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# **American Recovery and Reinvestment Act Impact on Maryland Governments**

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# American Recovery and Reinvestment Act Impact on Maryland Governments

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## Introduction

On February 17, 2009, President Barack H. Obama signed the American Recovery and Reinvestment Act (ARRA) into law. This legislation is enacted early in the second year of a national recession. The purposes of the Act are to:

- preserve and create jobs and promote economic recovery;
- assist those most impacted by the recession;
- provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and
- stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The Congressional Budget Office (CBO) estimates that the ARRA increases federal spending by \$575 billion and reduces federal tax collections by \$212 billion between 2009 and 2019.

This report examines the effect of this legislation on governmental units in Maryland. The first section examines funds directly allocated to Maryland under ARRA's spending provisions. Additional funds are available through competitive processes. The second section describes those aspects of ARRA's tax revisions with the potential to affect Maryland revenues.

## **Federal Stimulus Provisions Supporting Maryland Programs**

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ARRA's provisions support state programs by investing in infrastructure, funding education programs, supporting human services programs, and providing discretionary funds to states. The Department of Legislative Services' (DLS) initial review of the ARRA identifies \$4.0 billion in formula funding provided to Maryland governments. This includes:

- \$2.1 billion for fiscal stabilization and Medicaid to relieve stress on state and public school budgets;
- \$765 million in infrastructure grants;
- \$396 million for education aid;
- \$102 million in grants to local governments not appropriated in the State budget; and
- \$546 million in other grants.

The funds identified are the ARRA appropriations that are distributed by formula to Maryland State and local governments. The ARRA also funds programs for which State and local governments must competitively bid to receive grants. At this time, it is not possible to determine the fiscal impact that competitively bid appropriations will have on Maryland.

**Exhibit 1** shows the effect the federal funds are expected to have on State spending in fiscal 2009, 2010, and 2011. Following the exhibit are descriptions of the programs through which ARRA funds are distributed, including how the funds may be used, and how much is already recognized from the program in the State budget. Programs are listed in the order and under the headings in Exhibit 1.

**Exhibit 1**  
**Impact of House Federal Recovery and Reinvestment Act on Maryland**  
**State Fiscal 2009-2011**  
**(\$ in Millions)**

<u>Program</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
<b>Potentially Helpful to the State General Fund</b>				
Fiscal Stabilization – Education	\$0.0	\$296.0	\$425.2	\$721.2
Fiscal Stabilization – Discretionary	0.0	80.2	80.2	160.5
Medicaid	398.3	563.9	300.7	1,262.9
<b>Subtotal</b>	<b>\$398.3</b>	<b>\$940.1</b>	<b>\$806.1</b>	<b>\$2,144.5</b>
<b>Education Grants Appropriated in the State Budget</b>				
Special Education	\$26.0	\$104.0	\$78.0	\$208.0
Title 1	22.5	89.8	67.4	179.7
Education Technology	1.0	4.2	3.1	8.3
<b>Subtotal</b>	<b>\$49.5</b>	<b>\$198.0</b>	<b>\$148.5</b>	<b>\$396.0</b>
<b>Other Relief Appropriated in the State Budget</b>				
State Energy Programs	\$7.2	\$28.7	\$21.5	\$57.5
Weatherization	0.0	35.0	30.6	65.6
Community Services Block Grant	1.7	6.9	5.1	13.7
Homelessness Prevention	0.0	2.9	2.9	5.7
Community Development Block Grant	0.0	2.2	0.0	2.2
Foster Care	3.2	12.9	9.7	25.9
Food Assistance	28.7	114.7	86.0	229.4
Temporary Assistance for Need Families	3.7	14.6	11.0	29.2
Ind. Living, Homeless Educ. & Work Study	0.5	2.1	1.6	4.2
Child Care & Development Block Grant	3.0	12.0	9.0	24.0
Vocational Rehabilitation	0.8	3.3	2.5	6.6
Workforce Inv./Dislocated Workers	4.4	17.6	13.2	35.3
UI State Administration Grants	1.5	6.2	1.5	9.2
Preventive Health BG/Immunization	0.5	2.0	1.5	4.0
Byrne Grants/Public Safety Grants	0.0	20.0	13.4	33.4
<b>Subtotal</b>	<b>\$55.3</b>	<b>\$281.2</b>	<b>\$209.5</b>	<b>\$545.9</b>
<b>Infrastructure Appropriated in the State Budget</b>				
Highways	\$53.9	\$269.4	\$107.8	\$431.0
Transit Capital	22.4	89.6	67.2	179.3
HOME Investment Partnerships Program	0.0	23.6	8.1	31.7
Clean Water	24.1	72.2	0.0	96.3
Drinking Water	6.8	20.3	0.0	27.0
<b>Subtotal</b>	<b>\$107.1</b>	<b>\$475.1</b>	<b>\$183.0</b>	<b>\$765.2</b>
<b>Federal Grants Not Appropriated in the State Budget</b>				
Local Homelessness Prevention	\$0.0	\$8.4	\$8.4	\$16.8
Local Community Development Block Grant	0.0	6.4	6.4	12.8
Head Start	7.9	0.0	0.0	7.9
Local Byrne Grants	0.0	9.5	6.3	15.8
Public Housing	0.0	48.4	0.0	48.4
<b>Subtotal</b>	<b>\$7.9</b>	<b>\$72.7</b>	<b>\$21.1</b>	<b>\$101.8</b>
<b>Total</b>	<b>\$618.1</b>	<b>\$1,967.1</b>	<b>\$1,368.3</b>	<b>\$3,953.5</b>

