REPORT OF THE LEGISLATIVE FEDERAL ECONOMIC STIMULUS PROGRAM OVERSIGHT COMMISSION

December 2011

FOREWORD

This report is provided by the Legislative Federal Economic Stimulus Program Oversight Commission which was established by Act 150, Session Laws of Hawaii 2009. The Commission wishes to thank the many public and private entities that provided information requested by the Commission and the legislative staff that supported the Commission's work.

Kate Stanley

Chair

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I. INTRODUCTION

Congress enacted the American Recovery and Reinvestment Act (ARRA) in February 2009 in response to what has been called the worst recession since the Great Depression of the 1930's. ARRA and subsequent legislation authorized expenditure of $840 billion in the form of tax cuts, increased entitlement program spending, and federal contracts, grants, and loans. The Legislative Federal Economic Stimulus Program Oversight Commission (Commission) was established pursuant to Act 150, Session Laws of Hawaii 2009, to provide oversight of the distribution of federal economic stimulus program funds to be expended in Hawaii and the implementation of program expenditures.

Purpose of this report

Although not required by Act 150, the Commission presents this report to summarize for the Legislature the lessons learned from its oversight of more than two years of ARRA spending as it prepares to make policy choices and spending decisions during the 2012 legislative session and beyond.

Scope of this report

During the course of nearly two dozen meetings, the Commission gathered voluminous amounts of quantitative data from federal, state, county, and private entities that received and expended ARRA funds. This information included, for example, amounts awarded, received, and expended; jobs created or retained (where job reporting was required); programs established or supported; projects undertaken and completed; and issues encountered in obtaining and expending ARRA funds. The information collected, together with minutes of each of the

Commission's meetings, has been posted to its webpage. Even more information is available at the federal and state ARRA websites.

Rather than restate the quantitative information about ARRA spending available on the Commission's webpage and elsewhere; indeed, this report assumes the reader has at least some familiarity with the federal stimulus program. Instead, this report offers qualitative observations made by those who gave oral and written presentations to the Commission and by Commission members themselves during the Commission's meetings. It does not attempt to quantitatively or qualitatively assess the impact of ARRA expenditures that were made in the form of tax credits; neither ARRA itself nor Act 150 calls for such an assessment and there is wide disagreement regarding what measures might be used to make such an assessment. The report also does not quantify the job impact of all ARRA spending; in addition to the lack of measures for assessment of tax credit spending, close to half of the direct ARRA spending was not subject to the federal job reporting requirement.

Organization

This report first provides an overview of ARRA spending at the national level, then describes how the Legislature sought to oversee ARRA spending at the local level through creation of the Commission. The report then summarizes observations about ARRA spending in Hawaii and concludes with a suggestion for follow-up evaluations of that spending. Finally, the report presents personal statements of those Commission members who wished to express their personal views on ARRA including, for example, spending choices that were made and the beneficial effect of stimulus spending when compared to the debt burden imposed on the nation. Summary tables of ARRA awards and expenditures, current through September 30, 2011, appear as appendices, as do other supporting documents.

II. THE FEDERAL STIMULUS PROGRAM

A direct response to the economic crisis, the American Recovery and Reinvestment Act was signed into law by the President on February 17, 2009.

Goals

ARRA had three immediate goals:

- Create new jobs and save existing ones;
- Spur economic activity and invest in long-term growth; and
- Provide unprecedented levels of accountability and transparency in government spending.

Methods

ARRA and subsequent legislation authorized expenditure of an estimated $840 billion to achieve its goals by:

- Providing $282 billion in tax cuts and benefits to working families and businesses (33.6%);
- Increasing federal funds for entitlement programs, such as extending unemployment benefits, by $284 billion (33.8%); and
- Making $274 billion available for federal contracts, grants, and loans (32.6%).
- Requiring recipients of Recovery funds to report their expenditures quarterly as shown on Recovery.gov so the public can track the use of ARRA funds.

