Michigan League FOR Human Services

September 2009

Tracking the American Recovery and Reinvestment Act in Michigan

The American Recovery and Reinvestment Act, also known as the stimulus package, tasks the federal General Accounting Office (GAO) with a range of responsibilities to help promote accountability and transparency and ensure that these funds are used as specified. GAO's responsibilities include:

- *conducting bimonthly reviews on how funds are used by selected states and localities;*
- *reviewing specific areas, such as trade, education, small business, and health care; and*
- *commenting on reports filed by fund recipients.*

GAO's bimonthly reviews focus on 16 states and the District of Columbia, which contain about 65 percent of the U.S. population and are estimated to receive about two-thirds of the intergovernmental federal assistance available through the Recovery Act. Michigan is one of the 16 states under review by the GAO.

The following information is excerpted from a Government Accountability Office (GAO) report issued in July 2009. The full report is 736 pages; the Michigan Appendix is 34 pages. The full report is available at http://www.gao.gov/new.items/d09830sp.pdf. Only selected portions of the Michigan report have been included below. While the nine federal program areas have been referenced below, detailed information on all nine has not been included. This report focuses on social and educational programs. Footnotes have been retained with their original numbering.

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Use of Funds

GAO's work focused on nine selected federal programs, including some targeted for further disbursement to localities. Funds from some of these programs are being targeted to help Michigan stabilize its budget and support local governments, particularly school districts, and the state plans to use some of the funds to expand existing programs, as follows:

Funds Made Available as a Result of Increased Medicaid Federal Medical Assistance Percentage (FMAP)[1]

As of June 29, 2009, Michigan had received about $728 million in increased FMAP grant awards, of which it had drawn down almost $716 million, or 98 percent. Michigan is using funds made available as a result of the increased FMAP to cover the state's increased Medicaid caseload, maintain the program's current populations and avoid cuts to eligibility, and maintain the program's current benefits. Michigan officials reported they are also planning to use the state's general fund dollars freed up by the increased FMAP to help offset the state budget deficits, pending state approval to do so.

U.S. Department of Education State Fiscal Stabilization Fund (SFSF)

As of June 3, 2009, Michigan had received almost $1.1 billion (67 percent) of its total SFSF allocation of $1.6 billion. According to state officials, the state legislature passed a supplemental appropriations bill for SFSF funds on June 25, 2009, that if signed by the Governor will provide authority for obligation of SFSF funds to local education agencies (LEA); as of June 30, 2009, the Governor had not signed the legislation and no funds had been obligated. Michigan plans to use these funds to help fill its budget shortfalls. State education officials said LEAs plan to use SFSF monies to help reduce teacher layoffs and address cuts in state education programs resulting from budget shortfalls. For example, Detroit Public Schools officials said they planned to use their funds to retain teachers and staff and avoid layoffs.

Highway Infrastructure Investment Funds

The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned $847 million in Recovery Act funds to Michigan, of which 30 percent was sub-allocated to metropolitan and other areas. As of June 25, 2009, $421 million had been obligated for projects that could be started quickly involving pavement and bridge improvement. For example, on June 1, 2009, Michigan began a $22 million project on Interstate 196 in Allegan County that involves resurfacing about 7 miles of road. As of June 30, 2009, Michigan has awarded 35 contracts representing about $118.1 million. Two of these contracts have been completed, 28 are to be completed by November 2009, 2 by June 2010, 1 by May 2011, and 2 by June 2012.

Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965

The U.S. Department of Education (Education) awarded Michigan $195 million in Recovery Act ESEA Title I, Part A, funds on April 1, 2009—50 percent of its total allocation of $390 million. According to state education officials, they plan to allocate funds to the state's local education agencies (LEA) on July 1, 2009. Officials in the five LEAs we visited—the public school districts in Detroit, Flint, Grand Rapids, Lansing, and Saginaw—told us they planned to use ESEA Title I Recovery Act funds for activities such as professional development, instructional technology, and tutoring in reading and math.

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[1] Pub. L. No. 111-5, 123 Stat. 115 (February 17, 2009).

