

ISSUE BRIEF no.3

JOB OPPORTUNITIES TASK FORCE

Advocating better skills, jobs, and incomes

THE FACTS ON THE FEDERAL RECOVERY ACT: The Impact on Low-Wage Marylanders & Principles for Implementation

March 23, 2009 – For more information, contact Andrea Payne at 410-234-8303 or andrea@jotf.org

Over the next two years—and starting as this brief goes to press—the federal government will infuse \$787 billion into state and local budgets, and in some cases, directly into the hands of working and low-wage Americans. Maryland hopes to benefit as jobs are created and saved throughout the private and public sectors, public services are shored up, and safety nets are strengthened. Overall, \$3.8 billion is scheduled to flow into Maryland, which according to federal estimates could create or save an estimated 66,000 jobs.^{1, 2}

For the average citizen, and even for advocates in the field, getting a handle on the details of the 407-page American Recovery and Reinvestment Act can be overwhelming. Many of the details are still unfolding as federal and state agencies craft spending plans and rules. In this brief, we summarize some of the key provisions impacting low-wage Marylanders, and make some suggestions for next steps to ensure we are maximizing the impact of the stimulus.

Maryland will have to move quickly and carefully to ensure the Recovery Act has its intended impact. The act has two primary purposes. First is to quickly infuse spending into the ailing economy. Second is to provide struggling workers with job opportunities and the training needed to achieve long-term success. Maryland appears to be effectively meeting the

first goal, drafting quick spending plans and moving funds out into the economy. In fact, the state made national news by awarding the first highway contract using stimulus funds.

It is unclear how much progress Maryland is making towards the second goal. Public officials have not offered much in the way of *specifics* as to how dollars will be dedicated toward training and how local residents will be given access to opportunities. State and local leaders must make it a priority to effectively target Recovery Act funds. With a conscientious approach to drafting RFPs and contracts, Maryland can help benefits flow to workers with limited skills and job opportunities, as well as local business owners trying to make ends meet.

With Governor O'Malley's leadership, Maryland has the opportunity to provide a national model not just for efficient spending, but also for effective, targeted use of this one-time cash infusion. As funds are filtered down to counties and localities, local government also has a role to play. Inter-agency task forces, such as the Baltimore Economic Recovery Team, should be created to monitor spending and ensure it is targeted to the areas of greatest need. This is particularly important when it comes to jobs. To revitalize the state economy, funds must be spent locally and used to create good jobs with family-supporting wages.

KEY PROVISIONS FLOWING DIRECTLY TO LOW-INCOME MARYLANDERS

Provisions that provide direct aid to citizens are also intended to stimulate demand in the larger economy.

The Recovery Act will distribute stimulus money to states through formula and incentive grants, to individual programs through competitive grants, and to the general public through direct distributions. Provisions that provide direct aid to citizens will not only help families struggling through tough economic times, but are also intended to stimulate demand in the larger economy. Service providers and advocates should help ensure that the clients they serve are accessing assistance for which they may be eligible.

Some of the most significant provisions providing direct aid to low-income families, and expanding the programs that serve them, include the following:

SUPPORTS FOR LOW-WAGE AND UNEMPLOYED WORKERS

Increased Food Stamp Benefits: Starting in April, Maryland's 412,000 food stamp recipients will benefit from a 13.6% increase in their maximum weekly allowance.³ For a family of four, this could mean an additional \$80 per month.

Unemployment Insurance Benefit Increase: Unemployed Marylanders will receive a \$25 increase in weekly unemployment insurance benefits. The National Employment Law Project estimates that 241,873 Marylanders will benefit from the increase in 2009.⁴ The benefit increase is temporary provision available to workers that start receiving unemployment compensation before January 1, 2010.