Tax Credits

Tax credit spending to date consists of the following:

- Individual tax credits ($136.4 billion: First-Time Homebuyers, Transportation Subsidy, Education benefits, Earned Income Tax Credits);

- Making work pay ($104.1 billion; $400 tax credit for working individuals; $800 for working married couples);
- Tax incentives for business (35.4 billion: The Work Opportunity Tax Credit added unemployed veterans and 16-to-24 year olds to the list of new hires that businesses could claim; the Net Operating Loss Carryback allows small businesses to offset losses by receiving refunds on taxes paid up to five years ago);
- Energy Incentives ($10.8 billion: Tax credits for energy efficient improvements to residences. Tax credits for alternative energy equipment. Electric Vehicles Tax Credit);
- Manufacturing and economic recovery; infrastructure refinancing; other ($9.6 billion: Tax-exempt bonds to expand industrial development. Bonds for investment in Infrastructure, job training, and education in high unemployment areas. Increased available New Market credits); and
- COBRA ($3.7 billion: assistance with continuation of health insurance coverage).

Entitlement Programs

Entitlement spending to date includes:

- Medicaid/Medicare ($86.8 billion: Medicaid Grants to States; Medicare HITECH Incentive Payments; Program Management);
- Unemployment insurance programs ($60.9 billion);
- Family services ($36.4 billion: Foster Care and Adoption Assistance; Child Support; Food Stamp Program; Assistance for Needy Families);
- Economic recovery payments ($13.8 billion: One-time $250 payments to Social Security beneficiaries; Railroad Board payments; Veterans payments);

- Energy ($10.8 billion: Grants for Specified Energy Property in Lieu of Tax Credits; Bonneville Power Administration Fund; Western Area Power Administration, Borrowing Authority);
- Housing ($5.3 billion: Grants to States for Low-Income Housing in Lieu of Low-Income Tax Credits); and
- Agriculture ($0.9 billion: Assistance for Farm and Aquaculture Revenue Losses Due to Natural Disasters. Trade Adjustment Assistance for Farmers).

Contracts, Grants, and Loans

ARRA spending on contracts, grants, and loans to date includes:

- Education ($88.4 billion: State Fiscal Stabilization Fund. Student Aid. Training and Employment Services. Aid for the Disadvantaged. Special Education and Rehabilitative Services);
- Transportation ($31.9 billion: Highway Infrastructure. High-Speed Rail Corridors. Grants for Railroads and Airports);
- Infrastructure ($23.9 billion: Broadband. Federal Building Fund. Highway Construction. Rural Water and Waste Disposal Account);
- Energy/Environment ($21.1 billion: Energy Efficient and Renewable Energy Program. Defense Environmental Clean-up. Electricity Delivery and Energy Reliability Program. Water and Related Resources Superfund Program);
- Housing ($12.0 billion: Public and Indian Housing. Rental Assistance Programs. Homelessness Prevention Programs. Homeowners Assistance Fund);
- Research & Development/Science ($11.2 billion: Fossil Energy R&D. National Science Foundation. National Institutes of Health);

- Health ($9.8 billion: Centers for Disease Control & Prevention. Indian Health Service. Food & Nutrition Service. National Institutes of Health);
- Other Programs ($5.0 billion: Some administrative and Operation Costs for Recovery Programs. Offices of the Inspectors General Recovery Administration Costs);
- Family ($4.9 billion: Health Resources and Services. Veterans Health Administration. Centers for Disease Control and Prevention. Indian Health Services. Food and Nutrition Services. Supplemental Nutrition Program for Women, Infants, and Children);
- Job Training/Unemployment ($4.4 billion: Health Resources and Services. Veterans Health Administration. Centers for Disease Control and Prevention. Indian Health Services. Food and Nutrition Services. Supplemental Nutrition Program for Women, Infants, and Children); and
- Public Safety ($4.2 billion: Wild land Fire Management. FEMA Firefighter Assistance Grants and Emergency Food and Shelter. Violence Against Women Programs. Customs and Border Protection).