Individuals with Disabilities Education Act (IDEA), Parts B and C

Education allocated the first half of the states' IDEA allocations on April 1, 2009, with Michigan receiving $213 million for all IDEA programs. The largest share of IDEA funding was for the Part B school-aged program for children and youth. The state's initial allocation was $7 million for Part B preschool grants, $200 million for Part B grants to states for school-aged children and youth, and $6 million for Part C grants for infants and families for early intervention services. As of June 30, 2009, none of Michigan's LEAs had begun drawing down Recovery Act IDEA funds. These funds will be used to support special education and related services for infants, toddlers, children, and youth with disabilities. For example, the Lansing School District plans to use these funds to enhance teacher's professional development and purchase equipment, among other purposes.

Weatherization Assistance Program

The U.S. Department of Energy (DOE) allocated about $243.4 million in Recovery Act Weatherization funding to Michigan for a 3-year period. Based on information available on June 30, 2009, DOE provided $24 million to Michigan, and Michigan obligated $12.3 million to subgrantees. Michigan plans to begin disbursing funds in July 2009 for weatherizing low-income families' homes and state and federal public housing, and developing an energy-related training center.

Workforce Investment Act Youth Program

The U.S. Department of Labor allotted $74 million to Michigan in Workforce Investment Act (WIA) Youth Program Recovery Act funds. As of June 30, 2009, the state had allocated $62.9 million of these funds to local workforce boards. Michigan plans to spend the majority of its allotment during summer 2009.

Edward Byrne Memorial Justice Assistance Grants

The Department of Justice's Bureau of Justice Assistance awarded $41.2 million directly to Michigan in Recovery Act funding. Based on information available as of June 30, 2009, the Office of Drug Control Policy (ODCP), which administers these grants for the state, had obligated all of the funds of which it retained $1.2 million (3 percent) for administrative costs. Michigan plans to use the grant funds it receives to continue with planned technology enhancements, add several courts that focus on particular areas of crime (such as domestic violence courts), and provide prescription drug abuse awareness programs.

Public Housing Capital Fund

The U.S. Department of Housing and Urban Development (HUD) allocated $53.5 million in Recovery Act funding to the 122 public housing agencies in Michigan. As of June 20, 2009, the public housing agencies had obligated $7.6 million of the funds and had expended $1.1 million. The four housing authorities we visited are using or planning to use this money, which flows directly to public housing authorities, for various capital improvements, including modifying bathrooms, replacing roofs and windows, and adding security features.

Assessing the Effects of Spending

Michigan departments continue to express concern about the lack of clear federal guidance on assessing and reporting on the results of Recovery Act spending. The state has several different initiatives to develop criteria to measure jobs created and retained as a result of Recovery Act spending. As part of preparing for Recovery Act reporting requirements, officials from Michigan's Department of Information Technology are developing a Recovery Act database. State officials said they intend to use the database to track projects and reflect the impact of Recovery Act spending in the state. State officials indicated that additional federal guidance on assessing jobs created and saved as a result of Recovery Act spending would be helpful.

Michigan Is Using Recovery Act Funds to Address Current and Projected Budget Shortfalls

Recovery Act funding has helped Michigan balance its fiscal year 2009 budget, but the state also had to cut its budget to address projected shortfalls. According to the state budget director, the SFSF and enhanced FMAP have been key to helping Michigan meet its constitutional requirement to balance its budget. For example, the state is planning to use general fund dollars freed up by the increased FMAP to help offset budget deficits. In addition, the Governor issued an executive order on May 5, 2009, to cut the state's budget by $349 million in order to reduce budget shortfalls for the remainder of fiscal year 2009. Michigan has cut programs and services, including reducing Medicaid payment rates by 4 percent and reducing revenue sharing to cities, villages, and townships by 10 percent in the last quarter of fiscal year 2009. In addition, 38,000 of the state's 52,000 state employees must take 6 unpaid days off before the end of Michigan's fiscal year (September 30, 2009); the state is expecting to lay off 400 employees (including 100 state troopers); and most state agencies have taken a 4 percent across-the-board cut. State officials said that without the Recovery Act funds, the state would have been forced to make even deeper cuts in its budget, which would have been devastating to Michigan.

Michigan's revenues from all sources have declined. State officials project that fiscal year 2010 revenues will decline by over 20 percent from actual fiscal year 2008 revenue levels.[5] The state's dependence on the auto industry and the bankruptcy of two automobile manufacturers has adversely impacted state revenues. The manufacturers have announced long-term financial strategies that will result in additional factory closures in Michigan and negative impacts on related businesses such as parts suppliers. Even with fiscal year 2009 and planned 2010 budget cuts, Michigan state officials have projected a $1.5 billion budget shortfall for fiscal year 2010. Therefore, to help balance the budget, Michigan expects to spend about $1.5 billion in Recovery Act funds in fiscal year 2010.

