

## The American Recovery and Reinvestment Act of 2009

As the Governor stated at his press conference on Wednesday, February 17, Missouri is expecting to receive funds under the ARRA from literally dozens and dozens of source and for a similar number of uses. But, these sources break down for ease of analysis and communication into three basic categories of funds: (I) Budget Stabilization Funds, (II) Existing Federal Program Funds, and (III) Competitive Grants. Descriptions of these, with details as to the funds available under each, are set forth below. In addition, there are two other key components to the ARRA that the Governor will be advocating and helping to implement and making sure that Missourians can and do access. They are (IV) the substantial tax relief measures for Missouri families and businesses, and (V) a wide assortment of other recovery financing tools including tax credits, additional bonding authority, etc. These, too, are highlighted below.

### Category I: Budget Stabilization Funds

Congress set aside <10% of the ARRA funding for States to use as "Budget Stabilization Funds" to prevent cuts in essential government services that would deepen the recession and slow or prevent a recovery. The "Budget Stabilization Funds" are disbursed to the States through TWO mechanisms – (1) Education Funds, and (2) Medicaid Reimbursements.

**EDUCATION FUNDS:** The Federal Dept of Education estimates Missouri's total allocation of these funds at \$921 million and they are available for STATE Fiscal Years 2009, 2010 and 2011. The State may use these funds for TWO DIFFERENT USES. The bulk of the funds (81.8%) must be used exclusively for EDUCATION. The remaining 18.2% may be used to prevent cuts in education but may also be used to prevent cuts in other essential government services.

The rules for spending the 81.8% of funds (\$753 million) are that they must be spent on the following items in the order they appear, fully funding the first before proceeding to the next:

- First, to "restore the level of State support provided through [pre-existing formulae] to the greater of the [state] fiscal year 2008 or fiscal year 2009," including (in MO's case) increases from 2009 that are required by the foundation formula
- And to "restore State support for [public institutions of higher education] to the greater of the [state] fiscal year 2008 or 2009 level;" and
- Second, to the extent funds remain, to provide K-12 school districts additional funds (allocated based on their relative shares of funding under Title I ESEA)
- K-12 may use these funds for anything allowed under Title I ESEA, IDEA, Perkins Act, OR "modernization, renovation, or repair" but NOT for maintenance or repair of sports facilities, purchase/upgrade vehicles, or improvements to non-educational buildings such as admin or maintenance/support;

- Public Higher Ed institutions may use these funds for "education and general expenditures, and in such a way as to mitigate the need to raise tuition and fees for in-State students, OR for modernization, renovation, or repair of higher education facilities that are primarily used for instruction, research, or student housing"

The remaining 18.2% (\$168 million) of the Education Budget Stabilization Funds MAY be spent on ANY of the following:

- Public safety or other essential government services;
- Operational assistance to K-12 or public institutions of Higher Ed;
- Modernization, renovation, or repair of public school facilities and institutions of higher education facilities

TO QUALIFY FOR THIS: Mo must "provide assurances in its application that it will: (1) spend in FY09, FY10 and FY11 as least as much as we spent in FY06 for BOTH K-12 and Higher Ed; (2) "take actions to improve teacher effectiveness and . . . address inequities in the distribution of highly qualified teachers between high- and low-poverty schools," and (3) establish a longitudinal data system.

**MEDICAID REIMBURSEMENTS:** As Congress did in 2003, the ARRA includes Budget Stabilization Funds delivered to the States through temporary increases in the Federal Medicaid Assistance Percentage (FMAP). States spend their own money on Medicaid services, and are REIMBURSED by the federal government based upon percentages that change each year to reflect the relative costs of each state's low-income health care needs. Missouri's Medicaid reimbursement percentage is approximately 64%, *i.e.*, for every \$100 Missouri spends on Medicaid services, the federal government reimburses the state \$64.

Under the ARRA, Missouri will get a special INCREASE to its reimbursement rate of 6.2% points that all states are getting under ARRA, plus an additional increase of 1.8% points to reflect Missouri's disproportionately high unemployment. Based on recent, actual expenditures, these increased rates will yield an additional \$1,250 million in federal reimbursement by the end of calendar year 2010, when they expire.

