



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: September 23, 2010

TO: Members of the Legislative Finance Committee

FROM: Barbara Smith, Fiscal Analyst

RE: ARRA update

The purpose of this memo is to provide the committee with updates related to the expenditures authorized under HB 645 of the 2009 Legislature and provide information regarding recent amendments to federal American Recovery and Reinvestment Act (ARRA) legislation resulting in increased federal funds to Montana.

HB 645 UPDATE

Attached to this memo is a spreadsheet comparing the appropriations contained in HB 645 and the expenditure data as of September 24, 2010.

AMENDMENTS TO THE AMERICAN RECOVERY AND REINVESTMENT ACT

With the passage and approval of HR 1586 the ARRA was amended. The amendments included the Education Jobs Fund and an extension of enhanced FMAP rates, as well as rescissions to other programs to cover the cost of the amendments. The total fiscal impact to the state is between \$56.0 and \$61.0 million. These funds will offset general fund, therefore increasing the ending fund balance by a like amount.

Education Jobs Fund

The Education Jobs Fund was created in HR 1586. This fund was designed to provide states with funding to create or save education positions in K-12 schools. Funding was allocated to states based upon a population formula considering the number of school aged children and the total state population. In order to receive funds, the governor must apply and agree to a maintenance of effort requirement, pledge to not increase state rainy day funds or retire state debt and designate a distribution method, the current state funding formula or the federal Title 1 formula.

The Governor applied for and the state received \$30.7 million. The following is an excerpt from an email sent from the Office of Public Instruction (OPI) to local education leaders regarding the funds.

On September 13, U.S. Secretary of Education Arne Duncan approved the State of Montana's application for \$30.7 million for the Education Jobs Fund program. Governor Schweitzer's office submitted the application to the USED (*US Department of Education*) on September 8. The Governor's Office has directed the Superintendent of Public Instruction to distribute the Education Jobs Fund monies to schools in 2010-11 to fund K-12 BASE Aid. *These federal monies will not provide any new resources to schools. Instead, the Governor's Office has directed that the federal monies will replace state general fund dollars that were allocated by the legislature to fund schools in 2010-11.* (Emphasis added) The OPI expects to distribute this money to schools in December 2010.

Given the decision by the Governor, the acceptance of the federal funds will offset general fund, therefore increasing the ending fund balance by \$30.7 million.

Extension of enhanced FMAP rates

Also included in HR 1586, is the six month extension of the enhanced Medicaid (FMAP) federal match rates. ARRA originally provided enhanced FMAP rates to the states through to January 1, 2011. The legislation amended the extension to June 30, 2011, through a phased-down enhanced match--3.2 percent beginning the first calendar quarter of federal FY 2011, then dropping to 1.2 percent in the second calendar quarter. The extension also continues the other two components of the ARRA FMAP increase ~~of~~ based on changes in unemployment (3.26 percent for Montana), as well as the hold harmless clause (1.72 percent for Montana).

The extension of the FMAP at a reduced rate is estimated to lower Medicaid costs and increase reimbursement for state institution services between \$25 and \$30 million. The enhanced FMAP will offset general fund, therefore increasing the ending fund balance.