

Robert L. Nabors II
Deputy Director of the Office of Management and Budget
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Chairman Lieberman, Ranking Member Collins, distinguished members of the Committee, thank you for inviting me to speak to you once again about the implementation of the American Recovery and Reinvestment Act. I would like to talk today about the progress that we have made since I last testified in April, and about the work that the Administration – and OMB in particular – is doing to make the implementation of the Recovery Act as efficient, effective, and transparent as possible.

In order to understand where we are today, I think it is important to remember how bad things were when the Administration took office.

In the fourth quarter of last year, real GDP was declining at a rate of almost 5.5 percent per year. In that quarter alone, household net worth fell by about \$5 trillion, dropping at a rate of 30 percent per year.

In terms of employment, the fourth quarter of last year saw a loss of 1.7 million jobs – the largest quarterly decline since the end of World War II and a number only to be exceeded in the first quarter of this year, when 2.1 million jobs were lost. Employment fell during every month of 2008.

This slowdown in economic activity created a pair of trillion-dollar deficits. One was the budget deficit, which had ballooned to \$1.3 trillion even before President Obama came in to office. The other was the deficit between what the economy could produce and what it was producing. This output gap amounts to about 7 percent of the economy.

When Congress passed the Recovery Act, we all knew that the economic situation was serious; many experts and commentators alike predicted that we were on the cusp of a second Great Depression. Indeed, the revised GDP statistics show that the actual decline in GDP growth in the third and fourth quarters of last year was about twice as large as the preliminary estimates we had at the time indicated. If we did nothing, it is conceivable that those dire predictions could have become true.

Instead, the Recovery Act, along with other efforts to stabilize the financial and housing sectors, pulled us back from the brink and has begun to lay a new foundation for long-term economic growth.

In the second quarter of the calendar year, the first full quarter since the enactment of the Recovery Act:

- GDP fell at a rate of one percent, a much slower rate than the previous two quarters, when it fell at a rate of six percent. Both Goldman Sachs and Mark Zandi of Moody's

Economy.com have estimated that GDP growth in the second quarter was given a significant boost due to the Recovery Act, suggesting that in its absence, the economy would have shrunk by three to four percent in the second quarter. These analysts also project an even more significant boost to the economy in the third quarter;

- State and local spending increased 2.4 percent, after falling for the last six months. This unexpected reversal linked directly to fiscal relief that has been provided to states through the Recovery Act;
- Household income grew at a yearly rate of almost five percent following declines in the previous nine months; and
- Business investment contracted much less than expected, as confidence is slowly returning to the economy.

The Recovery Act is also helping to slow the rate of job loss – perhaps the most significant effect of this recession.

Although the unemployment rate remains elevated at 9.7 percent, the economy is losing jobs at a slower pace – from 2 million jobs lost in the first quarter to 1.3 million jobs lost in the second quarter of 2009. Last Friday, the Bureau of Labor Statistics reported the loss of 216,000 jobs in August. This is 60,000 fewer jobs than were lost in July, and 525,000 fewer jobs than were lost in January 2009 – the month with the highest recorded job loss during this recession. This is far from a full recovery, but private forecasters are crediting the Recovery Act for staunching the job loss associated with the recession and thereby protecting hundreds of thousands of jobs. Analysts from Moody’s to IHS Global Insight, to the Economic Policy Institute and others all estimate the Recovery Act has created or saved between 500,000 to 750,000 jobs – and some reputable economists say as many as a million. We also know anecdotally that jobs are being saved in critical areas like education, law enforcement, and construction. To give just a few examples that were highlighted in GAO’s July report:

- New York City School district officials reported that, due to State Fiscal Stabilization Funding (SFSF) from the Recovery Act, they were able to retain approximately 14,000 jobs;
- The Richmond County School System in Georgia reported that it would be able to retain positions including teachers, paraprofessionals, nurses, media specialists and guidance counselors; and,
- California, Florida, North Carolina, and Massachusetts also reported that they would be able to retain positions thanks to SFSF funding, including teaching positions that would otherwise have been cut.

While many school districts continue to be squeezed as revenues shrink, the Recovery Act is making a real difference. As the Florida Governor has said, “[I]t's pretty incredible that 26,000 teachers will continue to be able to work for Florida's children because of these additional

moneys...and that's really the point: this is to help people, to help our education system, to help people with health care needs, and it's the people's money so they deserve it.”

Make no mistake, the President is not satisfied – and will not be satisfied – until we are adding jobs to the economy again. But, as the Congressional Budget Office (CBO) recently noted, the severity of current unemployment reflects “a much sharper ongoing deterioration in underlying labor market conditions than had been anticipated, rather than a smaller impact of the [Recovery Act] legislation.” CBO credits the Recovery Act as one of the reasons why economic activity is expected to begin its rebound in the second half of 2009.

There is no doubt that the Recovery Act is moving significant resources into our struggling economy.

