



Budget Issue Summary

March 17, 2010

How the Recovery Act Benefits Montana

Creating Jobs, Income, and Economic Security

One year ago, the President signed the \$787 billion American Recovery and Reinvestment Act. The Recovery Act aimed to invigorate the economy, assist American families, and provide critical relief to state and local governments burdened by the economic downturn. This funding was the investment the nation needed to prevent economic collapse and build a more secure financial future.

Montana has benefited greatly from Recovery Act funding. The state is expected to receive approximately \$1.73 billion in total stimulus funding, helping to stabilize the economy and create jobs.¹ Additionally, the Recovery Act has provided Montana's low and moderate income families with vital assistance and relief during a time of increased economic distress.

Recovery Act Funding in Montana

The impact of the Recovery Act is evident throughout Montana. Stimulus funding provided millions of dollars for education, infrastructure and a diverse array of statewide projects aimed at creating jobs and strengthening Montana's future.

Several elements of the Recovery Act, including state fiscal assistance, increase nutritional assistance and tax credits have been especially critical in providing assistance to Montana's families and preventing further economic decline. This funding allowed the state to provide much-needed programs and services to those Montanans most affected by the recession. Additionally, some of

these programs were effective in quickly increasing consumer spending, targeting those individuals whose circumstances required them to spend the additional income quickly. This rapid injection of capital created a flow of essential dollars into the flagging economy.

State Fiscal Assistance

In the face of a nationwide fiscal crisis, the Recovery Act allocated a portion of the funding directly to states to ensure the continued delivery of valuable programs and services. The bulk of the funding, roughly \$1.05 billion², was provided to the State of Montana for further distribution. ARRA funding, comprising approximately 11% of the total state budget, was appropriated by the 61st Legislature with other state and federal funds as part of an unusually complicated budgeting process. For a thorough review of legislative decisions regarding the appropriation of the ARRA funding, please see the Montana Budget and Policy Center's report, "The 2011 Biennium Budget: Maintenance, Recovery, and Future Cuts."³ This paper will focus on the significant ARRA funds that have flowed directly to individual Montanans.

Unemployment Assistance

As the jobless numbers across Montana increased to their highest point in twenty years, the Recovery Act provided two additional benefits for unemployed Montanans.⁴ First, emergency unemployment compensation was extended beyond the traditional 26 week period.

Second, a \$25 weekly supplement was added to unemployment benefits. These two changes thus far have put an estimated \$60 million into the pockets of Montana's jobseekers, increasing purchases of goods and services and helping to support hardworking Montanans and their families.⁵

SNAP

During the recession, Montanans' demand for food assistance through the Supplemental Nutrition Assistance Program (SNAP) reached the highest level in over ten years.⁶ In late 2009, SNAP caseloads across the state approached 45,000.⁷ Stimulus funding allowed for a 13.6% increase in the maximum SNAP benefit and suspended the current three-month limit for many unemployed adults without children. Due to these changes, the average recipient household received \$40 to \$50 more per month. In Montana, an estimated \$15 million has benefited families, providing food security in tumultuous times and ensuring that their most basic needs are met.⁸

Payment to Recipients of Social Security, SSI, and Veterans' Disability Benefits

Elderly and disabled Montanans also received increased assistance through the Recovery Act. These "Economic Recovery Payments" were distributed to disabled veterans and Social Security and SSI beneficiaries. Each eligible individual received a one-time payment of \$250. In total, \$45 million reached 180,000 residents throughout the state.⁹

Tax Credits

The Recovery Act also provided several tax credits that benefited individual taxpayers in Montana. The state estimated that 97% of all Montana individual income taxpayers will benefit from federal tax cuts, amounting to roughly \$485.2 million.¹⁰ Three of these tax credits are especially beneficial to working Montanans: the Making Work Pay Tax Credit, the Earned Income Tax Credit, and the Child Tax Credit.

