



Leslie Kirwan
Secretary of Administration and Finance

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FISCAL CONTEXT

- Unprecedented economic challenges for state and local government, businesses and residents
- More people turning to state government for help
- Deteriorating state revenues hamper our ability to respond, threaten financial stability

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MASSACHUSETTS ECONOMIC RECOVERY PLAN

- **Integrate state, federal and private efforts to secure our common future**

- **Deliver Immediate Relief:**
 - Road, bridge and rail projects that put people to work today

 - Services such as unemployment insurance and health care that sustain people who are especially vulnerable during a crisis

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MASSACHUSETTS ECONOMIC RECOVERY PLAN

- **Invest in a Better Tomorrow:**
 - Education and infrastructure investments to position us for a better tomorrow
 - Clean energy, broadband, and technology investments to cut costs and grow the economy
 - Preparing workers for the jobs of tomorrow in growth and innovation industries

- **Reform State Government:**
 - Eliminate Pension and ethics loopholes that discredit the work of government
 - Revitalize transportation systems that have suffered from a pattern of neglect and avoidance on Beacon Hill

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ROLE OF FEDERAL STIMULUS (ARRA)

- Welcome help to stabilize state finances and prevent further devastating cuts
- But not a panacea – will not solve the immediate budget problem or our accumulated structural deficit
- Leadership on difficult choices including budget reductions, savings and reforms, and new revenues will still be needed
- Moment of challenge is also moment of opportunity for long term reforms

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Jay Gonzalez
Undersecretary of Administration and Finance

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American Recovery and Reinvestment Act (ARRA)

- Signed by President Obama on February 17, 2009
- \$787 billion to support short-term economic recovery and investments in long-term economic growth
 - Infrastructure investments
 - State and local budgetary relief for education, health care, public safety and other programs
 - Support for countercyclical programs (e.g., unemployment insurance, food stamps, workforce training, etc.)
 - Tax breaks
 - Other investments (e.g., NIH research, NEA grants, etc.)
- Extraordinary opportunity for Massachusetts

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GRANT DISTRIBUTIONS

- Funding for various specific, restricted purposes
- Distributed by relevant federal agencies, primarily through existing programs/mechanisms
- Various funding distribution methods, including formula-based allocations and competitive grant processes
- Recipients include the Commonwealth, municipalities and private entities, depending on the program
- “Use it or lose it” requirements

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CATEGORIES OF FUNDING

- Clean Energy and Environment
 - Energy Efficiency and Conservation, Water and Sewer, Weatherization, Superfund, Brownfields
- Education
 - K-12 Chapter 70, Higher Ed, Title I, IDEA, Pell Grants
- Housing
 - Public Housing Improvements, Home Investment Partnership, Neighborhood Stabilization, Homelessness Prevention, Community Development Block Grants
- Labor and Workforce Development
 - Workforce Training Programs
- Public Safety and Security
 - Byrne Justice Assistance Grants, Community Oriented Policing, Violence Against Women, Fire Stations, Port Security, Emergency Shelters

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CATEGORIES OF FUNDING

- Safety Net
 - Medicaid or "FMAP", Unemployment Insurance, Transitional Assistance for Needy Families, Children and Family Service Programs, Food Stamps
- Tax Benefits
 - Municipal Bonds
- Technology and Research
 - Electronic Health Records, Broadband Expansion, National Science Foundation, National Institutes of Health
- Transportation
 - Highways, Transit, Airports, High Speed Rail/Intercity Passenger Rail

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Table: U.S. Total and MA Share

Category	US Total	MA Share*
Clean Energy & Environment	67,552,892,000	482,093,000
Education	109,194,000,000	1,955,453,000
Housing	27,256,000,000	430,324,000
Labor & Workforce Development	15,954,081,000	90,170,000
Public Safety & Security	12,213,091,000	71,790,000
Safety Net	187,682,000,000	3,572,968,000
Technology & Research	55,078,000,000	1,295,048,000
Transportation	53,448,000,000	809,079,000
Other (Accountability)	1,252,500,000	-
TOTAL	529,630,564,000	8,706,925,000
Tax Benefits	257,369,435,000	5,294,994,000

***All MA Share amounts are currently being evaluated and are subject to change based upon further analysis by Secretariats and upon additional Federal guidance.**

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ACCOUNTABILITY AND TRANSPARENCY

- Federal website recovery.gov established and maintained by new Recovery Accountability and Transparency Board
- Commonwealth website mass.gov/recovery
- GAO must review and report on use of funds on a bimonthly basis – Massachusetts one of 16 selected states
- Federal agencies' inspectors general provided additional funding to oversee distribution and use of funds
- Recipients of funds must comply with enhanced reporting requirements

