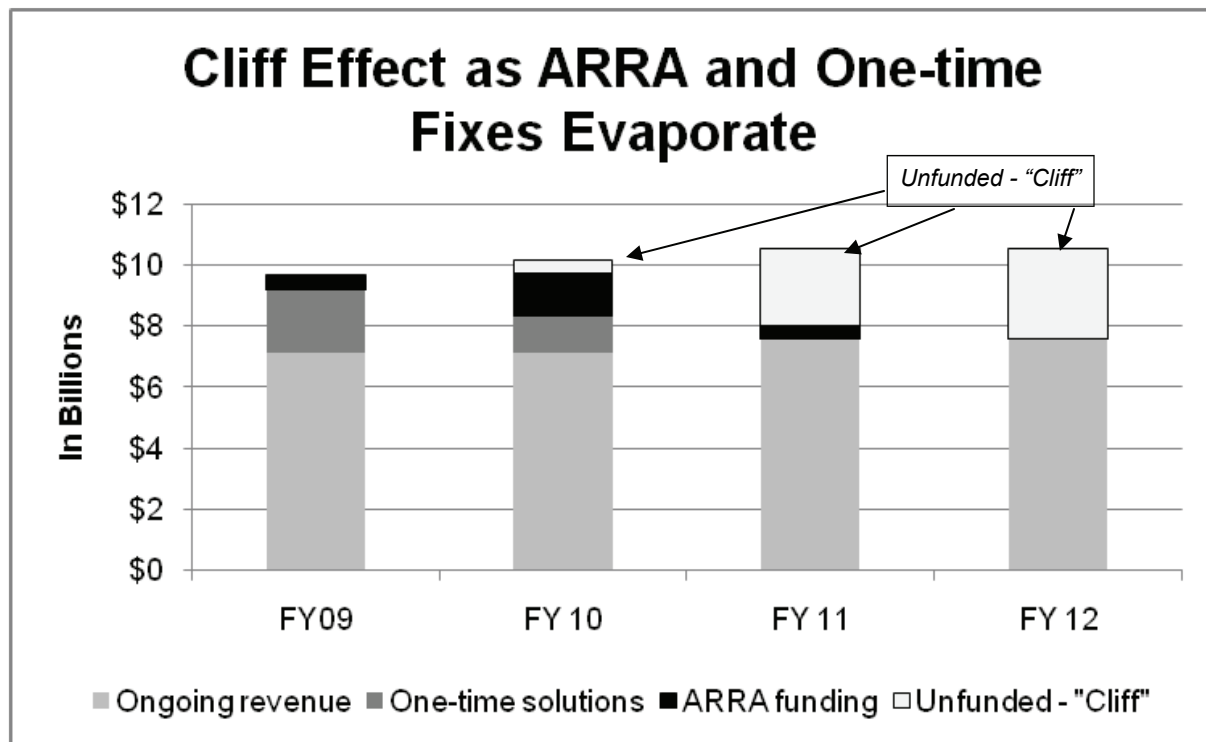
- **1,305** Department of Corrections officers (\$50 million in ARRA funds are being used to pay salaries for a portion of the year, the equivalent of 366 Full Time Equivalent positions)
- **6,977** elementary and high school teachers and college and university instructors
- **174** staff working in the clean water/drinking water arenas
- **133** law enforcement positions at the state and local levels
- **66** educators and specialists working with children who have disabilities or are homeless
- **14** staff assigned to federal border crimes issues

Source: Governor's Office of Economic Recovery, Arizona Funding Breakdown thru 9/30/09

ARIZONA FACES CHALLENGE OF THE "CLIFF EFFECT" AS ARRA FUNDS RUN OUT

For the most part, ARRA funds will not be available after December 31, 2010, in the middle of state fiscal year 2011. Arizona is using \$1.4 billion of ARRA dollars in FY 10 to fund programs that would normally be supported with general fund dollars. At the same time, state revenues continue to lag behind projected expenditures. Approximately \$1.2 billion in one-time revenues and one-time expenditure reductions are helping to fill the revenue gap in fiscal year 2010, but these one-time "fixes" will not carry forward. Demands on state resources are growing and the cost of funding ongoing state services is projected to increase by \$600 million between fiscal year 2009 and fiscal year 2011. Even before the recent announcement that this year's budget is \$2 billion in the red, the Joint Legislative Budget Committee staff were projecting a \$2.5 billion deficit for fiscal year 2011.

The December 2010 cutoff for ARRA funds is creating a “cliff effect”: a significant, rapid drop in resources.



Source: Joint Legislative Budget Committee. FY 12 assumes the same expenditure level as FY 11. \$250 million ARRA funds originally identified to be spent in FY 09 have been moved to FY 10.

Arizona is not alone in being concerned about the implications of the cliff effect. Indications are that Congress may extend portions of the stimulus funding in light of the prolonged shortfalls that states are projecting.

