



COLORADO FISCAL POLICY INSTITUTE

Fact Sheet: 2009 Federal Stimulus Proposal (House of Representatives) **January 23, 2009**

Colorado is experiencing a \$631.9 Million budget shortfall as of the end of the second quarter in the current 2009 fiscal year.¹ Without rapid action from the Federal Government to plug holes in this budget gap, Colorado will begin cutting essential services for thousands of families across the state, from decreases in Medicaid and food stamp availability and eligibility, K-12 education spending and infrastructure development. Congress, however, is currently debating an economic stimulus package that would help close these gaping holes while also providing real, tangible tax relief for working families.

Stimulus Background

Both the House and Senate are considering stimulus package legislation, and while members of both houses are prioritizing similar proposals, this Fact Sheet concerns only the legislation from the House of Representatives. The 2009 House Economic Stimulus package, as written, provides dramatic and necessary assistance to state governments to provide and expand services for working families, while also putting additional money directly in the hands of millions of Americans.

The \$825 Billion overall package includes over \$150 Billion in fiscal relief for state governments, of which **Colorado is expected to receive approximately \$2.133 Billion to expand services in Medicaid, public education, child care, housing assistance, food stamps.** The stimulus would also provide one-time influxes of money for many families through the Supplemental Security Income (SSI) program, the new Making Work Pay tax credit, and expansions of the existing Child Care Tax Credit and Earned Income Tax Credit.

State Spending

If adopted, the provisions of the stimulus would begin immediately, and would provide assistance dating back to October 2008, to help states deal with both existing budget holes as well as projected future shortfalls. Here is a brief synopsis of the major spending provisions of the stimulus, and how Colorado will be affected over the next several fiscal years.

- **Medicaid:** The largest expenditure in the stimulus package is for Medicaid spending in order to provide necessary healthcare to low-income individuals and families. Right now, the federal government matches the amount of money Colorado spends on Medicaid—so when Colorado has less money to spend, federal dollars also go away.

¹ Both the federal and state fiscal years differ from calendar years, as they begin on July 1st. Thus, FY 2009 runs from July 1, 2008 through June 30, 2009. Since many state budget shortfalls exist now, the Federal Stimulus package provides retroactive relief; it provides states with assistance and benefits for shortfalls as of October 1, 2008 (the beginning of the 2nd Quarter in FY 2009).

The stimulus would increase the federal government's share of Medicaid spending, by increasing the FMAP, or Federal Medical Assistance Percentage, for nine quarters (starting October 1, 2008, and thus including at least a full quarter that has already elapsed). State increases would be based on their current economic condition, and would be re-evaluated every quarter. Current projections show Colorado receiving an additional **\$855.6 Million over these nine quarters, or \$95 Million every three months until December 31, 2010**. As a condition on receiving the increased FMAP, Colorado will have to maintain its Medicaid program services and eligibility levels as of July 1, 2008.

- **Education:** Education spending is a key component of the stimulus package, and Colorado would receive almost \$1.5 Billion over the next two years (FY 2009 and 2010).

Every state will receive education block grants to shore up spending on K-12 education. Total assistance is determined by both the school-aged population of the state and the state's overall population. Colorado is set to receive **\$1 Billion in FY 2009 and FY 2010 through these block grants**.

Colorado's local school districts will also receive federal stimulus money over the next two fiscal years, to address four key programs. **\$128.9 Million** will be given to schools for Title 1 grants that are designed to improve academic achievement for the disadvantaged, **\$181.4 M** through the Individuals with Disabilities Education Act (IDEA), **\$136.4 M** for school modernization and construction.

Finally, **\$100.7 M** is to be given to public colleges and universities to be used to faculty hiring and school repair/construction.

- **Food Stamps:** 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 stimulus will increase food stamp eligibility, including for immigrant families, provide administrative assistance, and increase benefits by 13.6 percent. Colorado will see **\$181 Million** in assistance over the next four years, which will provide 273,000 families with help purchasing food.
- **Housing:** 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. CBPP estimates that this small amount of money will provide 3,100 families with housing assistance.

Tax Credits and Income Assistance

Though state spending is critical, finding ways to put income into the hands of low-income and working families is key to encouraging spending and getting the economy back on track. The stimulus package would provide the largest increase in history in the amount of money provided to families through refundable tax credits. Overall, CBPP estimates that these tax credits and income assistance programs will keep one million children from descending into poverty during this recession.

- **Earned Income Tax Credit:** Currently, the federal EITC only has two tiers of benefits—for families with one child and for families with two or more children. The stimulus will increase benefits for large families by creating a third tier for families who have three or more kids. This tax credit will also phase in with the first dollar a person makes in income, rather than after an arbitrary income threshold like the current EITC.
- **Child Care 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 \$13,333 in a year will receive the full **\$1,000 refundable tax credit**. Over 197,000 children in Colorado are estimated to benefit from this simple and necessary expansion.
- **Making Work Pay Tax Credit:** This credit functions as a refundable tax credit for the first 6.2% of any person’s first \$8,100 in yearly wages—**which amounts to \$500**—for every working Coloradan including those without children and therefore do not qualify for the EITC. Almost 40 percent of all Coloradans, more than 1.7 million people, will qualify for the MWP tax credit. This tax credit could add \$850 million to the Colorado economy.
- **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.

Conclusions

The stimulus package, according to economist Robert Greenstein, is “extraordinary for low-income families and states.” It provides stabilization for state budgets, which will allow Colorado and other states to forgo drastic cuts to critical programs. Since it is retroactive to October 1, it allows states that have already experienced economic decline and budget shortfalls to recoup some of those losses and plug some of their existing gaps. The spending programs highlighted in the package prioritize low-income families and working Coloradans, while focusing on programs with extremely high returns on investment, like Food Stamps.

Finally, the stimulus ensures that money gets put in the hands of every single working person in Colorado, through its expansion of refundable tax credits and increases in benefits for needy families and those looking for work.

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