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MASSACHUSETTS PREPARATIONS

- Work of the Governor and Legislature over the last two years has positioned the Commonwealth to take advantage of recovery funds - Commonwealth initiatives are well-aligned with programs funded in ARRA
 - Increased planning for and investments in infrastructure
 - Energy efficiency and clean energy
 - Broadband expansion
 - Healthcare reform and electronic medical records
 - "Readiness" education reform initiative
 - Life sciences initiative

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MASSACHUSETTS PREPARATIONS

- Governor Patrick worked with the Obama Administration and the Congressional delegation to help shape the ARRA in ways that benefit the Commonwealth
 - Key sponsor of education funding and other state budgetary relief
- Governor established Project Delivery Task Forces in December 2008 to begin planning for infrastructure funding
 - Identification of broad range of "shovel-ready" infrastructure projects and recommendations for prioritizing projects
 - Recommendations for speedy and effective project delivery, including procurement, permitting and workforce
 - Over 275 participants from public agencies, the legislature, contractor organizations, labor unions, small businesses and other stakeholders

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MASSACHUSETTS PREPARATIONS

- Governor established state recovery website mass.gov/recovery to provide an unprecedented level of transparency
- Working with the AG, IG, State Auditor and Comptroller to assess existing accountability controls and to develop additional controls needed to prevent problems
- Legislature establishes Joint Committee on Federal Stimulus Oversight
- Establishing systems to ensure we can track and report on every dollar of recovery funds received by the Commonwealth (Comptroller to discuss)
- Established Office of Infrastructure Investment
- Two weekly cabinet meetings to coordinate planning for administration and use of recovery funds

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MASSACHUSETTS PREP FOR RECOVERY FUNDS

- Filing state legislation to ensure compliance with ARRA and to ensure effective implementation that maximizes benefits for the Commonwealth
 - Provisions necessary to comply with ARRA (e.g., SRF)
 - Provisions recommended by Task Forces to ensure we maximize federal funds and comply with use it or lose it requirements (e.g., procurement)

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Jeffrey Simon
Director of Infrastructure Investment

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Governor's Guiding Principles

- Invest for the Long Term
- Limit Impact on Operating Budgets
- Follow Established Infrastructure Priorities
- Diversify Industries and Regions
- Buy Massachusetts

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Task Force Work

- 7 Subject Matter Task Forces
- 3 Interdisciplinary Task Forces
- 275 people
- Broad range of interests

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Office of Infrastructure Investment

- Lead
- Assist
- Monitor
- Report

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Office of Infrastructure Investment

Lead

- Maximize the dollars - \$1-2B
- Point of contact - the public
- Point of contact - federal government
- Ensure investment is done wisely
- Coordinate funding with the Recovery Plan

Assist

- Provide a coordinated response
- Assist state agencies
- Assist municipalities
- Assist with obtaining prompt regulatory approvals

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Office of Infrastructure Investment

Monitor

- Transparency
- Accountability
- Compliance
- Central clearinghouse

Report

- To the public
- To the Federal government
- To State government

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Project selection

- Shovel ready
- #Jobs
- Regional equity
- Impact on Operating budgets
- Invest for the long term
- Reinforce Massachusetts' strengths
- Development Cabinet Priorities

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Civic Engagement

- Website
- Brochures and Pamphlets
- Events
- Hearing and other opportunities for Input

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Monitoring

- Set projects up correctly at the beginning
 - On time
 - On budget
- GAO Selection
- Reporting to the Federal Recovery program

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Transparency

- Project Selection
- Bids
- Awards
- Contracts
- Budget
- Schedule

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Accountability

- Problem Prevention
- Rigorous Oversight
- Coordination
 - Inspector General
 - Attorney General
 - Recovery Accountability and Transparency Board
 - Government Accountability Office

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Matt Gorzkowicz
Assistant Secretary for Budget

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Budgetary Preparations *A&F's Role*

- For ARRA funding that specifically impacts the operating budget (primarily FMAP and Fiscal Stabilization Funding), A&F will be responsible for overseeing and coordinating spending.
- Based on ongoing analysis there is over \$3 billion of funding that may impact the operating budget over the next 3 fiscal years.
- This funding will be evaluated regularly through our review and updates of the operating budget throughout the fiscal year.

