

**STATUS REPORT  
ON FEDERAL STIMULUS FUNDING**

**REPORT NO. 1**  
February 27, 2009

**TO:** Members, Texas House of Representatives

**FROM:** Jim Dunnam, Chairman  
Select Committee on Federal Economic Stabilization Funding

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I wanted to provide you with a status report on the Select Committee's activities to date. I will also provide you with updated status reports periodically. We have held five hearings since the formation of the Select Committee and have taken testimony from several major state agencies that will receive or are eligible to receive Federal economic stimulus funding.

All committee documents to date have been scanned and are available electronically to you and your staff. Our goal is to post all of these documents, and new documents as they become available, on the Select Committee's website. We are currently planning on having the website functional by March 3rd. Both the Select Committee and I want to provide complete transparency of our work; we will endeavor to keep the website up-to-date as we move through the process.

On Monday, March 2nd, we will hear from the Texas Education Agency and the Texas Higher Education Coordinating Board and we will take additional testimony from the Texas Department of Transportation. We would welcome your participation at these hearings. Many of our colleagues who are not members of the Select Committee have been attending and participating. Their expertise on specific issues and their questions for the witnesses have been very beneficial to the committee. We hope you will join us as your time permits.

This first status report provides some general information on the American Recovery and Reinvestment Act of 2009 (hereinafter referred to as the "Stimulus Act") and then covers the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the Texas Health and Human Services Commission, the Texas Workforce Commission, the Comptroller's Office (including the State Energy Conservation Office), the Public Utility Commission, the Office of Rural Community Affairs, the Texas Water Development Board, and the Texas Commission on Environmental Quality.

***NOTE OF CAUTION:***

*The numbers contained in the status reports are sometimes best estimates and are subject to change almost daily. We will continue to provide you with the best information we have as time progresses, but want to caution you that the numbers are still fluctuating and also may differ from other figures you may have seen depending on the source providing the information.*

*Questions continue to be brought forward and clarification occurs daily. Therefore, you are cautioned that information in this update will likely change even while it is being written. Feel free to contact the Select Committee office at 463-0240 for clarification or additional detail. The documents in the possession of the Select Committee provide far more detail and you are encouraged to review those in the areas of your interest. Again, we hope to have those documents available online very soon.*

*This update is meant as a general overview of what the Select Committee has heard and received. This general overview is not meant to substitute for reading the bill and the documents provided by each agency, or contacting an agency directly for additional information.*

## WHAT ARE THE CORE GOALS OF THE SELECT COMMITTEE?

- Monitor Federal legislation and regulations implementing or affecting stimulus funding under the Stimulus Act.
- Determine appropriate state legislation needed to maximize receipt of funds.
- Investigate efforts undertaken by other states to obtain funds.
- Communicate with Federal officials where necessary.
- Make recommendations to standing House committees.
- Provide an extra layer of transparency and accountability.

The challenge before the Texas Legislature is to make the Stimulus Act work for Texas. The Act has been passed and the debate over whether it should have passed and in what form is best left to Washington, D.C. Now that it has passed, the Texas Legislature must assure that the opportunities created by the Act are not wasted and that transparency and accountability measures be prioritized. The Fall 2008 bank bailout must be remembered as a prime example of how private gain can get ahead of the public benefit, and Texas state government must not repeat those mistakes.

The Stimulus Act's core goals are "job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization."

Those goals should be kept in mind at all times, as well as being mindful of stewardship of tax dollars.

## HOW MUCH MONEY WILL TEXAS POTENTIALLY RECEIVE?

**There is a total of \$787 Billion in the Stimulus Act for spending, aid and tax cuts.**

*"Spending" and "Aid" is money that will go directly to or through Texas state government or made available to local governments and others directly from the Federal government.*

- **62 percent** of all Stimulus Act money is direct spending to/thru the state governments, or goes directly to local governments, the private sector or to individuals directly from the Federal government.
- Our share of funds going directly through Texas state government is estimated to be as high as **\$16.8 Billion** (assuming Texas takes advantage of all pools of funds; otherwise some of the unspent funds by Texas will go to other states).
- The Select Committee has been charged by the Speaker to advise the House how to "maximize" the receipt of Federal funds. Because "Aid" is not necessarily automatically received, and may come directly from the Federal government (bypassing Texas state government), one of the Select Committee's goals is to identify all Stimulus Act opportunities so that all potential recipients can be better aware of what funds are available and how they may be obtained.