Transparency and Accountability

ARRA mandated that distribution of funds be subject to unprecedented accountability. ARRA fund recipients must report quarterly regarding expenditure of funds including, where applicable, jobs created or retained. Inspectors General of each federal agency through which ARRA funds are distributed continually review their agencies' management of funds to ensure that:

- Recovery funds were awarded and distributed in a prompt, fair, and reasonable manner;
- Recovery funds are used for authorized purposes, and that steps are in place to prevent fraud, waste, and abuse; and

- Recovery projects avoid unnecessary delays and cost-overruns and that they meet goals and targets.

ARRA Spending in Hawaii

Correlated to nationwide reporting categories, ARRA spending in Hawaii to date is as follows (by amount of spending in category):

- Infrastructure ($602 million);
- Education ($358.6 million);
- Transportation ($208.2 million);
- Energy/Environment ($80.2 million);
- R&D/Science ($79 million);
- Other Programs ($63.9 million);
- Public Safety ($63.7 million);
- Health ($57.9 million);
- Housing $51.6 million);
- Job Training/Unemployment ($21.3 million);
- Family ($18 million);
- Not Categorized ($296 thousand); and
- Agriculture ($31 thousand).

As detailed in Appendix A, 188 ARRA awards were made to state entities in Hawaii for a total of approximately $2.2 billion, of which $1.9 billion had been expended as September 30, 2011. Additional ARRA funds have been expended in Hawaii by federal agencies and to a much lesser extent the counties and some private entities. Details of the latter spending type appear in connection with presentations by those entities that have been posted to the Commission's webpage.

ARRA awards to State entities have been categorized (alphabetically) by six sectors:

- Community Development ($99.1 million; 4.4%);
- Education & Training ($376.9 million; 16.8%);
- Energy & Environment ($168 million; 7.5%);
- Health ($603 million; 27.0%);
- Income Security ($788.9 million; 35.3%); and
- Transportation ($200.5 million; 9.0%).

Capital improvement projects undertaken by state entities and funded by ARRA may be found in Appendix B.

The total estimated employment impact of ARRA spending in Hawaii in terms of jobs created or retained by quarter is stated in FTE (Full Time Equivalent) and may be found in Appendix C.

III. ACT 150, SESSION LAWS OF HAWAII 2009

The Legislative Federal Stimulus Program Oversight Commission was established by Act 150, Session laws of Hawaii 2009. Act 150, attached as Appendix D, also provided temporary exemptions from statutes relating to procurement and rulemaking to allow the State to expedite the implementation or expansion of programs, services, and benefits authorized by the American Recovery and Reinvestment Act of 2009. However, to the Commission's knowledge, none of those exemptions were ever used. Act 150 provided that the Commission would cease to exist on June 30, 2011, but the Commission's existence was extended to December 31, 2011, by Act 26, Session Laws of Hawaii 2011, so that it could provide the most current available information to the Legislature on the eve of the 2012 regular session.

Commission Authority

In the course of providing oversight of stimulus spending, the Commission was authorized to address a variety of issues, including:

- Coordination of federal stimulus funded programs within the State;
- Criteria developed for setting priorities are being followed;
- Adequacy of public notice and opportunity for public comment and input;
- Transparency of the bidding and the contracting process;
- Integrity of the distribution and expenditure of federal stimulus funded programs; and
- The extent to which duplication and waste is prevented.

While the Commission did gather information on these issues, no funding was provided to independently address them so the Commission focused on understanding how available ARRA funding was identified, obtained, and expended by federal, state, and county agencies in Hawaii, identifying barriers encountered in doing so, and ensuring that contingency plans were developed so that funding opportunities were not lost. Act 150 required executive branch agencies to provide information on the receipt and expenditure of federal economic stimulus program funds upon request of the Commission.

