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UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Addressing State and Local Fiscal Challenges Through the American Recovery and Reinvestment Act

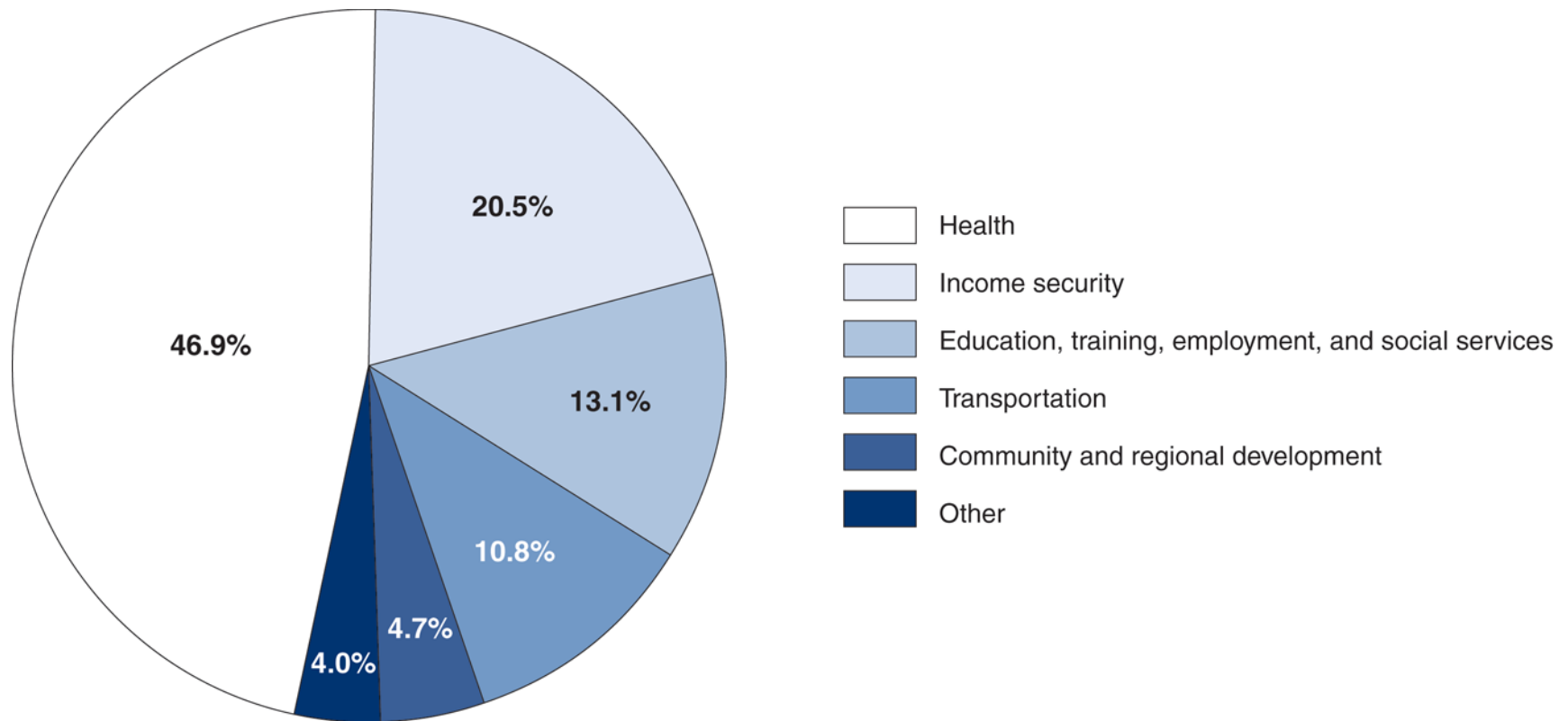
April 2009



State and Local Governments in the U.S. Federal System

- 89,527 state and local governments GAO25
- State and local employment represented approximately 14 percent of total U.S. employment in 2007 RK18
- State and local government operating and capital expenditures totaled more than \$2 trillion in 2007 RK19
- State and local expenditures represented approximately 12 percent of GDP in 2007
- States and localities received more than \$430 billion in federal grant funds in 2007 and about \$500 billion in 2009 RK20
- State and local governments collected \$1.3 trillion in tax receipts in 2007 RK21

