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Thoughtful Analysis...Responsible Policy

Balancing the State Budget With Federal Stimulus Funds

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Overview

Georgia's fiscal situation worsened to a crisis last year, as it did for most states. In response, Congress passed the American Reinvestment and Recovery Act (ARRA). Even after another year of significant cuts to public services, repealing the Homestead tax break, and drawing down almost all of the state's rainy day reserve funds, Georgia lawmakers still utilized \$1.44 billion in federal ARRA funds to balance this year's budget.

These ARRA funds make up approximately nine percent of all appropriated funds in the Georgia state budget this fiscal year (beginning July 1). Georgia lawmakers are using two main sources of ARRA funding: the State Fiscal Stabilization Fund and the increased federal Medicaid match. Without them, lawmakers would cut public services even more significantly in the areas of education, healthcare, and public safety, or they would have had to raise taxes.

By avoiding additional cuts using State Fiscal Stabilization funds, the state created or saved at least 13,000 jobs as of October.¹ Although the state has not undertaken an econometric study, the increased federal Medicaid funds likely have had a similar positive impact on local economies through the healthcare sector.

ARRA funds are a temporary source of revenue for the states; they expire by 2012. ARRA funds have given state policymakers time to manage the fiscal crisis strategically. Although a majority of states have used this opportunity to implement more balanced and long-term approaches to reducing their deficits, Georgia policymakers have not done so.

The majority of other states have increased various revenues as well as cut services. Georgia has the eighth worst deficit in the nation, yet lawmakers have relied solely on cutting services. Georgia still has time to plan strategically for the next year when ARRA funds begin to expire.

In that the increased Medicaid match expires after the first half of FY 2011 (next December), and Medicaid enrollment is expected to continue to increase, Congress can help the state meet the needs of the most vulnerable Georgians by phasing out the enhanced Medicaid match over time rather than ending it December 31, 2010 as planned.

THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

Table 1 **American Reinvestment and Recovery Act Funds**

	FY 2009	FY 2010	FY 2011	Total Funds	Jobs Created or Retained Thru (10/09)
State Fiscal Stabilization	\$189,592,329	\$717,301,623	\$634,425,235	\$1,541,319,187	12,923
Enhanced Medicaid Match	\$477,000,000	\$726,364,675	\$448,806,865	\$1,652,171,540	NA
Total	\$666,592,329	\$1,443,666,298	\$1,083,232,100	\$3,193,490,727	12,923

State Fiscal Stabilization Funds in the Georgia Budget

Georgia is receiving \$1.54 billion in State Fiscal Stabilization funds between FY 2009 and FY 2011.² The State Fiscal Stabilization Fund provides an Education Stabilization Grant for K-12 and higher education, as well as a General Stabilization Grant for public safety and other government services. These two grants are intended to prevent cuts in state services.

The FY 2009 budget contained \$189.6 million, the FY 2010 budget contains \$717.3 million, and \$634.4 million will be available for appropriation in the FY 2011 budget.

Table 2 **State Fiscal Stabilization Funds**

	FY 2009	FY 2010	FY 2011	Total Funds	Jobs Created or Retained Thru (10/09)
Education Stabilization	\$177,235,644	\$577,041,577	\$506,521,874	\$1,260,799,095	9,658
General Stabilization	\$12,356,685	\$140,260,046	\$127,903,361	\$280,520,092	3,265
Total	\$189,592,329	\$717,301,623	\$634,425,235	\$1,541,319,187	12,923

Education Stabilization Funding

The FY 2010 budget contains \$521.2 million in the base budget of the Department of Education, Board of Regents, and the Technical College System of Georgia. Another \$55.8 million is available for appropriation in the FY 2010 amended budget; it has not been allocated as of the date of this report.

Approximately \$506 million is available for lawmakers to appropriate in the FY 2011 budget, a decrease of \$70.5 million from this year. The education agencies estimate that the state has created or retained 9,658 jobs due to these funds as of October.³ Table 3 gives a breakdown of the how lawmakers allocated the funding by agency.

Table 3 **Education Stabilization Funding Allocation**

	FY 2009	FY 2010	FY 2011	Total Funds	Jobs Created or Retained Thru (10/09)
Department of Education	\$157,931,192	\$413,145,927	\$342,626,224	\$913,703,343	8,241
Board of Regents	\$17,189,581	\$92,617,896	\$92,617,896	\$202,425,373	1,191
Technical College System	\$2,114,871	\$15,406,239	\$15,406,239	\$32,927,349	226
Unallocated		\$55,871,515	\$55,871,515	\$111,743,030	
Total	\$177,235,644	\$577,041,577	\$506,521,874	\$1,260,799,095	9,658

General Stabilization Funding

The FY 2010 budget contains \$140.2 million in the base budget of the Department of Corrections, Georgia Bureau of Investigations, Department of Public Safety, the Department of Juvenile Justice, and the Department of Revenue. Approximately \$128 million is available for appropriation in the FY 2011 budget, a decrease of \$12.3 million from this year.

The state agencies estimate that 3,265 jobs have been created or retained as of October, due to using these funds.⁴ Table 4 gives a breakdown of how lawmakers allocated the funds by agency.

