

**Briefing with PA State Representatives on the HR 1, the American Economic
Recovery and Reinvestment Act (Stimulus)
April 7, 2009**

Background/Talking Points

Background & Summary of HR 1

The House passed its \$819 billion version of HR 1 on January 28 by a vote of 244 to 188, with no Republican support. In the Senate, three Republican moderates, Susan Collins and Olympia J. Snowe of Maine and Arlen Specter of Pennsylvania, worked on a compromise. The moderates were able to pare down the legislation's price tag from the original \$887 billion Senate-version to \$838 billion by cutting school facility construction, health IT, COBRA benefits, and several other provisions.

The Senate passed its compromise version, by a vote of 61 to 37, on February 10, which also included an alternate minimum tax (AMT) "patch." The cost of the patch, which prevents millions of taxpayers from paying that tax in 2009, was just under \$70 billion. An AMT patch was not included in the House-passed version, because House Democrats argued that it would pass easily as a separate bill later in the year, and it consumed funds that could be used for other purposes in the stimulus bill.

The House-Senate conference began with Sens. Collins and Specter warning that any significant changes to the Senate-passed version would cause the legislation to lose their support, which would block final passage. At the same time, top House Democrats were complaining about Senate cuts from the House version, but because of the need to keep the Republican votes, most of the House bill's spending could not be restored during conference.

The conferees did, however, agree to decrease the overall size of the measure compared to both chambers' versions by scaling back tax breaks, including the Senate's expanded credit for home purchases, and tax deductions for buying new cars. President Barack Obama's signature tax credit for workers also was trimmed, but with income eligibility levels being retained — so that the president's pledge of providing tax cuts for 95% of taxpayers would be honored — but the monetary benefit reduced. After conferees came to an agreement, Democratic leaders said the final bill would create or save 3.5 million jobs — half a million fewer than what House Democratic leaders said the House-passed bill would have done — and President Obama thanked Democrats and Republicans for a "hard fought compromise." He also voiced disappointment, however, that some of his priorities were cut, such as education funding.

The agreement provides a total of \$789.5 billion in spending and tax cuts — \$29.5 billion less than the House bill and \$48.5 billion less than the Senate version. The Administration and Democratic leaders say that the conference agreement will create or save 3.5 million jobs over the next two years, half a million less than what they believe the House-passed version would have produced. The measure contains \$301.1 billion in tax cuts, \$26.1 billion more than the House bill but \$67.3 billion less than the Senate's version. The agreement has \$311 billion in discretionary appropriations, \$50 billion less than the House measure but \$21.1 billion more than the Senate bill.

The Congressional Budget Office (CBO) has provided a preliminary, broad estimate for a conference agreement. CBO estimated that an agreement would increase the gross domestic product (GDP) between 1.4% and 3.8% by the fourth quarter of 2009, between 1.1% and 3.3% by the fourth quarter of 2010, and between 0.4% and 1.3% by the fourth quarter of 2011. In the long run CBO estimates that the measure could "crowd out" private investment because of the increased national debt, but said that any lowering of the GDP would not significantly affect the job market. CBO also estimated that the measure would increase employment by 800,000 to 2.3 million by the fourth quarter of 2009, by 1.2 million to 3.6 million by the fourth quarter of 2010, by 0.6 million to 1.9 million by the fourth quarter of 2011, and by declining numbers in later years.

Summary of Conference Agreement on HR 1

The conference report on HR 1 provides a total of \$463 billion in spending for transportation and infrastructure upgrades and construction, health care programs, education assistance, housing assistance and energy efficiency upgrades, and provides \$326 billion in personal and business tax breaks and tax provisions affecting payments to the states — for total of \$789 billion in spending and tax cuts.

Tax Provisions

The bill includes several personal and business tax breaks, tax provisions intended to assist state and local governments, and energy-related tax incentives that would cost an estimated \$301.1 billion over the 11-year period through FY 2019. The tax provisions of the bill account for more than a third of the total cost of the measure.