Source: Department of Legislative Services, March 2009

## **Potentially Helpful to the State General Fund**

### **Fiscal Stabilization – Education**

The ARRA requires that 82.8% of the Fiscal Stabilization funds support education. Maryland expects to receive a total of \$721.2 million. These funds must first be used to support elementary and secondary school reductions to the current budget that result in spending below the fiscal 2008 spending levels. Since Maryland has increased spending, this does not apply. Remaining funds must be used to support State formula increases in fiscal 2010 and 2011 for elementary and secondary education or to restore reductions made to State higher education funding below fiscal 2008 or 2009 levels. Any unused funds are required to be distributed consistent with the Title I formula.

### **Fiscal Stabilization – Discretionary**

The ARRA allows that 18.2% of the Fiscal Stabilization funds support other government services. Maryland expects \$160.5 million in fiscal 2010 and 2011.

### **Medicaid**

Medicaid is a joint federal and State program that provides medical assistance to indigent and medically indigent individuals. The federal government provides federal funding to support a share of the total costs based on a state's Federal Medical Assistance Percentage (FMAP). Maryland's FMAP is 50%. The fiscal 2010 allowance includes \$3,253.3 million in federal funds.

The ARRA provides additional funding for services provided between October 1, 2008, and December 31, 2010; nine quarters in fiscal 2009 to 2011. DLS estimates that Maryland will receive an additional \$891.8 million attributable to a 6.2% increase to FMAP.

Another \$370.1 million is expected based on a temporary increase to states with high unemployment rates. States whose quarterly unemployment rate has increased by 1.5% since the recession began qualify for additional increases. This amount could increase if the State unemployment rate continues to climb. These federal funds may be used in the place of general funds.

## **Education Grants Appropriated in the State Budget**

### **Special Education**

The Individuals with Disabilities Education Act (IDEA) authorizes federal grants for State and local education agencies to support educational programs for individuals with disabilities. IDEA funds programs for preschool, elementary, and secondary levels. Regulations require a Maintenance of Effort (MOE) that is 100% of the second prior fiscal year (actual expenditures).

The fiscal 2010 allowance includes \$196.9 million in federal funds for IDEA. Maryland expects to receive an additional \$208.0 million. The ARRA does not provide much detail about MOE, so it is unclear if there will be new regulations or if these funds will be subject to current IDEA regulations. The ARRA language suggests that the U.S. Secretary of Education is allowed to modify MOE requirements so that federal Fiscal Stabilization funds can support IDEA MOE requirements.