Table 4 **General Stabilization Funding**

	FY 2009	FY 2010	FY 2011	Total Funds	Jobs Created or Retained Thru (10/09)
Department of Corrections	\$10,000,000	\$97,234,674	\$84,877,269	\$192,111,943	2,450
Georgia Bureau of Investigation		\$6,132,772	\$6,132,772	\$12,265,544	95
Department of Public Safety		\$8,872,757	\$8,872,757	\$17,745,524	159
Department of Juvenile Justice		\$28,020,203	\$28,020,203	\$56,040,406	521
Department of Revenue	\$2,356,685			\$2,356,685	40
Total	\$12,356,685	\$140,260,406	\$127,903,001	\$280,520,092	3,265

Enhanced Medicaid Match

Medicaid is counter-cyclical: when state revenues start declining as a result of job losses brought by downturns, more people also become eligible and in need of safety-net programs such as Medicaid. As a result, states often see their Medicaid costs increase at the same time they collect less revenues, which hampers their ability to pay for the program.

Unlike the funds available from the State Fiscal Stabilization Fund, the increased Medicaid match is not a block grant. ARRA increases the share of Medicaid costs the federal government pays through a formula called the Federal Medical Assistance Percentage (FMAP) from October 1, 2008 through December 31, 2010. The increase spans three quarters of FY 2009, all of FY 2010, and half of FY 2011. The FMAP percentage is the percent of federal contribution towards Medicaid.

Prior to ARRA, Georgia's FMAP would have been 64.14 percent in FY 2009 and 64.95 percent in FY 2010. Although the formula setting the enhanced federal match rate is complicated, the end result of the ARRA is an increase in Georgia's FMAP to 71.1 percent in FY 2009 and 74.82 percent in FY 2010. As a result, the share of Georgia's Medicaid costs paid with state funds has been reduced by approximately 19 percent in FY 2009 and more than 28 percent in FY 2010.

The increased FMAP generates significant savings in the state budget over three fiscal years. The Department of Community Health estimates that Georgia will receive more than \$1.6 billion in increased federal Medicaid funds over this time period.⁵

In that the enhanced match expires after the first half of FY 2011, the federal Medicaid funds will decrease by approximately \$278 million in FY 2011. However, the actual amount of additional federal funds the state will receive depends of the actual number of Medicaid recipients served. The enhanced Medicaid match expiration, in addition to depleting the various reserve funds for the FY 2010 Medicaid budget, will result in an overall \$477 million Medicaid shortfall in FY 2011.

Table 5 **Enhanced Medicaid Match**

	FY 2009	FY 2010	FY 2011	Total Funds
Additional Federal Medicaid Funds	\$477,000,000	\$726,364,675	\$448,806,865	\$1,652,171,540

Below is a summary of savings assumed in the FY 2009 and FY 2010 budgets across agencies:

FY 2009:⁶

- \$427 million in the Department of Community Health
- \$50 million in the Department of Human Resources (prior to agency reorganization that took effect in FY 2010)

FY 2010:⁷

- \$649.9 million in the Department of Community Health
- \$65.1 million in the Department of Behavioral Health and Developmental Disabilities
- \$11.4 million in the Department of Human Services

Actual savings realized through November 6, 2009 total \$746.1 million for these agencies. This total appears to be slightly higher than, though relatively consistent with, the amount budgeted this year and based on the estimates discussed above.

In both FY 2009 and FY 2010, budgetary savings offset general revenue declines due to the recession and allowed lawmakers to avoid both significant budget cuts in the Medicaid budget and tax increases. As a condition of taking the enhanced federal funds, states are not allowed to reduce eligibility for the Medicaid program or to make cuts to services for those enrolled in the program.

States are permitted to reduce provider payments as a means to generate state savings. Prior to ARRA, the state was considering cutting provider reimbursement rates as a method to reduce Medicaid spending. They did not implement these cuts for FY 2009 or FY 2010.

Conclusion

Federal stimulus funds are a temporary source of revenue to the state. In FY 2011, the state will have available approximately \$360 million less in stimulus funds than was available in FY 2010. By FY 2012, the state will need to replace almost \$1.1 billion in federal stimulus funds by state revenue growth or more budget cuts.

ARRA funds have allowed time for state policymakers to manage the fiscal crisis, and a majority of states took advantage of this opportunity and strategically implemented a more balanced approach to deficit reduction, approaches that include revenue increases as well as budget cuts. In fact, Georgia is only one of three states with the top ten worst budget deficits that has not strategically raised taxes.

In light of the length and breath of the recession, and the expected shallow recovery, Congress should allow the enhanced Medicaid match to phase out over two years rather than expiring December 31, 2010.

Medicaid roles are projected to increase over the next two years, therefore additional federal Medicaid funds through FY 2012 would help avoid cuts to Medicaid eligibility and provider reimbursement rates at a time when the healthcare system is under increased stress and Georgians' health outcomes are declining. A longer phase out of the enhanced Medicaid match would have positive impacts on both the healthcare infrastructure and local economies.

1 State of Georgia Stimulus Accountability website, accessed 12/2/2009,

<http://www.stimulusaccountability.ga.gov/02/gov/stimulus/home/0,2804,134245182,00.html>

2 Ibid.

3 Ibid.

4 Ibid.

5 Ibid.

6 FY 2009 Amended Budget as passed by the Georgia General Assembly,

http://www.legis.state.ga.us/legis/2009_10/house/budget/reports/AFY_2009_Final_Bill_Conference_Committee.pdf.

7 FY 2010 Budget as passed by the Georgia General Assembly,

http://www.legis.state.ga.us/legis/2009_10/house/budget/reports/FY_2010_Bill_with_Govs_Vetoes.pdf.

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