Individual Tax Assistance

Accounting for more than half of the cost of the tax provisions — \$116.2 billion — is a new "Making Work Pay" refundable tax credit in 2009 and 2010 of up to \$400 for an individual or \$800 for married couples filing jointly. The credit is intended to provide a rebate for payroll taxes (i.e., Social Security and Medicare taxes) and could be claimed through reduced withholding from paychecks or as a credit on a tax return. Under the agreement, the credit would phase out as adjusted gross income exceeded \$75,000 for individuals or \$150,000 for joint tax returns.

The measure provides a temporary increase in the earned income tax credit for families with three or more children, at a cost of \$4.7 billion, and it allows additional low-income families to receive the refundable child tax credit in 2009 and 2010 at a cost of \$14.8 billion. At a cost of \$14 billion, the measure provides a partially refundable tax credit for higher educational expenses, worth up to \$2,500 that would phase out as adjusted gross income exceeded \$80,000 for an individual or \$160,000 for a joint return. The measure also waives a repayment requirement under a tax credit for first-time homebuyers enacted last year (PL 110-289) if a home is purchased between January 1 and June 30, which would reduce revenue by \$6.6 billion; the change would not apply to homes sold within 36 months of purchase, which would be subject to existing recapture rules.

Together, the agreement's individual tax provisions would lower taxes for 95% of all taxpayers.

Business Tax Provisions

The measure includes several tax provisions aimed at assisting business affected by the economy. At a cost of \$947 million through FY 2019, the agreement permits businesses to "carryback" their operating losses in 2008 and 2009 for up to five years, rather than the two permitted under current law, but requires businesses choosing the longer period to reduce the losses by 10%. Companies that received funds under the TARP, as well as Fannie Mae and Freddie Mac, would not be eligible for the longer carryback period.

The agreement also extends through 2009 bonus depreciation rules from last year's stimulus act (PL 110-185), at a cost of \$5.1 billion through FY 2019, and it expands the work opportunity tax credit to include the hiring of certain unemployed veterans and "disconnected" youth.

Aid to State & Local Governments

The measure includes a number of tax provisions intended to aid cash-strapped state and local governments.

At a cost of \$4.3 billion through FY 2019, the agreement gives state and local governments the option of offering tax-credit bonds — which provide federal tax credits to investors instead of interest payments, in lieu of tax-exempt bonds, which would alleviate the need for the governments to make interest payments. The agreement also modifies rules concerning the allocation of interest expenses for financial institutions that invest in tax-exempt municipal bonds to make such investments more attractive, at a cost of \$3.2 billion through FY 2019.

The measure authorizes the issuance of \$22 billion in state and municipal tax-credit bonds, \$11 billion in both 2009 and 2010, to finance school construction projects, which would reduce federal revenue by \$9.9 billion through FY 2019. The agreement authorizes \$25 billion in recovery zone bonds in 2009 and 2010 that would be used to finance projects in areas with significant poverty, unemployment, or home foreclosures, which would reduce federal revenue by \$6 billion through FY 2019. It also authorizes the issuance of \$1.4 billion in qualified zone academy bonds in 2009 and 2010, at a cost of \$1 billion.

At a cost of \$291 million through FY 2019, the measure also repeals a provision of current law, due to take effect in 2011, which would require the withholding of 3% of certain payments made by federal, state and local governments to contractors providing goods and services.

Energy Tax Incentives

The measure includes \$20 billion in tax incentives to spur investment in renewable and alternative energy. The most expensive provision is an extension, generally for three years, of a credit for producing energy from renewable sources, which would reduce revenue by \$13.1 billion through FY 2019. At a cost of \$4.3 billion, the agreement extends and modifies a credit for energy efficiency improvements in homes, increasing the credit to offset 30%, rather than 10%, of the cost of such improvements in 2009 and 2010, but capped at \$1,500 per home. The agreement also provides a special credit for energy-related research expenses through 2010, and allows for the issuance of additional energy-related bonds, including \$2.4 billion in energy conservation bonds and \$1.6 billion in clean renewable energy bonds.