As of April 3, the week I last testified before this Committee, our accounts showed that Federal agencies had obligated about \$54 billion. Today, nearly \$234 billion has been obligated. When combined with over \$66 billion in tax relief, that totals about \$300 billion that has been committed to date. As agencies have paid out nearly \$94 billion so far, up from about \$12 billion on April 3, the budgetary effects of the Recovery Act currently exceed \$159 billion. This pace of spending is consistent with our original goal of outlaying 70 percent of funds – or about \$551 billion – by the end of FY 2010, and is also consistent with CBO’s initial projections of budgetary effects, as CBO notes in their recent report.

Notably, we are ahead of schedule on several key priorities. The Recovery Act set an ambitious benchmark that all States had to obligate at least 50 percent of their highway dollars in just 120 days. Every State not only met that goal, but exceeded it by at least 10 days. Key Department of Education programs are investing Recovery dollars several months ahead of schedule. The Making Work Pay tax credit was implemented about three months ahead of schedule. And GAO noted that Recovery Act funds are moving to states faster than anticipated.

Likewise, the Administration recently set and met a number of ambitious targets on Recovery Act implementation. At the beginning of the summer, the Vice President presented to the President a “Roadmap to Recovery,” a plan for ten major projects that would help to define the Recovery Act during its second 100 days and speed implementation. The Roadmap set key targets for these projects to meet during the second 100 days. Last week, the Vice President announced that, thanks to agencies’ hard work, we met or exceeded each of these targets. For example, the Administration committed to enabling 1,129 Health Centers in 50 states and eight Territories to provide expanded service to approximately 300,000 patients. The Department of Health and Human Services exceeded this goal, providing expanded services to about 500,000 patients.

Through a variety of means, Recovery Act funds are making resources available to individuals and communities, and advancing critical projects at a time when funding is scarce.

Tax relief accounts for more than a third of total Recovery Act funds. Already, 95 percent of Americans have seen an increase in their take-home pay thanks to Making Work Pay. Nearly 1.5

million people have claimed the First Time Homebuyers Tax Credit over the course of 2009, largely owing to the expanded version of the credit passed in the Recovery Act. We know that at least 334,000 taxpayers have claimed the Recovery Act credit to date – a number that is likely to increase once all tax filing season data is collected and analyzed.

About another third of funding is devoted to safety-net programs that provide immediate relief to the most vulnerable. Thanks to the Recovery Act, 54 million seniors, as well as veterans and other high-need groups, have received \$250 relief payments. Families qualifying for food assistance through the Supplemental Nutrition Assistance Program (SNAP) have seen their benefits increase by over 13 percent, and state governments have received over \$34 billion in additional Medicaid funds. Additionally, those facing job loss are collecting an extra \$25 a week in unemployment benefits – assistance that has already benefited over 12 million Americans.

Finally, about a third of Recovery Act funds are devoted to investments in discretionary programs that improve communities and invest in critical infrastructure. To date, over 30,000 Recovery Act projects – ranging from community health center expansions to military facility upgrades to transportation construction projects – have already been approved, and across the country, there are literally shovels in the ground. For example, more than \$28 billion has been obligated to fund over 10,000 shovel-ready transportation construction projects – over 4,600 of which are already underway.

Not only are projects like these being delivered on-time – and, in many cases, ahead of schedule – but under-budget. Department of Defense contracts are coming in about 12 percent under-budget, resulting in hundreds of millions of dollars in savings. Most GSA bids are coming in eight to ten percent below estimated costs. The Department of Homeland Security came in so far under-estimate on installation of in-line baggage handling systems at the nation’s airports – \$243 million to be exact – that they were able to fund the systems at ten additional airports.

In addition, each of these projects is carefully reviewed by OMB to ensure that their uses of Recovery Act funds are thoughtful and appropriate. We regularly work with agencies to identify and revise projects that do not meet this threshold.

We continue to work hard to ensure that Recovery Act funds are spent carefully and in a way that is transparent and accountable to the American people through Recovery.gov.

OMB continues to play a significant role in upholding the accountability requirements mandated by the Recovery Act by issuing formal guidance; working with agencies, states, localities, and other stakeholders; and by taking extensive additional measures to prepare for the upcoming deadline on October 10 for recipients to submit detailed reports on how and where Recovery Act dollars are being used. The Act requires that by this date, direct recipients of funds report to agencies on the amount of funds received, information pertaining to projects or activities funded, and estimate the number of jobs created or retained.

To implement the recipient reporting requirements required by the Act, we have worked closely with the Recovery Board to develop and deploy Federalreporting.gov, a web-enabled centralized reporting solution. After extensive testing, the website is up and running, and

available for recipient and agency registration. OMB's detailed guidance issued in June, informed by feedback from all stakeholders, defines the content of recipient reporting and the process by which they are submitted. Currently, we are supporting the Board's efforts to prepare to collect and process the data, which the Board will then make available to the public through Recovery.gov.

