



COLORADO FISCAL POLICY INSTITUTE

American Recovery and Reinvestment Act February 16, 2009

Following heated debate in the House and Senate, a compromise version of the American Recovery and Reinvestment Act, popularly known as the Economic Stimulus Package, has been approved by Congress and will be signed by President Obama in Denver on Tuesday February 17, 2009. The measure passed the House by a vote of 246-183, and the Senate by a vote of 60-38. In each house, the package passed on a party line vote, with no Republicans voting in support of the Recovery and Reinvestment Act in the House and only the three moderate Republicans (Senators Collins (ME), Snowe (ME) and Spector (PA) who were involved in the compromise negotiations voting for the bill in the Senate.

Preliminary calculations show that Colorado stands to benefit with **\$2.791 Billion in direct spending assistance**, most of which will take place over the next two years. These funds will help close the current \$631.9 Million budget shortfall as of the second quarter of the current 2009 fiscal year.

Stimulus Background

The final overall package has a price tag of roughly \$787 Billion, of which nearly 65 percent goes directly to spending and 35 percent goes to individual and business tax benefits. Colorado is set to receive significant money for its safety net programs, such as food stamps and Medicaid, along with funding for school modernization and public education, housing assistance, and child care programs.

State Spending

**Note: These are preliminary estimates and are subject to change before the final passage of the bill.*

When signed by the President, stimulus provisions will begin immediately, with some spending retroactive to October 2008, which will help Colorado and other states fill existing budget holes while also decreasing future shortfalls. Federal agencies will allocate the funds in five ways: 1) formula (FMAP, State Fiscal Stabilization Funds, Highway Infrastructure Investment); 2) competition (National Institutes of Health, Broadband Program, National Science Foundation); 3) demand (UI, Food Stamps, Small Business Loans); 4) one time automatic disbursements (Social Security, Veterans and Supplemental Security Income beneficiaries); and 5) agency plan (Environmental clean up, etc.). The public will be able to track spending from the Act that occurs within 18 months of the enactment through **Recovery.gov**.

Here is a brief overview of the major stimulus spending provisions and how Colorado should be affected over the next several fiscal years (this is not inclusive of all provisions of the stimulus package).

- **State Fiscal Stabilization:** Colorado will receive roughly **\$760 Million** over the next two fiscal years in order to prevent cuts to existing programs and services, most notably education programs. This is a significant decrease from the original House version of the bill, which would have provided Colorado with just over \$1 Billion.¹ Funds are available to states immediately, and must be spent within two years.

These fiscal stabilization grants are divided into two categories—Education and General Purpose, or “Flex Fund.” Education grants amount to **\$622 Million** over two years. This is an increase from

¹ Center on Budget and Policy Priorities estimate February 13, 2009.

both the Senate and House versions, mainly a result of school construction and modernization funding being merged with the education grants (these were initially a separate \$136.4 Million). Education grants can be spent to backfill budget shortfalls and allow Colorado to continue building schools, retaining teachers, and improving technology in the classroom.

The other **\$138 Million** Colorado will receive in stabilization funding is for general purposes, and can be spent on healthcare, human services, and other programs that have seen their budgets slashed due to the recession and budget cuts. These grants are crucial to maintaining service levels around the state for Colorado's most vulnerable populations. These funds can also be used for school modernization, renovation and repair.

- **Education:** In addition to the fiscal stabilization grants, Colorado will receive education funding for two specific programs—**\$126.2 Million** for Title 1 assistance to disadvantaged students and **\$157.9 Million** (rough estimate) for special education programs through the Individuals with Disabilities Education Act (IDEA). These funds can only be used for Title 1 and IDEA programs, and will be disbursed through local school districts.
- **Medicaid:** Overall, Medicaid assistance is the largest expenditure to Colorado in the stimulus package. Medicaid spending provides necessary healthcare to low-income individuals and families across the state, and the federal government helps Colorado pay for these programs by matching the amount of money the state spends.