State officials also expressed significant concerns about Michigan's fiscal year 2011 budget and the period after the Recovery Act funds run out. The officials said the state will need to make cuts now in order to cushion the impact of not having Recovery Act funds in the next budget. State officials also told us that there has been a continuing focus on diversifying the state's economy and its industries. With the auto industry suffering from unprecedented shortfalls in auto sales and production, the state is looking at other areas where it can stimulate its economy. For example, the Director of Michigan's Economic Recovery Office said that the state has been working to help its manufacturers move into growing sectors including renewable energy and life sciences.

Michigan Plans to Use Funds Available from Increased FMAP to Address Emerging Priorities

Medicaid is a joint federal-state program that finances health care for certain categories of

[5] See *Memorandum to the Members of the Michigan House of Representatives on the Consensus Revenue Agreement*, Michigan House Fiscal Agency (May 19, 2009) that projected a decline in general fund/general purpose revenues.

low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP), which may range from 50 to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through December 31, 2010.[6] On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.[7] Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for: (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

From October 2007 to May 2009, the state's Medicaid enrollment increased from 1,548,181 to 1,683,179, an increase of 8.7 percent.[8] Following enrollment decreases in October and November 2007, enrollment increased gradually from December 2007 to May 2009. Most of the increase in enrollment was attributable to increases in the population group of children and families.

As of June 29, 2009, Michigan had drawn down almost $716 million in increased FMAP grant awards, which is about 98 percent of its awards to date.[9] Michigan officials reported that they are using funds made available as a result of the increased FMAP to cover the state's increased Medicaid caseload, maintain the program's current populations and avoid cuts to eligibility, and maintain the program's current benefits. These officials further reported that they are planning to use these funds to help offset the state budget deficit pending state approval to do so.

Michigan officials highlighted the need to use the funds made available as a result of the increased FMAP to cover the costs associated with a Medicaid caseload that has been increasing notably since the beginning of 2009. State officials also noted that the funds have allowed the state to maintain its current Medicaid program and without them, Michigan would have had to make a dramatic change to the program. In using the increased FMAP, Michigan officials reported that the Medicaid program has incurred additional costs related to the personnel needed to ensure compliance

[6] See Recovery Act, div. B, title V, §5001.

[7] Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for the increased FMAP for Medicaid service expenditures made on or after October 1, 2008.

[8] Michigan projected enrollment for May 2009.

[9] Michigan received increased FMAP grant awards of over $728 million for the first three quarters of federal fiscal year 2009.

with reporting requirements related to the increased FMAP. In addition, the officials noted the possibility that issues associated with implementing a new Medicaid Management Information System, for which phased-in implementation began prior to the enactment of the Recovery Act, could affect the state's ability to maintain eligibility for increased FMAP.

Michigan Plans to Use State Fiscal Stabilization Funds to Maintain State Education Programs

The Recovery Act created a State Fiscal Stabilization Fund (SFSF) to be administered by the U.S. Department of Education (Education). The SFSF provides funds to states to help avoid reductions in education and other essential public services. The initial award of SFSF funding requires each state to submit an application to Education that provides several assurances. These include assurances that the state will meet maintenance-of-effort requirements (or it will be able to comply with waiver provisions) and that it will implement strategies to meet certain educational requirements, including increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. Further, the state applications must contain baseline data that demonstrate the state's current status in each of the assurances. States must allocate 81.8 percent of their SFSF funds to support education (education stabilization funds), and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds). After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to school districts or public Institutions of Higher Education (IHE). When distributing these funds to school districts, states must use their primary education funding formula but maintain discretion in how funds are allocated to public IHEs. In general, school districts maintain broad discretion in how they can use stabilization funds, but states have some ability to direct IHEs in how to use these funds.