*“Tax Cuts” are monetary benefits that will go to directly individuals, families and businesses thru the Federal income tax process*

- **38 percent** of all Stimulus Act money will be pay for tax cuts to individuals, families and businesses.
- Individuals making less than \$75,000 per year will receive \$400.
- Couples making less than \$150,000 per year will receive \$800.
- There will be a two-year “forbearance” for the Alternative Minimum Tax, which should reduce the middle class tax burden by about \$70 billion nationally over those two years.
- Accelerated depreciation for businesses should reduce business tax burden by just over \$5 billion nationally.
- If Texas is successful in obtaining the same ratio of “Tax Cuts” as the Texas “Spending” allocation, this could be upwards of \$26.6 billion in tax savings.

## HOW IS THE MONEY GOING TO BE ALLOCATED?

**The money will be allocated thru five different mechanisms: formula, competition, demand, one-time automatic disbursement, and agency plan.**

- **FORMULA:** Funding to States and local governments thru statutory/regulatory formulas.
  - *Examples:* Medicaid, highway funds, etc.
- **COMPETITION:** Bids or solicitations for Federal grant programs.
  - *Examples:* National Institute of Health, National Science Foundation, broadband program, etc.
- **DEMAND:** Direct payments to eligible individuals who apply for those benefits.
  - *Examples:* Pell Grants, Food Stamps, SBA Loans, etc.
- **ONE-TIME AUTOMATIC DISBURSEMENT:** One-time payments to entitlement program beneficiaries without application.
  - *Examples:* \$250 to Social Security, Veterans’ and disabled (SSI) beneficiaries.
- **AGENCY PLAN:** “Public operating and spending plans”
  - *Examples:* National Parks construction, defense infrastructure programs, nuclear waste site cleanup, etc.

## **WHAT STATE ACTION IS REQUIRED TO RECEIVE THE FUNDS?**

There is current debate concerning what “actions” are required to obtain the funds. For example, the Act requires either the Governor or Legislature make a “certification” in order to receive any funds. This is a general provision in the Act. It is still unclear whether or to what extent other action is required to obtain specific funds.

Some funding pools clearly require changes in existing law. For example, Texas must modify its unemployment benefit laws to receive the maximum Federal dollars for this program. One change would be to allow persons seeking part-time work to receive temporary benefits. If the unemployment benefit laws are not changed, Texas workers could potentially lose over \$555 million in unemployment assistance.

The Select Committee has been charged by the Speaker to “maximize” the receipt of Federal funds. To comply with this charge, one of the Select Committee’s goals is to quickly establish a list of all “actions” required, and all options for triggering funds, as well as all deadlines that apply for those actions.

## **WHAT HEARINGS WILL THE SELECT COMMITTEE CONDUCT?**

The Select Committee is first hearing from Texas state agencies that will receive funds or be responsible for overseeing the administration of funds. In addition, the Select Committee has heard from the LBB Federal Funds team, the Office of State-Federal Relations, the State Auditor and the Comptroller’s Office.

The Select Committee will also attempt to schedule hearings with other governmental bodies, such as cities and counties, private entities and interest and advocacy groups who may be eligible for funds or have input in expenditure options in order to determine the best manner to distribute information and also assure transparency and accountability regarding all funds and expenditures. Finally, the Select Committee hopes to consider public testimony.

## SUMMARIES OF TESTIMONY BEFORE THE SELECT COMMITTEE

### **Texas Department of Housing and Community Affairs**

The Texas Department of Housing and Community Affairs (TDHCA) will receive approximately \$515 million in stimulus money under the Stimulus Act. The funds will be directed almost entirely to existing programs within the agency, such as homelessness prevention (\$47M), weatherization (\$260M), community services grants (\$48M) and the HOME Investment Partnerships Program (\$150M).