### **Title I**

Title I provides funds to local school systems based on the number of children receiving free or reduced price meals. Regulations require a MOE that is 90% of the second prior fiscal year (actual expenditures). Current Title I regulations include strict “supplement not supplant” rules which require the school system to use the funds to enhance programs.

The fiscal 2010 allowance includes \$193.3 million in federal funds for Title I. Maryland expects to receive \$179.7 million for Title I. This is in addition to the funding provided in the allowance. The ARRA does not provide much detail about MOE, so it is unclear if there will be new regulations or if these funds will be subject to current Title I regulations. The ARRA language suggests that the U.S. Secretary of Education is allowed to modify MOE requirements so that federal Fiscal Stabilization funds may support Title I maintenance of effort requirements.

### **Education Technology**

Federal education technology funds support equitable access and effective use of technology in primary and secondary schools. The fiscal 2010 allowance includes \$3.4 million in educational technology federal funds, almost all of which are appropriated in the School Technology program. There are no general funds appropriated. The ARRA includes another \$8.3 million for this program to supplement current federal fund activities.

## **Other Relief Appropriated in the State Budget**

### **State Energy Programs**

The State Energy Program provides grants to each state to deploy new renewable energy and energy efficiency technologies. Maryland's grants will be received by the Maryland Energy Administration (MEA), and 20% matching funds are required. Maryland is expecting to receive \$57.5 million from the ARRA, and the matching requirement is suspended. MEA has a \$1.1 million federal fund appropriation in the fiscal 2010 allowance.

### **Weatherization**

The Weatherization Assistance Program (WAP), administered by the U.S Department of Energy, receives additional funding to reduce energy costs for low-income households by increasing the energy efficiency of their homes. Maryland will receive an estimated \$65.6 million in the ARRA. The additional funding will be provided to the Department of Housing and Community Development (DHCD), which directs the assistance to county agencies and nonprofit organizations. The legislation also loosens income restrictions, allowing the program to reach more homes by increasing the income requirements (from 125 to 200% of federal poverty levels) and the amount that may be spent per unit. Funding would have to be obligated within 18 months.

There are \$4.3 million in special funds, \$2.6 million in federal funds, and \$750,000 in reimbursable funds in the WAP fiscal 2010 allowance. The federal funds increase program spending by almost 10 times. The federal guidelines allow up to 20% of federal funds to be used to support administrative costs. The program may well require a substantial administrative effort to spend the federal funds.

### **Community Services Block Grant Program**

The Community Services Block Grant Program (CSBG) is federally funded and requires no State match, although Maryland allocates a small amount of general and special funds to the program. The State allocates money to local governments, which allocate it to Community Action Agencies (CAAs) based on competitive grants. The federal legislation alters the program requirements, such that CAAs receiving grants must provide services that target individuals with incomes at 200% of the federal poverty guideline, rather than 125%.

The CSBG fiscal 2010 allowance includes \$10.3 million in federal funds, \$348,350 in special funds and \$70,466 in general funds. Maryland receives an additional \$14.0 million in the ARRA. DHCD plans to use the stimulus money to increase grants to currently funded CAAs in fiscal 2009 and 2010.

## **Homelessness Prevention**

The Federal Emergency Shelter Grant (FESG) program provides assistance to shelter facilities for operational costs, assists individuals requiring short-term homeless prevention with direct payments, and funds the rehabilitation or remodeling of buildings to be used as shelters. The federal stimulus package includes \$22.5 million to Maryland, of which \$5.7 million will pass through DHCD's Division of Neighborhood Revitalization and be awarded to smaller counties that do not receive aid directly from the federal government. The remainder will be awarded directly to local governments and will not be appropriated in the State budget. State and local government must spend at least 60% of the grants in two years. The fiscal 2010 allowance includes \$600,000 for FESG grants.