Commission Membership and Staff

The Commission is comprised of eleven members. Six voting members consist of a member of the Senate, appointed by the President of the Senate; one member of the House of Representatives to be appointed by the Speaker of the House of Representatives; and four members of the public, representing citizens and local government, one each to be appointed by the President of the Senate, the Speaker of the House of Representatives, the Senate minority leader, and the House of Representatives minority leader, respectively. Five non-voting members consist of representatives appointed by each member of the Congressional delegation and one appointed by the Governor. The Chair of the Commission was elected from among its voting members and legislative staff offices designated by the President of the Senate and the Speaker of the House of Representatives were assigned to provide administrative assistance to the Commission. Appendix E lists the Commission's members and the period of time for which they served.

Methodology

The Commission chose to gather information through both written submissions and oral presentation to meetings of its members. The Commission developed a questionnaire, attached as Appendix F, that it used throughout its work to elicit information regarding the identification of available ARRA funding, the criteria used to decide what funding to pursue, and the process by which ARRA funds were obtained and expended, including barriers encountered in the process. Agencies chosen to make both written and oral presentations were those with the largest awards, some of which made multiple presentations to assure that the many applicable deadlines were met or that contingency plans had been made if deadlines could not be met. Recipients of smaller awards made only written presentations. The Commission also received multiple presentations from the State ARRA Coordinator who was the Governor's appointee to the Commission. Appendix G lists the agencies that made presentations to the Commission and provides links to the materials generated in connection with those meetings.

Because agencies receiving ARRA funds already faced unprecedented federal reporting and transparency requirements, the Commission sought to minimize the impact of having also to report to the Commission. The Commission notes that most of the information requested already existed in some form because it had to be generated for federal reporting purposes. To avoid additional work, the agencies were asked to use already existing information whenever possible and to advise the Commission if they were encountering problems producing information, with Commission follow-up as appropriate. In addition, the State ARRA Coordinator worked with agencies during the course of the Commission's work regarding the manageability of the questions and adjustments were made as necessary.

Agencies were also requested to provide information in advance of each meeting in electronic format for ease of distribution to members of the Commission, media, and the public. Legislative members of the Commission were requested to transmit the information generated to the House and Senate money committees to reduce duplication of work by those committees and the agencies. Finally, all documents received or generated by the Commission were posted to its webpage.

IV. COMMISSION OBSERVATIONS

How ARRA Funds Were Allocated

Initially, the Commission notes that because ARRA was intended to stimulate the flagging economy, a strong emphasis was placed on distributing and expending funds as quickly as possible. To do that, ARRA funds were generally distributed through existing channels administered by various federal agencies and expenditures were initially focused on government programs that had sustained loss of federal funding and state budget cuts. As a result, funds were made quickly available to sustain existing programs, such as by extension of unemployment benefits and increased federal funds for such programs as Medicaid, through increased Federal Medical Assistance Percentages, and for education, both K-12 and higher education. Were it not for these program expenditures, there clearly would have been hardship for the unemployed, reductions in services for Medicaid recipients and significant layoffs of teachers and University of Hawaii educators.

By contrast, infrastructure spending that was most likely to stimulate the private sector economy through so-called "shovel-ready projects" took longer to implement. This was partly due to the State's emphasis, at least in the transportation sector, on projects that would create sustained, diverse employment, not those that would be completed quickly using only a limited sector of the workforce. Unlike other states in which much of the available transportation sector ARRA funding was spent on road resurfacing, the State chose to undertake longer term transportation infrastructure projects that were not yet "shovel-ready" and required time to plan, engineer, and conduct procurement. However, this approach had several benefits. For one thing, the focus on these projects allowed the State to take advantage of excess capacity in the private sector that brought some bids in lower than expected and permitted additional projects to be undertaken as a result. It also put a broad variety of unemployed traders people back to work and may keep them off the unemployment rolls until the economy improves.

Barriers to Expenditure of ARRA Funs

Barriers to identification, acquisition, and expenditure of ARRA funds took many forms at the federal, state, and administrative levels.

