

Texas' Recovery: July 2009 Update

On May 30, two days before the end of the 81st Legislative Session, the Texas Legislature passed the budget for the coming biennium. In it is more than \$15 billion in funds from the American Recovery and Reinvestment Act that will go towards education, health care, and other essential services over the next two years. Texas Impact believes that such an unprecedented influx of federal funds deserves an extra level of scrutiny and new thinking about how best to maximize the benefit of this one-time windfall. With that in mind, the following brief will assess Texas' progress in implementing its share of the Recovery Act to this point and lay out some potential opportunities and obstacles going forward.

The Big Picture

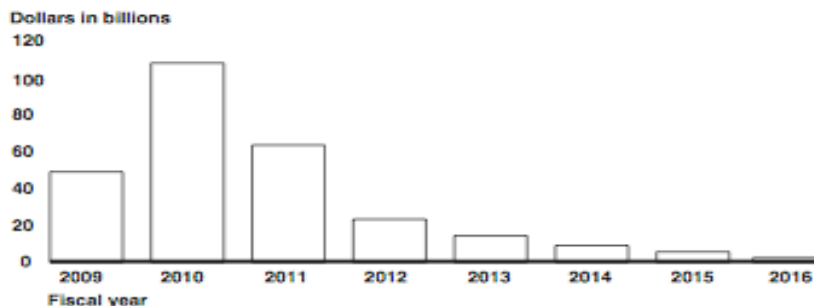
While funds contained in the Recovery Act will be released and spent over the next three years, \$152.4 billion had already been made available and \$52.9 billion had been paid out by the federal government as of June 19th. Of the more than \$15 billion expected by the State of Texas, just under \$1.6 billion had come into the State Treasury as of June 12th, including approximately \$1.2 billion coming as a result of an increased federal match for state Medicaid expenditures. On June 25th, Vice President Joe Biden said more than 5,300 transportation projects worth more than \$19 billion had been approved by federal officials, with states having broken ground or started taking bids on about 1,900 of those. Texas ceremonially began its first Recovery Act-funded project on June 30th. As of June 26th, Texas had allocated \$1,163,153,465, or about 52 percent of the state's Recovery Act transportation funds, but the GAO reported that as of June 25th Texas was the only state it is analyzing that had yet to have its certification documents approved. Progress varies across all of the available funding streams; of its allocated Title I education funds, for example, the state has drawn down less than one percent.

State Energy Program (SEP) Funds

On July 10th, DOE approved the State Energy Program as submitted by SECO. The \$218 million will be allocated as follows:

- * \$159 million will go to LoanSTAR,
- * \$30 million to the Distributed Renewable Energy Technology Program
- * \$17 million to the Transportation Efficiency Program
- * \$6 million to Energy Sector Training Centers
- * \$5 towards public education and outreach.

Below is a projected timeline of overall Recovery Act expenditures nationwide.



Source: GAO analysis of CBO and FFIS data.

Despite the unprecedented speed and scale of these funds, the Legislature and the Governor’s office opted to manage Recovery Act dollars with existing practices and structures rather than developing new, temporary measures as has been the practice in the majority of other states.

Legislation: Texas and the Nation

Missed Opportunities

The Recovery Act in the 81st Legislative Session

- *SB 1569: Modernizing unemployment compensation would have netted over \$500 million for the state’s unemployment trust fund.
- *HB 4261: A no-interest loan program for consumers to do energy-efficiency improvements would have made one-time funds last for years to come.
- *HB 4263: The Texas Recovery Accountability and Transparency Board would have served as a model for the rest of the nation.
- *HB 2942: New accountability and transparency measures would have ensured Texas’ Recovery Act funds were used wisely.

The session started with the knowledge that a federal stimulus package of some kind was coming, though the exact size and structure were unknown. Still, the Legislature took little action, filing few bills and keeping their public discussion of the Recovery Act funds to a relative minimum during budget debates.

Other states chose to take more proactive steps. In Minnesota, for instance, legislators worked to create a comprehensive energy plan using their Recovery Act energy allotments. The plan stretches across multiple agencies, combines State Energy Program funds with those for Weatherization and the Energy Efficiency Block Grants, initiates a green jobs training program, and lays out specific performance measures for job creation and energy savings. In short, Minnesota legislators recognized that putting forward a coherent strategy would help the state maximize the benefit it gets from its stimulus dollars. Minnesota’s bipartisan energy legislation was signed by Governor Tim Pawlenty on May 21st.

The same is true in other states across the nation, as governors, state legislators, and agency officials have embraced the transformative potential of the Recovery Act: in Nevada, where legislators combined weatherization and workforce funds to create a green jobs program that will train and employ approximately 3,200 workers; in Maine, where all of the state’s Recovery Act energy funds will be consolidated into the Maine Efficiency Trust

so state officials can combine them and come up with an overarching strategy; and in Wisconsin, the Office of Recovery and Reinvestment ensures that businesses and local governments know exactly how much money is available through competitive grants and how they can apply.