## **Community Development Block Grant Program**

The Community Development Block Grant Program (CDBG) in DHCD's Division of Neighborhood Revitalization provides competitive grants to local governments for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and improving community facilities and services. The ARRA provides an additional \$15.0 million, of which \$12.8 million supports local governments and would not be appropriated in the State budget. Grant recipients must use funds to support projects that can award contracts within 120 days. The remaining \$2.2 million will be appropriated in DHCD's budget and will support infrastructure projects. The CDBG fiscal 2010 budget includes \$11.0 million in federal funds.

## **Foster Care**

Federal Title IV-E Foster Care grants support out-of-home care for children under the jurisdiction of state child welfare agencies. The federal funds support payments on behalf of children and administrative costs but may not be used to support social services on behalf of children, such as counseling. The federal share of maintenance payments are equal to a state's FMAP (ranging from 50 to 83%) while the federal share of training costs is 75%, and the federal share of administrative costs is 50%.

The fiscal 2010 allowance includes \$184.2 million – \$176.2 million in the Department of Human Resources and \$8.0 million in the Department of Juvenile Services. The ARRA provides another \$25.9 million.

## **Food Assistance**

The federal Supplemental Nutrition Assistance Program (formerly known as the Food Stamp Program) provides nutrition for qualified individuals based on income, family size, and other factors. Benefits are provided through electronic debit cards, which are used in retail stores. The ARRA expands benefits so that able-bodied adults without dependents are not subject to stricter requirements to receive benefits through September 30, 2010. Previously, they

were required to be in work-related activities other than job search to receive benefits. The ARRA provides an additional \$219.0 million to support benefits and \$4.2 million to administer the program. The fiscal 2010 allowance of the Department of Human Resources (DHR) includes \$500.0 million in federal funds.

The National School Lunch Program assists states in making school lunches available. Free lunches are available to children whose household income is at or below 130% the federal poverty line and reduced lunches are available for children between 130 and 185% of the federal poverty line. The Maryland State Department of Education's (MSDE) fiscal 2010 allowance includes \$116.2 million and the ARRA provides an additional \$4.2 million.

The federal Emergency Food Assistance Program supports administrative and commodity costs associated with providing food for needy individuals, which includes homeless, unemployed, welfare recipients, and low-income individuals. Priority is given to grants awarded to local organizations that provide nutrition assistance to relieve situations of emergency or distress. The fiscal 2010 allowance does not include any federal funds for these purposes. The ARRA provides \$1.3 million.

Maryland receives federal money for senior nutrition programs, including congregate meals and home delivered meals. The State match requirement is 5%, and the local match is 10%. Senior nutrition program funds are distributed by formula. The fiscal 2010 allowance for home delivered meals is \$10.9 million in federal funds and \$1.8 million in general funds. Maryland expects to receive another \$2.2 million from the ARRA. The Maryland Department of Aging advises that it has the capacity to spend additional stimulus money, but local agencies might have trouble (for example, additional volunteers may be needed).

### **Temporary Assistance for Needy Families**

Federal Temporary Assistance for Needy Families (TANF) funds support a wide variety of services whose goal is that children can be cared for in their own home, reduce dependency by promoting job preparation, work and marriage, reduce out-of-wedlock pregnancies, and encourage the formation and maintenance of two-parent families. The funds support services and cash assistance.

Grants are awarded as block grants with an MOE requirement. The fiscal 2010 allowance includes \$233.5 million in federal funds administered by DHR and another \$32.5 million administered by MSDE. The ARRA provides an additional \$29.2 million.

### **Independent Living, Homeless Education, and Work Study**

The federal Chafee Foster Care Independence Program provides grants to assist foster care youth make the transition from foster care to self-sufficiency. The program supports education and training, youth mentors, as well as housing and financial services. The State must provide a 20% match. The DHR allowance includes \$4.3 million in federal funds in the fiscal 2010 allowance. The ARRA provides an additional \$249,000.

The federal Education for Homeless Children and Youth program provides grants to educational agencies to support educational success of homeless students. Examples include tutoring services, school supplies, and professional development for educators to heighten sensitivity for homeless students needs. The ARRA provides approximately \$822,000. The MSDE allowance includes approximately \$843,000 in federal funds in fiscal 2010.