As of June 3, 2009, Michigan had received almost $1.1 billion of its total $1.6 billion allocation for SFSF—$873 million for education stabilization and $194 million for government services. According to state officials, the state legislature passed a supplemental appropriations bill for SFSF funds on June 25, 2009 that if signed by the Governor will provide authority for obligation of SFSF funds to LEAs; as of June 30, 2009 the Governor had not signed the legislation and no funds had been obligated. Based on the state's approved application and our discussions with state officials, Michigan plans to allocate 95 percent of the funds to LEAs and 5 percent to IHEs. As of June 30, 2009, the state had not made any of the funds available to LEAs and IHEs. In its application to Education, Michigan provided assurance that the state will meet the maintenance-of-effort requirements. According to the Director of Michigan's Economic Recovery Office, Michigan plans to use the government services portion of the SFSF to offset budget shortfalls in the general fund section of the budget.

Michigan Department of Education (MDE) officials said the LEAs planned to use SFSF funds to help reduce teacher layoffs and address cuts in state education programs resulting from budget shortfalls. For example, Detroit Public Schools officials said they planned to use their SFSF funds to retain teachers and staff and avoid layoffs. As of early June 2009, officials from the five LEAs we visited said they were unsure of the exact amount of SFSF funds they would receive and, as a result, were having difficulty planning how to use these funds in the next school year. Officials in all of the LEAs also said they were concerned that the Governor would decrease the amount of state aid provided to LEAs, which would offset the amount provided to them through SFSF.

MDE officials told us they planned to use $527 million of the total $873 million in education stabilization funds to supplement state education funding for fiscal year 2009, and anticipated using the remaining $346 million to supplement state education funding in fiscal year 2010. The officials said they also planned to use the $194 million in government services funds allocated to Michigan to fund education programs for these years. Officials in the five LEAs we visited echoed these statements and said they would use the funds to retain their daily operations and reduce the amount of any budget cuts.

School Districts in Michigan Will Not Receive Title I, ESEA Part A, Recovery Act Funds Until the State Has Approved Their Applications

The Recovery Act provides new funds to help local school districts educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965. The Recovery Act requires these additional funds to be distributed through states to school districts using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with current statutory and regulatory requirements, and must obligate 85 percent of these funds by September 30, 2010.[13] Education is urging local districts to use the funds in ways that will build their long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers.
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Education allocated the first half of states' ESEA Title I, Part A, allocations on April 1, 2009, with Michigan receiving $195 million of its $390 million. State education officials told us Recovery Act ESEA Title I funds will supplement their regular ESEA Title I funds. Michigan's 840 LEAs will begin receiving ESEA Title I Recovery Act funds on July 1, 2009, and will draw down funds as they incur allowable expenses. The state is using its regular ESEA Title I administrative processes, such as having LEAs apply to the Michigan Department of Education (MDE) showing how they will use the funds, before making the funds available. The LEAs were obtaining input from the schools in their districts regarding the use of the funds to include in the LEAs' applications to MDE, which were due on June 15, 2009.

Officials in the five LEAs we visited—the public school districts in Detroit, Flint, Grand Rapids, Lansing, and Saginaw—told us they planned to use ESEA Title I Recovery Act funds for activities such as professional development, instructional technology, and tutoring in reading and math. In addition, officials in two districts said they plan to provide these funds to high schools that had not previously received them, and one district planned to use them to fund a new preschool program. All of them said they were concerned about not receiving the funds quickly enough

[13] LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A, funds by September 30, 2010, unless granted a waiver, and all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

from the state. For example, district officials in Detroit and Lansing said the time required to obtain required state approval for the use of funds and receive the funds from the state will make it difficult to meet the spending time frames under the Recovery Act.

State and local officials were aware of the Recovery Act's goal of retaining and creating jobs. In guidance provided to LEAs, state officials stressed not funding new positions because of concerns about their sustainability after the Recovery Act funds expire, but they noted that some jobs would be created or saved through extended learning programs such as after-school programs and summer programs. MDE officials said they encouraged LEAs to make strategic investments that will have an impact beyond the life of the Recovery Act funds. Officials in all of the five LEAs we visited told us they were also concerned about choosing activities that could have lasting benefits for their districts.

Officials in two of the five LEAs we visited said they plan to request waivers from either Education's ESEA Title I supplemental educational services requirement[14] or the carryover limitation (the requirement to obligate 85 percent of their funds by September 30, 2010). For example, officials with Detroit Public Schools told us they planned to request a waiver from the carryover limitation because they anticipate not being able to develop all of their plans for using the funds by that date.