Making Work Pay

Stimulus funding provided a tax credit equal to 6.2 percent of a worker's earned income. Most taxpayers will receive the maximum credit of \$800 for married couples and \$400 for individuals. As a result of this tax credit, Montana households received \$107 million of additional income in their paychecks, freeing up income to make consumer purchases that will save jobs and boost production throughout the economy.¹¹

Earned Income Tax Credits

Two Recovery Act expansions to the Earned Income Tax Credit have provided additional income for Montanan families. This legislation increased benefit levels for families with three or more children and raised the income level at which benefits begin phasing out for married couples with children. These two changes will assist an estimated 23,807 Montana households that are currently eligible for the EITC and would assist 2,777 additional low-income working families meet their basic needs. This expansion of the federal EITC program is estimated to bring \$12.5 million to Montana families across the state.¹²

Child Tax Credit

The Recovery Act expanded the Child Tax Credit in two ways. First, it lowers the income threshold at which families become eligible for the credit to \$3,000. Additionally, it increased the benefit for many families already receiving the credit. The Center on Budget and Policy Priorities estimates that 63,000 children in Montana will benefit from the expansion in the child tax credit, providing working families with additional income during tough economic times.¹³

What's Next for Montana

While the Recovery Act provided critical assistance to the state at a time of great need, Montana is not out of the woods yet. Unemployment rates typically remain high, even after the declared "end" of an economic recession. In fact, unemployment is projected to continue rising through 2010 and remain relatively high through 2012 and 2013.¹⁴

High unemployment hampers the ability of state economies to recover, as state tax revenues fall. At the same time, this high unemployment increases demand for services like unemployment insurance and health care, straining the state's plummeting funding streams. Many states, including Montana, face extreme budget challenges for approaching legislative sessions. Without further assistance, cuts to valuable programs and services may be imminent.

Spending cuts lead to a host of growth-crippling outcomes:

- Layoffs to employees in the private and public sectors.
- Cancelled state and local contracts with vendors, impacting production at every level of our economy.
- Eliminated or lowered payments to business and nonprofit organizations that provide direct services, leading to poor-quality service sector jobs.
- Cuts in benefit payments to individuals, resulting in decreased consumer spending and increased hardship.

Overall, spending cuts cost valuable jobs, reduce services to Montanans when they need them most and worsen a fragile economy.

Additional federal aid to states, along with the continuation of effective programs set forth in the Recovery Act will ensure that Montana's families can continue to recover from recent economic challenges.

State Fiscal Assistance

The state fiscal assistance from the Recovery Act provided critical assistance for essential programs like education and health services. Increased federal funding for the Medicaid program constituted a large portion of state fiscal relief. Currently, Medicaid assistance is scheduled to end on December 31, 2010.¹⁵ By this point, most other state fiscal assistance will also be drawn down or

exhausted, just as Montana reaches the height of its revenue crisis.

High demand for state services, including Medicaid, will continue as unemployment rises beyond a level state services can manage with current funding. With fiscal difficulty projected at the state level until 2012, the federal government should provide additional assistance to prevent harmful cuts in services and a further drag on state economies. Failure to extend federal fiscal aid would create a service gap that many states may unwisely try to solve through cuts alone, a measure that will likely take 0.9 percentage points off of the Gross Domestic Product and cost the national economy 900,000 jobs.¹⁶

Unemployment Assistance

The Congressional Budget Office considers temporary additional unemployment benefits as one of the most effective ways to boost output and employment.¹⁷ This month, Congress passed legislation extending unemployment benefits through the end of 2010, providing continued assistance to Americans who have been without work for more than half a year.

This extension is critical to millions of Americans— as of January 2010, more than forty percent of unemployed American workers had been looking for a job for 27 weeks or more.¹⁸ Continued benefits provide a much-needed economic lifeline to hardworking Montanans and encourage consumer spending across the state.

Unemployment numbers are estimated to remain high for two to three years, and businesses may be slow to rehire substantial numbers of workers. Thus, as Montanans continue to seek work, additional government action may be necessary to ensure that Montana's families can make ends meet.

Child Tax Credit

The changes to the Child Tax Credit established in the Recovery Act benefitted thousands of Montana's children. However, if Congress does not extend these improvements, children and families across the nation would suffer.

If we don't maintain these measures, low-income working families, who are responsible for 7.6 million children nationwide, would no longer be eligible for any of the child tax credit. As a result, six hundred thousand children will fall into poverty, and an additional four million children who are already poor will fall deeper into poverty, as the loss of the credit drives families' incomes down.¹⁹

In Montana alone, the aforementioned 63,000 children benefiting from ARRA expansions would have their Child Tax Credit reduced or eliminated.²⁰ The child tax credit is especially beneficial to parents working full-time minimum wage jobs, including child care workers, medical assistants, food service and agricultural employees. This additional income is especially critical to economic recovery, as these low-wage workers are likely to spend any additional income to support their families through purchases in the local economy.

