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American Recovery and Reinvestment Act

February 2011

Two Years Later: Impacts of Select ARRA Programs for Low-Income Workers & Families

On Feb. 17, 2009, President Obama signed the historic American Recovery and Reinvestment Act (ARRA) into law. The $787 billion infusion of money into the economy was designed to create jobs immediately, aid the nation's struggling families, and lay the groundwork for future economic growth. At the time, the nation was in a deep recession, with hundreds of thousands of jobs disappearing every month, and the political climate was ripe for government to step in and help stimulate the economy. Today, the economy has stabilized, but unemployment remains at unacceptably high levels. However, the tone in the nation's capital has changed, and discussion of deficit reduction has drowned out calls for job creation. While we agree the nation must restore balance to the budget, we maintain that a focus on cutting domestic, discretionary programs that in the short- and long-term benefit the nation's most vulnerable families is not the way to do it.

This document looks at select provisions in the Recovery Act that affected low-income people and their families. In areas where there is available data, it notes the impact of the program or the number of people who benefited from ARRA provisions. While the effect of the Recovery Act will be debated and analyzed by policy experts and researchers for years to come, some of the early evidence makes it clear that the Recovery Act benefited the nation by easing some immediate effects of the recession and preventing deeper hardship.

Pathways to Prosperity

- **Pell Grants:** The Recovery Act provided $17.1 billion for Pell Grants to low-income students, supplementing the Pell Grant budget to serve more than 8.3 million students in 2009-2010 and more than 8.7 million students in 2010-2011. It also addressed the program's funding shortfall. Importantly, ARRA increased the maximum Pell Grant award, setting a new foundation for the nation's most significant source of postsecondary aid during a time of historic increases in higher education costs. In school year 2009-2010, the maximum grant increased from $4,850 to $5,350, and in 2010-2011, it increased to $5,550.

- **Workforce Investment Act:** The Recovery Act provided $2.95 billion for the Workforce Investment Act (WIA) Adult, Youth and Dislocated Worker employment and training programs, including $500 million for Adults, $1.25 billion for Dislocated Workers and $1.2 billion for summer jobs and youth activities. The legislation boosted the level of training and services to those affected by the recession and set new policy priorities.

  <u>Effects for Adults:</u> More than 8 million adults and dislocated workers received a range of employment and training services in 2009-2010.[1] More than two-thirds (69.6 percent) of adults and more than three-

quarters (75.6 percent) of dislocated workers who entered education and training landed jobs, despite a difficult labor market.[2]

Effects for Youth: In total, 355,320 youth participants received services nationwide. Eighty-eight percent of participants were placed in summer jobs. Of those in summer jobs, states reported that more than 82 percent completed their summer job and 75 percent (235,043) increased their work readiness skills in industries such as health care, public service, education, and child care. In addition, 45,407 youth received critical services beyond summer employment, including subsidized employment outside of the summer months targeted to older youth, education and leadership services, and wrap-around supports.[3]

- **American Opportunity Tax Credit:** The Recovery Act temporarily replaced the Hope tax credit with a new higher education credit worth up to $2,500 a year for the first four years of college. In addition to tuition and fees, the American Opportunity Tax Credit (AOTC) could be used toward the costs of books and course materials. For the first time, the credit was 40 percent refundable. The average tax credit received was more than $1,700, an increase of almost 75 percent over the average Hope Credit received in 2008.[4] In 2009, the AOTC helped more than 12 million students and their families pay for college.

Children, Youth and Families

- **Child Care and Development Block Grant:** The Recovery Act provided $2.1 billion for the Child Care and Development Block Grant (CCDBG), including $255 million allocated for quality improvement initiatives. States used these funds to expand access to child care assistance, reduce child care waiting lists and help parents pay for child care so they could go to work or seek steady employment. States also reduced parent copayments for care to boost family budgets. States invested in quality initiatives such as hiring specialists in infant and toddler care, creating quality rating and improvement systems, and providing training, education or other professional development opportunities for the child care workforce. In all, these funds provided child care for an estimated 235,000 children.

- **Head Start and Early Head Start:** The Recovery Act included a $2.1 billion investment in Head Start ($1 billion) and Early Head Start ($1.1 billion). ARRA designated funds for training, technical assistance and monitoring in the Early Head Start program. These funds provided Head Start services for an additional 61,000 children. The Office of Head Start reports that in the 3rd quarter of 2010, more than 12,000 Head Start and Early Head Start jobs were created due to ARRA.

- **Title IV-E Foster Care Program:** The temporary increase in the Federal Medical Assistance Percentage (FMAP) for Title IV-E has made nearly $900 million in additional funding available to states to help provide foster care maintenance payments and adoption subsidies to children who have been abused or neglected and cannot be cared for by their parents.