Expanded Employment Services through the Workforce Investment Act:

The Workforce Investment Act (WIA) is the primary national funding stream for workforce development, including employment services through One-Step Centers and hard-skill training funds. In recent years, WIA funds have been declining, making it difficult for states to provide a broad range of services

and meet increasing demand. The Recovery Act will provide Maryland with an additional \$29 million in WIA formula grants.⁵ Most of this money will be passed through to local workforce investment boards, though 15% can be used for statewide programs.

MAXIMIZING WIA FUNDING

Low-income individuals and recipients of public assistance are the main target for Recovery Act WIA allocations. Governor O'Malley should make it a priority to serve these populations by increasing training opportunities to help them advance in the workforce. In 2006, only 24% of unemployed adults exiting the Maryland WIA system received training.⁶ Maryland should use this one-time infusion to prepare the unemployed and underemployed for jobs created through the Recovery Act. While Workforce Investment Boards will need a portion of these funds to support administration, they should commit to using the majority for training.

COBRA Subsidy for Laid-Off

Workers: COBRA gives workers access to their employer's health insurance plan at group rates for a limited period of time following discontinuation for reasons such as job loss. The Recovery Act encourages laid off workers to participate in COBRA plans by subsidizing 65% of the premium cost for nine months. Generally, workers must pay out-of-pocket for the full cost of the plan.

The Recovery Act creates a new credit for 2009 and 2010 worth up to \$400 per individual.

Increased Child Care Funding:

Maryland will receive an additional \$24 million in funding for the Child Care and Development Block Grant. ⁷ A portion of the funds will support quality improvement, and a portion will provide additional child care subsidies to low-income Maryland families.

Weatherization Assistance: Maryland will receive \$63 million dollars to support the Weatherization Assistance Program. The program helps low-income families save energy and reduce monthly bills by installing energy conservation materials in their homes.

Expansion of Senior Community Service Employment Program

(SCSEP): The SCSEP provides training and subsidized employment opportunities for low-skilled older Americans. Increased funding will expand access to the program.

Increased Emergency Shelter Grant

(ESG) Funding: The Recovery Act provides additional ESG funding which will be passed through to states and localities for homelessness prevention activities, including rental assistance. Maryland will receive \$22.4 million, which will assist an estimated 3,400 households. ⁸

TAX CREDITS

Making Work Pay Tax Credit: The Recovery Act creates a new credit for 2009 and 2010 worth up to \$400 per individual. Workers must earn between \$6,452 and \$75,000 to capture the full value of the credit. Unlike the 2008 economic stimulus payment, this credit will not be disbursed in a lump sum by the IRS. Instead, starting this spring employers will adjust paycheck withholdings to account for the credit, in essence increasing the take-home pay for those eligible. Over 2.2 million Marylanders will receive the credit. ⁹

Expansion of the Earned Income Tax Credit (EITC):

Currently, all families with two or more children receive the same EITC. The Recovery Act temporarily creates a new tier for families with three or more children. These families will be eligible to receive up to \$629 more, depending on their income. The EITC marriage penalty will also be reduced by increasing the phase-out point for the credit.

Expansion of the Child Tax Credit:

Some families have not been eligible for the full value of the refundable portion of the Child Tax Credit because their earnings are too low. The Recovery Act lowers the income eligibility threshold from \$8,500 to \$3,000, which will allow lower-income families to access a larger portion of the credit. This will benefit the families of about 178,000 Maryland children. ¹⁰

EDUCATION SUPPORTS

Increased Pell Grant Maximum:

Pell Grants give low-income students financial support to increase the affordability of a college education. The Recovery Act temporarily increases the maximum Pell Grant by \$500—a measure that will help Maryland's 89,000 Pell Grant recipients persist toward a post-secondary credential. ¹¹

Larger Education Tax Credit: The Recovery Act temporarily replaces the Hope Credit with a new, larger credit called the American Opportunity Tax Credit. Not only is the credit increased to \$2,500 for the cost of college tuition and materials, but for the first time, it is partially refundable. The refundable portion applies when a student has no remaining tax liability, and is refundable at a rate of 40%. This provision is particularly valuable to low-income students, since they are most likely to have zero tax liability. An estimated 53,000 low-income Maryland students who previously received little to no benefit from the credit will now receive a refund of up to \$1,000. ¹²

JOB CREATING PROVISIONS

Large numbers of jobs will be created in construction and transportation.

