



## THE TEXAS RECOVERY PLAN

March 2009

Texans created public structures like Medicaid, Food Stamps, and Unemployment Insurance to help families in tough economic times and to help the economy recover from a down cycle. These are indeed tough times—we face the worst economic crisis since the Great Depression. Tragically, many Texans are becoming aware for the first time of the crumbling nature of many of our public structures, weakened by years of neglect when times were good. Now that times are tough, we find our systems unprepared. Fortunately, though, the new federal economic recovery law makes resources available to help repair and improve these systems, which will in turn energize economic activity and get Texas on the road to recovery.

But, Texas will only get the federal funds—and the needed improvements to our public structures—if state policymakers make the right choices, soon.

The American Recovery and Reinvestment Act (ARRA) makes available to Texas almost \$8 billion in enhanced funding for Medicaid health care, Food Stamps, and Unemployment Insurance (UI) reforms, in addition to \$30 billion in other spending and tax credits. Invested wisely, the recovery funds will give struggling low-income families and unemployed workers new economic opportunities. Increased public spending through these programs could generate \$21 billion in overall economic activity, which would stabilize the economy and hasten our economic recovery.

This analysis estimates the impact of this increased investment in health care, Food Stamps, and Unemployment Insurance (UI) on Texas counties. It also summarizes the actions the Texas Legislature must take to maximize the benefit of the federal recovery funding, including:

- Spending every new Medicaid dollar on health care without reducing existing state Medicaid spending,
- Fixing our broken eligibility system to ensure that eligible Texans can access federal benefits such as Food Stamps and Medicaid, and
- Adopting simple reforms to our UI system required by Congress to qualify for expanded aid for unemployed workers.

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**Combined Economic Impact of ARRA Medicaid, Food Stamps, and Unemployment Insurance  
Modernization Funds by Texas County**

	<b>Minimum estimated impact (million \$)</b>	<b>Maximum estimated impact (million \$)</b>
Harris	\$504	\$2,398
Bexar	298	1,762
Dallas	343	1,600
Hidalgo	224	1,122
El Paso	160	901
Tarrant	201	863
Cameron	128	758
Travis	115	540
Nueces	78	482
Webb	73	424
Jefferson	58	356
McLennan	43	291
Lubbock	41	228
Galveston	43	225
Smith	33	209
Bell	34	164
Bowie	22	151
Starr	25	143
Montgomery	36	140
Gregg	22	137
<b>Texas total</b>	<b>\$3.8 billion</b>	<b>\$21.1 billion</b>

*Full county list available online at: <http://www.cppp.org/research.php?aid=842>*

## Medicaid

### Overview

Under the American Recovery and Reinvestment Act (ARRA), Texas is expected to receive an additional \$5.45 billion in federal funds from 2009-2011, according to the U.S. Government Accountability Office (GAO). These funds come to Texas in the form of an increase in the share of Medicaid spending paid for by the federal government (the “Federal Medical Assistance Percentage,” or FMAP). This increased FMAP reduces the state’s general revenue cost of Medicaid services.

Congress provided these funds to ensure that states:

- Do not cut Medicaid spending when rising unemployment increases the need for these services; and
- Have extra funds to meet the increased number of uninsured as unemployment rises and incomes decline.

ARRA does not require the Texas Legislature to reinvest any of the state dollars “freed up” as a result of the higher federal match rate for Medicaid. In other words, the FMAP increase allows the state to put up fewer dollars to provide the same amount of care, but the state does not have to increase its investment in health care. However, ARRA prohibits Texas from using the additional Medicaid funds to cut Medicaid eligibility, or complicate the enrollment process in order to deter eligible Texans from getting Medicaid coverage. It also prohibits Texas from transferring any of the \$5.45 billion into the state’s Rainy Day Fund or other reserve.

### Action Needed to Maximize Recovery Funding for Health Care

To maximize the impact of the federal recovery funding for Texas, the Legislature must spend every new federal Medicaid dollar on health care without reducing state Medicaid spending. Beyond avoiding Medicaid cuts to caseloads, services, or provider rates, the next priority for these economic recovery funds should be to fix the broken eligibility system that enrolls Texans in Medicaid, and

ARRA provides \$5.45 billion in additional Medicaid money for 2009-2011. Each \$1 in Medicaid spending generates \$3.25 in economic activity.