- **Title 1 School Improvement Grants:** The Recovery Act provided $3 billion in targeted funding to primarily support low-performing schools and improve student outcomes. The different reform strategies outlined by the Department of Education provided schools options ranging from creating community-oriented schools to developing new charter schools, and designing new instructional approaches, such as credit recovery and extended day activities.[5] Title 1 School Improvement Grants is one of 21 programs the Department of Education administered under ARRA and was important for supporting innovation and reforms aimed at closing opportunity and achievement gaps and supporting struggling students.

- **Race to the Top**: The Recovery Act allocated $4.35 billion to the Race to the Top program, one of two new competitive grant programs. The Department of Education has awarded $3.925 billion to 11 states (Delaware, Tennessee, Florida, Georgia, Hawaii, Maryland, Massachusetts, New York, North Carolina, Ohio, and Rhode Island, and the District of Columbia) to: focus on college and workplace standards; build data systems that measure student growth and effective teachers and principals; and turn around lowest-achieving schools.[6] Race to the Top grant awards were made in March and August of 2010. While progress on this program is still being gathered, the Department reports that Race to The Top has spurred important reforms at the state level, including the adoption of common core standards and openness to the expansion of charter schools.

- **Investing in Innovation:** The Recovery Act allocated $650 million to the Investing in Innovation (i3) program, one of two new competitive grant programs. A cross-section of 49 school districts, nonprofit education organizations and institutions of higher education received competitive grants. The i3 fund required a 20 percent private-sector match. In total, i3 grantees secured nearly $140 million in matching funding. Grantees were required to demonstrate a record of improving student achievement and/or implementing innovative practices that show evidence of positively impacting student achievement and growth, closing achievement gaps, decreasing dropout rates, increasing high school graduation rates, or increasing college enrollment and completion rates. [7]

Modernizing the Safety Net

- **Child Tax Credit and Earned Income Tax Credit:** The Recovery Act lowered the threshold for refundability of the Child Tax Credit (CTC) to $3,000 during 2009 and 2010. Prior to ARRA, a family earning less than $8,500 a year could not benefit from the CTC, which provides a maximum credit of $1,000 per child. The Recovery Act also temporarily created a new "third tier" of the Earned Income Tax Credit (EITC) for families with three or more qualifying children. In this tier, the credit phases in at 45 percent of earned income (up from 40 percent under current law), and the maximum credit for these families increases by almost $600. In addition, ARRA provided increased marriage penalty relief by raising the phase-out threshold for married couples by $1,880.

The changes to the CTC and EITC had major impacts on families during the recession. The collective changes provided an average of $872 each to 12 million, mostly low-income working families with children.[8] Of the 4.5 million people kept out of poverty by the Recovery Act, 1.5 million was through improvements in the CTC and EITC.[9]

- **Making Work Pay Tax Credit:** The Recovery Act created a credit of up to $400 for working individuals and $800 for married couples for 2009 and 2010. Nearly 95 percent of all working individuals and families received the Making Work Pay Tax Credit. The credit is responsible for keeping one million people from falling into poverty.[10]

- **TANF Emergency Contingency Fund:** The Recovery Act created a new TANF Emergency Fund to assist states in expanding services during the recession. States that increased spending on assistance, short-term non-recurrent benefits, or subsidized employment during FYs 2009 or 2010 were able to receive 80 percent reimbursement of the increased costs. When it ended on September 30, 2010, the TANF Emergency Fund had delivered the full $5 billion authorized to states. Thirty-nine states, plus Washington D.C., Puerto Rico, and the Virgin Islands, received $1.3 billion for increased spending on subsidized employment programs which put nearly 260,000 low-income youth and parents into temporary public, private, and governmental jobs.[11]

  The Emergency Fund helped avert cuts to benefits and services that otherwise would have occurred because of drastic declines in state revenues. As more families became eligible for assistance because of the recession, states were able to meet demand and prevent further need by providing this one-time emergency assistance for families struggling to pay rent, utility bills, and buy even school supplies. Because of its effectiveness, the TANF Emergency Fund was widely supported by governors and mayors in both parties.

- **Food Assistance:** The Recovery Act provided $20 billion to temporarily increase benefits under the Supplemental Nutrition Assistance Program (SNAP), formerly called Food Stamps, by 13.6 percent. It lifted restrictions on how long unemployed individuals without children can receive benefits and provided: $500 million for the Women, Infant, and Children (WIC) nutrition program; $150 million for the Emergency Food Assistance Program; and $100 million for equipment grants for the school lunch program. In 2009, the increase in benefit levels helped keep about 700,000 people out of poverty[12] and food hardship declined from 18.5 percent in the last quarter of 2009 to 17.7 percent by September 2010.