Federal Grants to State and Local Governments by Function



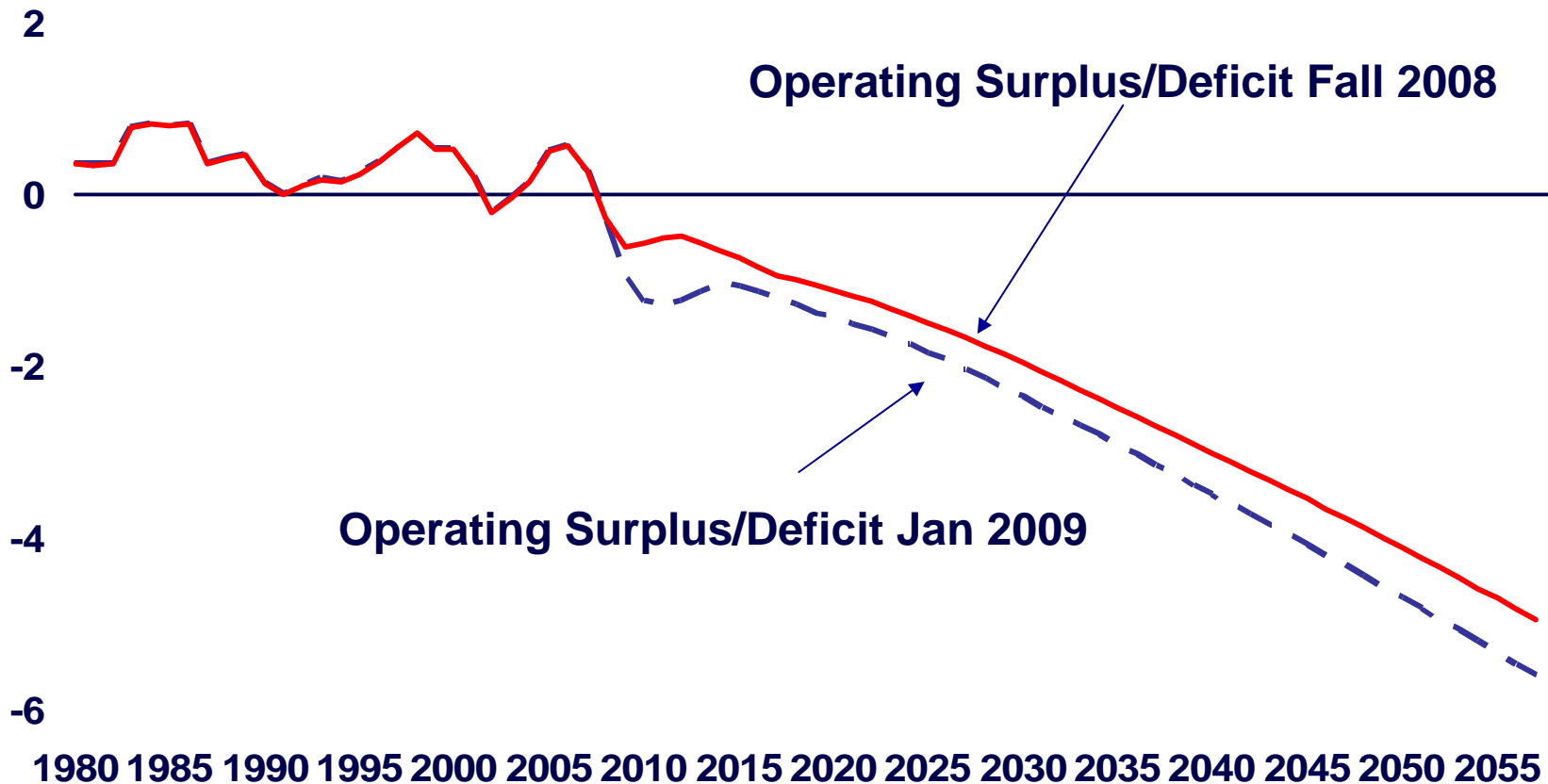
Total
\$443.8 billion dollars

Source: Budget of the U.S. Government, Fiscal Year 2009, H. Doc. 110-84, Vol. III.

Note: Data shown are 2007 Actual Outlays.

State and Local Governments Face Increasing Fiscal Challenges