Creating and saving jobs is one of the key goals of the Recovery Act. While the package will not create enough jobs to bring the country to pre-recession employment levels, it is expected to help reverse the downward trend.¹³ Some of these jobs will be in the public sector through the funding and expansion of state programs. Other funding streams will help create and save private sector jobs in fields such as energy, healthcare, and even retail.

Large numbers of jobs will be created in construction and transportation. Maryland will receive \$431 million in funding for highway projects. According to initial estimates, these highway projects will support 10,568 jobs. The Baltimore-Washington region will receive another \$278 million in transit funding, which will support an estimated 7,294 jobs.¹⁴ The \$63 million Maryland receives in weatherization funding will not only help local families reduce energy costs, but will also create new green job opportunities.

While a portion of the jobs created by the Recovery Act will be open to low-skilled workers, a recent analysis shows that in many cases, workers will need at least some post-secondary education. About 46% of the 3.7 million jobs expected to be created or saved nationwide will be open to workers with a high school credential or less. For the remainder, 17% will require some college or a post-secondary certificate, and 37% will require an Associate's Degree or higher.¹⁵

Many jobs linked to the Recovery Act will be created through state and local government contracts with private businesses. It is imperative that state and local leaders move carefully through the RFP and contracting process to ensure that the jobs funded are good jobs with family-supporting wages, benefits, and training opportunities. These jobs should be targeted to the people who need them most—particularly unemployed, underemployed, and low-skill workers in distressed communities.

CONTRACTS THAT SERVE THE PUBLIC GOOD

If drafted carefully, language in construction and infrastructure contracts can be used to promote job creation in a specific area or among a target population. To achieve this, agencies should award contracts on a best-value basis, where job creation goals are part the selection criteria. When job creation and quality goals are made clear from the beginning of a project, contractors are better able to incorporate them into their planning and effective implementation is more likely.¹⁶ To meet the goals of the Recovery Act and financially stabilize local families and communities, Maryland should carefully award contracts that serve the greater public good.

UNEMPLOYMENT INSURANCE INCENTIVE FUNDS

The National Employment Law Project estimates that adopting this policy would benefit 11,467 Maryland workers per year.

While a significant sum of recovery money will flow automatically into the state, there are some funding sources in the Recovery Act that require state action. Maryland is eligible for up to \$139 million in support for the state unemployment insurance (UI) trust fund. While \$9.2 million will automatically flow to Maryland to fund administrative costs, the state will have to reform a few outdated elements of its UI system to access the remaining \$130 million.

To tap into the first one-third of the incentive funds, Maryland will have to adopt an Alternative Base Period. Currently in Maryland, a worker's most recent earnings are not considered when determining UI eligibility and calculating benefits. In some cases, a UI applicant could be denied after as much as nine months of full-time work, simply because our system is not set up to consider recent work. This disadvantages new workers, and denies a safety net to those who need it most. Many states use the Alternative Base Period method to avoid this problem. This system counts recent work for individuals ineligible under the traditional system. The National Employment Law Project estimates that adopting this policy would benefit 11,467 Maryland workers per year.^{17, 18}

To tap into the remaining two-thirds of Maryland's incentive funds, the state would have to adopt two of four additional reforms. One of these reforms is the expansion of UI coverage to part-time workers—a provision that is currently under consideration in the Maryland General Assembly. This reform should be Maryland's number one priority, since our current policy categorically excludes this important segment of the workforce.¹⁹

After adopting part-time coverage, Maryland could adopt one of three additional reforms. First, Maryland could increase its dependent benefit from \$8 to \$15. Maryland could also choose to extend benefits to unemployed workers who are participating in job training. Finally, Maryland could extend benefits to workers forced to leave jobs for compelling family reasons such as domestic violence or the relocation of a spouse.