There are **NO RESTRICTIONS** on how these additional reimbursements may be spent. **BUT**, States are **not entitled** to ANY of these funds if their Medicaid eligibility rules are more restrictive than those in effect on July 1, 2008, and **NO FUNDS** attributable to the increased FMAP may be "deposited or credited into any reserve or rainy day fund of the State."

## Category II: Existing Federal Program Funds

Approximately 25% of the ARRA funds will flow into existing federal programs. The funds will be distributed using pre-existing formulas, administered using existing resources, and spent according to pre-existing rules and criteria. EXAMPLES of these programs follow, grouped by subject matter, and shown with an ESTIMATE of Missouri's distribution. Some of these funds will begin flowing between 30-90 days from enactment, and most of these amounts include funds available through Federal Fiscal Year 2010 (9/30/10).

### Training and Re-Training the Missouri Workforce of Today

- Nearly \$10 million in State Employment Service Grants to match unemployed individuals to job openings through state employment service agencies and allow Missouri to provide customized reemployment services
- More than \$25 million in Dislocated Workers State Grants, particularly for grants that support immediate strategies for regions and communities to meet their need for skilled workers, as well as longer-term plans to build targeted industry clusters with better training and a more productive workforce
- More than \$10 million for Department of Labor's Adult State Grants
- More than \$25 million for Department of Labor's Youth State Grants
- More than \$10 million for Vocational Rehabilitation to help injured individuals recover gainful employment

### Educating the Missouri Workforce of Tomorrow

- More than \$9.7 million in education technology funds to purchase up-to-date computers and software and provide professional development to ensure the technology is used effectively in the classroom
- Nearly \$2 million in grants to local school districts for school cafeteria equipment upgrades
- More than \$10 million for Head Start to allow additional children to participate in this program, which provides development, educational, health, nutritional, social and other activities that prepare children to succeed in school
- More than \$225 million for Special Education (IDEA Part B) State Grants to help improve educational outcomes for individuals with disabilities, raising the federal contribution to nearly 40 percent, the level established when the law was authorized more than 30 years ago
- More than \$145 million for Title I Education for the Disadvantaged to help close the achievement gap and enable disadvantaged students to reach their potential
- More than \$140 million in increased benefits over 2008 amounts for Missouri Pell Grant recipients

### **Building the Infrastructure Needed to Attract and Retain Good Jobs**

- More than \$600 million in Highway Funding for Missouri to be used on activities eligible under the Federal-aid Highway Program's Surface Transportation Program and could also include rail and port infrastructure activities at the discretion of the states
- More than \$80 million in Transit Formula Funding for investments in mass transit
- More than \$30 million through the Drinking Water State Revolving Fund to address the backlog of drinking water infrastructure needs
- More than \$100 million through the Clean Water State Revolving Fund to address the backlog of clean water infrastructure needs
- More than \$40 million through the Public Housing Capital Fund to enable local public housing agencies to address the backlog in capital needs – especially those improving energy efficiency in aging developments – in this critical element of the nation's affordable housing infrastructure
- More than \$30 million in HOME Funding to enable state and local government, in partnership with community-based organizations, to acquire, construct, and rehabilitate affordable housing, as well as to provide rental assistance to poor families

### **Securing Missouri's Energy Future**

- More than \$60 million for the Missouri State Energy Program, which provides technical and financial assistance to state and local governments, school districts and other recipients on energy efficiency projects and renewable energy initiatives, as well supporting development and testing of clean, domestic energy sources and alternatives
- More than \$125 million through the Weatherization Assistance Program, providing energy efficiency upgrades to low-income Missourians through Community Action Agencies

### **Maintaining Law Enforcement in Missouri**

- More than \$40 million in Byrne/JAG grants to support law enforcement efforts
- Nearly \$1 million for Internet Crimes Against Children Grants to help law enforcement agencies enhance their investigative response to offenders who use the Internet, online communication systems, or other computer technology to sexually exploit children
- More than \$3 million in Violence Against Women Grants for victim services programs to improve the criminal justice system's response to violent crimes against women and to assist victims of domestic violence, dating violence, sexual assault and stalking who are in need of transitional housing, short-term housing assistance, and related support services