ARRA MONEY FLOWING THROUGH THE STATE BUDGET

More than half of the \$4.3 billion in ARRA funds that will flow through state government are replacing general fund dollars that have been cut from the budget:

- \$1.7 billion comes from an increase in the Federal Medical Assistance Percentage (FMAP), which results in a reduction in the amount of state match Arizona is required to provide for AHCCCS/Medicaid health coverage, behavioral health, and long term care for developmentally disabled individuals.
- In FY 10, ARRA funds are being substituted for some of the general funding cut from the state’s universities (\$10 million) and K-12 education budgets (\$472.1 million).
- Arizona is receiving \$50.9 million in additional child care funding. In FY 09 and again in FY 10, \$18.2 million was used to partially offset a \$25.3 million general fund cut to child care.

Other ARRA funds are being used for targeted services to retrain the state’s workforce, create jobs, and meet the needs of those who have been hit hard by the economic downturn. This includes \$42.5 million for workforce investment programs, \$622 million for highways, bridges, and transit projects, \$65 million for weatherization and energy efficiency projects, and \$3 million for emergency food/nutrition programs for the elderly.

GOVERNOR'S STABILIZATION FUND

Arizona will also receive \$185 million in Government Services Stabilization Funds. While some restrictions exist regarding use of these funds, such as maintaining a certain level of spending for K-12 and higher education, the decision on how to use the stabilization funds is made solely by the Governor. So far, Governor Brewer has released \$63.3 million to the Departments of Health Services, Corrections, and the Veterans Memorial Coliseum, with another \$43.3 million targeted to the Department of Economic Security. All but the funds going to the Coliseum are replacing general fund cuts or providing for increased caseloads that would normally be covered through an increased general fund appropriation. The Governor has not released her plans on how to spend the remaining \$78.5 million

GOVERNMENT SERVICES STABILIZATION FUND SPENDING PLAN

Department of Health Services <i>Community Health Centers</i> Replaces cuts to General Fund and Tobacco Fund appropriations – net gain is zero.	\$11,600,000
Department of Corrections <i>Officer salaries</i> Backfills General Fund reduction – net gain is zero.	\$50,000,000
Department of Economic Security <i>Home and Community Based Services for the Developmentally Disabled</i> Backfills General Fund reduction – net gain is zero.	\$ 15,000,000
<i>Children's Autism Programs</i> Backfills General Fund reduction – net gain is zero.	\$2,300,000
<i>Children's Services – Contracted services for children in the CPS system. This includes foster care, in-home supports, and emergency shelter placements.</i> Covers a portion, but not all, of the increased caseload costs.	\$18,000,000
<i>Child Protective Services</i> For investigating reports of child abuse and neglect.	\$5,500,000
<i>Adoption Services</i> Funds the subsidies provided to families who adopt children from foster care. The FY 10 appropriation remains at the same level as previous years despite continued growth.	\$2,500,000
Veterans Memorial Coliseum Roof replacement.	\$1,700,000
<i>Allocated Funding</i>	\$106,600,000
<i>Unallocated funds</i>	\$78,486,000
Total	\$185,086,000

Sources: Joint Legislative Budget Committee and the Governor's Office of Economic Recovery

EDUCATION STABILIZATION FUND

The Education Stabilization Fund is the broadest of the three education funding sources and was created to help states stabilize their education budgets by restoring funding to previous levels and resolving budget shortfalls. Arizona's allocation is \$832 million, which is being distributed to K-12 schools, universities and community colleges.

K-12 districts are using these funds primarily to pay teacher salaries and benefits. Some districts are also paying for operating expenses such as utilities and water or transportation. The universities are using their \$154 million to avoid personnel reductions and furloughs beyond those that had already taken place and to lower the cost of a tuition surcharge added for the Fall 2009 semester to offset the impact of budget cuts. This surcharge, ranging from \$1,609 to \$2,568 depending on the university, was cut to \$422 to \$766. However, this is a temporary situation: the universities have indicated the surcharge will be approximately \$2,700 once ARRA funds are no longer available.

HOW STIMULUS DOLLARS REDUCED UNIVERSITY TUITION SURCHARGE

	Anticipated	Actual
ASU	\$1,609	\$510
U of A	\$2,568	\$766
NAU	\$1,975	\$422

Source: General Accounting Office Report on ARRA and States, September 2009 Report

Community colleges are using their \$29 million to restore cuts to capital funds and operating budgets, thereby limiting tuition increases, preventing layoffs, and creating jobs.

ARRA MONEY FLOWING DIRECTLY TO SCHOOL DISTRICTS

Education for Disadvantaged Youth – The Elementary and Secondary Education Act (ESEA)

The second major source of education funding comes through Elementary and Secondary Education Act Title I funding (commonly referred to as No Child Left Behind). These dollars are aimed at professional teacher development to increase schools' capacity to serve disadvantaged youth.