COMPETITIVE GRANT FUNDS

Maryland must be ready with concrete program proposals in order to benefit from these pools of hard-skill training funds.

The Recovery Act also provides large pots of money that will be distributed as competitive grants. As just one example, \$750 million will be available for High Growth and Emerging Industry Sector Grants, focused on worker training and placement:

Green Job Training: \$500 million designated for Energy Efficiency and Renewable Energy Worker Training

Training in Other Sectors: \$250 million for other high-demand sectors, with health care as a priority

While eligible entities have not yet been defined, it is likely that state and local government, as well as non-profits will be eligible to apply for these training grants. Maryland must be ready with concrete program proposals in order to benefit from these pools of hard-skill training funds.

HELPING STATES CLOSE BUDGET GAPS

Maryland will receive \$1.6 billion in federal relief to support the state Medicaid program.

Maryland will receive significant federal support to avert cutbacks due to state budget shortfalls. Many states are facing budget crises, and without federal assistance would be making deeper cuts to critical programs and services. Most significantly, Maryland will receive \$1.6 billion in federal relief to support the state Medicaid program.²⁰ Through the State Fiscal Stabilization Fund, Maryland will receive \$720 million to support K-12 and higher education systems, and \$160 million in flexible grants that may be used to support a broader range of essential services.

Much of this money—a total of \$1.5 billion—will be used eliminate the projected state deficit. The Governor plans to use the remaining funds to restore budget cuts and provide limited supplemental funding to existing programs:

Public Education: \$340 million to restore funding to levels set by state formulas

Medicaid: \$110 million to fund caseload increases

Low-Income Energy Assistance: \$63 million to help meet growing demand

Support for Community Colleges: \$52 million to continue support

Local Health Departments: \$30 million to restore planned budget cuts

State Employees: \$61 million to fund existing positions and avert layoffs

Other Services: \$102 million to more adequately fund a range of state agencies including Public Safety & Correctional Services, Juvenile Services, Health & Mental Hygiene, Human Resources, and the State Police²¹

MAKING THE MOST OF THE RECOVERY ACT

The goal of the Recovery Act is to shore up nation's economic stability and reverse spiraling job loss.

As Maryland implements the wide range of programs funded through the Recovery Act, the state must ensure that funds are spent wisely. The goal of the Recovery Act is to shore up nation's economic stability and reverse spiraling job loss. A recent brief published by the Working Poor Families Project lays out a set of guiding principles for an effective, transparent, and accountable implementation that benefits all Americans, particularly those with the greatest need.²² These principles include:

Making family-supporting jobs a priority. Recovery Act funds should be invested in jobs that provide livable wages and benefits such as healthcare and paid leave. Maryland should consider job quality when crafting RFPs and developing project contracts. A best-value contracting approach allows government agencies to lay out these priorities during the RFP process, and award contracts to businesses who best meet the job creation and quality goals of the project. Agencies should monitor these targets by requiring contractors to submit certified payroll reports.

Using this opportunity to help train low-skill workers for jobs in high-demand fields. Training workers will not only help them access jobs created through the Recovery Act, but will have a positive long-term impact on the Maryland economy. Many funding streams, such as the Workforce Investment Act, give Maryland the flexibility to expand existing programs and fill gaps by creating new training programs. The state should use this opportunity to build pathways into high-demand careers.

Investing in the infrastructure and citizens of distressed communities. Maryland must ensure that Recovery Act funds are targeted towards the communities with the greatest need. The state must take this opportunity to bring investment, jobs, and training opportunities to struggling

PLAYING A ROLE IN THE PROCESS

Service providers, advocates, and community members also have a role to play in the effective implementation of the Recovery Act.

