



February 23, 2009

The Impact of the U.S. American Recovery and Reinvestment Act of 2009 on Missouri

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“The American Recovery and Reinvestment Act of 2009” passed by Congress in February and signed by President Obama on February 17th was designed to assist families who are most impacted by the recession, boost state economies and create/maintain jobs. The most recent figures indicate at least 46 states including Missouri face budget shortfalls.¹ The Economic Recovery Act will help to fill at least a portion of state budget gaps at a time when the need for services is also increasing due to the Recession. The provisions of the Act that provide assistance to low and moderate income families, and to states facing budget shortfalls, are one of the most efficient ways to stimulate Missouri’s economy. This paper outlines an estimate of the amount of federal funds that are anticipated to come to Missouri under key provisions.

The Major Components of the Federal Recovery Act: Health Care

The Act creates a Temporary Increase in the federal matching rate for Medicaid, known as FMAP.² By providing an immediate increase in the share of the Medicaid program paid by the federal government, states will receive a total of about \$87 billion over 9 quarters. The states will be helped in three ways

1. Each state receives a 6.2 percentage point increase in its FMAP base.
2. States with high increases in unemployment (most states will qualify), will receive an additional FMAP increase based on a quarterly evaluation of their unemployment rate.
3. States are “held harmless” from any drop that would occur in its FMAP due to an increase in its per capita income. (This provision will likely not affect Missouri, since it is unlikely that our per capita income will rise in the near future).

Missouri’s current FMAP rate is 63. With the base increase and additional increase due to Unemployment, **Missouri’s FMAP rate is expected to increase at a minimum to 71.06.** The rate will adjust over time as Unemployment levels fluctuate.

¹ Center on Budget & Policy Priorities, “Recovery Act Provides Much-Needed, Targeted Medicaid Assistance to States”, by Iris J. Lav, Edwin Park, Jason Levitis, and Matthew Broaddus, http://www.cbpp.org/2-13-09sfp.htm#_ftn1#_ftn1

² American Recovery and Reinvestment Act of 2009: State-by-State Estimates of Key Provisions Affecting Low and Moderate Income Individuals, Center on Budget and Policy Priorities, updated February 13, 2009. See www.cbpp.org/1-22-09bud.htm.

By increasing the federal FMAP, states' limited dollars will stretch further at a time when need for health insurance for the uninsured has increased due to job loss. It is hoped that states will be able to at least continue to provide health care at current eligibility levels.

To be eligible for the increased FMAP, states must pay Medicaid providers promptly, and cannot have eligibility that is lower than that in place on July, 2008. Missouri easily meets the second requirement. The deep cuts in Medicaid eligibility and services took place in 2005.

Missouri will receive an estimated **\$1.6 billion** in increased FMAP over 9 quarters (October 2008 – December 2010). Of this total, Missouri is expected to receive the following by fiscal year over this period:

- **\$440 million in FY 2009,**
- **\$750 Million in FY 2010, and**
- **\$380 million in FY 2011.**

The Major Components of the Federal Recovery Act: State Fiscal Stabilization Fund and Education

The Economic Recovery Act created funds specific to state budget stabilization and education. The state stabilization fund enables states to avert budget cuts amid the growing state fiscal crises. The Stabilization Fund provides two block grants: a \$39.5 billion block grant earmarked for education, and an \$8.8 billion grant to help fund other key services such as public safety, law enforcement, services for the elderly and people with disabilities, and child welfare.

These funds are available immediately and must be used within two years. To receive the block grants, states must fund both K-12 and Higher Education at no less than fiscal year 2006 in fiscal years 2009, 2010 and 2011. The Secretary of Education may loosen this requirement, but states must also meet other requirements regarding data collection, assessment and equitable distribution of teachers among schools.

Missouri will receive an estimated **\$753.2 million** in the Education Block Grant, and **\$167.6 million** in the state fiscal stabilization flexible block grant.

In addition, Missouri will receive an estimated **\$201.5 million** in Title I funds, and **\$236 million** in IDEA funds, which will be allocated over FY2009 and FY2010.

The Major Components of the Federal Recovery Act: Helping Missourians who are most Impacted by the Recession (Unemployment, Food Stamps, the CCDBG & Emergency Shelter)

In addition to the enhanced Medicaid match rate, several provisions of the Economic Recovery Act are specifically designed to help families who are most impacted by the recession and help avert a significant increase in poverty that would result from the Recession. These provisions include an increase in Food Stamp Benefits, an extension of Unemployment benefits and increased funding for the Child Care and Development Block Grant (CCDBG).