The homelessness prevention program is designed to assist people who are homeless, or at risk of becoming homeless (whether due to foreclosure or other reasons), and assists those people in locating housing. The service also provides rent assistance, credit repair counseling, security and/or utility deposits and help with moving costs. Funding for this program will increase approximately 10-fold (from \$4.85M to \$47M annually) under the Stimulus Act.

Another large portion of TDHCA funding will be dedicated to weatherization funding. This program will see a remarkable 20-fold increase in funding (from \$13M to \$260M annually). Texans who are living under 200 percent of poverty level will be eligible to receive up to \$6,500 (up from \$5,000) for weatherization improvements on their homes. (For 2009, the Federal poverty level for a family of four is \$22,050.) TDHCA officials said that 20 percent of the \$260M could be used for “training and technical assistance.” The agency is attempting to clarify whether they will have the flexibility to use these funds for such things as grants or scholarships for people who wish to attend technical training in order to obtain certification in fields related to environmental construction and maintenance. This potential for \$53M in targeted scholarships and grants is being investigated.

The Community Services Section awards Federal funds to assist local agencies that provide services to needy Texas residents. During FY 2008, Community Services programs assisted 539,436 poor and/or homeless individuals. New funding for the program will be \$48.7M above the current \$31M. The community grants portion of Stimulus Act funding will be available to Texans at or below 200 percent of poverty level.

The HOME Investment Partnerships Program (HOME) provides grants and loans to help local governments, nonprofit agencies, for-profit entities, and public housing agencies provide safe, decent, affordable housing to extremely low-, very low- and low-income families. HOME allocates funds through four basic activities: Homebuyer Assistance, Rental Housing Development, Owner-Occupied Housing Assistance, and Tenant-Based Rental Assistance. Under the Stimulus Act, new funding for HOME will be \$150M from the current \$42M. Seventy-five percent of that \$150M must be committed to recipients within 1 year of enactment of the Stimulus Act, and recipients must expend 75 percent of those funds within two years and 100 percent in three years.

TDHCA officials made clear there exists more than enough need and demand, and the increases the agency is receiving in all areas will not actually satisfy all need and demand in the state for services.

The agency also assured that they have sufficient personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

### **Texas Department of Transportation**

The Texas Department of Transportation (TxDOT) is estimated to receive \$2.25 billion in stimulus funding. Of that \$2.25 billion, \$1.68 billion was scheduled to go to TxDOT, \$500 million will go to metropolitan planning organizations (MPOs), \$175 million to rural areas and \$67.5 million to transportation enhancement projects.

Initially TxDOT stated an intention to obligate all funds from the Act by February 26th. A final list of the projects to be approved on February 26, 2009, was not made available to the Select Committee. As a result of the Select Committee's concerns, TxDOT officials announced they would delay its non-maintenance decisions for one week.

TxDOT began anticipating funds prior to December 2008 and assembled a list of approximately \$6 billion in projects. This list was later updated in late January 2009 to over \$13 billion in projects, using input from local MPOs.

TxDOT is required to "obligate" 50 percent of the funds within 120 days or by June 17, 2009. The remaining 50 percent must be obligated by February 17, 2010.

In general, "obligating" funds means having the engineering and environmental aspects complete, plus the right of way acquisition at least started, then approval from the Federal DOT. Federal approval generally takes 7 days. There is no Federal requirement regarding when actual construction must begin following the "obligation" date, although TxDOT's general policy is to place out the project for bids within the following 30 days.

TxDOT narrowed the \$13 billion list to a \$2.25 billion list on February 23, 2009.

TxDOT further narrowed the list to \$1.2 billion in new construction and \$500 million in maintenance projects. TxDOT approved the \$500 million in maintenance projects on February 26, 2009, and has indicated it will consider approval of the new construction list on March 5, 2009.

Over 30 percent of the final \$1.2 billion in new construction are tollway-related projects.

Concern was expressed to TxDOT during the hearing that decisions were being made to obligate TxDOT's entire portion without input from elected officials. Questions regarding the factors being used to prioritize projects within the intent of the Act, such as maximizing the use of the one-time financial boost to the state, which documents will produce the most jobs and overall infrastructure improvements to result in long term economic benefits were left open for TxDOT to consider.