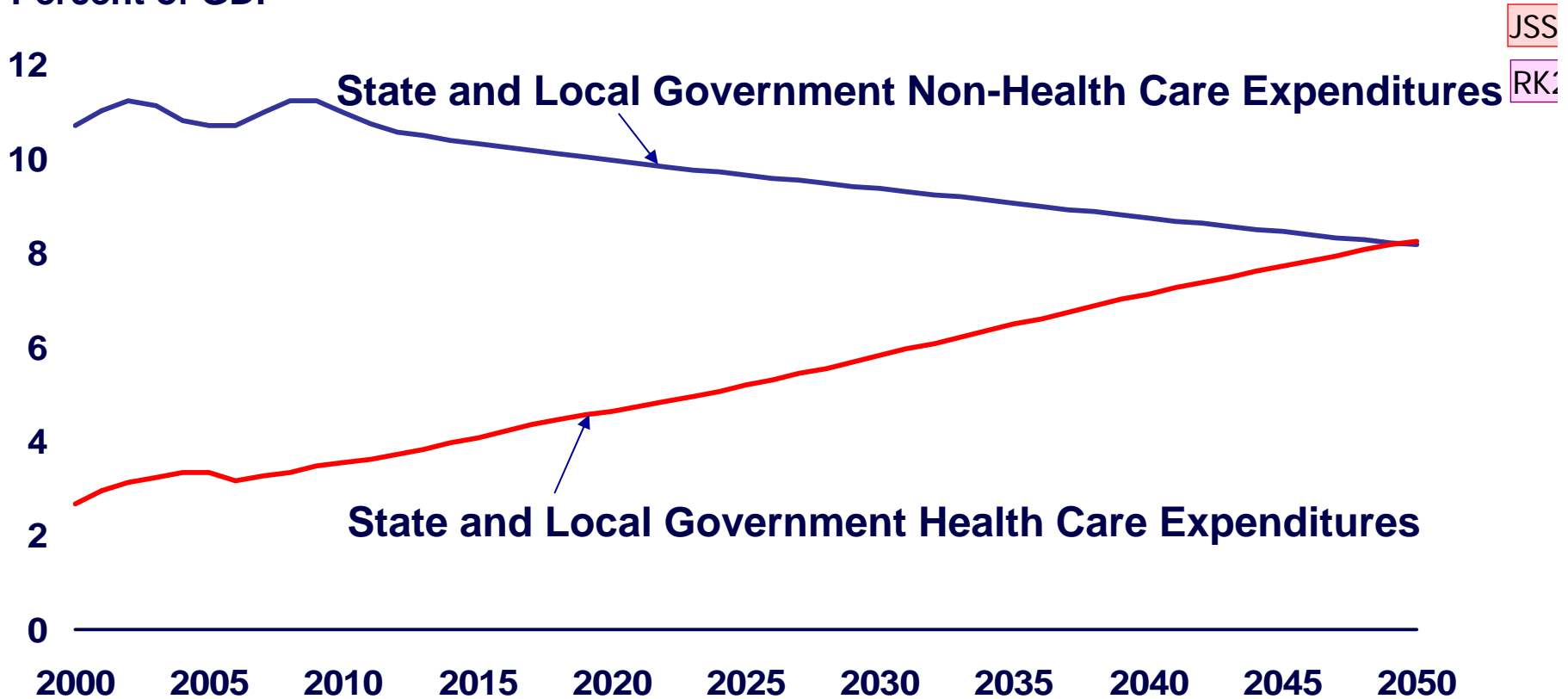
Percent of GDP



Source: Historical data from National Income and Product Accounts. Historical data from 1980 – 2007, Sept. 2008 & January, 2009 GAO projections from 2008 – 2050 using many CBO projections and assumptions, particularly for next 10 years.