The Federal Work Study Program (FWSP) provides part-time employment for undergraduate, graduate, and professional students that are enrolled or accepted for enrollment as students. The program encourages students to participate in community services. The employer is required to contribute 25% of the funding. The State's fiscal 2010 allowance does not include any FWSP funding. The ARRA provides \$3.1 million.

### **Child Care and Development Block Grant**

Child Care and Development Block Grants provide federal funds for states to support child care assistance for low-income families. The grants do not have a match requirement and cannot be used to supplant State funds. The grants are awarded through a formula that takes into account the number of children under the age of five, the number of children receiving school lunch assistance, and per capita income.

The fiscal 2010 allowance includes \$16.4 million in federal funds, \$14.2 million of which is budgeted in MSDE Division of Early Childhood Development. Maryland expects another \$24.0 million in federal grants from the ARRA. The funds must be used to supplement, not supplant, State spending for children for low-income families, but there is no new MOE requirement.

### **Vocational Rehabilitation**

The federal government provides grants for vocational rehabilitation. These funds support vocational training for individuals who are disabled. MSDE's fiscal 2010 allowance includes \$40.9 million in federal funds. ARRA includes \$6.6 million. The matching requirement is waived, meaning that this will not require additional State funds.

### **Workforce Investment/Dislocated Workers**

Federal Workforce Investment Act (WIA) Adult Program grants support State One Stop Career Centers by providing core (outreach, job search, or placement assistance), intensive (such as comprehensive assessments, individual plans and assessments, or career planning), and training (which includes both occupational and basic skills training) services. The federal funds do not have any matching requirements. The Department of Labor, Licensing, and Regulation's (DLLR) fiscal 2010 allowance includes \$11.2 million for WIA Adult Programs. The ARRA provides another \$5.0 million for these programs.

Federal Employment Services grants support local One Stop Career Centers. DLLR's fiscal 2010 allowance includes \$15.9 million for employment services programs. The ARRA provides another \$6.9 million for these programs.

Federal WIA Youth Activities grants support programs for low-income youth (ages 14 to 21) involving educational or occupational training, mentoring, and other activities that promote a successful transition into careers and productive adulthood. The federal funds do not have any matching requirements. DLLR's fiscal 2010 allowance includes \$9.1 million for WIA youth programs. The ARRA provides another \$11.7 million for these programs. The age of eligible participants is increased from 21 to 24.

Federal WIA Dislocated Worker grants provide services to employees that have lost their jobs and are unlikely to return to their previous industry or occupation. The funds also support previously self-employed individuals and homemakers who have been dependent on the income of another family member. The federal funds do not have any matching requirements. DLLR's fiscal 2010 allowance includes \$10.9 million for WIA dislocated worker programs. The ARRA provides another \$11.8 million for these programs.

### **Unemployment Insurance State Administration Grants**

While State unemployment insurance tax collections support the payment of benefits, federal Unemployment Insurance grants support the administration of State unemployment insurance programs. The federal funds do not have any matching requirements. The fiscal 2010 allowance includes \$75.0 million in federal funds to support the administration of benefits. The ARRA provides an additional \$9.2 million to support administration, which are available through September 30, 2010.

### **Preventive Health Care Block Grant/Immunization**

The Department of Health and Mental Hygiene budget include federal support for the Preventive Health Block Grant, chronic disease prevention, HIV/AIDS/STD<sup>1</sup> programs, environmental health, injury prevention, workforce development, vital statistics, and emerging infections. Federal funding includes support for immunizations, Preventive Health Block Grant, chronic disease prevention (categorical grants), HIV/AIDS/STDs, and emerging infections. Within the Family Health Administration, Maryland's federal funding includes the Preventive Health Block Grant (totaling \$1.8 million) with no required State match. The State expects an additional \$4.0 million for immunization. It is unclear at this point how much is included for the Preventive Health and Health Services Block Grant.