### **Protecting the Vulnerable in Missouri**

- Nearly \$2 million through the Emergency Food Assistance Program, to provide basic food items to food banks
- And estimated \$400+ million in benefits to the nearly 1 million Missourian on the Supplemental Nutrition Assistance Program (formerly known as Food Stamps)



- More than \$2 million for the Emergency Food and Shelter Program, which provides grants to nonprofit and faith-based organizations at the local level to supplement their programs for emergency food and shelter for the immediate needs of the homeless
- More than \$30 million in Child Care and Development Block Grants to provide quality child care services for in low-income families who increasingly are unable to afford the high cost of day care
- More than \$25 million in Community Services Block Grants to local community action agencies for services to the growing numbers of low-income families hurt by the economic crisis, such as housing and mortgage counseling, jobs skills training, food pantry assistance, as well as benefits outreach and enrollment
- Nearly \$1.5 million for Senior Meals Programs to help senior meals programs – both communal and in-home – cope with steep increases in food and fuel costs. Many programs are reducing meal deliveries to seniors or closing meal sites
- \$27.4 million through the Homelessness Prevention Fund to be used for prevention activities, which include: short or medium-term rental assistance, first and last month's rental payment, or utility payments. Most of this funding will go directly into the economy of local communities, as the funds will be used to pay housing and other associated costs in the private market.

#### **Increased Unemployment Benefits for Missourians Who Have Lost Their Jobs**

Since the recession began in December 2007, the nation has lost more than 3.6 million jobs, with 50 percent of those losses occurring within the last three months, and the national unemployment rate has risen to 7.6 percent. Economists estimate that an additional five million job losses could occur this year and the unemployment rate could rise to 10 percent. Unemployment in Missouri stood at 7.3 percent in December 2008 (the last month for which we have data). This is the highest percentage unemployment in nearly 25 years. The ARRA will help the unemployed as follows:

- Benefits for qualified unemployed persons are extended an extra up to 33 weeks
- Benefits increased \$25/week through December 2009
- Temporary suspension of federal income tax on the first \$2,400 of benefits per recipient in 2009

## **Category III: Competitive Grants**

Nearly 1/3 of all of the funds in the ARRA are available ONLY on a competitive grant basis. Those States that are prepared to compete effectively will be able to access extensive funds to grow their economies in any number of different ways. A **representative sample** of some of the broad topics for which grants are available, and the national totals for which states will be competing in each topic area, are set forth below:

### **Training and Education**

- \$120 million for older adults training programs
- \$500 million to prepare workers for careers in energy efficiency and renewable energy fields
- \$5 billion for State Incentives to fund K-12 programs aimed at moving key NCLB indicators
- \$250 million worker re-training through National Emergency Funds – Dept. Labor
- \$100 million Higher Education Teacher Quality partnership grants
- \$100 million for Worker Training in connection with “Smart Grid” development

### **Environment**

- \$375 million for projects on the Mississippi & Missouri Rivers
- \$500 million for state and federal forest management
- \$200 million for underground petroleum storage cleanups
- \$100 million for lead and other hazard remediation
- \$5.1 billion in Dept. of Defense-related environmental clean-up efforts

### **Energy**

- \$2.5 billion research, development, deployment for alternative energies, including:
  - \$800 million for biomass
  - \$400 million for geothermal
- \$400 million Energy Efficiency and Conservation Block Grants
- \$2.0 billion for Advanced Battery Manufacturing grants
- \$3.4 billion for Fossil Energy Research and Development
- \$6.0 billion in Advanced Technology Vehicles Manufacturing Loan Program
- \$300 million Alternative Fueled Vehicles Pilot Grant Program
- \$400 million Transportation Electrification
- \$3.5 billion for energy efficient renovations of Section 8 housing projects

### **Science and Health Care**

- \$2.5 billion for National Science Foundation research grants
- \$300 million for NSF Major Research Instrumentation Programs
- \$200 million for NSF academic research facility modernization grants

