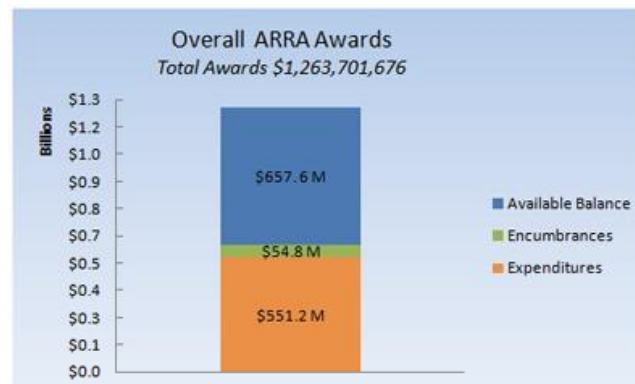

ARRA Stimulus

***Federal Stimulus
Funds Included in
Governor's
Recommended FY 2010
and FY 2011 Budgets***

Congress proposed and on February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The Act provides \$789 billion nationwide through spending programs, tax cuts, and other provisions. Over the life of the stimulus, it is estimated that the bill will provide over \$1.4 billion to Rhode Island, not including tax cuts for individuals and businesses.

The Governor has certified Rhode Island's participation in the ARRA and thereby has assumed the responsibility that the funds are used to support activities that will create jobs and promote economic development. Further, the Governor, by Executive Order 09-04, has established the Office of Economic Recovery and Reinvestment (OERR) within the Office of the Governor. The Office will be responsible for administering and complying with ARRA; establishing processes for identifying, evaluating, and tracking ARRA initiatives; and will be responsible for transparency, tracking, and reporting of the funds provided by the ARRA. OERR will be funded through a 0.05 percent administration fee applied to the stimulus funding which has been authorized by OMB memorandum 09-18. To date, over \$1.2 billion has been awarded with over \$551.2 million already expended.



Source: Office of Economic Recovery and Reinvestment, <http://www.recovery.ri.gov/>

The Governor has included \$774.2 million in the Revised FY 2010 budget and \$455.7 million in the FY 2011 budget. The categories in the stimulus act that affect the Governor's recommended budgets include:

- State Fiscal Stabilization Fund – ARRA provides grants to state governors for fiscal relief including funding for local schools and higher education, public safety, and other government organizations. The majority of the stabilization fund must be used for education and the balance is flexible for the Governor to allocate for fiscal relief. The Governor recommends \$57.8 million in the FY 2010 revised budget and \$26.6 million in the FY 2011 budget. The Governor also recommends a total of \$27.3 million over two years for Higher Education, which Higher Education will use for capital projects. This portion of stabilization funding will not offset any general revenues for the state and therefore does not provide direct fiscal relief to the state. In FY 2010, the Governor recommends \$47.7 million for the Rhode Island Department of Education, \$10.0 million for State Police, and \$100,000 for the Department of Corrections. In FY 2011, the Governor recommends \$26.6 million for Education which will exhaust the stabilization funds.

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The recommended stabilization allocation is as follows:

Governor's Recommended Stabilization Funding

| Department | FY 2009 Actual | FY 2010 Rec | FY 2011 Rec | Totals |
|-------------------|---------------------|---------------------|---------------------|----------------------|
| RIDE | 33,207,223 | 47,715,384 | 26,645,522 | \$107,568,129 |
| Corrections | 19,900,000 | 100,000 | - | \$20,000,000 |
| State Police | - | 10,017,127 | - | \$10,017,127 |
| Subtotal | \$53,107,223 | \$57,832,511 | \$26,645,522 | \$137,585,256 |
| Higher Education* | | 16,100,000 | 11,200,000 | 27,300,000 |
| Totals | \$53,107,223 | \$73,932,511 | \$37,845,522 | \$164,885,256 |

* Higher Education stabilization funds do not directly offset general revenues. The direct general revenue savings for the state due to stabilization are captured by the 'Subtotal' category.

