

January 2009

## How Do You Spell State Fiscal Relief?

### *Federal Recovery and Reinvestment Act of 2009 and the Iowa Budget*

Governor Culver issued his Fiscal Year 2010 Iowa budget on January 28, 2009, proposing major cuts to many Iowa programs in order to provide the statutorily required balanced budget.<sup>1</sup> These cuts could involve significant layoffs and reductions in program services, and, as a result, further impact Iowa's struggling economy and deepen the recession.

The Governor's message also recognized that the federal economic stimulus package currently being developed in Congress may help to offset some of the cuts in the proposed budget. In his letter to members of the Iowa General Assembly, Governor Culver states:

We encourage the Legislature to use the federal economic stimulus funds that the President and Congress will soon make available to the states to pay for Medicaid. Using these federal funds, which should be available in a few weeks, will reduce the reductions that have had to be included in the Fiscal Year 2010 budget recommendations.

This backgrounder provides the most current estimates of Iowa's share of Medicaid stimulus funds and State Fiscal Stabilization Funds. These are based upon the Federal Economic Recovery and Reinvestment Act of 2009, passed by the U.S. House of Representatives the same day Governor Culver released his budget. It contains two major provisions to provide state fiscal relief, as well as a variety of other provisions to support state programs, provide help to struggling Americans, and stimulate the economy through infrastructure development. The U.S. Senate is working on a very similar bill.

**These state fiscal relief provisions are based upon a recognition by the federal government that states cannot deficit spend, but also that cutting state spending has negative effects on the economy by forcing layoffs of workers, canceling contracts, reducing payments to businesses and nonprofits that provide services, and cutting benefits to individuals in need.**

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<sup>1</sup> The Governor's budget has an overall reduction in adjusted state general fund spending of \$88.5 million from the 2009 budget (after taking into consideration adjustments that shift some funding to the general fund for 2010 that had been funded in 2009 from other sources). Although the Governor's budget is built around a 6.5 percent cut in many state programs, he has also protected several large categories of spending from cuts and, as a result, many agencies and programs will be cut by 8.4 percent. Since funding for education and medical assistance, which are major portions of the state budget, are not reduced from their 2009 levels, the overall budget reflects a 1.4 percent overall reduction in adjusted general fund spending. Because the state budget has a variety of built-in increases (e.g. in school aid, collective bargaining agreements, and entitlement funding growth), the Governor's budget addresses what otherwise would have been a \$779 million state funding shortfall.

## ***State Fiscal Stabilization Fund***

The State Fiscal Stabilization Fund is structured to help state and local governments fund education and other key services. Overall, \$64 billion of the funds in the House stimulus package would be distributed through two block grants over two federal fiscal years, with one grant earmarked for education to restore any funding cuts up to at least the 2008 funding level and the other grant to support other state services. Since the two federal fiscal years cover three state fiscal years (SFY 2009, SFY2010, and SFY2011), these funds can be used to help address Iowa budget shortfalls in the current budget year as well as address both of the next two year's state budgets (FY2010 and FY2011).

## ***Federal Medical Assistance Percentage (FMAP)***

The proposed FMAP enhancement raises the federal share of payments the federal government will assume under Medicaid and Title IV-E (foster care). The House bill provides \$87 billion for FMAP enhancements over the same two fiscal years. The enhanced payments will be retroactive to the beginning of the 2009 federal fiscal year (October 2008), so the state will receive immediate supplemental assistance and ongoing help in maintaining its Medicaid program and freeing additional funding for other purposes.

### ***By the Numbers:***

The Center on Budget and Policy Priorities estimates Iowa's share of these funds as follows:

- State Fiscal Stabilization Fund — \$621.5 million
- FMAP Enhancement — \$441.5 million.

## ***Other Proposed Changes***

There also are other funds within the economic recovery packages — for the child care development block grant, the community development block grant, the community services block grant, and Workforce Investment Act training and employment services — that can help support state programs and address state fiscal concerns. There is a great deal of funding to states for infrastructure development (some of which might be available to finance projects identified by the Governor for funding through the Rebuild Iowa Infrastructure Fund \$700 million bonding proposal). These also need to be considered as lawmakers develop the FY2010 Iowa budget.

## ***Conclusion***

The federal funds in the economic recovery package will cover two federal fiscal years and three state fiscal years, a recognition by the federal government that recovery will take time. Iowa lawmakers will need to consider how these funds should be used to address revenue needs in both FY2010 and FY2011 state budgets. The projected Iowa budget shortfall of \$779 million in FY2010 is likely to be at least as great for FY2011. **Therefore, the state fiscal shortfall that needs to be addressed by some form of federal assistance, use of rainy day funds, spending cuts, or tax increases is somewhere between \$1.5 billion and \$2.0 billion over the biennium. The federal fiscal relief through the State Fiscal Stabilization Fund and the FMAP enhancement would not fully close that gap, but the House bill would cover from half to two-thirds of that gap.**

Careful tracking and alignment of state budget actions with federal actions is imperative, as lawmakers work to craft a sustainable Iowa budget.

## **Iowa Fiscal Partnership**

*The Iowa Fiscal Partnership is a joint policy analysis initiative of two nonpartisan, Iowa-based organizations, the Child & Family Policy Center and the Iowa Policy Project. See IFP reports at [www.iowafiscal.org](http://www.iowafiscal.org).*