

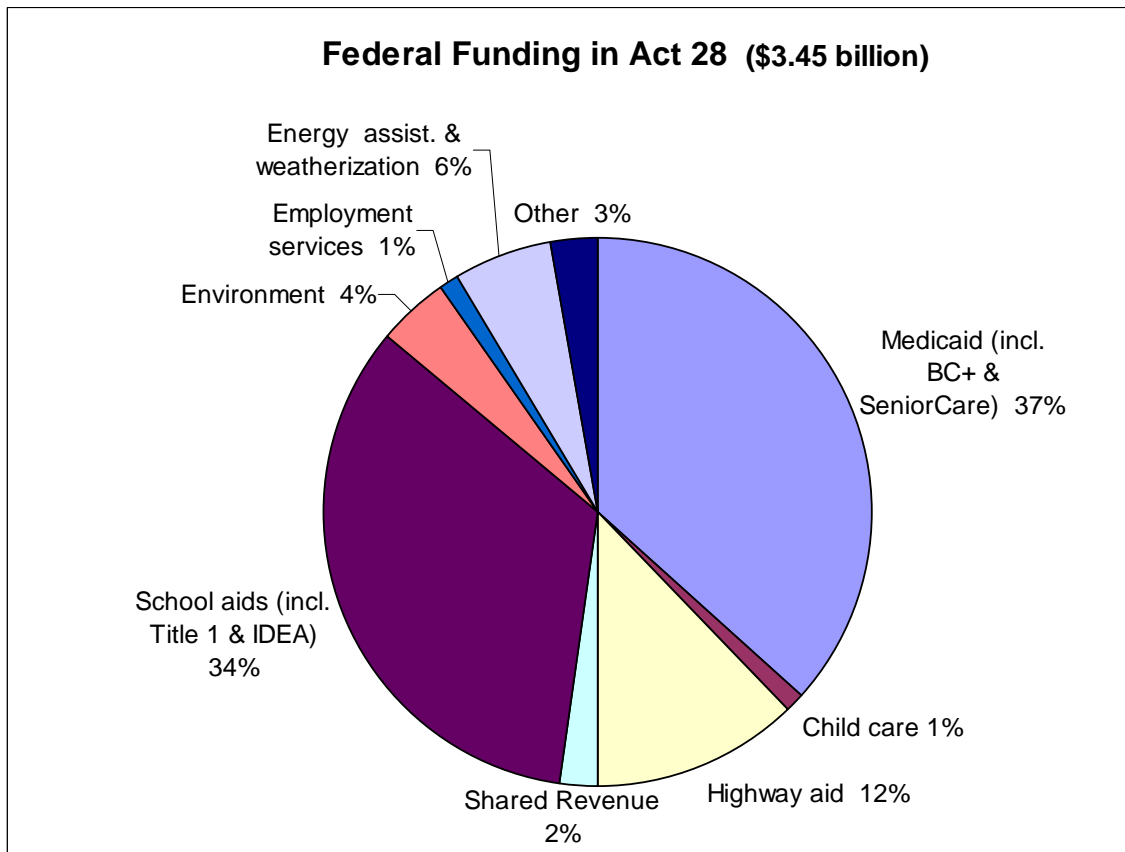


Federal Fiscal Relief Helps Balance the Budget

The American Recovery and Reinvestment Act (ARRA) appropriated substantial funding for state and local governments in order to help protect safety net programs, such as Medicaid, and to reduce public sector job cuts. Much of Wisconsin's share of that funding is allocated to specific purposes in the budget repair bill (Act 2) and the biennial budget (Act 28), although some of the funding goes directly to local governments and is outside the budget process.

A [Legislative Fiscal Bureau memo](#) tallies up all the stimulus bill funding that is used in Acts 2 and 28. The total over three fiscal years is \$3.45 billion, including \$1.26 billion in 2008-09, \$1.58 billion in 2009-10, and \$613 million in 2010-11. A little over \$2.2 billion over three years is used to help fill the state budget shortfall by replacing state General Purpose Revenue.

The pie chart illustrates the categories of stimulus fund spending. The largest appropriations of ARRA funds are for Medical Assistance (\$1.27 billion), general school aids (\$1.17 billion), and highway aid (\$426 million).



(Source: Wisconsin Budget Project analysis of Legislative Fiscal Bureau data)

Although the bill contains specific estimates of the federal dollars, some of the amounts are estimates and are likely to change. That is particularly true of the enhanced federal reimbursement for Medicaid spending. Each state benefits from an increase in the federal share of spending (known as the Federal Medical Assistance Percentage or FMAP), and the amount of additional federal dollars the state receives will depend on changes in caseloads and reimbursement rates. In addition, the size of the percentage point increase in the FMAP may change over the course of 2009 and 2010 based on changes in each state's unemployment rate. States with larger growth in unemployment will get larger boosts in the federal percentage of their Medicaid spending.

Looking ahead to 2011-13

All of the federal fiscal relief is scheduled to end before the 2011-13 biennium. As we note in another paper, the Legislative Fiscal Bureau's calculations of the structural deficit that the state faces in the next biennium have to take into account the loss of about \$425 million of ARRA funds budgeted in the first half of fiscal year 2010-11. Replacing those funds in each year of the next biennium contributes about \$850 million to the total \$2 billion structural imbalance calculated by the LFB.

It now appears likely that the recession will be deeper and have a longer lasting effect on state revenue and on caseloads for safety net programs than Congress assumed when it developed the stimulus bill. As a result, many states may have to make even deeper cuts in the next year or two. Congress could mitigate that problem with a second stimulus bill or narrower legislation providing fiscal relief for states, but it is too soon to speculate whether that might be a possibility next year when Congress is working on the 2011 federal budget bill.

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