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Federal Medical Assistance Percentage (FMAP)

- Funding for health care will be provided in the form of FMAP or enhanced Medicaid matching funds.
- The ARRA provides for \$87 billion in funding to states
- Additional FMAP will be available for Medicaid expenditures made between October 1, 2008 and December 31, 2010.
- In order to qualify for FMAP Massachusetts must maintain the income eligibility levels for Medicaid that were in place on July 1, 2008.

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Federal Medical Assistance Percentage (FMAP)

The ARRA establishes two provisions to calculate the percentage of FMAP that states will receive:

1. Across the Board increases (accounts for about 65% of the total \$87 billion allocated for FMAP)
2. Additional assistance due to high unemployment provisions (accounts for 35% of the total \$87 billion allocated for FMAP)

The across the board increase allows for states to receive a 6.2 percentage point increase in its FMAP.

- Massachusetts goes from a 50% to a 56.2% FMAP rate

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Federal Medical Assistance Percentage (FMAP)

The additional assistance due to high unemployment provisions is calculated by:

- Comparing states unemployment rate in the given quarter to the lowest average unemployment rate for quarters after January 1, 2006 (this is the state's base).
- If a state's unemployment rate has gone up by at least 1.5 percentage points over its base quarter, the state will receive an additional increase in its federal match rate.

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Federal Medical Assistance Percentage (FMAP)

- Massachusetts is also eligible for temporary increase in Disproportionate Share Hospital (DSH) payments. Each state will receive an additional 2.5 percentage points for its FY 2009 DSH allotment and an additional 2.5 percentage points for its FY 2010 allotment.
- The total amount that Massachusetts could receive is between \$2 - \$2.5 billion and will change based on spending projections, unemployment rates and further guidance from federal agencies.

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Education Funding - Fiscal Stabilization Funds

- Funding for Education will be provided in many forms including Title I, IDEA, Head Start, CCDBG, School Lunch, and various training and research opportunities.
- In addition, Massachusetts will receive \$994 million in “State Fiscal Stabilization Funds”
- 81.8% (\$812 million) of Education Fiscal Stabilization Funds must be used to:
 - Restore state aid to school districts to the greater of the FY 2008 or 2009 level in FY 2009, 2010, and 2011.
 - Restore state support to public institutions of higher education to the greater of the FY 2008 or 2009 level to the extent feasible.
- 18.2% (\$182 million) of the funds may be used for public safety and other government services which may include education services.

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Fiscal Considerations

- Spending received through ARRA must be carefully considered and utilized in the most fiscally responsible manner.
- Currently, funding from ARRA is necessary to balance both FY09 and FY10 but in turn creates a structural deficit that will need to be addressed.

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Next Steps

- A&F is responsible for working with each state agency to review proposals for spending where amounts received through ARRA are flexible. This review will ensure that funds are spent consistent with State and Federal priorities.
- A&F is currently working with State and Federal agencies on available funding amounts which are estimated to be between \$6 - \$9 billion based on our ongoing analysis and further guidance from federal agencies.
- A&F and each Secretariat will continue to work with our Federal partners to influence the development of federal guidance.

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Martin Benison
Comptroller of the Commonwealth

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Agenda

- Comptroller Role
- Actions to Date
- Issues and Concerns
- Mitigation strategies

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Role of the Comptroller

- Assure All Revenue and Spending Complies with Commonwealth and Federal Law
- Support the Mandate That ARRA Money Move Quickly
- Compliance with Federal Cost Allocation Principles OMB Circular A-87
- Compliance with the Single Audit Act OMB Circular A-133
- Reporting of Financial Data in Compliance with Evolving State and Federal Requirements

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Actions to Date

- Standards Developed/Policies Issued to Segregate and Track ARRA Spending and Receipts.
- Policies Issued for Employees Hired on ARRA Funds to Limit Budgetary Impact
- Ongoing Communication Plan with Commonwealth Fiscal Officers
- Updated Withholding Tables Implemented in Current Paychecks

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Data Being Captured

- Catalogue of Federal Domestic Assistance
- ARRA Component segregated
- For Grants
 - Project name
 - Payee (vendor or grantee)
 - Payment Location
 - Obligation and payment date and amount
 - Revenue received by date and amount

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Issues, Concerns and Mitigation Strategies

- Commonwealth Financial Management Resources are Strained
 - Focus on departments with new federal funds or the largest order of magnitude increases
 - Consider using ARRA administrative funds for compliance and reporting
- Reporting Standards are Evolving
 - Working with national associations and OMB to understand and influence guidance

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Issues, Concerns and Mitigation Strategies

- Audit will Likely Hold Current Spending to an Evolving Standard
 - Capture and code data at a detailed level
 - Maximize existing processes and standards

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