Looking Forward

One year after the passing of the Recovery Act, its positive impacts are visible across Montana. Jobs were saved, money flowed through the economy, and Montana's families received the services so critical during an economic downturn. Nevertheless, as the economy continues to recover and hardworking Montanans continue to seek employment, one fact remains clear—just as the Recovery Act provisions were needed to save a struggling economy, additional assistance is needed to continue the rebuilding process. This additional assistance will not only bolster an ailing economy but also invest in a better future for all Montana's families.

End Notes

1. Will Straw, "The Nationwide Allocation of Recovery Funding: An Interactive Map on the Final House- Senate Compromise," Center for American Progress, updated February 13, 2009, http://www.americanprogress.org/issues/2009/02/compromise_map.html.
2. Includes stimulus funding allocated for specific state programs and fiscal stabilization funding. This figure does not include increases in unemployment insurance benefits which flow through the state but did not require appropriation by the legislature (\$207,129,149) nor general fund dollars freed up by the use of stimulus funding (\$249,819,396). Legislative Fiscal Division, 2011 Biennium Legislative Fiscal Report, Vol. 1, p. 60, June 2009.
3. <http://www.montanabudget.org/reports/2011-biennium-budget-maintenance-recovery-and-future-cuts>
4. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=LASST30000003
5. "The Recovery Act's Major Direct Assistance Provisions- A Handbook for Analyzing the Impact on States," Center on Budget and Policy Priorities, pp. 7-9.
6. Montana Budget and Policy Center analysis of Montana Department of Public Health and Human Services Data
7. Montana Department of Public Health and Human Services, "Statistical Report," Figure 3, Nov. 2009, <http://www.dphhs.mt.gov/statisticalinformation/tanfstats/tanf112009/figure3.pdf>
8. "The Recovery Act's Major Direct Assistance Provisions- A Handbook for Analyzing the Impact on States," Center on Budget and Policy Priorities, p. 4.
9. Ibid, p. 14.
10. "Renewing Montana's Families with Tax Relief," nd, <http://www.recovery.mt.gov/renewfamilies.mcp>
11. "The Recovery Act's Major Direct Assistance Provisions- A Handbook for Analyzing the Impact on States," Center on Budget and Policy Priorities, p. 12.
12. Elizabeth Kneebone. "Economic Recovery and the EITC: Expanding the Earned Income Tax Credit to Benefit Families and Places," The Brookings Institution, updated February 18, 2009, http://www.brookings.edu/papers/2009/0129_eitc_kneebone.aspx
13. Arloc Sherman, Avi Feller, and Chuck Marr, "Failure to Extend Improvements In Child Tax Credit Would Harm Millions of Low-Income Working Families," Center on Budget and Policy Priorities, updated Feb. 16, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3085>
14. Iris J. Lav, Nicholas Johnson, and Elizabeth McNichol, "Additional Fiscal Relief Needed to Help States Address Recession's Impact," Center on Budget and Policy Priorities, updated January 28, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2988>.
15. >> ARRA FMAPs are currently set to expire on December 31, 2010. There have been several proposals to extend the FMAP increases until June 30, 2011. The most recent extension was included in the Senate's version of the American Workers, State, and Business Relief Act of 2010 (H.R. 4213), which passed the Senate on March 10, 2010.
16. Ibid., p. 1
17. Douglas W. Elmendorf, "Policies for Increasing Economic Growth and Employment in the Short Term," Testimony before the Joint Economic Committee, February 2010, pp. 11-12.
18. Michael Leachman, "With Long-Term Unemployment At Record Levels, Congress Should Extend Recovery Act's Unemployment Insurance Provisions Through 2010," Center on Budget and Policy Priorities, updated Feb. 22, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3089>
19. Arloc Sherman, Avi Feller, and Chuck Marr, "Failure to Extend Improvements In Child Tax Credit Would Harm Millions of Low-Income Working Families," Center on Budget and Policy Priorities, updated Feb. 16, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3085>
20. Ibid.