

American Recovery and Reinvestment Act & Massachusetts

The American Recovery and Reinvestment Act being voted on today in Congress includes significant federal funding for state health care, education, and other services. This funding will allow states to reduce significantly the size of budget cuts that would otherwise likely have been enacted and to maintain essential services. As the avoided state budget cuts would have taken billions of dollars out of local economies, this state fiscal relief will likely reduce the severity of the national recession.

This *Facts at a Glance* examines the three major provisions of the law that will help Massachusetts to balance the state budget. For the most part the funding provided in these provisions can be used over three years: Fiscal Year (FY) 2009, FY 2010, and FY 2011. In addition to state fiscal relief, the legislation provides funding to stimulate the economy in other ways, such as by investing in infrastructure, cutting taxes, and providing aid to the unemployed and others suffering from the effects of the recession. For a discussion of the effectiveness of various forms of economic stimulus spending, see <http://www.cbpp.org/1-9-09bud.htm>.

Increased federal funding for Medicaid (FMAP)

The \$87 billion increase in federal funding for state Medicaid programs will be spread out over the 27 months between October 1, 2008 and December 31, 2010. The federal government will pay an additional 6.2 percent of the cost of Medicaid in all 50 states. States with increasing unemployment rates are eligible for additional FMAP funds. Massachusetts is expected to receive approximately \$3.09 billion in FMAP increases. The FY 2010 amount is estimated to be \$1.46 billion (estimates from the Center on Budget and Policy Priorities <http://www.cbpp.org/2-13-09sfp.htm>), which is substantially more than the \$711 million in increased FMAP funds that Governor Patrick included in his budget proposal.

Education Block Grant

States will receive \$39.5 billion in federal education grants based both on total population and on state population between the ages of 5 and 24. Massachusetts is estimated to receive approximately \$813 million for these purposes (see <http://www.cbpp.org/1-22-09bud-sfsf.pdf>).

The legislation identifies three primary ways in which states should use this money:

1. To make up for cuts to K-12 education since FY 2008.
2. To fund increases in K-12 education dictated by existing school funding formulas.
3. To make up for funding cut from public higher education since FY 2008.

How will these rules affect Massachusetts?

1. Massachusetts is not funding its elementary and secondary schools below the level that it did in FY 2008.
2. The existing Massachusetts education funding formula (Chapter 70) calls for increases of at least \$168 million in FY 2010 and probably that amount plus an additional increment of a comparable amount in FY 2011 (those are the amounts needed to allow every district to spend at the foundation budget level, see http://www.massbudget.org/documentsearch/findDocument?doc_id=650&dse_id=704). In addition, there were a series of reforms to the state education funding system adopted in FY 2007. The state has been phasing these reforms in, but has never put them into the general laws. It is unclear whether those reforms would appropriately be funded with this aid.
3. Public higher education spending in Massachusetts is approximately \$35 million below the FY 2008 level in FY 2009 and the Governor's FY 2010 budget is approximately \$142 million below the FY 2008 level. The same \$142 million gap would exist in FY 2011 with stable state funding. These numbers are estimates, as it is unclear exactly which forms of higher education funding should be counted under the language of the federal grant.

If Massachusetts were to use the Education Block Grant money to provide enough Chapter 70 aid to allow every district to fund at the foundation level in FY 2010 and FY 2011 and to maintain higher education funding at FY 2008 levels through FY 2011, the total cost would be approximately \$823 million (depending on the cost of funding the foundation budget in FY 2011). The federal grant also includes maintenance of effort provisions that could require modest additional state funds to ensure that the state not spend below FY 2006 levels for higher education.

Flexible Block Grant

In addition to the \$39.5 billion in education grants, there will also be \$8.8 billion in flexible block grants, distributed in the same way as the education funds. This grant will likely provide Massachusetts with \$181 million that could be used for education, public safety, or other state services. The state may use some of these funds for modernization, renovation, and repair of primary and secondary school facilities as well as institutions of higher learning.

Conclusion

It is important to note that this new federal aid is temporary. It is scheduled to end in FY 2011 and the FMAP funding will decline significantly between FY 2010 and FY 2011. Thus this emergency funding will not help to solve the serious structural budget problems the Commonwealth faces (see http://www.massbudget.org/documentsearch/findDocument?doc_id=638) This funding can, however, help the state to reduce budget cuts in the short term. By using federal aid to keep people employed and by purchasing goods and services in the local economy, states can help significantly to strengthen the overall economy.