TxDOT indicated that most decisions were the responsibility of local MPOs. The Select Committee is investigating these explanations.

The Select Committee anticipates hearing more regarding TxDOT at its March 2nd meeting.

### **Texas Health and Human Services Commission**

The Texas Health and Human Services Commission (HHSC) reported that health and human services agencies will receive nearly \$5 billion in stimulus funding. The actual amount may vary with the state's unemployment rate.

The largest portion of that increase will be a result of a temporary change in the Federal contribution rate known as the Federal Medical Assistance Percentage (FMAP) for the Medicaid program. In short, for every dollar Texas puts into Medicaid, they will temporarily receive more Federal dollars in a match.

Prior to passage of the Stimulus Act, for every dollar spent on Medicaid, the Federal government paid almost 60 cents (a 59.44 percent FMAP for FY09). Under the Stimulus Act, HHSC estimates Texas will receive an additional \$4.63 billion over the next three fiscal years.

In order to receive the FMAP increase, the Act specifies that states may not enact more stringent eligibility standards, methodologies or procedures than those in effect as of July 1, 2008. As long as Texas makes no negative changes in its current program, the additional funding will be received. The Commission also noted that hundreds of millions of dollars will begin flowing to Texas as early as this week.

Disproportionate Share Hospitals (DSH) serve significant populations of indigent patients. HHSC officials also testified that the Act increases the state's allotment to DSHs by 102.5 percent of the state's 2009 level.

The Supplemental Nutrition Assistance Program (SNAP) is a monthly benefit to qualified applicants to assist with food purchases, e.g., food stamps. SNAP is 100 percent Federally-funded. In January 09, there were 1,130,535 SNAP cases in Texas, totaling \$311.5 million. The Stimulus Act provides Texas with an increase of 13.6 percent to that dollar amount.

Finally, HHSC officials testified regarding the \$52.7 million increase in the Temporary Assistance for Needy Families (TANF). TANF provides cash benefits to very low income families with children and Texas also uses this block grant to provide a wide range of other services, including Communities in Schools, early childhood programs and child care. These grants were set to expire at the end of FY09; the Act will extend them through FY2010.

HHSC officials made clear that there exists more than enough need and demand, and the increases the agency is receiving in all areas will not actually satisfy all need and demand in the state for services.

The agency also assured they will immediately advise the Select Committee of any enhancements needed in personnel and systems to assure rapid distribution of funds while not sacrificing transparency and accountability.

HHSC will report to the Select Committee the additional Federal funds that might be obtained by altering eligibility requirements, the cost to the state, and also the potential economic impact for those changes, both positive and negative, if any.

### **Texas Workforce Commission**

The Texas Workforce Commission has identified over \$1 billion in potential economic stimulus funding that Texas is eligible to receive for child care services and various employment-related programs.

Around \$418 million will be received “automatically” in increases to funding for existing employment and child care programs. Another \$39 million will be received “automatically” to help cover the increases in handling unemployment claims. No changes in state law are required to receive these funds and no increase in state match is required.

An additional \$550 million is available to Texas but receipt of those funds will require changes in state unemployment laws. This is discussed below.

Child care services received the largest increase--\$215 million, which is almost 50 percent more than the current Federal allocation of \$470 million. Agency administrators testified that the additional funds are needed to help meet the existing demand for child care services but there will still be unmet need even with this significant increase.

Youth employment services will receive \$83 million, a 100 percent increase; employment services for adults will receive \$35 million, nearly a 50 percent increase; services for dislocated workers whose plants have shut down, for example, will receive an additional \$57 million, a 100 percent increase; and the Wagner-Peyser Employment Grant that provides various services to help match employers and job seekers with the current demands of the labor market will receive \$28 million, around a 40 percent

increase. The smallest increase, but not an insignificant one, is a \$1 million or 20 percent increase for the Community Service for Older Americans program which provides employment opportunities for seniors in community settings such as public libraries.

Texas also is eligible to receive approximately \$550 million in funds to pay for unemployment benefits but only if the 81st Legislature makes certain changes to current unemployment laws.

