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Federal Stimulus Funds and Georgia Medicaid FMAP and State Fiscal Stabilization Fund

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The Governor recently decreased the FY 2009 revenue estimate by \$450 million, resulting in a budget deficit of \$2.65 billion. It is expected that the Governor will shortly announce a decrease in the FY 2010 revenue estimate of between \$500 million and \$700 million, resulting in a FY 2010 budget deficit of close to \$2.5 billion. The Federal American Recovery and Reinvestment Act (ARRA) of 2009 contains approximately \$3.3 billion in federal funds through increased Medicaid funding and a State Fiscal Stabilization Fund that will help Georgia restore some of the proposed budget cuts.

Medicaid

The federal Medicaid match for Georgia in FY 2009, called the FMAP, is approximately 64 percent. In other words, for every dollar spent on the Medicaid program in Georgia, federal funds account for 64 cents and state funds account for 36 cents. The ARRA is likely to increase the federal match rate to nearly 75 percent for Medicaid expenses incurred between October 2008 and December 31, 2010. To receive the increased FMAP a state's Medicaid eligibility levels must not be more restrictive than they were on July 1, 2008.

The U.S. Government Accountability Office (GAO) has estimated that the increased federal match rate would bring an additional \$1.73 billion in federal funds to Georgia. This increase in federal funding frees up an equivalent amount of state funds that can then be used anywhere in the budget. The breakout by fiscal year is as follows:

- FY 2009 - \$530 million
- FY 2010 - \$790 million
- FY 2011 - \$400 million

The intent of the increased federal Medicaid funds is to assure that funds are available for the increased caseloads projected over the next 24 months, in that there is a direct relationship between the increase in unemployment and an increase in Medicaid enrollment. Once Medicaid is fully funded, any additional state funds that are freed up can be used throughout the state budget.

The Governor has proposed using \$465 million in increased federal Medicaid funds in the FY 2009 budget. This would free up an equivalent amount of state funds, allowing for the funding of the \$428 million Homeowners Tax Relief Grant.

State Fiscal Stabilization Fund

The American Recovery and Reinvestment Act allocates Georgia \$1.54 billion to Georgia for state fiscal stabilization through two new block grants. The intent of these funds is to help states lessen proposed budget cuts, especially to education. To draw down the funds, the Governor must submit an application to the Secretary of Education describing how the state will use the funds. It is expected that applications will be approved within a matter weeks after receipt.

Education Block Grant

It is estimated that Georgia will receive approximately \$1.26 billion from the Education Block Grant. The intent of these funds is to help states maintain K-12 and higher education funding. These funds must first be used to restore state education funding up to the greater of the FY 2008 and FY 2009 level, or, if higher, up to existing state formula levels. There is a state maintenance of effort (MOE) requirement, in that both K-12 and higher education must be funded no less than the FY 2006 funding levels.

The FY 2010 Governor's budget proposal includes a \$275 million K-12 funding formula reduction, a \$184 million Board of Regents formula reduction, and a \$28 million Technical College System of Georgia formula reduction. It would cost approximately \$487 million to fully fund these formulas. The state has the option of using the remaining \$773 million in Education Block Grant Funds to supplant existing state education funding (keeping the state well within the MOE requirements), thereby freeing up an equivalent amount of state funds to be used elsewhere in the state budget. If the state does not use the remaining funds in this way, then the \$773 million will be distributed to local school districts through the Title 1 funding formula.

Flexible Block Grant

It is estimated that Georgia will receive approximately \$280 million from a more flexible block grant, which can be used for any government service. As long as the Governor sends the application to the Secretary of Education in a timely manner, these funds should be available for the FY 2009 budget. The \$280 million could be used to eliminate the \$130 million additional budget cut announced on February 17th and a portion of the previously announced FY 2009 budget cuts.

Summary

Funds from the American Recovery and Reinvestment Act could be used to dramatically impact the FY 2009 and FY 2010 state budgets. The Governor has already proposed using \$465 million in increased Medicaid funds to restore funding for the Homeowners Tax Relief Grant. This leaves:

- Approximately \$280 million to restore budget cuts in the FY 2009 budget.
- Approximately \$790 million in additional Medicaid funds to assure Medicaid is fully funded in FY 2010. Once Medicaid is fully funded, hundreds of millions of dollars could be freed up to restore proposed budget cuts throughout state government in FY 2010.
- Approximately \$487 million from the State Fiscal Stabilization Fund to fully fund the Board of Education, Board of Regents, and Technical College System funding formulas in FY 2010.
- Approximately \$773 million from the State Fiscal Stabilization Fund to restore budget cuts throughout state government in FY 2010.

Since state budget cuts have a negative effect on the economy, the increased federal funds from the American Recovery and Reinvestment Act that help avoid such cuts will have a positive economic stimulus effect on the Georgia economy. Hundreds of jobs will be saved, economic activity throughout the state will be positively impacted, and at the time of greatest need, the social safety net and other vital government services, such as education, will be protected.