Additional Tax Provisions

The conference agreement overturns an Internal Revenue Service (IRS) notice issued last year under which companies that acquired or merged with troubled banks received more favorable tax treatment for bad debts and losses that were assumed from the acquired banks. The measure's change in the IRS guidance would apply prospectively from January 16 and would raise nearly \$7 billion through FY 2019.

The measure also requires projects funded through certain bonds to comply with Davis-Bacon prevailing wage requirements.

Transportation & Infrastructure Upgrades

Transportation Department

The agreement appropriates \$48 billion for various agencies of the Transportation Department. The largest portion — \$27.5 billion — is for highway, bridge and road projects, and would generally be distributed by formula. This funding includes \$8.4 billion for mass transit, 22% less than the House bill. The agreement appropriates \$1.1 billion for the Federal Aviation Administration to provide discretionary grants for projects at airports. It also appropriates \$1.3 billion for grants to Amtrak for capital projects, as well as \$8.6 billion for discretionary grants to states to help fund capital costs associated with intercity rail services, with an emphasis on developing high-speed rail services.

Electrical Grid Projects

The measure provides \$11 billion for electrical grid projects. Of that total, \$4.5 billion is for implementing "smart grid" technologies, which would sense, collect, and monitor data from a grid, provide real-time, two-way communication to help monitor or manage the grid, and provide real-time analysis and event prediction based on data that would be used to improve the reliability, quality, and performance of the electricity grid.

Renewable Electric Power Loan Guarantees

The agreement appropriates \$6 billion for the Renewable Energy and Electric Power Transmission Loan Guarantee Program, \$2 billion less than the House bill and \$3.5 billion less than the Senate version. This program provides loan guarantees to private entities to fund alternative energy research. The funds would be used for biofuel projects that use technologies that are deemed commercially viable and produce transportation fuels that will reduce greenhouse gas emissions.

Other Infrastructure Spending

The agreement provides \$4 billion for the Clean Water State Revolving Fund, which provides grants to states for wastewater treatment projects. It appropriates \$2 billion for the Drinking Water State Revolving Fund, which provides grants to states for drinking water infrastructure projects.

The measure provides \$4.6 billion for the Army Corps of Engineers to accelerate completion of ongoing water projects and beginning construction of new projects, with priority directed to projects that can be completed with one year.

The measure also provides funds for renovations to federal facilities and equipment across several different departments, including military bases, hospitals, vehicle fleets, and other government structures. The funds would be used for weatherization and installation of more energy-efficient technologies.

Education & Health

Medicaid

The conference agreement also provides additional federal matching payments for state Medicaid programs. The measure stabilizes federal medical assistance percentages for states that would otherwise receive reduced payment rates under the existing formula. In addition, all states would receive an increase in their matching payments by 6.2 percentage points over a 27 month period. For states with large increases in unemployment, the measure provides additional increases in their federal matching payments directly proportional to the increase in their unemployment rates. The agreement also provides for a bonus payment structure that would decrease state financial obligations for Medicaid based on increases in the state's unemployment rate. This provision would cost an estimated \$86.6 billion.

Health Information Technology

The agreement appropriates roughly \$19 billion for health information technology to implement electronic medical records systems for private hospitals and physicians, and public insurance programs such as Medicare and Medicaid.

Pell Grants

The measure provides \$15.6 billion for Pell grants. Under the agreement, the maximum discretionary Pell grant would increase by \$500, to \$4,860, for the 2009-2010 academic year. The measure also includes \$1.5 billion in mandatory Pell grant funding, which would provide an increase of up to \$490 per year required by the College Cost Reduction and Access Act (PL 110-84). With mandatory funding included, the maximum Pell award would be \$5,350.

Title I

The agreement provides \$13 billion for Title I grants for programs serving disadvantaged children. Title I grants provide funding in high-poverty areas for programs that provide academic support to poor children who are struggling to meet state education requirements.