State and Local Fiscal Difficulties Are Largely Driven by Rising Health Costs

Percent of GDP



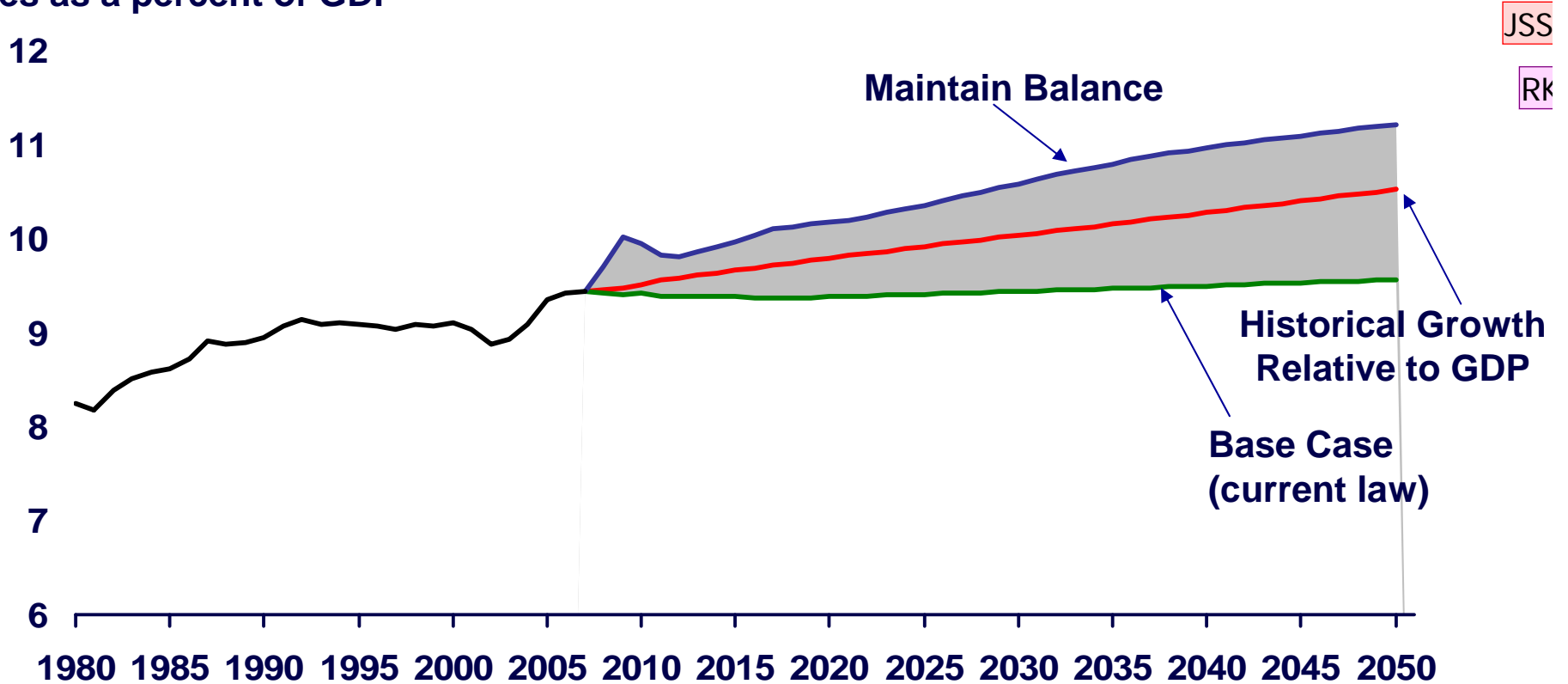
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Source: Historical data from National Income and Product Accounts. Historical data from 2000 – 2007, projections from 2008 – 2050.