The strategy of Texas legislators—that is, using the normal behind-closed-doors budget process to allocate the funds—presents numerous difficulties in ensuring that these new Recovery Act funds are distributed fairly and efficiently. For example, there is little

Stimulus, Local Governments, and Competitive Grants

Over a third of the Recovery Act—more than \$280 billion—will be allocated on the basis of competitive grant applications. Yet according to the Comptroller, local officials across the state “say they don’t know where to start looking for stimulus dollars to patch their budgets.” As of now, Texas lacks mechanisms for aiding local entities and coordinating grant applications.

opportunity to determine how best to distribute funds evenly to all areas of the state, including rural communities, poor locales in South Texas, and those affected by recent natural disasters. One major constituency that is particularly unhappy with the process is school administrators, who feel that local education agencies were short-changed by the Legislature’s decision to supplant rather than supplement state funds meant for education. Essentially, school districts will see no added benefit from the Recovery Act, and instead they will receive the same funding they were going to get anyway except they will now have new restrictions how it can be spent and more stringent reporting requirements.

Overall, it is likely that when the state looks back on how it spent its share of the Recovery Act, any deficiencies will be able to be traced back to the state’s failure to employ new tools and procedures to accommodate an unprecedented influx of federal funds.

Transparency and Accountability

Tracking Recovery Act funds and their effects could prove to be just as difficult, if not more so, as allocating them. This is especially true considering the decision made by the Governor and the Legislature to refrain from convening a temporary working group, task force, or other entity that would direct or advise the state on how best to implement and account for the more than \$15 billion.

In states where such entities were established—31 states had created some sort of stimulus-oversight body within a month of the Recovery Act becoming law, though there are almost certainly more now—those entities are now creating the procedures by which Recovery Act funds will be distributed and tracked in their states.

The federal government is doing its due diligence in this regard: officials created a tracking tool that allows users to follow projects on an interactive map and Vice President Biden has ordered his staff to return any call or e-mail from states and localities seeking guidance within 24 hours. But it is clear that states, local governments, and private contractors will have to play a significant role in tracking and reporting on Recovery Act expenditures; the latest federal guidance, issued on June 22nd, only asks for reporting on job creation down to the sub-recipient level, so when the Texas Department of Housing and Community Affairs allocates more than \$140 million to local entities for weatherization projects and those sub-recipients contract with the entities that will do the

The Need for Accountability:

The \$152 billion contained in the Recovery Act for infrastructure investment is a good indication of why strong accountability and transparency measures are necessary: it came with almost no “road map” about how and where funds must be used, and since a large portion of those funds is flowing directly to city and county governments, there is even less coordination and more opportunity for misuse.

How has Texas responded? For one, while dozens of mayors and 47 of the 50 state governors were joining conference calls to speak directly with Recovery Act’s chief watchdog, Vice President Joe Biden, Governor Rick Perry opted against participating. He finally relented in July when, after submitting Texas’ application for education funds just hours before the deadline, he spoke with Vice President Biden to ask when Texas would receive its allotment.

actual work, those contractors do not have to contribute any reporting for the federal government. That leaves holes that the state will need to fill if we are ever to get an accurate picture of the effect of the Recovery Act in our state.

Other states have taken action in a number of ways. New York has legislation to create a Stimulus Ombudsman's office; Missouri, acting in accordance with the recommendations of its Senate Select Committee on Oversight of Federal Stimulus, segregated Recovery Act funds into two separate accounts so the funds can be easily tracked separate from general state funds; and Connecticut has the Recovery Working Group to help administer funds and the Connecticut Recovery Act and Transparency Accountability Board to help oversee compliance with ARRA.

Still, some of the best tracking and analysis of the Recovery Act and its effects has come from public interest organizations. For example, a July report by the Center on Budget Policy Priorities provided a clear picture of the extent to which states are using their stimulus dollars—combined with spending cuts—to close their budget gaps.

Texas Recovery Funds Status Report

Criminal Justice: Appropriations for some of Texas' \$90 million in Justice Assistance Grants were made in Article XII of the budget. The Office of the Governor is charged with appropriating the rest of the funds.

Education: Texas should receive its first portion of almost \$4 billion in expected stabilization funds in August. This allotment is the target of complaints over the decision to supplant rather than supplement state funds.

Energy: TDHCA will allocate \$140 million in weatherization funds to sub-recipient partner organizations and \$140 million more to individual cities across the state.

Workforce: Legislators failed to make necessary changes to receive \$555 million that would have gone into the unemployment trust fund, but they did make a small tweak that will let the state collect a smaller amount in the neighborhood of \$200 million.

Health Care: HHSC has received almost \$1.4 billion from the increased federal match for Medicaid funds. Because of Texas' high unemployment rate, the state will receive hundreds of millions of dollars more than originally expected.

Conclusion

Texas has fallen behind most states in its ability to effectively implement and track its share of funds from the American Recovery and Reinvestment Act of 2009.

A GAO report issued in July 2009 expressed concern about the insufficiency of federal guidance to this point. Assessing the costs and benefits of the Recovery Act is a daunting task for states, and the GAO determined that “questions remained about how to count jobs and measure performance under Recovery Act-funded programs.”

The Recovery Act is already working in a number of other states to help close budget gaps, create new jobs, and strengthen infrastructure. Texas needs to make sure the same happens here.