Food Stamps (Now Called "SNAP"): The Act increases the maximum Food Stamp benefit by 13.6 percent beginning in April of 2009. The increase will benefit **964,000** Missourians, and will provide an additional **\$562 million** in Food Stamp dollars that flow directly into Missouri's economy. The U.S. Department of Agriculture estimates that each dollar in Food Stamps results in an additional \$1.84 dollars in economic activity in the local communities where funds are spent.

CCDBG: The Child Care and Development Block Grant for Missouri will be increased by **\$38.68 million including \$33.6 million in block grant funds, \$3.19 million for Quality Expansion and \$1.85 million for targeted infant/toddler services.** The CCDBG block grant funding provides enhanced funding for early education and child care for low income families.³

Unemployment Insurance Benefits: The economic recovery package contains federal funding to increase unemployment benefits by \$25 per week. It also extends the deadline to qualify for the Emergency Unemployment Compensation extensions through December 31, 2009.

The National Employment Law Project estimates that **325,580 Missourians** will benefit from the \$25/week increase.⁴ These increased benefits will pump more than **\$8 million into the Missouri economy each week.** An estimated **48,043 Missourians** will be eligible for extended UI benefits through the Emergency Unemployment Compensation Program.⁵

Emergency Shelter Funding: Missouri is expected to receive an additional **\$27.5 million for emergency shelter to assist 7,000 Missouri families.** The funding is intended to assist families who are facing foreclosure and can be utilized to provide housing stabilization, relocation and rental assistance.

The Major Components of the Federal Recovery Act: Targeted Tax Cuts for Families (Child Tax Credit and the Making Work Pay Credit)

In addition to the changes in public benefits programs like Food Stamps, several tax provisions included in Economic Recovery Act are targeted to benefit low and middle income families. Not only is the funding meant to help struggling families at a time of economic turmoil, but it is expected to provide a significant economic return as well. Leading national economists agree that putting money into the hands of low and middle income families who will spend the money quickly is the best way to ensure economic growth:

Chad Stone, Chief Economist at the Center on Budget & Policy Priorities states, “The quickest, most effective way to bolster demand is to put money in the hands of people who will spend it quickly – namely, people who need it to cover basic expenses such as housing, food and transportation.each dollar in tax cuts for low and moderate-income families – and each dollar in increased benefits....-will generate more of an increase in demand (for business and products)... Helping struggling families thus isn’t an alternative to preserving and creating jobs; it’s one of the **most effective ways to preserve and create jobs...**”⁶

A 2008 **Congressional Budget Office analysis** stated that “The efficacy of fiscal stimulus depends critically on households’ tendency to spend the income placed in their hands.....Therefore, **policies aimed at lower-income households tend to have greater stimulative effects**”.⁷

³ Center for Law & Social Policy “Impact of the American Recovery and Reinvestment Act of 2009 on Child Care and Development Block Grant Funding”, February 13, 2009, http://clasp.org/publications/aara_childcarestatealloc.pdf

⁴ National Employment Law Project at <http://www.nelp.org/page/-/UI/RecoveryPlanEstimates.pdf>.

⁵ Ibid at 2.

⁶ “Assistance for Hard-Pressed Families is One of the Best Ways to Preserve and Create Jobs”, Center on Budget & Policy Priorities, Chad Stone, January 9, 2009.

⁷ Ibid at 2.

Child Tax Credit: Changes to the Child Tax Credit eligibility will allow more very low income families benefit from the credit. Families earning at least \$3,000 per year, those with very low incomes, can benefit from the tax credit to help offset the costs associated with raising children. **285,000 Missouri children** are expected to benefit.⁸

Making Work Pay Credit: A new “Making Work Pay Credit” that provides a tax credit of up to \$400 per worker is expected to benefit **2,099,000 Missourians**.⁹ Eligible workers include single workers earning up to \$100,000 and married couples earning up to \$200,000.

The Major Components of the Federal Economic Stimulus Measure: Infrastructure and Transportation Funding:

Finally, Missouri is expected to receive **\$637 million in funding for Transportation Construction and an additional \$85 million for Public Transit projects**. The Missouri Department of Transportation (MODOT) recently announced that it has 34 construction related projects that could be ready to begin as soon as the funding becomes available.

The Mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy. Contact the MBP through our website at www.mobudget.org

⁸ Ibid at 2.

⁹ Ibid at 2.