Note: Health care expenditures include health care benefits for employees and retirees and medical spending on behalf of individuals, such as Medicaid and SCHIP; Non-Health Care Expenditures include all expenditures with the exception of health care and interest payments.

State and Local Tax Receipts Would Have to Rise Well Above Projections under Current Law to Maintain Balance

Taxes as a percent of GDP



JSS
RK

Source: Historical data from National Income and Product Accounts
 Note: Historical data from 2000 – 2007, projections from 2008 – 2050

The American Recovery and Reinvestment Act of 2009 (Recovery Act)

- Has several provisions that may mitigate the fiscal difficulties that state and local governments are facing
- Provides about \$787 billion in spending and tax provisions:
 - Over \$580 billion in additional spending
 - More than \$280 billion in grants to states (including grants that go through states to individuals)

Purposes of the Recovery Act

1. To preserve and create jobs and promote economic recovery.
2. To assist those most impacted by the recession.
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
4. To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
5. To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services.

Recovery Act Funding for New and Existing Federal Programs

Examples of New Programs

- Spending
 - State Fiscal Stabilization Fund (awards to states for education, public safety, and other government services)
 - Office of the National Coordinator for Health Information Technology
- Tax- “Making Work Pay” tax provision

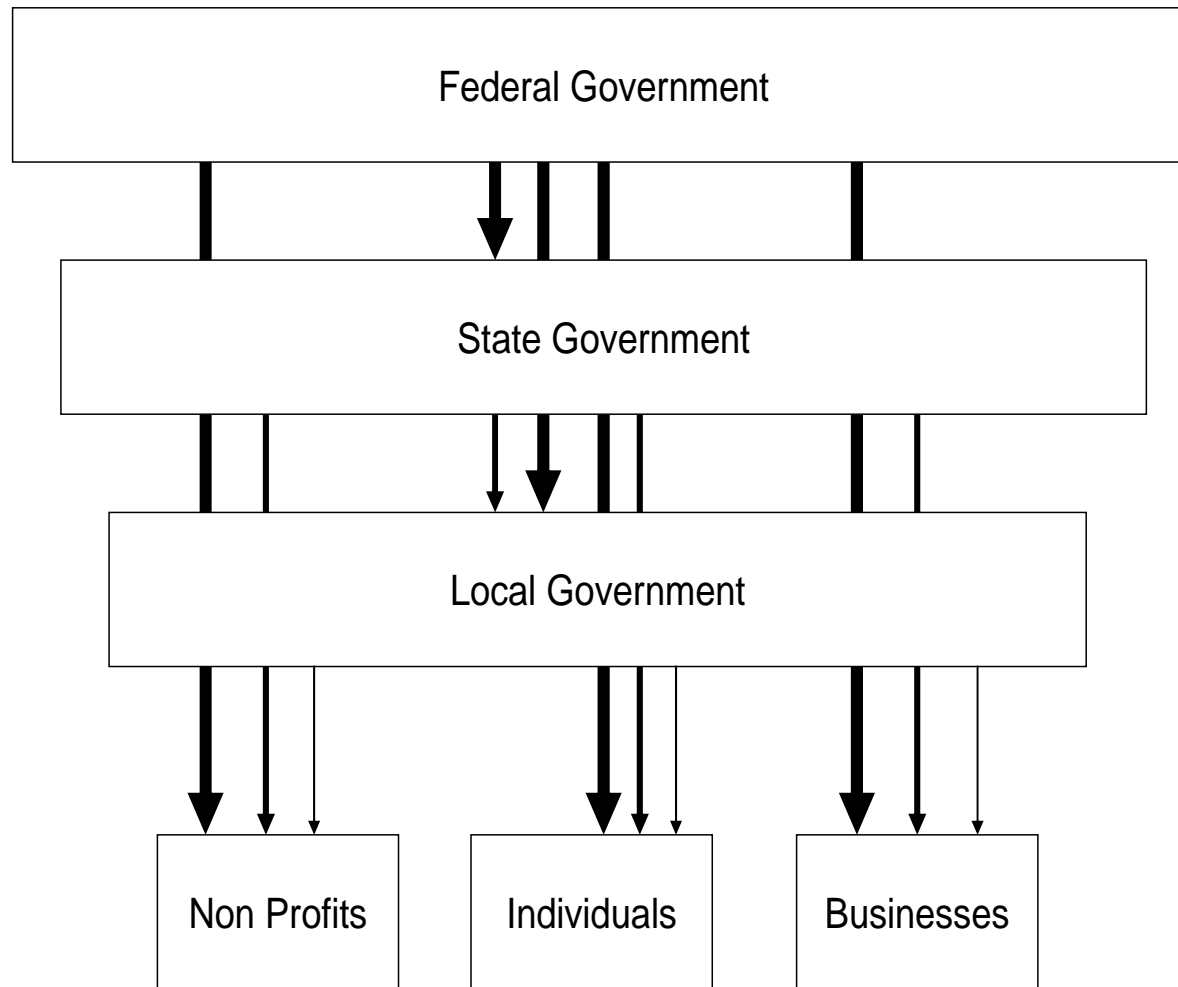
Examples of Supplemental Funding for Existing Programs