Michigan's LEAs Have Begun Using Recovery Act IDEA Parts B and C Funds to Provide Additional Services and Equipment to Special Needs Students

The Recovery Act provides supplemental funding for programs authorized by Parts B and C of the Individuals with Disabilities Education Act (IDEA), the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. Part B includes programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education and Part C programs provide early intervention and related services for infants and toddlers with disabilities or at risk of developing a disability and their families. IDEA funds are allocated to states through three grants—Part B preschool-age, Part B school-age, and Part C grants for infants and families. States were not required to submit an application to Education in order to receive the initial Recovery Act funding for IDEA Parts B and C (50 percent of the total IDEA funding provided in the Recovery Act). States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. All IDEA Recovery Act funds must be used in accordance with IDEA statutory and regulatory requirements. Included in these are: 1) a maintenance-of-effort requirement that state and local expenditures for special education not fall below those of the

[14] Under ESEA Title I, supplemental educational services must be available to students in schools that have not met state targets for increasing student achievement (adequate yearly progress) for 3 or more years. Districts with schools in improvement are required to provide an amount no less than 20 percent of their ESEA Title I, Part A, allocations for supplemental educational services and public school transportation. The term supplemental educational services means tutoring and other supplemental academic enrichment services that are in addition to instruction provided during the school day, specifically designed to increase the academic achievement of eligible students as measured by the state's assessment system, and enable these children to attain proficiency in meeting state academic achievement standards.

previous fiscal year; and 2) a requirement that Part B funds supplement, rather than supplant, state and local funding.

Education allocated the first half of the states' IDEA allocations on April 1, 2009, with Michigan receiving $213 million for all IDEA programs. The largest share of IDEA funding was for the Part B school-aged program for children and youth. The state's initial allocation was:

- $7 million for Part B preschool grants,
- $200 million for Part B grants to states for school-aged children and youth, and
- $6 million for Part C grants for infants and families for early intervention services.

As of June 30, 2009, 73 LEAs in Michigan had submitted their IDEA applications to MDE but none had begun drawing down Recovery Act IDEA funds. MDE officials said they will not require LEAs to follow any additional procedures to receive IDEA Recovery Act funds and that they will provide LEAs with checklists of requirements for their applications. The applications require LEAs to provide information on their organizational structure and additional programs to be provided to students with disabilities through Recovery Act funds. MDE officials also told us that they do not plan to request any waivers of the IDEA requirements for the Recovery Act funds, nor do any of the state's LEAs.

MDE officials and officials in several of the districts we visited expressed a need for more guidance on IDEA Recovery Act funds. District officials noted they need more detailed guidance on Recovery Act accountability and reporting requirements, particularly how to calculate the number of jobs created and retained. Despite wanting additional guidance, state officials said they made presentations to the LEAs throughout the state and posted information on their Web site on the guidance provided to them by Education.

MDE officials told us the LEAs are planning to use the IDEA Part B Recovery Act funds in ways that will benefit students beyond the 2-year time frame for which Recovery Act funds are provided. For example, the officials said they were encouraging LEAs to pursue sustainable options such as enhancing teachers' skills through professional development and purchasing equipment. In addition, district officials in Lansing and Grand Rapids told us they plan to use the funds to place more preschoolers with disabilities in regular classrooms. Officials in Lansing, Grand Rapids, and Detroit said they plan to purchase new equipment and technology with some of the funds. For the IDEA Part C funds, MDE officials told us they had not yet decided how they would use these funds. In addition, MDE officials told us that they do not plan to apply for IDEA Part C incentive grants because they lack sufficient resources to administer them.

Michigan Is Preparing for a Large Increase in the Department of Energy's Weatherization Assistance Program

The Recovery Act appropriated $5 billion for the Weatherization Assistance Program, administered by the U.S. Department of Energy (DOE) through each of the states and the District of Columbia. This funding is a significant addition to the annual appropriations for the weatherization program that have been about $225 million per year in recent years. The program is designed to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes by, for example, installing insulation, sealing leaks around doors and windows, or modernizing heating and air conditioning equipment. During the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. According to DOE, by reducing the utility bills of low-income households instead of offering aid, the Weatherization Assistance Program reduces their dependency by allowing these funds to be spent on more pressing family needs.