In order to receive these funds Texas must take two steps:

1. Change the existing base period for calculating benefits; and
2. Meet two of four other unemployment insurance modernization “incentives”

If Texas changes its existing base period for calculating benefits to consider the most recent quarter of wages before becoming unemployed, termed an Alternative Base Period (ABP), the state will receive \$185 million in additional Federal unemployment funds. The agency stated that this change also could result in additional Texans becoming eligible for benefits. The Select Committee asked the agency to provide an estimate of the cost of implementing the change in order to determine whether there would be a net cost or net gain to the state Unemployment fund, plus the extent of any long term costs.

Unless the above change is made, the state is not eligible to receive a remaining \$370 million. If the Alternative Base Period *is* adopted, Texas must meet another two of the following four criteria to receive the additional \$370 million:

1. Allow people seeking part-time work to receive unemployment benefits (the agency needs clarification on this point before giving more direction)
2. Allow benefits for people who work for compelling family reasons (Texas already does most of this requirement, and the remaining provisions are not considered significant in terms of increasing demand on the state).
3. Allow up to 26 additional weeks of benefits for people in job training (basically, any employee who has received the maximum of 26 weeks would be eligible to receive up to 26 more weeks as long as they were attending an approved job training course, and only for that length of time).
4. Provide additional benefits of least \$15/dependent/week for eligible workers.

As noted earlier, with very minor modifications, Texas would already meet the second requirement regarding compelling family reasons. The agency was asked to provide the Select Committee with the estimated cost of meeting one of the additional three requirements in order to determine whether the \$370 million in new Federal funds would be a net gain or potential net cost to the state UI fund.

The agency indicated that proposed changes would not create an administrative problem.

The agency also assured that they have proper personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

### **State Energy Conservation Office**

Officials from the Comptroller's State Energy Conservation Office (SECO) testified before the Select Committee on the specific funding they expect to receive from the stimulus bill.

A major component of SECO's function is facilitating the State Energy Plan (SEP). SEP funds may be used for energy efficiency and renewable energy projects, including technical assistance, energy training and education and retrofitting buildings with more efficient lighting, air conditioning and heating systems. Texas usually receives between \$1.8 million to \$2.5 million per year for the program. Texas would receive a total of approximately \$233.8 million in Stimulus Act funding for the SEP.

Another program area of SECO is Local Government Energy Efficiency Block Grants (EEBG). These funds help small, non-HUD entitlement local governments reduce energy use and fossil fuel emissions, and improve energy efficiency. Small is defined as cities with populations less than 35,000 and counties with less than 200,000; in Texas, there are about 233 counties and 1130 cities that will be eligible. Texas is expected to receive approximately \$30 million for these grants.

The agency also assured that they have proper personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

### **Comptroller of Public Accounts**

Officials from the Texas Comptroller of Public Accounts presented a detailed spreadsheet which attempts to identify all of the funds in the economic stimulus bill that will potentially benefit Texas, not just the portion of funding that the state is expected to receive. This document is a work in progress and the agency intends to expand and refine the information as more information becomes available. The agency has even provided a reference for the page number in the bill for nearly every line item of appropriation in the Act and how much of that money is expected to come into Texas under each particular provision. Chairman Dunnam asked them to return to the Select Committee for further updates at a date to be determined.

### **Public Utility Commission**

The Public Utility Commission testified before the committee in regard to broadband and energy provisions in the Stimulus Act. The agency representative indicated that they would not receive any funds directly. The U.S. Assistant Secretary of Commerce for

Communications & Information will administer competitive grants intended for various aspects of broadband build-out. One grant will help expand public computer center capacity, including technology at community colleges and public libraries. Another grant will reward innovative programs to encourage sustainable adoption of broadband services. Both of these grants will be available to broadband service providers. A third grant will help develop and maintain a broadband inventory map, which will represent broadband build out across the nation. All of these grants are available to states and political subdivisions.

Under energy programs, Texas will be eligible to receive a portion of the grants designed to improve energy efficiency in buildings and transportation; weatherization assistance; development and implementation of the state energy conservation plan; manufacturing of advanced batteries and components; and, research on advanced and innovative energy technologies that reduce fossil fuel emissions.