- Spending
 - State fiscal relief (Medicaid)
 - Transportation infrastructure projects
 - Student financial aid (Pell grants)
- Tax – temporary increase in earned income tax credit/reduction of marriage penalty

Federal Funding Mechanisms

- Funding will reach recipients through a variety of direct and indirect mechanisms, including:
 - Contracts
 - Grants
 - Fees and direct payments for services
 - Loans and loan guarantees
 - Tax policies

Funding Pathways



Recovery Act Emphasizes Accountability

- Enhanced Transparency
 - Recovery.gov
 - Reporting
 - Federal Agency
 - State and Local Recipients
 - Individual Recipients

Entities Contributing to Reporting Requirements

- Office of Management and Budget
- Recovery Board
- Federal Agency Inspectors General
- Federal Agencies
- Council of Economic Advisors
- Congressional Budget Office (CBO)
- State and Local Auditors
- State, Local, and Individual Recipients
- Government Accountability Office (GAO)

Recovery Act Promotes Enhanced Oversight Role

- Oversight
 - Recovery Board
 - GAO
 - Federal Inspectors General (IG)
 - State and Local Auditors
 - State and Local Governments

Coordination of Oversight Activities

- Coordination of oversight activities
 - GAO has developed a well-coordinated, non-duplicative, risk-based approach
 - GAO has reached out to the Accountability Community and state associations
 - Federal IG's are best able to provide perspective of federal programs/agencies
 - GAO is best positioned to give perspective of federal, state, and local governments' use of funds
 - State auditors provide on-the-ground perspective

GAO's Recovery Act Reporting Strategy

1. Bimonthly reports on State and local use of funds
2. Comment (with CBO) on quarterly recipient reports
3. Short-term reporting requirements, including:
 - Appointments to the Health Information Technology Policy Committee (due within 45 days of signing)
 - Small Business Administration's efforts to increase liquidity in the secondary market for SBA loans (due within 60 days of signing)
4. Longer-term reporting requirements, including:
 - Current and past economic downturns since 1974 and make recommendations for addressing state needs during these periods (due April 2011)