The stimulus package will provide an estimated **\$880 Million** to Colorado over the nine quarters beginning in October 2008 (part of the funds are retroactive), or **\$97.7 Million every three months until December 31, 2010**. The money will go to increasing the federal government's share of Medicaid spending through increasing the FMAP, or Federal Medical Assistance Percentage. This money will be adjusted every quarter, however, to take into account a state's fiscal situation. As a condition of these new dollars, Colorado will have to "hold harmless" its existing funding, which means that eligibility levels will have to be maintained as they were on July 1, 2008.

- **Food Stamps and Other Nutrition Programs:** Food stamp assistance provides the single greatest "bang for our buck", because low-income families in need will immediately use these benefits to purchase food items. This not only provides nourishment for their families, but also injects needed money into local economies. Each dollar in food stamps, according to Mark Zandi of Moody's Economy.com, generates \$1.71 in economic activity. The package also provides **\$2.5 Million** administrative funds to help states implement changes and manage increasing caseloads.

The stimulus will increase food stamp eligibility, including for legal immigrant families, provide administrative assistance, and increase benefits by up to 14 percent. Colorado could see an additional **\$181 Million** in increased benefits over the next four years, which will provide up to 277,000 families with help purchasing food. This is less than the original stimulus package, but will still provide important food and nutrition assistance for Colorado's vulnerable families.

Please note that this benefit will only be available to Colorado if the state is able to resolve the many challenges with CBMS and allow eligible families to receive benefits.

In addition, Colorado could receive up to **\$1.6 Million** in Elderly Nutrition services, **\$1.0 Million** for School Lunch Equipment, **\$1.3 Million** for Emergency Food and Shelter and **\$1.4 Million** in Commodity Assistance/The Emergency Food Assistance Program (TFAP).

- **Housing:** One area that remains unchanged from the original stimulus is family housing assistance. Colorado will receive **\$15.6 Million** over the next two years to assist families who have lost their homes during the recession. This money can be distributed to homelessness prevention programs and emergency shelters. The Center on Budget and Policy Priorities estimates that this small amount of money will provide 3,100 families with housing assistance.

Altogether, Colorado could receive **\$17.7 Million** in Public Housing Capital Funds, **\$21.3 Million** in HOME Investment Partnership Programs to build affordable housing, and **\$15.6 Million** in Homelessness prevention.

Additionally, Colorado families could benefit from the expansion of the homebuyer's tax credit, which will provide up to an \$8,000 tax credit for families who purchase their first home within the next year.

- **Child Care & Head Start:** Colorado will gain **\$24.3 Million** in Child Care and Development Block Grant Funds (CCDBG). These funds that will not require a match will help Colorado subsidize child care for children in low-income working families and low-income families with parents involved in job retraining or education. Some of this money is targeted to improving the quality of care for infants and toddlers.

Colorado children will also benefit from an additional **\$8.1 Million** for Head Start programs in the state.

- **Transportation and Infrastructure:** Colorado stands to receive **\$521.2 Million** over the next two years for infrastructure and transportation spending.

\$386.8 Million of this will go to highway and bridge repair and construction, some of which is specifically targeted to underserved rural areas. Another **\$122.1 Million** will be given to the state in Transit Capital Grants, to begin new projects in public transportation, such as busing and rail programs. Finally, **\$4.2 Million** will be available for Rail Modernization.

Finally, Colorado will also see a disproportionate amount of the \$7 Billion earmarked for broadband Internet. The expansion of broadband is designed to bring Internet to rural areas and others where Internet connectivity is difficult to maintain. If Colorado sees even 2 percent of this funding, it could provide **\$140 Million** for Internet and digital infrastructure.