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<sup>1</sup> Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome/Sexually Transmitted Diseases.

## **Byrne Grants and Other Public Safety Grants**

Edward Byrne Memorial Justice Assistance Grants support State and local law enforcement projects. They may be used for a number of public safety programs including law enforcement, prevention, education, corrections, and drug treatment programs. They may not be used to supplant State funds. The ARRA includes \$42.9 million for Maryland's share of Byrne Grants. The Governor's Office of Crime Control and Prevention (GOCCP) advises that \$27.1 million will be appropriated in the State budget, and \$15.8 million will be received directly by local governments. The fiscal 2010 allowance includes \$2.5 million, and the fiscal 2009 working appropriation includes \$6.5 million.

The ARRA also increases Violence Against Women Formula Grants which support State and local government efforts to strengthen law enforcement and prosecution of violent crimes against women. The funds may be used for training programs, data systems, victim services, and other activities. The funds are used by law enforcement agencies, courts, and prosecutors. The fiscal 2010 allowance of GOCCP includes \$2.1 million. The ARRA provides an additional \$4.1 million for these grants.

Federal Crime Victims' Assistance grants support direct services to crime victims, such as domestic violence shelters, child abuse treatment programs, and support groups for survivors of homicide victims. The ARRA provides Maryland an approximately \$877,000 in additional funds. The programs are administered by DHR, which includes \$7.5 million in federal funds for these programs.

Federal Crime Victim Compensation grants fund services and compensation to victims of crime. Examples of services funded include medical expenses, lost wages, counseling services, and funeral expenses. These programs are administered by the Criminal Injuries Compensation Board of the Department of Public Safety and Correctional Services. Federal regulations require that the grant be limited to 60% of State support. Based on current budgeted amounts, the State has some capacity for additional federal funds. The fiscal 2009 working appropriation includes \$4.8 million in special funds and \$1.8 million in federal funds while the fiscal 2010 allowance includes \$4.6 million in special funds and \$2.5 million in federal funds. The ARRA provides Maryland an approximately \$588,000 in additional funds.

## **Infrastructure Appropriated in the State Budget**

### **Highways**

Highway and bridge funding supports the Maryland Department of Transportation's (MDOT) State Highway Administration capital program. Federal funds are projected to be \$431.0 million, half of which must be obligated within 120 days of the bill becoming law. Unobligated funds will be given to other states. At this point, it is unclear what kind of MOE requirements and waivers there will be. MDOT advises that much of the initial funding will

support resurfacing and bridge repair projects since the funds are more likely to be obligated within 120 days.

### **Transit Capital**

Transit funding supports the Maryland Transit Administration's capital program by funding transit facility improvements and vehicle purchases. Maryland expects to receive \$179.3 million, half of which must be obligated within 180 days of the bill becoming law. Unobligated funds will be given to other states. At this point, it is unclear what kind of MOE requirements and waivers there will be.

### **HOME Investment Partnerships Program**

DHCD advises that the federal Department of Housing and Urban Development plans to use funds authorized for the HOME Investment Partnerships Program to support the new Tax Credit Assistance Program (TCAP). The purpose of TCAP funds is to provide gap financing to projects approved for federal Low Income Housing Tax Credits (LIHTC) that are experiencing problems due to reductions in the amount of equity being raised by the tax credits in the financial markets. This will provide gap financing for those projects that were awarded LIHTCs in federal fiscal 2007 to 2009. HOME has a 25% matching requirement, but these funds will not have a matching requirement. The ARRA provides an estimated \$31.7 million for Maryland, of which 75% of the funds must be committed by February 2010.

### **Clean Water**

The Maryland Department of the Environment's (MDE) Water Quality Revolving Loan Fund provides low interest loans to Maryland's local jurisdictions and private entities to be used for capital projects that improve water quality. The program is funded with special funds and federal funds.

The fiscal 2010 allowance includes \$16.5 million (another \$365,000 in federal funds supports administration). The ARRA provides \$96.3 million in additional federal funds. The bill has waived the 20% state matching requirements.

