



FEDERAL RECOVERY LEGISLATION AND TEXAS

Today, Congress released the details of the American Recovery and Reinvestment Act (ARRA), which provides \$789 billion to stimulate the economy. Many of these measures will also help protect vulnerable Texans during this economic downturn. To take full advantage of the benefits in the recovery package and set our economy on the road to recovery, Texas must plan immediately. We applaud Speaker Joe Straus for appointing the Select Committee on Federal Economic Stabilization Funding, charged with monitoring federal action and suggesting to standing committees needed steps to qualify for federal economic recovery funds. This paper summarizes the portions of the bill that affect the state budget.

What's In It For Texas

- **The bill includes significant aid to help struggling families, provide unemployment insurance to more jobless Texans, and prevent cuts to critical state services.**
- **Invested wisely, the additional \$5.3 billion in Medicaid funding is sufficient to prevent cuts, enroll more eligible uninsured children, and bring more enhanced federal funds to Texas.**
- **The Legislature must take specific action to use certain funds.**

Overview

The federal recovery package includes significant aid to states, including \$86.6 billion in additional Medicaid FMAP funding (\$5.3 billion for Texas), along with critical funding for programs that help struggling families (e.g. Food Stamps, the Child Tax Credit, unemployment insurance, SSI, and TANF). The bill also provides billions in direct funds for school districts and local governments to fund critical infrastructure projects and to stimulate job creation.

The bulk of the funds are very flexible and either do not require state matching funds or, as in the case of the additional federal Medicaid money, reduce the amount of state match needed for that program. To qualify for some funding, however, Texas must make some specific policy changes. Though the Legislature must evaluate both the merits and the long-term costs of these changes, they appear to be sound policy.

Some express concern that the fund is “one-time money” and should therefore not be used to fund programs that the legislature could not continue once the federal funds run out. A more accurate way to look at the money would be to consider it **replacement dollars**. *The federal money replaces state revenue temporarily lost to the economic downturn.*

The federal money is intended to help states through fiscal 2011. By that time we can reasonably expect an improved state economy and improved state revenues. Though it's too early to know exactly when the economy will emerge from the recession, our economy will emerge stronger if Texas spends the recovery money wisely than if it doesn't spend it at all.

Available Funding for Texas

In some areas, the Texas Legislature must take specific action to qualify for and maximize the funds. In others, lawmakers must choose how to invest the funds. We highlight these areas below and recommend best courses of action.

Increased Medicaid funding (FMAP):

- The bill increases the Temporary Federal Medical Assistance Percentage (FMAP) funding by 6.2 percent for a 27-month period, reducing the required state match. The estimated additional \$5.3 billion in Medicaid funding for Texas is sufficient to prevent cuts and enroll more eligible uninsured children, which would bring more enhanced federal funds to Texas.
- The bulk of these funds should be appropriated to prevent cuts in Medicaid and fund the inevitable rise in caseloads resulting from the economic crisis. For every 1 percent increase in unemployment, Medicaid and CHIP caseloads rise by an estimated 1 million and the ranks of the uninsured increase by an estimated 1.1 million.
- The Legislature should invest part of the additional Medicaid funds in improving Texas' broken eligibility system that enrolls needy families in public benefits. Providing 12-month continuous coverage of children on Medicaid will dramatically relieve workload pressure on the eligibility system so that it can better respond to the increased demand, and will also help Texas comply with the *Frew* corrective action plan, which requires the state to increase the number of children on Medicaid who receive all their immunizations and check-ups.

State Fiscal Stabilization Fund:

- The State Fiscal Stabilization Fund includes \$3.25 billion in an education block grant and another \$723 million in a flexible block grant to Texas to prevent cuts to education, public safety and other critical services. When states cut spending, they lay off employees, cancel contracts with vendors, reduce payments to businesses and nonprofits that provide services, and cut benefits to individuals. All of these steps remove demand from the economy and compound the economic slowdown, counteracting the effects of the recovery bill.
- Texas' legislative leadership wants state agencies (other than public education and Medicaid) to cut general revenue spending by 2.5 percent in 2009. For 2010-11, the proposed state budget falls short of "current services" levels by at least \$9 billion. The Legislature should use Stabilization Fund money to provide vital state services in 2009-2011 and support the economy.

Unemployment Insurance:

- The bill provides nearly \$560 million in incentives for Unemployment Insurance. To qualify for these funds, the Texas Legislature must enact several policy changes (see <http://www.cppp.org/research.php?aid=779>). These reforms would qualify an additional 45,000 jobless Texans for unemployment insurance. The recovery money alone would cover these benefits for at least seven years, support local businesses, and save jobs.

Effects of select anti-poverty measures in ARRA on Texas that do not require state action:

- 677,000 Texans would see a small increase in their unemployment benefits, and 125,000 additional Texans would qualify for extended unemployment compensation.
- 779,000 Texans would receive a larger earned income tax credit (EITC), and 80,000 additional Texans would qualify for the EITC.
- Expansion of the Child Tax Credit will help 1.9 million more children.

Without the stimulus package, it is estimated that 1.2 million more Texans, including 357,700 children, would fall into poverty in 2010.

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- Given the shrinking Texas Unemployment Insurance Trust Fund, these incentive funds could prevent a hefty deficit tax on contributing employers in 2010, and maintain the Skills Development Fund and Enterprise Fund in fiscal 2010.

Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund:

- The TANF block grant helps states provide cash assistance, child care, and employment services to extremely poor families with children. At \$486 million annually, the basic TANF block grant is the seventh-largest source of federal funds in the state budget. Texas also uses the block grant to pay for child protective services and other programs across multiple state agencies. Another \$53 million comes from a supplemental grant for very poor and fast-growing states.
- The recovery package continues the supplemental grants in fiscal 2010 and includes an emergency contingency fund that would allow Texas to draw down additional TANF funds in fiscal 2009 and fiscal 2010. To take advantage of these funds, the Legislature must increase spending (over fiscal 2007 or 2008 levels) in one of three areas: cash grants, one-time payments, or subsidized employment. The state would qualify for reimbursement from the contingency fund of 80 percent of this increased spending.
- The Legislature should use these funds to temporarily increase TANF cash grants and/or provide an additional one-time payment to TANF recipients to help these extremely poor families weather the economic recession.

Next Steps

As more details become available about the economic recovery package, the center will analyze its major components and their implications for Texas. The Select Committee on Federal Economic Stabilization Funding must carefully study the bill to ensure that Texas maximizes this critical opportunity to protect vulnerable Texans and put our economy on the road to recovery.

For more information

- Center on Budget and Policy Priorities, www.cbpp.org
- National Employment Law Project, www.nelp.org
- Citizens for Tax Justice, www.ctj.org

Members of the Select Committee on Federal Economic Stabilization Funding

- Representative Jim Dunning, Chair
- Representative Myra Crownover, Vice-Chair
- Representative Garnet Coleman
- Representative Drew Darby
- Representative Craig Eiland
- Representative Carol Kent
- Representative Solomon Ortiz, Jr.
- Representative Jim Pitts
- Representative Vicki Truitt