- **Energy and Environment:** Colorado could gain as much as **\$31 Million** for the Clean Water State Revolving Fund, another **\$34.6 Million** for the Drinking Water State Revolving Fund, **\$99 Million** for Weatherization projects and **\$48.3 Million** in the State Energy Program to support renewable energy and efficiency projects.

Tax Credits and Income Assistance

- **Making Work Pay Tax Credit:** This credit is the backbone of the tax assistance portion of the stimulus package, and functions as a refundable tax credit of up to **\$400 for any individual or \$800 for any family**, a slight reduction from the original stimulus plan.

The full credit can be claimed by almost any person making under \$70,000 per year, and a partial credit for those making between \$70,000 and \$82,500. For couples, the full credit of \$800 can be claimed if you make under \$140,000 in a given year, and those making up to \$165,000 can apply for a partial credit.

For those Coloradans without children (who thus do not qualify for the Earned Income Tax Credit), the Making Work Pay Tax Credit will provide needed tax relief. Almost 40 percent of all Coloradans, more than 1.8 million people, will qualify for the MWP tax credit.

- **Child Tax Credit:** Current restrictions make this tax credit only partially refundable while also leaving thousands of the most needy families without assistance. The stimulus will expand its availability, making families eligible for the credit with the first dollar they make in income. Any family that makes over \$16,333 in a year will receive the full **\$1,000 refundable tax credit**, and any family making more than \$3,000 in a year is eligible for a partial tax credit. Over 191,000

children in Colorado are estimated to benefit from this simple and necessary expansion, according to the Center on Budget and Policy Priorities.

- **Supplemental Security Income:** SSI is a program that provides income assistance and security for people with disabilities and the elderly. The stimulus will provide those who already receive SSI assistance with a one-time benefit increase of **\$450 for individuals, or \$630 for couples**. This costs a mere **\$33.4 Million** in 2009, and will provide help to 58,600 families. Most importantly, those with low incomes are most likely to spend this assistance immediately on basic necessities, providing the most immediate stimulus effects compared to any other expenditure.
- **Unemployment Insurance:** The stimulus also calls for an increase in UI benefits of **\$25 per week** for all individuals receiving unemployment. According to the National Employment Law Project, that could mean that more than 173,000 unemployed Coloradans have that much more to pay bills while they look for work. The stimulus also makes the first \$2,400 in benefits tax-free, providing small but important tax relief to those pushed out of work because of the current recession.

Finally, the stimulus package included the Unemployment Insurance Modernization Act, which provides a total of \$7 billion in financial incentives to states to close major gaps in the unemployment insurance system. It also provides \$500 million to aid states in improving administrative systems in order to better serve unemployed workers.

There are a limited number of improvements that are needed in Colorado in order to collect more than **\$127.5 million** in UIMA financial incentives. In addition, Colorado will receive almost **\$9 Million** for administrative needs, such as more technicians to assist with increased claims.

- **Alternative Minimum Tax Patch:** A provision not in the House package, but a large portion of the Senate package, is a “patch” of the Alternative Minimum Tax, which will shield some middle and many upper-middle class families from paying additional income tax in 2009. This provision, though lacking in stimulative effect, was included in the compromise bill and will cost roughly \$70 Billion. It is unknown how much of that money will be saved by Coloradans.

Conclusions

Though the stimulus relies slightly too heavily on tax credits and breaks that have less of a stimulating effect on the economy than direct spending, the bill will provide dramatic fiscal relief for Colorado families and the state government. By putting money in the hands of our most vulnerable, through food stamps and Medicaid assistance, by creating jobs in needed sectors like construction through transportation spending, and by investing in our future through public education and some (though not an optimal amount) of money for school construction, the stimulus represents a down-payment on necessary improvements for Colorado and its families.

The bill is far from perfect, but its creation and expansion of refundable tax credits, UI benefits, SSI income, and other safety net programs are to be applauded. It is a promising first step to making these programs solvent for our future, to ensure that all Coloradans are adequately provided for by all levels of government.

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