- \$19 billion for interoperable Health Information Technology – centered around standardized electronic medical records – including \$17 billion in implementation grants direct to providers and \$2 billion awarded to states to facilitate transition and integrate HIT/EMR into Medicaid and other state health care programs
- \$10 billion in NIH biomedical research grants for, e.g., stem cell, Alzheimers, sickle cell, and heart disease

#### **Community Development Efforts**

- \$100 million for Community Development Financial Institutions Fund Program

#### **Public Safety**

- \$250 million for Violence Against Women Prevention grants
- \$50 million for Transitional Housing programs for domestic violence victims
- \$225 million for State and Local Law Enforcement grants
- \$40 million for High-Intensity Drug Trafficking Area grants
- \$125 million for Rural Law Enforcement Assistance, including drug interdiction
- \$50m for Internet Crimes Against Children initiatives
- \$290 million to upgrade readiness facilities for Missouri Guard

#### **Broadband and other Infrastructure**

- \$2.0 billion for broadband expansion in underserved rural areas through USDA
- \$7.0 billion for broadband expansion through FCC
- \$4.5 billion for "Smart Grid" development
- \$2.0 billion for Public Housing Capital Fund (in add'n to MO's \$47m allocated share)
- \$50 million public works projects through Economic Adjustment Assistance Program
- Administrative Efficiencies and Cost Savers
- \$500 million for Unemployment administration
- \$120 million for WIC program administration

## **ADDITIONAL RECOVERY AIDS UNDER THE ARRA**

In addition to the funds flowing to Missouri state and local governments (alone, in partnership, or in cooperation with private parties), the ARRA includes a multitude of new and enhanced financing tools, as well as substantial tax relief for Missouri taxpayers.

### **Category IV: Tax Relief for Missouri Families and Small Businesses**

At least 35% of the cost of the ARRA is committed to individual and business tax breaks. The following are examples of tax provisions in the American Recovery and Reinvestment Act of 2009 that will help Missouri businesses and families, create jobs and get Missouri's economy moving:

- Up to \$400 for workers (or \$800 for married couples) in the new Making Work Pay Tax Credit for 2.3 million workers and their families
- \$250 to Social Security beneficiaries, SSI recipients, and disabled veterans
- \$2,500 for 74,000 additional families in Missouri that will qualify for the new American Opportunity Tax Credit that makes college more affordable for 3.8 million families nationwide
- Extended and increased Homebuyer Tax Credit to both help aspiring homeowners and stabilize plummeting home prices
- Extended Bonus Depreciation and Small Business Expensing through 2009, allowing businesses that make capital investments to immediately deduct one-half the cost. Small businesses can immediately deduct 100 percent of the cost of these investments
- The American Recovery and Reinvestment Act of 2009 protects approximately 308,000 Missourians from the Alternative Minimum Tax, and the thousands of dollars in extra taxes it requires, in 2009.

### **Category V: Enhanced Economic Recovery Financing Tools**

- **New Markets Tax Credit.** Under current law, there are \$3.5 billion of New Markets Tax Credits (NMTC) available for each of 2008 and 2009. The provision increases the available credits for 2008 to \$5 billion and the available credits for 2009 to \$5 billion.
- **Recovery Zone Bonds.** The bill would create a new category of tax credit bonds for investment in economic recovery zones. The bill would authorize \$10 billion in recovery zone economic development bonds and \$15 billion in recovery zone facility bonds. These bonds could be issued during 2009 and 2010. Each state would receive a share of the national allocation based on that state's job losses in 2008 as a percentage of national job losses in 2008 (each state will receive a minimum allocation of these bonds). These allocations would be sub-allocated to local municipalities. Municipalities receiving an allocation of these bonds would be permitted to use these bonds to invest in infrastructure, job training, education, and economic development in areas within the boundaries of the State, city or county (as the case may be) that has significant poverty, unemployment or home foreclosures.