The agency also assured they have proper personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

### **Office of Rural and Community Affairs**

The economic stimulus bill included an increase of \$19.5 million in Community Development Block Grant (CDBG) funds that will be allocated to the Office of Rural and Community Affairs under an existing formula. These funds will be distributed to small cities or “non-entitlement” communities in Texas. A non-entitlement area is a city under 50,000 or a county under 200,000. This \$19.5 million is on top of the current allocation of approximately \$70 million.

The agency informed the committee that the timing of these new Federal funds coincided with their annual application process for CDBG funds and the agency is prepared to distribute the funds to local communities very quickly. The agency received between \$120-\$140 million in applications, so even with the supplemental Federal funding, it will not meet the actual need. The funds are very flexible but generally are to be used for affordable housing, job creation and retention, and to address a serious and immediate threat to the health and safety of a community for which there are no other funds available. All other cities and counties in Texas will receive their CDBG funding directly from the Federal government.

The agency also assured that they have proper personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

### **Texas Water Development Board**

The Texas Water Development Board provided the committee with a complete list of \$4.9 billion in potential economic recovery “Clean Water” projects and another \$4.9

billion in “Drinking Water” projects. Most of these projects are ready to go, illustrating that the need far exceeds the available funding levels.

The state’s allocation from the \$4 billion appropriated for the Clean Water State Revolving Fund is \$181.9 million. This fund provides grants to states to capitalize their revolving loan funds for wastewater infrastructure improvements. Our allocation from the \$2 billion appropriated for the Safe Drinking Water Revolving fund is approximately \$165 million. This fund provides grants to states to capitalize their revolving loan funds for drinking water infrastructure. The agency suggested that the demand in Texas for funding from these two programs has been heightened by the difficulty in getting good rates right now in a troubled bond market.

The agency also assured they have proper personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

### **Texas Commission on Environmental Quality**

The Texas Commission on Environmental Quality has identified six different potential sources of funding in the economic stimulus package that may help benefit environmental programs TCEQ administers.

TCEQ expects to receive \$1.7 million in a non-competitive, formula allocation for state grants under the Diesel Emissions Reduction program. The agency mentioned that these funds could be used for the clean school bus program for public schools. Another \$300 million is available nationally for diesel emissions reduction with \$90 million specifically designated for additional non-competitive state grants and the remaining \$210 million to be distributed among the states on a competitive basis.

There is \$200 million available nationally for the Leaking Underground Storage Tank program (LUST). There is no state match required. Around 200 sites in Texas would meet the criteria for the program.

TCEQ will receive approximately \$1.8 million in additional funds for allocation to local planning groups under the Water Quality Management Program. There is no match required for these funds. Under the Drinking Water State Revolving Fund (which will be managed by the Texas Water Development Board), TCEQ will receive a percentage allocation to provide technical assistance. The agency did not specify what amount they expect to receive.

There is \$100 million available nationally that will be distributed on a competitive basis under the “Brownfields” program. This program is intended to assess, cleanup and reclaim previously unusable property.

And finally, the stimulus bill increased funding for the Hazardous Substance Superfund by \$600 million. According to TCEQ, the funding can only be used for sites

that are on the “National Priority List” or (NPL). Texas has 47 sites that are “shovel ready,” but unfortunately, they are not on the national list and will not qualify for the funding.

The agency also assured that they have proper personnel and systems in place to assure rapid distribution of funds while not sacrificing transparency and accountability.

## **OTHER MISCELLANEOUS MATTERS**

- All timelines need to be identified so that priorities of effort can be made. Federal regulations and rules will be written and wording will affect the receipt of funds.
- There are only 30-60 days available in some instances to have input in this important process.
- All decisions being made by state agencies and other entities need to be identified prior to passing a “point of no return.”
- There is a general requirement that funds cannot be put into a “rainy day” or other reserve fund. This needs to be clarified in light of hold over funds in the budget.
- Means of assuring transparency and accountability need to be better identified.
- Many agencies, universities, local governments have asked for funds to be put into the Act and believe they are receiving funds. There is no comprehensive listing of these “asks” and one needs to be assembled.
- Means of educating local governments and private entities of their options under the Act need to be identified fully.