



# **American Recovery and Reinvestment Act of 2009 (ARRA)**

## **Federal Assistance to Iowa**

**March 4, 2009**

Fiscal Services Division

Holly M. Lyons  
Doug Wulf

(515) 281-7845  
[holly.lyons@legis.state.ia.us](mailto:holly.lyons@legis.state.ia.us)

# American Recovery and Reinvestment Act

- General Overview
- Impact on Iowa – Key points, caveats, general provisions
- Summary List of Allocations to Iowa
- Detailed explanation of allocations:
  - Purpose
  - Description
  - Conditions on the Money
  - How Distributed
  - How Much
  - Need to be Appropriated
  - Issues/Comment/Legislative Decision Points
- Q & A

# American Recovery and Reinvestment Act

## Overall Federal Budget Impact

	National \$ <u>in billions</u>
• Discretionary Spending	\$308
• Entitlement Spending Changes	198
• Tax Reductions*	<u>281</u>
<b>Total</b>	<b>\$787</b>

\*10 yr cost

# Impact of the ARRA on IOWA



LSA: Feb. 2009

# Key Points

- Majority of funding is distributed through existing federal funding formulas and to existing federal programs.
- It is, in essence, a one-time infusion of funding to existing operating programs.
- Funding is available for 2 years – beginning immediately and through September 2010.
- Not designed as permanent assistance.
- Comes with conditions such as maintenance of effort and non-supplanting requirements.
- Iowa's share is \$2.1 billion (current estimate).

# Caveats

- Estimates are preliminary and subject to change.
- LSA used Federal Funds Information for the States (FFIS) – state by state estimates are still in flux
- LSA also used other sources such as NCSL, NGA, [www.recovery.gov](http://www.recovery.gov), NALFO (National Association of Legislative Fiscal Officers), CSG, state agencies, congressional offices, etc.
- Potential federal agency clarification of legislation could further revise the estimates. Iowa may not be eligible for all funds listed by FFIS and other sources
- Many programs have specific eligibility periods and must be analyzed on a program by program basis.

# Two Primary Initiatives Provide Direct State Fiscal Relief

- Reduced state share of Medicaid cost – known as the Medicaid FMAP increase
- Fiscal Stabilization funding
  - State incentive grants, a competitive process governed by the Sec. of Education
  - Education Fund – must be used for K-12 and post-secondary education (includes community colleges)
  - Flex Fund (can be used for public property and other government services).

# General Provisions of the ARRA

- Infrastructure - preference must be given to projects that can be started and completed expeditiously (shovel ready). 50% or more of the funds are for projects started not later than 120 days after Feb. 17.
- No funds can be used for casinos, gambling establishments, aquariums, zoos, golf courses, or swimming pools.
- Infrastructure projects of public building or public works must use U.S. produced iron, steel, and manufactured goods. Some exceptions *if* permitted by federal agency.
- Laborers and mechanics employed by contractors and subs on projects must be paid prevailing wage (Davis-Bacon Act)

# General Provisions of the ARRA

- Funds must be devoted to ensuring that applicable environmental reviews required by the Natl Environmental Policy Act (NEPA) are completed expeditiously.
- Unlawful to hire non-immigrants unless the recipient is in compliance with the requirements for an H-1B dependent employer.
- Governors must certify within 45 days of enactment their intention to request and use funds in ARRA. State Legislature may certify the state's intention to use any funds not accepted for use by the Governor.

# Employment Provisions

- Extends the period for which individuals can be eligible for extended unemployment benefits from March 31, 2009 to December 31, 2009. States can receive funds to cover the extended benefits and the administrative costs.
- Provides an additional, federally funded \$25 weekly unemployment benefit available to all individuals receiving unemployment.

# Tax Provisions - Individual

- Making Work Pay Credit – Maximum credit of \$400/single filers and \$800/joint filers. Received through reduced withholding for the rest of 2009.
- Earned Income Tax Credit – Increases maximum from \$5,028 to \$5,656 for families of three or more.
- Child Care Tax Credit – Lowers the earnings threshold from \$12,550 to \$3,000 for FY 2009 and FY 2010
- American Opportunity Tax Credit – Increases the maximum allowable credit for education expenses
- Section 529 Qualified Tuition Programs – Permits monies to be withdrawn for computer technology and equipment purchases by college students
- Homebuyer Credit – Extends the current maximum credit to \$8,000 for first time buyers
- Unemployment comp exemption – Exempts first \$2,400 of benefits from calculation of income.
- Sales Tax Deduction Vehicle Purchases – Provides all taxpayers with a deduction for State and local sales and excise taxes paid on the purchase of new cars, light truck, recreational vehicles, and motorcycles through 2009.
- AMT – Increases the exemption amounts. One year “fix”.

# Tax Provisions - Business

- Extension on Bonus Depreciation – The ARRA extends the temporary benefit to 2009 of the provision Congress passed last year which allows businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting businesses to write-off 50 percent of the cost of depreciable property.
- 5-Year Carryback of Net Operating Losses for Small Businesses - Extends the maximum net operating loss carryback period from two years to five years for small businesses with gross receipts of \$15 million or less.
- Small Business Capital Relief - This provision allows a 75 percent exclusion for individuals on the gain from the sale of certain small business stock held for more than five years. This change is only for stock issued after the date of enactment of H.R. 1 and before January 1, 2011.
- Incentives to Hire Unemployed Veterans and Disconnected Youth - ARRA creates two new targeted groups of prospective employees: (1) unemployed veterans and (2) disconnected youth.