### **Drinking Water**

MDE's Drinking Water Revolving Loan Fund provides low interest loans to Maryland's local jurisdictions and private entities for drinking water capital projects. The program is funded with special funds and federal funds. The fiscal 2010 allowance includes \$6.4 million (another \$2.8 million in federal funds supports administration and nonproject set-asides). The ARRA provides \$27.0 million in additional federal funds. The bill has waived the 20% state matching requirements.

## **Federal Grants Not Appropriated in the State Budget**

### **Local Homelessness Prevention**

The Federal Emergency Shelter Grant (FESG) program provides assistance to shelter facilities for operational costs, assists individuals requiring short-term homeless prevention with direct payments, and funds the rehabilitation or remodeling of buildings to be used as shelters. The federal stimulus package includes \$22.5 million to Maryland, of which \$5.7 million will pass through the Department of Housing and Community Development's Division of Neighborhood Revitalization and be awarded to smaller counties that do not receive aid directly from the federal government. The remainder will be awarded directly to local governments and will not be appropriated in the State budget.

### **Local Community Development Block Grant**

State and local governments receive Community Development Block Grants. The grants support projects that revitalize neighborhoods, expand affordable housing and economic opportunities, and improve community facilities and services. The ARRA provides an additional \$15.0 million, of which \$12.8 million supports local governments and would not be appropriated in the State budget.

### **Head Start**

Head Start disperses funds to 2,600 Head Start programs nationwide. While Maryland also funds Head Start programs through the State budget (\$3.0 million a year), a State match is not required to receive federal funds. Federal funding for Head Start has remained relatively stable (around \$78.0 million) over the past three years. Grants are issued to Head Start based on the number of children in poverty. The federal funds are received directly by providers and are not appropriated in the State budget. Maryland expects to receive \$7.9 million in Head Start funding from the ARRA. MSDE advises that money included in the stimulus will likely be used to increase the number of low-income children served under the program currently on waiting lists.

### **Local Byrne Grants**

State and local governments receive Edward Byrne Memorial Justice Assistance Grants. The grants support state and local law enforcement projects, such as law enforcement, prevention, education, corrections, and drug treatment programs. They may not be used to supplant state or local funds. ARRA includes \$42.9 million for Maryland Byrne Grants. GOCCP advises that \$27.1 million will be appropriated in the State budget, and \$15.8 million will be received directly by local governments.

**Public Housing**

The federal Public Housing Capital Fund supports development, financing, and modernization of public housing projects. The funds are received by the local public housing agencies, and no funds are appropriated in the State budget. The ARRA provides \$48.4 million for these projects.

## **American Recovery and Reinvestment Act of 2009 – Tax Provisions with a Potential Impact on Maryland Revenues**

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In its preliminary analysis of the tax provisions contained in the ARRA, DLS has identified several provisions that will have a potential flow through impact on the Maryland income tax, including those that would have an impact but for specific decoupling provisions currently in Maryland law. DLS continues to review other provisions of the legislation for their potential impacts on State revenues.

### **Individual Tax Provisions Directly Affecting Maryland Revenues**

Several of the individual income tax provisions will likely significantly reduce Maryland revenues. Under current State law, the State automatically “decouples” for one tax year from any federal tax law change that is estimated to alter State revenues by more than \$5 million. The potential applicability of this automatic decoupling provision should be considered with respect to the following ARRA provisions:

- an increase in the earned income tax credit for families with three or more children for tax years 2009 and 2010 – estimated revenue reduction ranging from \$8.5 million to \$17.0 million in fiscal 2010;
- the suspension of tax on up to \$2,400 of unemployment compensation for tax year 2009 – estimated revenue reduction of \$15.5 million in fiscal 2010; and
- deduction for State sales tax/excise tax paid for vehicles purchased between November 12, 2008, and January 1, 2010, subject to a limitation of \$49,500 of the purchase price and phased out at certain income levels – estimated revenue reduction of \$10 million in fiscal 2010.