GAO's State and Local Reporting Strategy

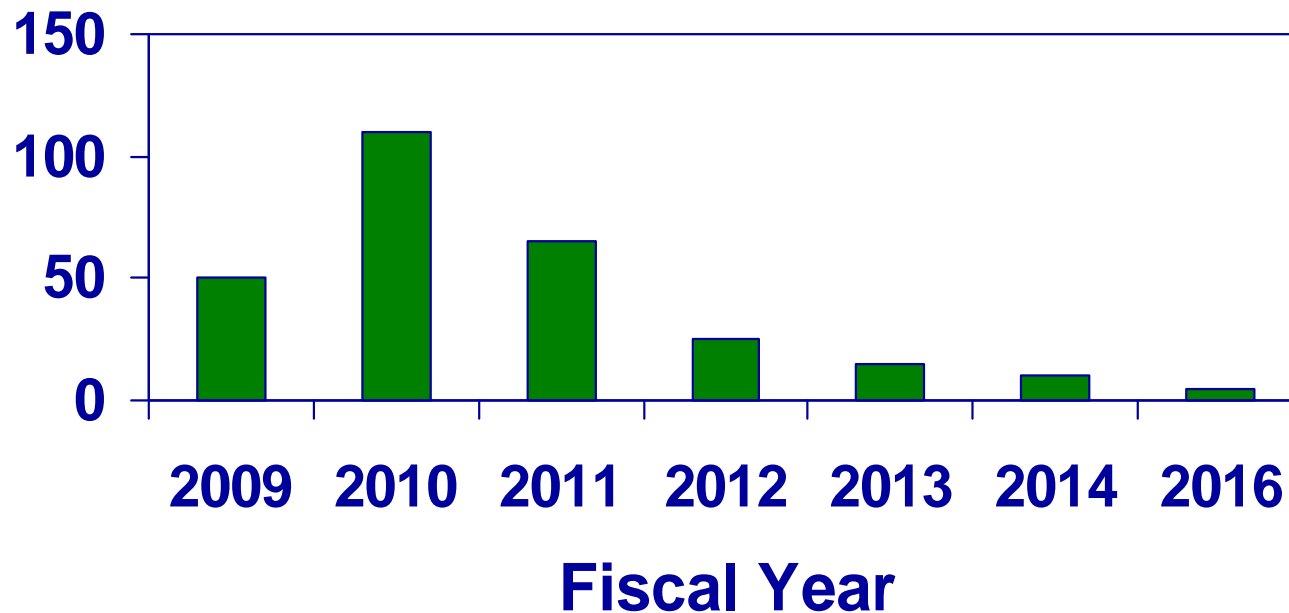
- Recovery Act requires GAO to “conduct bimonthly reviews and prepare reports on such reviews on the use by **selected States and localities** of funds made available in this Act.”
- Strategy
 - *Longitudinal study* of 16 states and the District of Columbia
 - *Selection criteria* based on the stated purposes of the Recovery Act
 - *Additional states* added as other events dictate, including ongoing GAO work
 - *Localities* sampled within selected states
 - *GAO senior executives* to coordinate with each selected state