# Legislative Appropriations Authority

- NCSL & others raise the question of who within states have authority over appropriations and policymaking for the programs funded.
- Most funds in the ARRA are for existing programs.
- Nothing in the ARRA otherwise precludes, overrides or preempts state constitutions, statutes, practices, customs, or court rulings regarding the appropriation of federal dollars, anticipated, or unanticipated (*NCSL*).

## 5 kinds of ARRA Funded Programs and Implications for Legislators

1. Current programs with no state match (i.e. funding for highways and bridges)
2. Current programs with a state match. This places the legislature in the position of deciding whether to accept any, some, or all federal funds, since they appropriate the state funds for the match. (e.g. Drinking Water SRF)
3. Current programs with Brown Amendment Language – such as Child Care. The Brown Amendment was included in the 1996 welfare reform law and requires that these funds be appropriated by the state legislature.

## 5 kinds of ARRA Funded Programs and Implications for Legislators

4. Competitive Grants – in general, the Executive Branch applies for competitive grants offered to states, but in many cases the legislature may authorize or support the application. There is funding for both new and additional competitive grants in ARRA. (e.g. high speed rail).
5. New programs – likely to require agency guidance and regulatory procedures that may or may not exist. May or may not require a state match. (e.g. new school nutrition equipment grant)

*Note: The Act is silent on this but it is assumed by NCSL that if the Governor includes stabilization funds in his/her budget, the legislative appropriations process applies.*

# Many Accountability & Transparency Provisions

1. Governor must certify that each infrastructure project has been properly vetted, including a description of investment, estimated total cost, amount of ARRA funds used, and project must be posted on a website and linked to the [www.recovery.gov](http://www.recovery.gov) website.
2. GAO must review and report on the use of funds under ARRA by selected states and localities on a bimonthly basis. Reports published on a website established by RATB (see below)
3. Reporting requirements – many
  - All agency recipients must report within 180 days of enactment and quarterly thereafter to federal agencies.
  - The ARRA established the Recovery Accountability and Transparency Board (RATB) and the Recovery Independent Advisory Panels. Whistleblower protection for state and local, but not federal employees who report fraud, waste, or corruption affecting funds.

# Oversight

- Several Governor's have issued Executive Orders establishing processes to receive and direct funds:
  - Boards or Councils (ID, MO, CO), Task Forces (CA)
  - Recovery Offices (WI, NH, VT, NC, RI) – some temporary, some permanent
- Oversight Processes:
  - The Governor of Maine issued an Executive Order stating that each dollar of stimulus funding received by State Government must be required to be allotted by financial order, and each receiving agency must report to its legislative oversight committee. The order also had strict dates by which agencies must indicate their plan to receive and spend stimulus funds.
  - Montana plans to appropriate all federal stimulus dollars in one bill for oversight purposes.
  - Idaho is in the process of spending two weeks of morning long hearings receiving information from staff and agencies on stimulus funds.
  - Colorado has established an Accountability and Oversight Board with Executive Branch, Legislative, and public members.
  - Executive Branch websites launched in AL, AR, IL, KS, MD, MA, MI.

# What's next in Iowa?

- Governor Culver has appointed a 21-member working group comprised of the directors or designees from those departments that either receive federal recovery funds or cover the areas in which federal recovery funds or program benefits will be available.
- The Governor has also appointed a 5-person (Roeder, Klaassen, Murphy, Oshlo, and McMahon) coordinating committee. The working group members are identifying which funds will be distributed by formula, such as most of the road and highway funds and the Medicaid funds, and which funds will be awarded by competitive bid and are working with their federal counterparts to thoroughly understand departmental requirements for these funds and when deadlines must be met.
- Department have been instructed to be very aggressive in identifying opportunities in Iowa for the competitive grants that are available under this program.
- The Governor will be deciding how the recovery funds that affect the General Fund, such as Medicaid and stabilization funds, are to be allocated after the March 20th REC meeting.

# Federal Timeline

- Feb 17 – H.R. 1 (ARRA) signed into law
- Feb 19 – Federal Agencies to begin reporting their formula block grant awards
- March 3 – Federal Agencies to begin reporting use of funds
- May 3 -- Federal Agencies to make performance plans publicly available and to begin reporting on their allocation for entitlement programs
- May 15 -- Detailed agency financial reports to become available
- May 20 -- Federal Agencies to begin reporting their competitive grants and contracts
- July 15 – Recipients of Federal funding to begin reporting on their use of funds (120 days)

# Resources

- [www.ncsl.org](http://www.ncsl.org)
- <http://www.staterecovery.org/federal-assistance>
- [www.recovery.gov](http://www.recovery.gov)
- [www.whitehouse.gov](http://www.whitehouse.gov)
- [www.grants.gov](http://www.grants.gov)
- [www.nga.org](http://www.nga.org)
- [www.hhs.gov/recovery](http://www.hhs.gov/recovery) - Medicaid funding
- [www.ed.gov](http://www.ed.gov) – U.S. Dept. of Education
- Federal department websites
- Congressional Offices
- [www.legis.state.ia.us](http://www.legis.state.ia.us)