At the federal level, the time between the announcement of a funding opportunity and the deadline to apply was extremely short and the federal government's website announcing an opportunity was not always up to date. Federal agencies were sometimes slow to provide guidance and that guidance changed or evolved over time. Competitive grant application deadlines were compressed such that an agency had to rely on an informal coalition to assemble a grant application using estimated numbers but then had to open the procurement process to others after the grant was awarded, meaning that sometimes the grant was not enough to cover the ultimate expense and that those who helped put the application together were excluded. The American-made products requirement sometimes conflicted with pre-existing specifications for projects that were ready to go and called for whatever was available and cheapest, regardless of country of origin.

At the state level, environmental issues still had to be addressed, even with "shovel-ready" projects, and historic preservation requirements had to be met. Procurement issues arose, including the need to provide staff training in new procedures, and to resolve protests. Contracting documents had to be continually revised to account for evolving internal controls. Payment methods needed to be revised to reflect new appropriation procedures and codes. Employee layoffs, furloughs, and hiring freezes limited the ability of agencies to act as quickly as intended.

Administratively, ARRA spending laid bare the many, significant shortcomings of the State's financial accounting and management information system (FAMIS). On top of the limitations imposed by employment resource restrictions, the limited utility of FAMIS made it extremely labor intensive to transfer required reporting information to the federal ARRA reporting website. These limits may have affected the types of competitive grants sought by the State, may make the State less competitive for such grants going forward, and represent a challenge even for managing existing formula grant funds. Indeed, more detail is required by the government by the State and FAMIS' lack of capacity to handle such detail clearly demonstrates its limits even for state budgetary processes.

Assessing the Effect of Stimulus Spending

The Commission notes that measuring the impact of stimulus spending presents a variety of challenges.

With regard to measuring the employment impact of ARRA spending, the methodology prescribed by the federal government for counting jobs retained or created had several limitations. For one thing, ARRA spending did not require direct job reporting for most of the direct expenditures or any of the tax credit expenditures. Although the primary recipient of funding subject to the job reporting requirement is required to report jobs directly created or retained, this funding was estimated to include only one-quarter of all jobs supported by ARRA expenditures. It also is not clear from one quarter to the next whether jobs are new or continuing. In addition, federal agencies did not report job numbers, instead relying on contractors to do so.

Moreover, the economic model used by the Council on Economic Advisers (CEA) to determine the jobs indirectly supported by ARRA spending employs a new and not yet perfected measure to account for secondary effect of ARRA spending, such as money distributed to state programs (FMAP, for example) and tax benefits. A lack of precision may also be reflected in the fact that the Council of Economic Advisors continues to show a cumulative growth in the number of indirect jobs, even though the direct reporting shows fluctuations. The ARRA also job counts may differ from those generated by the Bureau of Labor Statistics because it counts jobs differently.

For a portion of ARRA spending, there may not be tangible, residual benefit to the spending once the funding is exhausted, especially where new programs were started with ARRA funds that cannot otherwise be sustained. However, most spending either yielded physical improvements such as those provided by capital improvement or infrastructure spending or helped continue previously established programs, including Medicaid/FMAP, deemed worthy of support with ARRA funds until the economy and general fund revenues rebound. These programs were chosen for public policy reasons, not because they would necessarily produce a specific benefit. Other expenditures will make lasting changes in different ways. The health information technology project continues until 2016 and will yield permanent improvements in how this information is handled. Similarly, much of the spending on energy programs will not demonstrate a direct link between money spent and the result obtained; instead, the funds are being expended to permanently transform the energy system. Finally, ARRA funds were used to leverage funds from other sources that might not otherwise have been available; for example, the Department of Education was able to use ARRA education funding to improve its eventually successful effort to win a "Race to the Top" grant.

The Commission noted several other challenges to assessing the impact of ARRA spending. Significant expenditures were undertaken by federal agencies in the State but they reported "up the chain of command" or management structure so there was no easy way to determine how their expenditures benefited the State across all public and private entities here (in addition to the job reporting limitations noted above). It also remains to be seen whether spending that stabilized existing programs merely preserved the status quo, perhaps perpetuating unsustainable spending and programs without making necessary adjustments. Assessment of ARRA spending is also complicated by the fact that it is difficult to compare present impact, especially social spending, to the impact on future generations of the increase in national debt. Finally, stimulus spending is still moving through the economy; even if ideal measures were available, a full assessment cannot yet be made.

