



Shaping Policy...
Creating Opportunities

February 23, 2009

Federal Economic Recovery Act will Boost Missouri's Economy, Create Jobs and Improve the State Revenue Outlook

Tom Kruckemeyer, Chief Economist and Amy Blouin, Executive Director

“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 that at least 46 states including Missouri face budget shortfalls.¹ Missouri faces an estimated state revenue shortfall equal to 3.8 percent of the state general revenue budget in the current year. The amount of the shortfall could grow to a gap of 11 percent by FY 2010.² The Economic Recovery Act will help to fill at least a portion of Missouri's budget gap at a time when the need for services is also increasing due to the Recession.

The provisions of the Economic Recovery Act that provide assistance to low and moderate income families, and to states facing budget shortfalls, are also 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, their economic benefit and impact on state revenue growth over time.

State lawmakers should take advantage of the federal resources to avoid cuts to state services, particularly those services that have increased demand during an economic crisis. Protecting state services will not only assist Missouri families who are bearing the brunt of the recession, but will stimulate much needed economic growth.

Economic Recovery Act Funding for Missouri:

The best available estimates indicate that Missouri is likely to receive more than **\$4.3 billion** in additional federal funding over the next two years for a variety of services and projects. A portion of the funding is intended to protect and improve state services and will be allocated through the state's legislative appropriations process. A portion of the funding that is specific to Education will go directly to local school districts. A portion will go directly to Missouri families

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 The Consensus Revenue Estimate calls for a *decline of 4%* in General Revenue collections in Fiscal Year 2009 followed by growth of only 1% in FY 2010.

through enhanced benefits for those facing economic crises. The following summarizes the major categories of new funds³:

Protecting and Improving State Services

- Health Care: Temporary Increase in the Federal Matching Rate for Medicaid resulting in \$1.6 billion over 27 months;
- Highway Infrastructure: \$637 Million, funding more than 34 projects;
- Public Transit Funding: \$85 million;
- Flexible State Fiscal Stabilization Funds: \$167.6 million;
- Child Care and Development Block Grant Funding: \$38.68 million for Child Care services and quality improvement.

Education Funding

- Title 1 Funding: \$201million;
- IDEA Funding: \$236 million;
- K-12 and Higher Education Funding: \$753.2 million

Helping Missourians who are most Impacted by the Recession

- Unemployment Insurance Benefits: Increases benefits by \$25 per week and expands the extended unemployment benefits for 325,000 Missourians;
- Emergency Shelter: \$27.5 million to fund housing stabilization, relocation, rental assistance to help 7,000 Missouri families who relocate due to foreclosure;
- SNAP (Food Stamps): \$562 million to provide a 13.6 percent increase in maximum food stamp benefit beginning April 2009, benefiting 964,000 Missourians;

Economic Impact of the Recovery Act on Missouri:

It is critical that Missouri take full advantage of the funding provided in the Economic Recovery Act. In addition to ensuring that Missouri families have continued access to fundamental services during the economic crisis, the infusion of federal funds to Missouri will provide substantial benefit to the economy overall that will benefit all Missourians. The funding will *help* the state recover from the economic crisis by creating and maintaining jobs, increasing the economic productivity in the state, creating personal income growth for Missourians that will over time result in additional state tax revenues that the state can utilize to continue fundamental services. The *Missouri Budget Project* estimates that the economic impact of the Federal Economic Recovery Act, based on an additional \$4.3 billion in federal funding will result in:

Increase in Missouri's Gross State Product:	\$7.69 Billion
Resulting Jobs that Are Created or Maintained:	98,000
State Revenue Increase Resulting from Economic Growth:	\$275 Million

These increases will accrue to the state over the next two years in which the federal dollars are being expended.

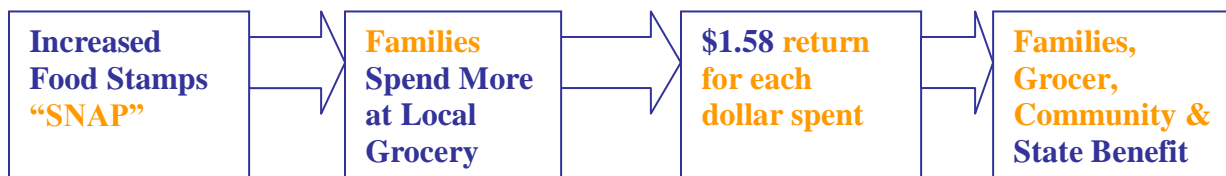
³ For a more comprehensive overview of the impact of the Economic Recovery Act on Missouri see The Missouri Budget Project, "The Impact of the U.S. American Recovery and Reinvestment Act of 2009 on Missouri", February 23, 2009, Ruth Ehresman, Director of Health and Budget Policy and Amy Blouin, Executive Director available at www.mobudget.org

