

Balancing Iowa's Budget and Maintaining Essential Services Using Federal Stimulus Funding Over 2010 and 2011

The American Recovery and Reinvestment Act (ARRA) provides the state of Iowa with substantial funding for use in state fiscal years 2009, 2010 and 2011 to address Iowa budget shortfalls. At the same time, the March report of the Revenue Estimating Conference (REC) projects substantial reductions in state revenue that must be addressed and were not factored into the Governor's January budget. The Iowa Fiscal Partnership concludes:

ARRA provides Iowa with sufficient funds in some areas (higher education, K-12 education, and Medicaid) to continue to provide services without budget cuts through 2010 and 2011.

ARRA also provides Iowa with additional funding for other parts of the state budget, but these are not sufficient to address the new shortfalls reported by the REC. Iowa lawmakers will need to examine both the revenue and expenditure sides of the budget in developing the 2010 budget.

ARRA funding to address state budget needs comes from three sources:

- The Federal Medical Assistance Percentage (FMAP) **FMAP increase** will provide an estimated \$50 million to \$200 million more than is needed to address Medicaid funding needs for the 2009, 2010 and 2011 years.[□] This \$50 million to \$200 million can be used to address other budget needs.
- The State Fiscal Stabilization Fund's **education block grant** of \$386.4 million is sufficient to restore community college and Regents institution funding to their 2009 appropriated levels in 2010 and maintain them in 2011 and sufficient to fund currently planned K-12 allowable growth for both 2010 and 2011; and
- The State Fiscal Stabilization Fund's **flexible block grant** of \$86.0 million can be used to address non-education budget shortfalls and needs.

Taken together, the amount of funding available from FMAP and the flexible block grant for other parts of the budget -- \$136 million to \$286 million -- should be viewed as a source for beginning to address the additional revenue reduction from the March REC report of \$81.7 million less revenue in 2009 and \$279.9 million less revenue in 2010 from that used as the basis for the Governor's January budget.

For both short-term and longer-term reasons, Iowa lawmakers need to critically examine tax expenditures as well as appropriations in developing a sustainable, balanced state budget.

[□] This includes addressing the projected 2009 shortfall, the increased demand over the Governor's budget projections in 2010, and a 10 percent further growth in 2011. The amount of funding Iowa will receive under FMAP is dependent upon the amount of actual Medicaid expenditures and whether Iowa's unemployment rate reaches a trigger level of 5.2 percent for an additional increase in match. The Legislative Services Agency has made estimates that Iowa will draw down \$332.5 million for FMAP, assuming no trigger. IFP has made estimates based upon Iowa reaching that trigger in July 2009 and Iowa therefore drawing down \$490 million.