The "Cliff Effect"

Once ARRA funding is exhausted, there will be a pronounced "cliff effect" for programs that cannot be sustained with a new source of funding or restoration of funds the loss of which had been mitigated by ARRA spending. While some previous reductions in general fund support for education funding have been restored, other programs have not been so fortunate. Medicaid recipients may experience a reduction in coverage and benefits and special education services may be restructured. The Legislature will need to continue addressing funding for federally mandated programs such as for immunizations.

Some programs may not be sustainable absent new or supplemental funding. ARRA funding recipients have been asked to engage in "continuity planning" to address this concern but the future availability of alternate resources is hard to predict. Although funds for the wage subsidy program will expire after 6-12 months, it is hoped that the economy will improve enough during that time such that the employees hired with subsidies can be retained in non-subsidized positions after the subsidy funds are exhausted. With regards to new or expanded Science, Technology, Engineering, and Mathematics (STEM) programs funded pursuant to State Fiscal Stabilization Fund Part B money, projects were chosen for funding based, in part, on their ability to generate other public/private funding; however, it is not yet clear whether this funding will materialize.

Lessons Learned

The federal stimulus program has laid the foundation for future federal spending generally. Specifically, it has fostered a culture of self-examination and accountability through its transparency and reporting requirements. This culture is becoming institutionalized across the public sector and is allowing the public to weigh for itself the benefits of programs funded with taxpayer dollars.

Agencies have had to develop "best practices" in seeking and expending federal funds. This includes Federal closely monitoring agency communications and evolution of federal funding requirements. Procedures have been established to track of new kinds of deadlines, including obligation and expenditure. Agencies are being more creative in balancing the need to meet federal deadlines while complying with procurement law, such as by working thorough non-profit organizations. Contract procedures have been revised for each expenditure subject to reporting requirements and expenditure deadlines have been written into contracts with vendors. Commission presentations have given the departments a chance to be heard as they prepare for legislative sessions and helped them become more organized in doing so.

Legislative Follow-up

As noted, the Commission's ability to assess the economic impact of stimulus spending in Hawaii is limited. The Legislature may wish to consider funding further examination of this issue by a consultant or by the University of Hawaii Economic Research Organization

(UHERO). UHERO is perhaps uniquely equipped to study the local impact of federal stimulus program because of its expertise and experience. UHERO has published two working papers studying the stimulus program on a national scale. In a December 2010 working paper, "The Employment Effects of Fiscal Policy: How Costly Are ARRA Jobs," UHERO uses simulations of a macro-econometric model to evaluate some of the costs and benefits of counter-cyclical fiscal policy in the United States economy, looking specifically at the impact of the ARRA program and potential alternative policies. A July 2010 working paper, "Why Hasn't the US Economic Stimulus Been More Effective? The Debate on Tax and Expenditure Multipliers," discusses conceptual challenges involved in measuring the effectiveness of fiscal stimulus policies (and whether stimulus to a recessionary economy should be in the form of tax cuts or expenditure increases), reviews alternative empirical approaches applied in recent studies, and presents its estimates of policy multipliers based on simulations of the United States economy.

V. CONCLUSION

The Commission believes this report represents its best effort, given its limited expertise and resources, to accomplish what was requested of it by the Legislature. Whether and to what extent the American Recovery and Reinvestment Act of 2009 accomplished its purpose will not be clear for quite some time and is a question best left to others better qualified and equipped to make that judgment.

APPENDICES

(to be added when report is finalized)

Appendix A - (Summary of ARRA Awards to all State Entities)

Appendix B - (Capital Improvement Projects Undertaken by State Entities)

Appendix C - (Total Estimated Employment Impact of ARRA Spending in Hawaii)

Appendix D - (Act 150, SLH 2009)

Appendix E - (Commission Membership/Period of Service)

Appendix F - (Agency Questionnaire)

Appendix G - (Agencies that made Commission presentations, with links to the materials)