DOE allocates weatherization funds among the states and the District of Columbia, using a formula based on low-income households, climate conditions, and residential energy expenditures by low-income households. DOE required each state to submit an application as a basis for providing the first 10 percent of Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved its state plan, which outlines, among other things, its plans for using the weatherization funds and for monitoring and measuring performance. DOE plans to release the final 50 percent of the funding to each state based on the department's progress reviews examining each state's performance in spending its first 50 percent of the funds and the state's compliance with the Recovery Act's reporting and other requirements.

DOE allocated $243.4 million to Michigan in funding for the Recovery Act Weatherization Assistance Program for a 3-year period. This allocation is a significant increase from the past several years. For example, from 2003 to 2008, Michigan received approximately $15 million a year in federal funds for the weatherization program. Michigan's Department of Human Services (DHS) is responsible for administering the program. The Weatherization Assistance Program utilizes 30 Community Action Agencies and two Limited Purpose Agencies to operate the program. DHS received a notice from DOE on April 22, 2009, that Recovery Act funds were available and subsequently received guidance by phone, e-mail, and regional conference calls from DOE on applying for these funds. DHS submitted its application for funding its 2009 Weatherization Program Plan on May 12, 2009. DHS officials told us they expect DOE to verify that the state's plan meets the requirements provided in its guidance, and for DOE to approve the plan within 60 days of the submission date. However, as of June 22, 2009, DOE had not yet approved Michigan's plan. The major issues to be resolved concern guidance on payment of wages under the Davis-Bacon Act and barriers that might arise during the implementation of the program.

On March 27, 2009, DOE provided the initial 10 percent allocation (approximately $24 million) to Michigan. As of June 22, 2009, DHS obligated $12.3 million; however, DHS had not spent any of the funds because DOE had not yet approved the state's plan. DHS officials said they expect to receive an additional 40 percent, or approximately $97 million, shortly after its weatherization plan is approved.

As stated in the plan submitted to DOE for review and approval, DHS's goals include reducing energy usage in each weatherized home by an average of 25 percent; weatherizing at least 32,000 houses; and employing an estimated 1,500 people. Of the total $243.4 million the state will receive for weatherization under the Recovery Act, the planned allocation is $200.8 million for weatherization production, $35.6 million for training and technical assistance, and about $7 million for DHS to cover its costs for program management, oversight, reporting, and administration. Michigan plans to begin disbursing funds in July 2009 for weatherizing low income families' homes and state and federal public housing. In addition, the state plans to use the funds to provide training and technical assistance for the weatherization program.

Michigan Is Using WIA Youth Program Funds to Create Many Summer Employment Opportunities

The Recovery Act provides an additional $1.2 billion in funds nationwide for the Workforce Investment Act (WIA) Youth Program to facilitate the employment and training of youth. The WIA Youth Program is designed to provide low-income in-school and out-of-school youth age 14 to 21, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. The Recovery Act extended eligibility through age 24 for youth receiving services funded by the act. In addition, the Recovery Act provides that, of the WIA Youth performance measures, only the work readiness measure is required to assess the effectiveness of summer only employment for youth served with Recovery Act funds. Within the parameters set forth in federal agency guidance, local areas may determine the methodology for measuring work readiness gains. The program is administered by the Department of Labor and funds are distributed to states based upon a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility to decide how they will use these funds to provide required services. In the conference report accompanying the bill which became the Recovery Act, the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth. Summer employment may include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work-experience component. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines and federal and state wage laws.

Michigan received $74 million in Recovery Act funds for the WIA Youth Program, and after reserving 15 percent for statewide activities, allocated $62.9 million to the 25 Michigan Works! Agencies (MWA)—the local workforce development agencies that administer the programs—for day-to-day program administration. The Department of Energy, Labor and Economic Growth's (DELEG) goal is to spend the majority of its allocation during summer 2009. The department allows MWAs local flexibility when planning summer employment opportunities. For example, local discretion may be applied in determining:

- which of the WIA Youth Program priorities will be addressed;
- whether 12-month follow-ups are required for youth services provided with Recovery Act funds during the summer months only;
- the type of work-readiness assessment and individual service strategy for youth served with Recovery Act funds during the summer months; and
- whether it is appropriate to link academic learning to summer employment opportunities.