**Total impact: \$17.7 billion**

adopt 12-month continuous coverage for children on Medicaid. This change would benefit Texas from every practical angle:

- Reducing the number of uninsured Texas children by 25 percent, which would reduce avoidable hospitalizations and cut the cost-per-child by about the same amount;
- Improving access to well-child care to improve children’s health and comply with federal court requirements;
- Reducing real taxpayer costs by bringing more federal tax dollars back to Texas; and
- Dramatically reducing workloads for Texas’ crumbling eligibility system.

### Methodology

Our estimate of county impacts from spending ARRA Medicaid funds assumes that the state spends every available new dollar on health care, and that the state maintains current Medicaid spending. We distribute the new spending by county according to the latest (2007) federal information on each Texas county’s share of federal Medicaid dollars. We used economist Dr. Ray Perryman’s estimate that \$1 in Medicaid spending generates \$3.25 in overall economic activity to calculate the economic multiplier effect of this spending under two scenarios. The first assumes that the Legislature spends \$500 million, or less than one-tenth, of the ARRA money to increase health care for Texans, which would generate \$1.6 billion in overall economic activity. The second scenario assumes that the Legislature spends every new dollar on expanding health care, which would generate \$17.7 billion in overall economic activity for Texas.

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## County Impacts from Spending ARRA Medicaid Funds

	Economic impact of spending \$500 million more on Texas Medicaid (million \$)	Economic impact of spending \$5.450 billion more on Texas Medicaid (million \$)
Harris	\$172	\$1,876
Bexar	138	1,503
Dallas	114	1,240
Hidalgo	81	881
El Paso	68	740
Tarrant	59	646
Cameron	59	643
Travis	39	422
Nueces	38	417
Webb	33	356
Jefferson	28	308
McLennan	24	257
Lubbock	17	190
Galveston	17	185
Smith	17	184
Bowie	12	136
Bell	12	129
Harrison	11	124
Starr	11	121
Gregg	11	119
<b>Texas total</b>	<b>\$1.6 billion</b>	<b>\$17.7 billion</b>

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## Food Stamps

### Overview

The American Recovery and Reinvestment Act (ARRA) provides an estimated \$1.8 billion for a temporary 13.6 percent increase in the maximum Food Stamp benefit in Texas through 2013, according to the Center on Budget and Policy Priorities. The new benefit levels will go into effect on April 1, 2009 and will stay in place in future years until the program's regular annual inflation adjustments overtake the benefit increase. All Food Stamp households will benefit from the increase. Almost 3 million Texans receive Food Stamps.

ARRA temporarily increases Food Stamp benefits and provides opportunities to enroll a larger share of eligible Texans in 2009-2011. Each \$1 in Food Stamp spending generates \$1.84 in economic activity.

**Total impact: \$2.9 billion**

Increase in Food Stamp Benefits Under ARRA (Fiscal 2009)			
Family Size	Current Law Maximum Monthly Benefits	Increase in Monthly Household Benefit	New Maximum Benefits
1	\$176	\$24	\$200
2	323	44	367
3	463	63	526
4	588	80	668
5	698	95	793

Food Stamps are one of the most effective forms of economic stimulus because low-income individuals generally spend all their available resources on meeting their daily needs, such as shelter, food, and transportation. Therefore, every dollar in Food Stamps that a low-income family receives enables the family to spend an additional dollar on food or other items. Research by the U.S. Department of Agriculture estimates that \$1 in Food Stamps generates \$1.84 in total economic activity.

### Action Needed to Maximize Recovery Funding for Food Stamps

To ensure that needy Texans benefit from the increase in Food Stamps, the Legislature must fix the eligibility system that enrolls families in Food Stamps and other benefits. Severe staffing shortages at the Texas Health and Human Services Commission (HHSC) make the enrollment system unable to handle current demand, much less

growing needs as unemployment rises. To cite just one example, the rate of improper denials of Food Stamps (known as the "negative error rate") has soared over the last five years, increasing from 2.8 percent in fiscal 2004 to 18.9 percent in the first quarter of fiscal 2008. The Legislature can solve this crisis by increasing the number of HHSC eligibility staff. HHSC requested enough funds for 2010-2011 to maintain current budgeted staffing levels and add 822 staff to support higher caseloads. The Legislature could fund these staff with less than one-tenth of the enhanced Medicaid (FMAP) funds in ARRA that provide \$5.45 billion for Texas. ARRA also gives Texas \$25.7 million in additional Food Stamp administration funds, with no state match required.