- **Modify Speed Requirement for High-Speed Rail Exempt Facility Bonds.** Under current law, States are allowed to issue private activity bonds for high-speed rail facilities. Under current law, a high-speed rail facility is a facility for the transportation of passengers between metropolitan areas using vehicles that are reasonably expected to operate at speeds in excess of 150 miles per hour between scheduled stops. The bill would allow these bonds to be used to develop rail facilities that are used by trains that are capable of attaining speeds in excess of 150 miles per hour.
- **De Minimis Safe Harbor Exception for Tax-Exempt Interest Expense for Financial Institutions.** Under current law, financial institutions are not allowed to take a deduction for the portion of their interest expense that is allocable to such institution's investments in tax-exempt municipal bonds. In determining the portion of interest expense that is allocable to investments in tax-exempt municipal bonds, the bill would exclude investments in tax-exempt municipal bonds issued during 2009 and 2010 to the extent that these investments constitute less than two percent (2%) of the average adjusted bases of all the assets of the financial institution.
- **Modification of Small Issuer Exception to Tax-Exempt Interest Expense Allocation Rules for Financial Institutions.** As described above, financial institutions are not allowed to take a deduction for the portion of their interest expense that is allocable to such institution's investments in tax-exempt municipal bonds. For purposes of this interest disallowance rule, bonds that are issued by a "qualified small issuers" are not taken into account as investments in tax-exempt municipal bonds. Under current law, a "qualified small issuer" is defined as any issuer that reasonably anticipates that the amount of its tax-exempt obligations (other than certain private activity bonds) will not exceed \$10,000,000. The bill would increase this dollar threshold to \$30,000,000 when determining whether a tax-exempt obligation issued in 2009 and 2010 qualifies for this small issuer exception. The small issuer exception would also apply to an issue if all of the ultimate borrowers in such issue would separately qualify for the exception. For these purposes, the issuer of a qualified 501(c)(3) bond shall be deemed to be the ultimate borrower on whose behalf a bond was issued.
- **Eliminate Costs Imposed on State and Local Governments by the Alternative Minimum Tax.** The alternative minimum tax (AMT) can increase the costs of issuing tax-exempt private activity bonds imposed on State and local governments. Under current law, interest on tax-exempt private activity bonds is generally subject to the AMT. This limits the marketability of these bonds and, therefore, forces State and local governments to issue these bonds at higher interest rates. Last year, Congress excluded one category of private activity bonds (i.e., tax-exempt housing bonds) from the AMT. The bill would exclude the remaining categories of private activity bonds from the AMT if the bond is issued in 2009 or 2010. The bill also allows AMT relief for current refunding of private activity bonds issued after 2003 and refunded during 2009 and 2010.
- **Qualified School Construction Bonds.** The bill creates a new category of tax credit bonds for the construction, rehabilitation, or repair of public school facilities or for the acquisition of land on which a public school facility will be constructed. There is a national limitation on the amount of qualified school construction bonds that may be issued by State and local governments of \$22 billion (\$11 billion allocated initially in 2009 and the remainder allocated in 2010). There is a national limitation on the amount of qualified school construction bonds that may be issued by

Indian tribal governments of \$400 million (\$200 million allocated initially in 2009 and the remainder allocated in 2010).