Economic Impact the “Multiplier Effect”:

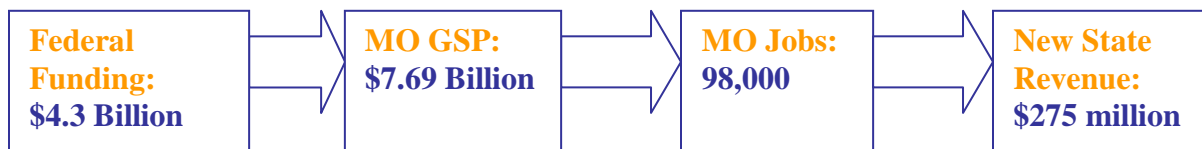
The MBP estimates of economic growth are based on economic multipliers provided by the Bureau of Economic Analysis of the U.S. Department of Commerce (BEA). Each multiplier is designed to measure the *additional* economic activity that results from spending in a given sector, ranging from \$1.58 - \$2.08 in economic growth from each dollar invested. They are used routinely by state and local governments to measure the impact of policy change.

An easy example of the multiplier effect would be the case of a currently unemployed construction worker who becomes employed building a bridge that was funded by this Act. The wages earned by this worker would subsequently be spent on housing, food, and transportation. In a like manner, health care professionals who become (or remain) employed as a result of additional Federal Medicaid spending will also expend their wages to buy goods and services produced by the Missouri economy.

As a result of the spending produced by the Economic Recovery Act, unrelated sectors of the state economy benefit. Food Stamps provide a good example. 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. A family that receives an enhanced food stamp benefit spends those dollars at a local grocery store. The store not only employs workers who are then able to pay their families’ expenses, the grocer also may buy more products from local farmers. 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. Using the BEA’s calculator, which utilizes a more conservative multiplier of \$1.58, the “multiplier effect” of the additional Food Stamp benefit in Missouri would support **11,348 Missouri jobs and create \$889 million in increased gross state product.**



Using a **conservative estimate** of the total amount of funding Missouri is expected to receive under the Federal Economic Recovery Act, as well as conservative BEA multipliers; the *Missouri Budget Project* estimated the overall growth in Missouri’s economy resulting from the measure to be **\$7.69 Billion**. As the economy improves, the income that is earned (directly and indirectly) from the federal funds is then subject to various state taxes, resulting in a “rebound” of state general revenue as well.



The following Table summarizes the economic impact and resulting state revenue from the most significant funding areas under the Economic Recovery Act and is based on the BEA multipliers:

Category of Stimulus Funding	Amount of Federal Funds	Increase in Gross State Product	Jobs Created	Missouri Personal Income Growth	Missouri Tax Revenue Growth
Enhance Medicaid Funds FMAP	\$1.6 Billion	\$2. 77 Billion	35,349	\$1.477 Billion	\$99.2 Million
K-12 & Higher Education	\$753 Million	\$1.304 Billion	16,641	\$695 Million	\$46.7 Million
IDEA Funding	\$236 Million	\$408 Million	5,214	\$217.9 Million	\$14.6 Million
Title 1 Funding	\$201 Million	\$348 Million	4,441	\$185.6 Million	\$12.5 Million
Fiscal Stabilization	\$168 Million	\$290.9 Million	3,712	\$155 Million	\$10.4 Million
Transportation Construction	\$637 Million	\$1.324 Billion	16,893	\$706 Million	\$47.4 Million
Public Transit	\$85 Million	\$176 Million	2,254	\$94 Million	\$6.3 Million
Child Care & Head Start	\$51.68 Million	\$89.4 Million	1,142	\$47.7 Million	\$3.21 million
Public Housing Related	\$48 Million	\$87.8 Million	1,121	\$46.7 Million	\$3.1 Million
Food Stamps	\$562 Million	\$889.6 Million	11,348	\$474 Million	\$31.8 Million
Grand Total	\$4.341 Billion	\$7.691 Billion	98,114	\$4.1 Billion	\$275 Million

Based on these findings, it is critical that Missouri lawmakers take full advantage of the funding provided in the Economic Recovery Act. In addition to ensuring that Missouri families have continued access to fundamental services during the economic crisis, the infusion of federal funds to Missouri will provide substantial benefit to the economy overall that will benefit all Missourians

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