- Health – ARRA includes provisions for increased aid for state health mandates. Of the health categories receiving additional funding, the increased Federal Medicaid Assistance Percentage (FMAP) is especially important to the State. This is the federal cost-share of Medicaid and Foster Care and Adoption Assistance. The increased percentage rate paid by the federal government provides direct relief to general revenues with the exception of the federal share of the LEA Special Education program. The Governor recommends \$194.1 million in FY 2010 and \$190.7 million in FY 2011, with the appropriation of these federal funds allowing for a withdrawal of an equivalent general revenue amount in the Medicaid program. In addition, the Governor recommends \$4.5 million in both years for LEA Special Education.

Governor's Recommended FMAP Enhancement Funding

| Department | FY 2009 | FY 2010 | FY 2011 (Jan 09 ARRA) | FY 2011 Projected | Change FY 2010 - FY 2011 |
|-------------------------------|----------------------|----------------------|--------------------------|----------------------|-----------------------------|
| Human Services | 104,373,548 | 141,685,241 | 70,566,687 | 141,133,374 | (551,867) |
| Health | 90,509 | 142,752 | 71,376 | 142,752 | - |
| Mental Health, Retardation | 36,399,656 | 43,524,930 | 20,607,241 | 41,214,482 | (2,310,448) |
| Elderly Affairs | 686,286 | 882,404 | 441,201 | 882,402 | - |
| Children, Youth, & Families | 8,017,765 | 7,863,860 | 3,652,418 | 7,304,836 | (559,024) |
| Subtotals | \$149,567,764 | \$194,099,187 | \$95,338,923 | \$190,677,846 | (3,421,339) |
| Share of LEA Special Ed. | 2,211,992 | 4,473,222 | 2,237,175 | 4,474,350 | 1,128 |
| Total FMAP Enhancement | \$151,779,756 | \$198,572,409 | \$97,576,098 | \$195,152,196 | (\$3,420,211) |

* Due to the continued economic downturn, it is widely believed that the federal FMAP enhancement will be extended from six months in FY 11 through the year. As such, the Governor's recommended budget includes a full year of FMAP enhancement.

- Human Services – ARRA provides additional grants for child care development, Head Start programs, community services, and child support enforcement. The Governor recommends \$15.2 million in the FY 2010 revised budget and \$5.6 million in the FY 2011 budget.
- Nutrition – ARRA includes additional funding for the Supplemental Nutrition Assistance Program (SNAP) benefits and administration. The Governor recommends \$35.9 million in the FY 2010 revised budget and \$43.9 million in the FY 2011 budget.
- Transportation – ARRA provides additional federal grants to state and local governments for transportation-related programs, including funding for federal highways, transit formula grants, fixed guide way modernization, surface transportation grants, competitive airport grants, and passenger rail grants. The Governor recommends \$65.6 million in the FY 2010 revised budget and \$44.2 million in the FY 2011 budget.

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- Education – ARRA provides additional funding through existing K-12 federal-state programs. This includes Title I, Special Education, Education for Homeless Children & Youth, Teacher Incentive Fund, Impact Aid, Vocational Rehabilitation, and the Race to the Top Fund. The Governor recommends \$72.4 million in the FY 2010 revised budget and \$63.7 million in the FY 2011 budget.
- Employment & Labor Force – Additional grants for employment and labor force programs are included in the ARRA. These programs are the Workforce Investment Act (WIA), Employment Service, and Unemployment Insurance, which are all dedicated to aiding and training the unemployed. The Governor recommends \$277.3 million in the FY 2010 revised budget and \$29.3 million in the FY 2011 budget.
- Housing & Community Development – ARRA provides additional funding for existing state housing programs including the Community Development Block Grant, neighborhood stabilization grants, HOME funds, and public housing authorities. The Governor recommends \$2.7 million in the FY 2010 revised budget and \$2.0 million in the FY 2011 budget.
- Energy & Environment – ARRA provides grants to the state for energy and environment improvements in three forms including the State Energy Program, Weatherization Assistance, and the Energy Efficiency and Conservation Block Grant. The Governor recommends \$19.5 million in the FY 2010 revised budget and \$28.2 million in the FY 2011 budget.
- Public Safety – ARRA provides additional funding for state justice programs including the Edward Byrne Memorial Justice Assistance Grant, the Violence against Women Grant, the Crime Victims Assistance Grant, the Internet Crimes against Children Grant, and the Operation and Maintenance – Army National Guard grant. Aside from the \$10.0 million in stabilization funds recommended in Public Safety, the Governor recommends grant funding of \$4.0 million in the FY 2010 revised budget and \$3.2 million in the FY 2011 budget.
- Natural Resources – ARRA provides additional funding for natural resource programs including the Leaking Underground Storage Tanks Grant, the Diesel Emission Program Grant, the Water Quality Planning Grant, Fish Passage Restoration, and the EPA Brownsfields Program Grant. The Governor recommends \$9.6 million in the FY 2010 revised budget and \$590,769 in the FY 2011 budget.