- **Extension and Increase in Authorization for Qualified Zone Academy Bonds (QZABs).** The bill would allow an additional \$1.4 billion of QZAB issuing authority to State and local governments in 2009 and 2010, which can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. QZABs are a form of tax credit bonds which offer the holder a Federal tax credit instead of interest.
- **Tax Credit Bond Option for State and Local Governments ("Build America Bonds").** The Federal government provides significant financial support to State and local governments through the federal tax exemption for interest on municipal bonds. Both tax credit bonds and tax-exempt bonds provide a subsidy to municipalities by reducing the cash interest payments that a State or local government must make on its debt. Tax credit bonds differ from tax-exempt bonds in two principal ways: (1) interest paid on tax credit bonds is taxable; and (2) a portion of the interest paid on tax credit bonds takes the form of a Federal tax credit. The Federal tax credit offsets a portion of the cash interest payment that the State or local government would otherwise need to make on the borrowing. For 2009 and 2010, the bill would provide State and local governments with the option of issuing a tax credit bond instead of a tax-exempt governmental obligation bond. Because the market for tax credits is currently small given current economic conditions, the bill would allow the State or local government to elect to receive a direct payment from the Federal government equal to the subsidy that would have otherwise been delivered through the Federal tax credit for bonds.
- **Long-term Extension and Modification of Renewable Energy Production Tax Credit.** The bill would extend the placed-in-service date for wind facilities for three years (through December 31, 2012). The bill would also extend the placed-in-service date for three years (through December 31, 2013) for certain other qualifying facilities: closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; waste-to-energy; and marine renewable facilities.
- **Temporary Election to Claim the Investment Tax Credit in Lieu of the Production Tax Credit.** Under current law, facilities that produce electricity from solar facilities are eligible to take a thirty percent (30%) investment tax credit in the year that the facility is placed in service. Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit. The production tax credit is payable over a ten-year period. Because of current market conditions, it is difficult for many renewable projects to find financing due to the uncertain future tax positions of potential investors in these projects. The bill would allow facilities to elect to claim the investment tax credit in lieu of the production tax credit.
- **Repeal Subsidized Energy Financing Limitation on the Investment Tax Credit.** Under current law, the investment tax credit must be reduced if the property qualifying for the investment tax

credit is also financed with industrial development bonds or through any other Federal, State, or local subsidized financing program. The bill would repeal this subsidized energy financing limitation on the investment tax credit in order to allow businesses and individuals to qualify for the full amount of the investment tax credit even if such property is financed with industrial development bonds or through any other subsidized energy financing.

- **Removal of Dollar Limitations on Certain Energy Credits.** Under current law, businesses are allowed to claim a thirty percent (30%) tax credit for qualified small wind energy property (capped at \$4,000). Individuals are allowed to claim a thirty percent (30%) tax credit for qualified solar water heating property (capped at \$2,000), qualified small wind energy property (capped at \$500 per kilowatt of capacity, up to \$4,000), and qualified geothermal heat pumps (capped at \$2,000). The bill would repeal the individual dollar caps. As a result, each of these properties would be eligible for an uncapped thirty percent (30%) credit.
- **Clean Renewable Energy Bonds ("CREBs").** The bill authorizes an additional \$1.6 billion of new clean renewable energy bonds to finance facilities that generate electricity from the following resources: wind; closed-loop biomass; open-loop biomass; geothermal; small irrigation; hydropower; landfill gas; marine renewable; and trash combustion facilities. This \$1.6 billion authorization will be subdivided into thirds: 1/3 will be available for qualifying projects of State/local/tribal governments; 1/3 for qualifying projects of public power providers; and 1/3 for qualifying projects of electric cooperatives.
- **Qualified Energy Conservation Bonds.** The bill authorizes an addition \$2.4 billion of qualified energy conservation bonds to finance State, municipal and tribal government programs and initiatives designed to reduce greenhouse gas emissions. The bill would also clarify that qualified energy conservation bonds may be issued to make loans and grants for capital expenditures to implement green community programs. The bill also clarifies that qualified energy conservation bonds may be used for programs in which utilities provide ratepayers with energy-efficient property and recoup the costs of that property over an extended period of time.
- **Tax Credits for Energy-Efficient Improvements to Existing Homes.** The bill would extend the tax credits for improvements to energy-efficient existing homes through 2010. Under current law, individuals are allowed a tax credit equal to ten percent (10%) of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements installed during the taxable year. This tax credit is capped at \$50 for any advanced main air circulating fan, \$150 for any qualified natural gas, propane, oil furnace or hot water boiler, and \$300 for any item of energy-efficient building property. For 2009 and 2010, the bill would increase the amount of the tax credit to thirty percent (30%) of the amount paid or incurred by the taxpayer for qualified energy efficiency improvements during the taxable year. The bill would also eliminate the property-by-property dollar caps on this tax credit and provide an aggregate \$1,500 cap on all property qualifying for the credit. The bill would update the energy-efficiency standards of the property qualifying for the credit.
- **Tax Credits for Alternative Refueling Property.** The alternative refueling property credit provides a tax credit to businesses (e.g., gas stations) that install alternative fuel pumps, such as fuel pumps that dispense E85 fuel, electricity, hydrogen, and natural gas. For 2009 and 2010, the bill would increase the 30% alternative refueling property credit for businesses (capped at \$30,000) to 50% (capped at \$50,000). Hydrogen refueling pumps would remain at a 30% credit



percentage; however, the cap for hydrogen refueling pumps will be increased to \$200,000. In addition, the bill would increase the 30% alternative refueling property credit for individuals (capped at \$1,000) to 50% (capped at \$2,000).