Districts must submit an application for projects, which are then approved by the Arizona Department of Education. As of September 8, 2009, 426 applications had been submitted, of which 84 had been approved and another 133 were in the approval process. Elementary schools are using these funds to hire teachers, provide professional training to staff, and purchase supplies and equipment. A comprehensive list of projects for these and other education funding dollars is available at www.ade.state.az.us/Recovery.

\$185 million in ESEA funds are going to schools to help educate disadvantaged youth.

Source: General Accounting Office Report on ARRA and States, September 2009 Report

Education for Children with Disabilities – The Individuals with Disabilities Education Act (IDEA)

Arizona's \$183.7 million in IDEA funds will go to local school districts for K-12 education (\$178 million) and preschool programs (\$5.7 million). As with the Elementary and Secondary Education Act funds discussed above, school districts must submit their proposals to the Arizona Department of Education for approval. As of September 8, 2009, 166 out of the 740 applications expected had been approved (\$15.9 million) and another 176 had been submitted (\$36.8 million) and are being reviewed.

EDUCATING CHILDREN WITH DISABILITIES

K-12	\$178 million
Preschool	\$5.7 million

Source: General Accounting Office Report on ARRA and States, September 2009 Report

Most of the project proposals include items such as hiring special education teachers, purchasing instructional materials, supplies and software, and bringing in supplemental services such as speech therapists, Individual Education Plan (IEP) development, and evaluation monitoring. Some are more unique: at least one school is using some of its funds for staff to work with special needs students on career exploration, job placement, internships and university/college placement.

ARRA MONEY FLOWING DIRECTLY TO INDIVIDUALS

The American Recovery and Reinvestment Act includes provisions which benefit individuals and families directly. These dollars boost the local economy as families pay for food, housing, and other basic necessities. These ARRA benefits include:

- *Increase in food stamp benefits:* Although Food Stamps are administered by the Arizona Department of Economic Security, the actual benefits are funded entirely by the federal government. Effective April 1, 2009, the benefit was increased by 13.6%, about \$34 per month for a household of three. This change was estimated to result in an additional \$119 million per year in benefits in Arizona. Since food stamps are spent almost immediately and exclusively in local communities, every dollar of the increase is going into the local economy.
- *Extension and increase in unemployment insurance benefits:* Under ARRA, jobless workers who would have otherwise exhausted their unemployment insurance benefits received a 13 week extension. In addition, all workers received a \$25 per week increase. Both of these increases in benefits are being funded entirely with ARRA dollars. Estimates are that these two items are adding more than \$180 million to Arizona's economy in 2009. Like food stamps, these dollars are spent almost immediately and within local communities to pay rent, buy food, and pay for other daily necessities.
- *Potential deposit into Arizona's Unemployment Insurance Trust Fund:* Arizona is eligible for an additional \$150 million in unemployment insurance modernization money, which would be deposited into the unemployment insurance trust fund. To qualify, state laws regarding how unemployment insurance eligibility would need to be updated.
- *Increase in Pell Grants:* Arizona students will receive approximately \$7 million, granted directly to qualified students who apply.

- *Income tax credits, which reduce the amount of federal taxes owed:* ARRA includes a number of major income tax provisions:
 - ◇ The Making Work Pay Credit, which provides a tax credit of 6.2% of earned income (up to \$400) for taxpayers in 2009 and 2010. This credit is implemented through a reduction in federal withholding, putting more money into people's pockets every paycheck.
 - ◇ New Car Deduction for sales tax paid when purchasing new vehicles in 2009.
 - ◇ Suspension of taxes on unemployment benefits, up to \$2,400 of gross income.
 - ◇ The Alternative Minimum Tax Patch, which raises the AMT exemption amount.
 - ◇ An increase to the refundable federal Child Tax Credit for 2009 and 2010.
 - ◇ Changes to six Energy Tax Credits.
 - ◇ Increases to the Higher Education Tax Credit for 2009 and 2010, including making a portion of the credit refundable.
 - ◇ The First-Time Home Buyer Credit.
 - ◇ A temporary increase to the Earned Income Tax Credit for 2009 and 2010.

Four things are clear:

- ONE. Federal stimulus dollars are already at work in Arizona's economy. In some instances, the dollars began flowing very quickly; in others cases, there have been delays.
- TWO. Arizona has more jobs because of ARRA dollars. New jobs have been created and jobs that were at risk of being abolished have been saved.
- THREE. The state budget cuts, already deep and harmful, would have been much more severe were it not for these federal funds.
- FOUR. The "cliff" effect on the state budget as the result of ARRA funds running out is immediately in front of us. In all but a few cases, stimulus dollars will be used up or will no longer be available after December 31, 2010, leaving a significant hole in the FY 11 budget and an even greater cavity in subsequent years.



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