- **Department of Education State Fiscal Stabilization Fund:** The Recovery Act provided $53.6 billion for the Department of Education's State Fiscal Stabilization Fund, the bulk of which supported elementary, secondary, and postsecondary education, and early childhood education programs and services. Nearly 82 percent of the fund's dollars had to be spent to support these education programs. The remainder of the fund could be used in areas beyond these, including adult education and public safety. State fiscal relief helped raise state employment and prevented even higher rates of unemployment, as well as maintained crucial state services. The State Stabilization Fund provided about

284,000 jobs during the fourth quarter of 2009. More than 240,000 were education jobs and the remaining 44,000 were in other areas.[13]

- **Medicaid Aid to States:** The Recovery Act provided state fiscal relief by temporarily increasing the federal matching funds provided to all states through the Federal Medicaid Assistance Percentage (FMAP) by 6.2 percent through December 31, 2010. States that experienced higher unemployment rates received an additional FMAP increase of either 5.5, 8.5, or 11.5 percent. Between October 1, 2008 through December 31, 2010, states received about $87 billion in federal assistance through this increased share of the Medicaid program. The FMAP increase allowed states to prevent employment layoffs and consequently continue to provide state services.[14]

- **Child Support Enforcement:** The Recovery Act temporarily restored federal incentive matching funds through September 30, 2010. The provision temporarily reversed a 20 percent cut to federal child support program funds made by the Deficit Reduction Act of 2005. As of November 2010, states had drawn down almost $1.5 billion in matching funds under this provision. Many states reported that they used these funds to sustain basic program operations and avoid layoffs in the face of state revenue shortfalls.[15]

- **Unemployment Insurance:** The Recovery Act expanded and extended unemployment insurance benefits for individuals who lost jobs through no fault of their own during a deep economic recession. Individuals who exhausted regular state benefits (typically after 26 weeks) were eligible for a federally funded extension of benefits. In addition, a $25 weekly benefit was made available to all individuals receiving regular state benefits. As a result of the Recovery Act enhancements, 1.3 million Americans did not fall below the poverty line during 2009.[16]

  The Recovery Act also provided up to $7 billion in incentive payments for state adoption of laws expanding access to benefits for low-wage workers, part-time workers and workers who leave jobs for compelling family reasons, such as domestic violence. More than 200,000 additional unemployed workers are likely to have access to the unemployment insurance system as a result of the Recovery Act provisions.[17]

[1] U.S. Department of Labor, Employment and Training Administration, Workforce System Results: July 1, 2010—September 30, 2010.
[2] The outcome data are based on U.S. Department of Labor, Employment and Training Administration, WIASRD PY 2009. The data reflect those exiting the program between October 2008 and September 2009—a period that coincides with the most severe phase of the recession.
[3] Jeanne Bellotti, Linda Rosenberg, et. al, "Reinvesting in America's Youth: Lessons from the 2009 Recovery Act Summer Youth Employment Initiative," Mathematica Policy Research, Inc., February 26, 2010, http://www.mathematica-mpr.com/publications/PDFs/labor/youth_employment_program.pdf.
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[10] Wamhoff 2010.
[11] LaDonna Pavetti, Liz Schott, and Elizabeth Lower-Basch, "Creating Subsidized Employment Opportunities for Low-Income Parents: The Legacy of the TANF Emergency Fund," Center on Budget and Policy Priorities and the Center for Law and Social Policy, February 16, 2011, http://www.clasp.org/admin/site/publications/files/Subsidized-Employment-Paper-Final.pdf.
[12] Sherman 2011.
[13] "American Recovery and Reinvestment Act :Section 1512 Quarterly Reporting Through December 31, 2009," US Department of Education, http://www2.ed.gov/policy/gen/leg/recovery/spending/arra-program-summary-2-program.xls as cited in Iris J. Lav, Nicholas Johnson and Elizabeth McNichol, "Additional Federal Fiscal Relief Needed to Help States Address Recession's Impact: Without It, States' Steps to Balance Their Budgets Could Cost Economy 900,000 Jobs Next Year," Center on Budget and Policy Priorities, updated March 01, 2010, http://www.cbpp.org/cms/index.cfm?fa=view&id=2988.
[14] *The Economic Impact Of The American Recovery And Reinvestment Act Of 2009, First Quarterly Report*, Executive Office Of The President, Council Of Economic Advisers, September 10, 2009, http://www.whitehouse.gov/assets/documents/CEA_ARRA_Report_Final.pdf.
[15] "Child Support Enforcement: Departures from Long-Term Trends in Sources of Collections and Caseloads Reflect Recent Economic Conditions, GAO-11-196," Government Accountability Office, January 2011.
[16] Sherman 2011.
[17] National Employment Law Project. *Last Year for States to Modernize Unemployment Insurance with Recovery Act Funds*. 2011. http://www.nelp.org/index.php/site/issues/category/modernizing_unemployment_insurance