### **Significant Business Incentive Provisions – Currently Decoupled**

Maryland is already decoupled permanently from the following three business incentive provisions; therefore, revenues would not be directly affected. These provisions are similar to measures first enacted under the federal income tax in 2001 and 2003 – for illustrative purposes, the revenue impacts if the State “recouples” to these provisions are provided:

- bonus depreciation, extended to property placed in service in 2009 – if the State recoupled, estimated revenue reduction of \$103.7 million in fiscal 2010;

- continued enhancement of small business expensing through 2009 – if the State recoupled, revenue reduction of \$3.8 million in fiscal 2010; and
- five-year carryback election of net operating losses for losses incurred by eligible small businesses in 2008 or 2009 – if the State recoupled, revenue reduction of \$16.9 million in fiscal 2010.

Based on the language in ARRA related to the carryback of operating losses, it may be necessary to make technical changes to the Maryland statute to clarify this provision. **Exhibit 2** provides an estimate and summary of the ARRA tax provisions.

**Exhibit 2**  
**American Recovery and Reinvestment Act (ARRA) of 2009 –**  
**Preliminary Estimates of Tax Provisions Affecting State Revenues**  
**Fiscal 2010-2014**  
**(\$ in Millions)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Summary</u>	<u>Comment</u>
<b>Individual Tax Provisions Directly Affecting State Revenues</b>							
Temporary increase in earned income tax credit	(\$8.5-\$17.0)	(\$8.3-\$16.6)				For tax year 2009 and 2010, the credit increases from 40 to 45% for families with three or more children; Maryland credit will be directly affected	Will trigger one year automatic decoupling provision
Exclusion from gross income of up to \$2,400 in unemployment compensation for tax year 2009	(15.5)					For tax year 2009, up to \$2,400 of unemployment compensation benefits received are excluded from gross income	Will trigger one year automatic decoupling provision
Deduction for sales and excise tax on purchase of qualified motor vehicles purchased after November 12, 2008, and before January 1, 2010	(10.1)					For qualifying vehicles (cars, light trucks, recreational vehicles, and motorcycles) purchased after November 12, 2008, but before January 1, 2010, an “above the line” deduction is provided for sales/excise tax paid up to \$49,500 of purchase price; deduction phased out for taxpayers with income over certain levels	Will trigger one year automatic decoupling provision
<b>Total</b>	<b>(\$34.1-\$42.6)</b>	<b>(\$8.3-\$16.6)</b>					

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Summary</u>	<u>Comment</u>
<b><u>Significant Business Incentive Provisions – Currently Decoupled<sup>(1)</sup></u></b>							
“Bonus depreciation” – special allowance for certain property acquired in 2009	(103.6)	7.5	20.9	17.6	14.6	Bonus depreciation same as first allowed for a limited period in the 2002 federal tax act; extended to other years in more recent federal tax acts; and is extended to property placed in service in 2009	TG 10-210.1 permanently decouples Maryland from this provision
Small business expensing – temporary increase in limitations on expensing of certain depreciable assets	(3.8)	0.6	1.0	0.7	0.5	Extends to 2009 the enhancement of "small business expensing" allowed under IRC § 179 (in lieu of depreciation); enhancement was first provided for a limited period in the 2003 federal tax act and has subsequently been extended and further enhanced	TG 10-210.1 permanently decouples Maryland from this provision
Small businesses – five-year carryback of net operating losses (NOLs)	(16.9)	3.0	2.7	2.1	1.6	For NOLs incurred in 2008 or 2009, allows a carryback election for up to five years, limited to eligible “small businesses” defined by reference to the Internal Revenue Code’s three-year \$5 million gross receipts test	TG 10-210.1 permanently decouples Maryland from this provision; however, the applicability of the provision may need to be clarified
<b>Total</b>	<b>(\$124.4)</b>	<b>\$11.1</b>	<b>\$24.6</b>	<b>\$20.4</b>	<b>\$16.7</b>		

<sup>(1)</sup> Estimates reflect the revenue impacts if the State recoupled to the federal provisions.

Source: Department of Legislative Services, February 2009