Housing

The measure appropriates funds for various housing related programs — including \$4 billion for the Housing and Urban Development (HUD) Department Public Housing Capital Fund, \$2.3 billion for energy-efficient renovations and retrofits of HUD Section 202, Section 811, and Section 8 units, and \$2.3 billion for the HOME program. The Neighborhood Stabilization Program — which was created last year and provides funds to local governments and states with high levels of foreclosures for the purchase and rehabilitation of vacant housing — would receive \$1.5 billion. The measure also appropriates \$1.5 billion for emergency homeless shelter grants.

Residential Weatherization Assistance

The agreement appropriates \$5 billion for the Weatherization Assistance Program, which provides funds to cover some of the costs of insulating private residences. This amount is \$1.2 billion (19%) less than included in the House bill but \$2.1 billion more than in the Senate measure. It also increases the eligibility limit of the program to 200% of the federal poverty line, from 150%, and increases the maximum amount allowed per residence to \$6,500, from \$2,500.

Other Provisions

Nutrition Programs

The bill appropriates \$20 billion in additional funds for the food stamp program, and lifts restrictions that limit the amount of time individuals can receive such assistance.

Unemployment Insurance

The measure continues the current extension of unemployment insurance, which would otherwise be phased out at the end of March, through December 31. Current law provides unemployed workers with up to 33 weeks of extended benefits. This provision would cost an estimated \$27 billion. The agreement also increases (through December 31) the current average unemployment insurance benefit by \$25 per week, to \$325 per week. This would cost an estimated \$8.8 billion.

COBRA

The measure provides for a 65% subsidy for health insurance premiums under COBRA for up to nine months for workers (and their families) who have been involuntarily terminated. The House-passed version would have provided such assistance for up to one year. To qualify for premium assistance, a worker must have been involuntarily terminated between Sept. 1, 2008 and Dec. 31, 2009.

Oversight Board

The bill creates a Recovery Act Accountability and Transparency Board to coordinate and conduct oversight of federal spending under the bill. The board would submit to Congress reports, to be known as "flash reports," on potential management and funding problems that require immediate attention, and would submit quarterly report to the administration and Congress summarizing its findings and the findings of agency inspectors general. All board reports would be posted on a publicly accessible Web site (Recovery.gov), which the board would create to house all of the information about funding under the bill and projects started because of such funding.

Defense Department

The measure provides almost \$7 billion for various Defense Department accounts, including \$4.2 billion for energy efficiency projects and the repair and modernization of existing facilities; \$1.3 billion for new construction of military hospitals and surgical centers; \$890 million for troop housing; and \$240 million for new child development centers.

Law Enforcement

The agreement provides \$2.8 billion for state and local law enforcement assistance, including \$2 billion for the Edward Byrne Memorial Justice Assistance Grant Program, which awards grants to states for use by state and local governments for criminal justice programs, such as drug task forces, community crime prevention efforts, substance abuse treatment programs, and prosecutorial initiatives, with an emphasis on combating violent crimes.

Debt Limit Increase

The agreement increases the federal debt limit by \$789 billion — to \$12.104 trillion from \$11.315 trillion. The Emergency Economic Stabilization Act (PL 110-343) increased the debt limit last October by \$700 billion, and followed an \$800 billion increase three months prior (PL 110-289).

Various States are Rejecting Some of the Stimulus Money – Some of the Concerns Expressed

- Unemployment benefit funding would require states to expand eligibility to part time workers and others; states don't want to expand eligibility requirements in order to receive funds
- States won't be able to sustain the increased funding for already-established programs
- Programs that were established in the stimulus would need first-time state funds to continue once the federal stimulus dollars run out
- Want more latitude on how they can use the funding; takes power from states to run themselves; too many strings attached
- Feel the money is wasteful and goes beyond the role of the federal government

***** Attached please find a letter with two attachments from Governor Rendell that spells out the funding impact the stimulus has on Pennsylvania.