- **Plug-in Electric Drive Vehicle Credit.** The bill modifies and increases a tax credit passed into law at the end of last Congress for each qualified plug-in electric drive vehicle placed in service during the taxable year. The base amount of the credit is \$2,500. If the qualified vehicle draws propulsion from a battery with at least 5 kilowatt hours of capacity, the credit is increased by \$417, plus another \$417 for each kilowatt hour of battery capacity in excess of 5 kilowatt hours up to 16 kilowatt hours. Taxpayers may claim the full amount of the allowable credit up to the end of the first calendar quarter in which the manufacturer records its 200,000th sale of a plug-in electric drive vehicle. The credit is reduced in following calendar quarters. The credit is allowed against the alternative minimum tax (AMT). The bill also restores and updates the electric vehicle credit for plug-in electric vehicles that would not otherwise qualify for the larger plug-in electric drive vehicle credit and provides a tax credit for plug-in electric drive conversion kits.
- **Addition of Permanent Sequestration Requirement to CO2 Capture Tax Credit.** Last year, Congress provided a \$10 credit per ton for the first 75 million metric tons of carbon dioxide captured and transported from an industrial source for use in enhanced oil recovery, and \$20 credit per ton for carbon dioxide captured and transported from an industrial source for permanent storage in a geologic formation. Facilities were required to capture at least 500,000 metric tons of carbon dioxide per year to qualify. The bill would require that any taxpayer claiming the \$10 credit per ton for carbon dioxide captured and transported for use in enhanced oil recovery must also ensure that such carbon dioxide is permanently stored in a geologic formation.
- **Parity for Transit Benefits.** Current law provides a tax-free fringe benefit employers can provide to employees for transit and parking. Those benefits are set at different dollar amounts. This provision would equalize the tax-free benefit employers can provide for transit and parking. The proposal sets both the parking and transit benefits at \$230 a month for 2009, indexes them equally for 2010, and clarifies that certain transit benefits apply to federal employees.
- **Treasury Department Energy Grants in Lieu of Tax Credits.** Under current law, taxpayers are allowed to claim a production tax credit for electricity produced by certain renewable energy facilities and an investment tax credit for certain renewable energy property. These tax credits help attract private capital to invest in renewable energy projects. Current economic conditions have severely undermined the effectiveness of these tax credits. As a result, the bill would allow taxpayers to receive a grant from the Treasury Department in lieu of tax credits. This grant will operate like the current-law investment tax credit. The Treasury Department will issue a grant in an amount equal to thirty percent (30%) of the cost of the renewable energy facility within sixty days of the facility being placed in service or, if later, within sixty days of receiving an application for such grant.
- **Treasury Department Low-Income Housing Grants in Lieu of Tax Credits.** Under current law, taxpayers are allowed to claim a low-income housing tax credit for certain investments made in



low-income housing. These tax credits help attract private capital to invest in the construction, acquisition, or rehabilitation of qualified low-income housing buildings. Current economic conditions have severely undermined the effectiveness of these tax credits. As a result, the bill would allow taxpayers to receive a grant from the Treasury Department in lieu of tax credits. Under this provision, States housing agencies would receive a grant equal to up to eighty-five percent (85%) of forty percent (40%) of the state's low-income housing tax credit allocation in lieu of the low-income housing tax credits they would have received. The sub-awards are subject to the same requirements (including rent, income, and use restrictions on such buildings) as the low-income housing tax credit allocations. The grant program would apply to each state's 2009 low-income housing tax credit allocation.

## Budget Stabilization Funds