Outreach: Many funding streams flow directly from the federal government to the public. Service providers must get the word out on available benefits, and in some cases, work with clients to access these programs.

Advocacy: Public agencies are under pressure to distribute funds and implement programs quickly. Stakeholders must be ready to provide concrete suggestions on where and how recovery funds can be best spent. Now is the time to start talking to state and local agencies.

Where possible, advocates should reach out their local Recovery Act task forces, such as the Baltimore Economic Recovery Team (visit <http://recovery.baltimorecity.gov/> to learn more).

Accountability: Non-government agencies can also play a role by tracking how recovery funds are spent and whether they are flowing to populations with the most need.

The Recovery Act creates and expands numerous programs that will benefit local families.

communities. Agencies issuing contracts should adopt first-source hiring language where possible, and encourage employers to hire directly from local One-Stop centers and workforce training programs.

Maximizing potential benefits to Maryland workers and families. The Recovery Act creates and expands numerous programs that will benefit local families. To ensure that Marylanders take advantage of these opportunities, outreach must begin now. Maryland must also make sure that we don't leave potential opportunities untapped. Failing to modernize the state unemployment insurance system will not only hurt laid-off workers, but will cost the state \$130 million in federal funds.

Maintaining accountability and transparency. Maryland has already launched its own recovery website at www.recovery.maryland.gov. This is a first step towards an open, inclusive process. Maryland must ensure that this becomes a meaningful resource for

timely, detailed information on how recovery funds are being spent. The website should be used to give public notice on events happening throughout the decision-making process, and to update the public on contracts available for bidding. In the long-run, this website should be used as an accountability tool. Maryland must create and hold itself to performance measures looking at targets such as the number of workers trained, the number of jobs created or saved, and the wages of these jobs. Governor O'Malley should require that agencies report on these detailed measures through the StateStat system, holding us accountable as a state not just for efficiency, but for meeting the broader goals Recovery Act.

Implementing the Recovery Act funds around these principles will help ensure that Maryland maximizes the economic impact of the stimulus, and that resources are used, as intended, to help struggling unemployed and underemployed workers.

This policy brief is produced as part of the Working Poor Families Project, a national initiative supported by the Annie E. Casey, Ford, Joyce and Mott Foundations that works with non-profit organizations in 24 states to strengthen state policies on behalf of low-income working families.

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- 3 Office of Speaker Pelosi. "American Recovery and Reinvestment Act." February 13, 2009.
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- 15 Inside Higher Ed. "A Jobs Bill for the College-Educated." February 23, 2009.
- 16 Charles, Eric. "Labor Provisions in Construction Contracts." Unpublished work. March 2, 2009.
- 17 National Employment Law Project. "The Unemployment Insurance Modernization Act: Filling the Gaps in the Unemployment Safety Net While Stimulating the Economy." November 2008.
- 18 For more information, see Job Opportunities Task Force, "Putting the Unemployment System Back to Work for Maryland's Economy." January 2007.
- 19 At press time, legislation to expand coverage to part-time workers was moving forward but still pending. For current status, visit the JOTF website, or search the Maryland General Assembly for SB 270/HB 310.
- 20 Center on Budget and Policy Priorities. "State by State Impact of the American Recovery and Reinvestment Act of 2009: Temporary Increase in State FMAP." February 2009.
- 21 Maryland Budget & Tax Policy Institute. "The Governor's Plan for the Stimulus Dollars." February 27, 2009.
- 22 For more detail see the Working Poor Families Project "Principles for State Implementation of the American Recovery and Reinvestment Act." March 2009.

About JOTF

The mission of JOTF is to develop and advocate policies and programs to increase the skills, job opportunities, and incomes of low-skill, low-income workers and job seekers.

Contact Us

231 East Baltimore Street, Suite 1102,
Baltimore, MD 21202
(410) 234-8040
(410) 234-8929 fax
www.jotf.org