Per the requirements of the Recovery Act, the data in these reports will include project descriptions and information on the status of funds, job creation, and sub-recipient information. In addition to meeting the data elements required by the Act, OMB also responded to public input requesting an expansion of the reporting requirements on Recovery Act expenditures to capture payments to vendors, in addition to sub-recipients. We felt that it was within the spirit of the Recovery Act to do this, so we asked prime recipients (e.g., States) and sub-recipients (e.g., localities receiving awards from the States) to report on any vendors paid more than \$25,000 as dealers, distributors, merchants, or other providers of goods and services needed to conduct a Federal program. We worked closely with the Recovery Board to develop this additional requirement, and we listened to the Congressional and public input that we received. We believe that this additional requirement will provide a valuable tool for tracking federal grant dollars down to the local entities and their vendors – a level of visibility never before available.

As mandated by the Recovery Act, the October 10 reports will also require recipients to document the number of jobs that Recovery Act funds have enabled them to create or save. Putting people back to work is critical to our economic recovery, and this data will be essential for providing the transparency that the public needs to assess whether the Act is achieving its purpose. As there has been significant public uncertainty surrounding the methodology for counting jobs, our guidance provided funding recipients with two options. The preferred option is direct counting, and OMB strongly encourages prime recipients to make a direct employment count for each Recovery-funded project. However, we were mindful of the burden that this might place on some recipients, and realized that this could distract attention from critical recovery activities. So, the guidance offers prime recipients the option of extrapolating the jobs impact after collecting a set of verifiable project data. In the event that recipients choose to take advantage of this option, they are required to use methodologies that have been vetted and approved by the funding departments or agencies. Agencies were required to issue standard guidance on approved methodologies for jobs reporting. As of the end of August, 12 had done so – and four of these offered the option of using a statistical sampling methodology.

Without question, the October 10 deadline requires a lot of work from recipients, from Federal agencies, and from us – and we are taking proactive measures to provide support where we expect that it will be necessary. We continue to respond to concerns from the public and Congress by offering additional guidance and through frequently asked questions (FAQs). We are also collaborating with the Recovery Board to deploy on-site support teams to help manage the workload in State capitals and the localities that are likely to be dealing the highest volume of paperwork. They will provide state and local entities with government-to-government customer service that connects them to the Federal resources. For example, the support teams will have direct access to the Recovery Board's registrant database, which will allow them to see which recipients have or have not registered on Federalreporting.gov, and to walk recipients through the registration process if they are facing difficulties.

We have added capacity within OMB by establishing a new Recovery and Transparency Branch within the Office of Federal Financial Management. In addition to coordinating the work of the on-site liaisons with the Recovery Board, this branch works with states to address regarding OMB guidance on recipient reporting; coordinates response work of agency staff to assist states with recipient reporting; and interfaces with the Recovery Board and the Recovery Implementation Office on the full range of issues states face as they prepare for and conduct reporting.

We have tried our best to anticipate the needs that the October deadline will create, and we are committed to remaining responsive over the coming weeks and months. OMB, working with the Recovery Board and other Federal experts, has conducted seven webinars (more than 17,000 registrants participated, and the forms remain online as a resource) and a total of more than 20 different training sessions to explain the responsibilities of recipients of ARRA funding; discuss how to calculate and report Job Creation Estimates; and review the technical solutions and required data elements for reporting on ARRA funds. We communicate regularly with stakeholders like the National Governors' Association, the National Conference of State Legislatures, and groups representing State Auditors, Comptrollers, Treasurers, CIOs, and Budget and Procurement officers.

This brings me to my final point, which is that we are committed to continuing active communication with stakeholders, including funding recipients and our partners in Recovery Act oversight, like all of you in who are in this room today. Together, we've made a lot of progress since April, but there is still a long road ahead as we perfect our oversight and implementation efforts to deliver on the President's promise of unprecedented transparency and accountability.

Such communication is of the highest priority for OMB and for the Administration overall. Notably, the Vice President remains personally engaged in these efforts on a constant basis, holding weekly calls with governors and mayors. More than 100 mayors and county executives and all nearly all governors have participated in these calls.

In response to a recommendation from GAO, we have also taken increased measures to make sure that states are notified promptly of grants and contracts that are awarded within their jurisdiction. Our intent is for this increased level communication to facilitate a smoother process for states as they prepare for the reporting deadline.

Also in response to recommendations from GAO and this Committee, we have modified the OMB Circular A-133 Compliance Supplement such that the majority of programs with Recovery Act funding will be audited. We are also planning a pilot in which the auditors will accelerate their communications with management on identified internal control deficiencies to facilitate earlier corrective actions and better controls over Recovery Act funding.

We view Recovery Act implementation as a continuing conversation that has guided us at every stage and will continue to guide us as we identify and react to new challenges. We are committed to perfecting our data system and to taking the measures that are necessary to live up to the President's promise of transparency and accountability. And in doing so, we must always

remember the big-picture – putting Americans back to work, increasing consumption and the demand for goods and services, and providing people with resources and services that will help them to weather difficult times.

I thank you, again, for this opportunity, and I look forward to answering any questions you might have.

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