### Methodology

CPPP uses two scenarios to estimate the overall economic impact of increased Food Stamp benefits and participation by county from April 2009 through the end of fiscal 2011. The first shows only the effect of the 13.6 percent benefit increase, beyond what the program's regular annual inflation adjustment would provide. The second scenario allows for caseload growth, compared to fiscal 2009, of eight percent in 2010 and 10 percent in 2011. (The average of Food Stamp caseloads for the first seven months of fiscal 2009 is 2.842 million; HHSC's August 2008 forecast for the 2009 caseload was 2.630 million, with a 2.0 percent increase in 2010 and 3.1 percent in 2011. February 2009 HHSC county-level data for recipients and payments were used as the basis for benefit and caseload growth because the state total of 2.820 million was approximately the same as the fiscal 2009 yearly average to date of 2.842 million.)

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## Economic Impact of Increased Food Stamp Benefits and Participation by County

	Benefit increase only (million \$)	Benefit and caseload increase (million \$)
Harris	239	430
Dallas	165	296
Bexar	125	224
Hidalgo	122	219
Tarrant	95	170
El Paso	88	158
Cameron	59	105
Travis	52	93
Webb	35	63
Nueces	32	58
Jefferson	22	40
Lubbock	19	34
Fort Bend	19	33
McLennan	18	33
Montgomery	18	31
Galveston	17	31
Bell	16	29
Collin	14	25
Brazoria	13	24
Williamson	12	22
<b>Texas total</b>	<b>\$1.6 billion</b>	<b>\$2.9 billion</b>

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## Unemployment Insurance

### Overview

The American Recovery and Reinvestment Act (ARRA) includes \$555 million to modernize Unemployment Insurance (UI) benefits in Texas. These funds would cover 45,000 more jobless Texans each year, generate an estimated \$1.5 billion in economic activity over the next seven to 10 years, and reduce the severity of the deficit tax required by Texas law when the state's UI trust fund becomes insolvent. At the moment, the fund is projected to be \$812 million below the statutory "floor" on October 1, 2009.

### Action Needed to Maximize Recovery Funding for Unemployment Insurance

To qualify for these funds, the Legislature must adopt modest reforms to Texas' UI laws, including adopting the "Alternative Base Period," which allows more workers to qualify for benefits by taking into account their most recent earnings. In addition, the Legislature must enact two of the following changes:

- Providing State Extended Benefits to certain workers already in Texas Workforce Commission-approved training;
- Adding certain compelling family reasons to the criteria for leaving work;

ARRA provides \$555 million in reform incentive money for Unemployment Insurance benefits for jobless Texans. Each \$1 in UI benefits generates \$2.66 in economic activity.

**Total impact: \$1.5 billion**

- Providing a \$15 weekly dependent allowance; or
- Adding flexibility to the full-time work search rule.

Twenty states already use the alternative base period in determining eligibility and benefits for UI; almost two-thirds allow for compelling family reasons for leaving work.

### Methodology

The Texas Workforce Commission estimates an annual benefit cost of \$73.5 million for implementing the alternative base period, family reasons, and full-time work search rule changes. This cost was allocated to each county in the chart below based on its share of January 2009 statewide unemployment. CPPP used a multiplier of 2.66, as estimated by economist Dr. Ray Perryman, to determine the total economic impact of increased UI benefits by Texas county. The table shows the impact for three years and for seven years' worth of increased benefits.

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## Unemployment Insurance Modernization Economic Impact by County

	Three-Year Impact (million \$)	Seven-Year Impact (million \$)
Harris	93	216
Dallas	64	149
Tarrant	47	109
Bexar	35	82
Travis	25	58
Hidalgo	22	51
Collin	19	45
Ellis	18	43
Denton	16	37
Fort Bend	12	27
Cameron	10	24
Williamson	10	23
Montgomery	9	21
Galveston	9	21
Brazoria	8	19
Jefferson	8	18
Nueces	7	17
Bell	6	14
Webb	5	12
Smith	5	12
<b>Texas total</b>	<b>\$587 million</b>	<b>\$1.4 billion</b>

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The Center for Public Policy Priorities is a nonpartisan, nonprofit policy institute committed to improving public policies to better the economic and social conditions of low- and moderate-income Texans.