The Governor recommends that the stimulus funds are budgeted in twenty-four state agencies by function as follows:

Governor's Recommended Stimulus Budget

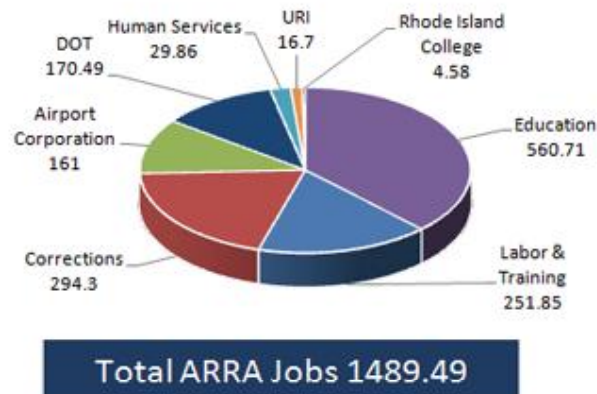
| Function | FY 2009 Actual | FY 2010 Rec | FY 2011 Rec | 3 Year Totals |
|--------------------|----------------------|----------------------|----------------------|------------------------|
| General Government | 38,619,629 | 299,785,697 | 59,731,084 | \$398,136,410 |
| Human Services | 158,042,357 | 251,443,029 | 246,363,057 | \$655,848,443 |
| Education | 33,212,408 | 136,613,587 | 101,647,582 | \$271,473,577 |
| Public Safety | 19,899,999 | 14,039,112 | 3,153,255 | \$37,092,366 |
| Natural Resources | 0 | 6,635,595 | 590,769 | \$7,226,364 |
| Transportation | 5,408,186 | 65,643,455 | 44,199,319 | \$115,250,960 |
| Totals | \$255,182,579 | \$774,160,475 | \$455,685,066 | \$1,485,028,120 |

ARRA Stimulus

Of the stimulus funds anticipated to be received by the state, an estimated \$177.6 million will be used for capital projects. The Department of Transportation and Military Staff spending is reflected in the state budget, but the funds received and expended for clean water and drinking water projects are not. They are recorded in the Clean Water Finance Agency, a quasi-public agency of state government.

- Additional funds of \$137.9 million for the Department of Transportation for highway infrastructure investment which will be spent over three years for sixty-two separate projects throughout the state including highway, road and bridge repair, pavement resurfacing as well as enhancement projects, such as lighting and drainage improvements.
- Additional funds of \$604,900 for roof and window replacement to the U.S. Property and Fiscal Office and window replacement to the Federal Maintenance Shop of the Warwick Armory, which is used by the Rhode Island National Guard.
- Additional funds of \$36.1 million for the Clean Water Finance Agency for both clean water and drinking water projects that will be selected from the State of Rhode Island's priority project lists. This includes \$26.3 for the Clean Water State Revolving Loan Fund and \$9.8 million for safe drinking water projects.
- Additional funding of \$3.0 million for the Coastal Resources Management Council to continue construction on six high priority fish passage restoration projects that will be completed in the spring of 2010.

With the national unemployment rate at levels not seen since the recession of 1983, a major motivation of passing ARRA was to put Americans back to work. As such, one of the key metrics for measuring the success of the stimulus was the tracking of job created or saved. To date, 1,489 jobs have been created or saved for Rhode Islanders. The breakdown by agency is as follows:



Source: Office of Economic Recovery and Reinvestment, <http://www.recovery.ri.gov/>

While the ARRA provides needed relief and encourages job creation during this time of fiscal stress, the use of one time money for ongoing expenditures will create a larger structural deficit for the State. It is important that an appropriate "exit strategy" be developed in order to address the fall off in federal revenues which will occur. The five- year financial projection will reveal the significance of the problem.