Reporting Objectives

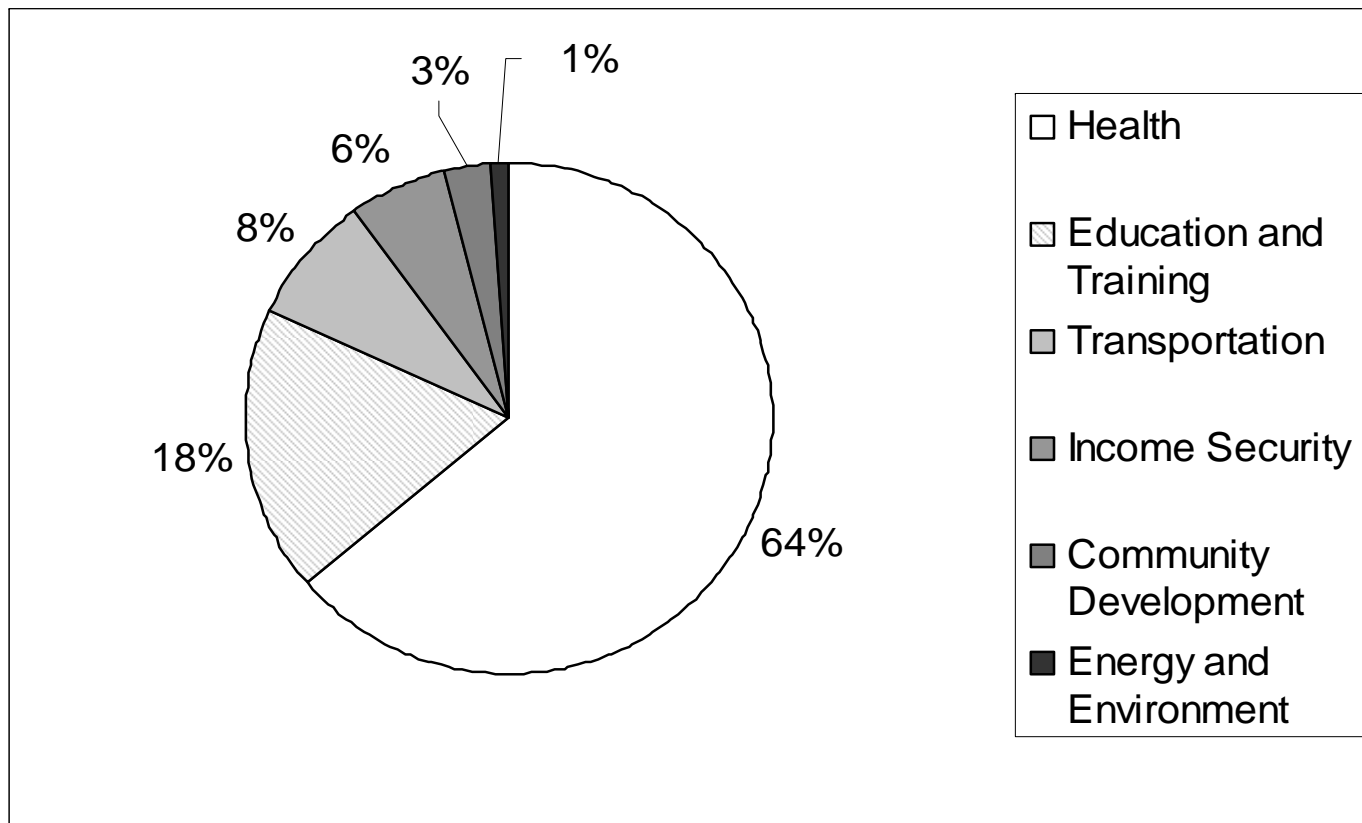
1. What improvements, if any, could be made to OMB's guidance to make it more clear and complete to states and local governments?
2. How are states and localities planning to spend Recovery Act funds and ensure that such spending is consistent with the stated purposes of the act?
3. What up front safeguards (i.e., before the money is spent), as well as ongoing monitoring, audits, and evaluations, do the selected states and localities have or are putting in place to guard against mismanagement and waste, fraud, and abuse?
4. What are the selected states and localities reported uses and plans to evaluate the impact of the funds they have received to date?

Projected Timing of Recovery Act Funds Made Available to States and Localities, by Fiscal Year

Dollars in Billions



Composition of Recovery Act-Supported State and Local Spending Fiscal Year 2009



State Planning and Management

- Governance
- Involvement of Legislature
- Accounting
- Fiscal Condition

State Oversight and Evaluation

- Tools and Mechanisms
- Resources

Recommendations

- Administrative Funding
- Single Audit
- Job Creation
- Communication

GAO Recovery Act Information

- April 2009 Bi-Monthly Report: [GAO-09-580](#)

Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential

- GAO Recovery Act website: <http://www.gao.gov/recovery>