According to DELEG officials, all 25 MWAs had received their Recovery Act fund allocations for the WIA Youth Program and had started enrolling youth in their programs. Eligibility requirements for youth served with Recovery Act funds are the same as for the regular WIA Youth Program, with the exception that the maximum age of eligibility for the programs funded by the Recovery Act has been increased to 24 years. The state's

One-Stop Management Information System has been modified in order to more effectively account for the number of participants served using Recovery Act funds.

The state of Michigan, through its 25 MWAs, anticipates serving about 25,500 youth with 2009 Recovery Act funds, compared to about 4,000 served with regular WIA funds during the summer of 2008. We visited the MWAs in Lansing and Detroit and officials provided us the following information on their WIA summer youth programs:

- Lansing's MWA, Capital Area Michigan Works!, was allocated $3.3 million in 2009 Recovery Act funds for its WIA Youth Program and planned to employ over 700 youths in the summer of 2009. In contrast, Lansing spent $43,255 of WIA funding in the summer of 2008 to employ 140 youths. As of June 30, 2009, an estimated 712 youths were employed. All participants were to receive a week of leadership training prior to beginning work on June 22, 2009.

- Detroit's MWA, the Detroit Workforce Development Department, was allocated $11.4 million in 2009 Recovery Act funds for its WIA Youth Program and planned to employ 7,000 youths in the summer of 2009. In its 2008 summer youth program the department spent $3 million to employ 2,900 youths. In addition to WIA Youth Program funds, the Detroit's 2008 summer youth program received $1.55 million from other sources. For the summer of 2009, the goal is to have all youths working by July 6, 2009. As of June 30, 2009, 3,800 youths had completed the pre-employment certification process and an estimated 22 were onboard and working.

Officials in both Lansing and Detroit said they have had no difficulty recruiting sufficient numbers of youth for participation in their summer programs. For example, Detroit received 25,000 applications for its 7,000 jobs.

While DELEG provides overall program guidance, the design, implementation, monitoring, and reporting on the use and accounting for WIA Recovery Act funds is the responsibility of the various MWAs. In both Lansing and Detroit, all summer youth employment activities are contracted out. In Lansing, the MWA is the management and oversight agency for 20 contractors, including one faith-based organization. The Detroit Workforce Development Department has contracted with City Connect, a private nonprofit organization, to recruit youth for employment in its 2009 summer youth program. To date, Detroit's City Connect has identified approximately 4,200 summer jobs at 145 work sites, including a retail pharmacy, the Henry Ford Hospital, the Detroit City Council, Detroit's police and fire departments, and Wayne County Community College District.

Positions in Lansing include jobs with Michigan State University and the Lansing Department of Public Works. Officials at both MWAs were aware of the Recovery Act's emphasis on "green" jobs. Lansing officials explained that it is very difficult to identify significant numbers of green jobs suitable for youths, although they created some green jobs for youths in the Department of Public Works and the School of Agriculture at Michigan State University. In addition, MWA officials in Detroit told us they had developed a task force to address this issue and planned to place 600 youths in green jobs.

DELEG's overall guidance to MWA directors states that they must conduct regular oversight and monitoring of Recovery Act funds in order to ensure that expenditures are made against the appropriate cost categories and within cost limitations. The guidance further states that oversight and monitoring should determine compliance with programmatic, accountability, and transparency requirements of the Recovery Act. To this end, DELEG set up separate accounting codes to track Recovery Act funds. The agency also holds monthly meetings with all 25 MWA directors to encourage reporting of consistent information. Finally, state program officers said they plan to conduct on-site monitoring visits of work sites. Locally, Lansing MWA officials told us they plan to monitor compliance with administrative requirements and controls as well as safety, sexual harassment, adequacy of transportation, and supervision concerns. An official at the Lansing MWA, however, told us he has only four monitors to cover 200 work sites. Detroit MWA officials said they will be using their existing accounting system to account for the use of Recovery Act funds.

Neither DELEG nor local MWA officials expressed any major challenges in planning for implementation of their Recovery Act funded WIA summer youth employment activities. From the state's perspective, its experience with running programs for displaced workers combined with the experience of local MWA directors and early planning has contributed to a smooth transition in planning activities using Recovery Act funds. Lansing officials explained that, for a new program manager, finding staff to monitor program activities could be a challenge because of the limited amount of time available to recruit and employ youths for the summer. Detroit officials said one of its challenges was obtaining City Council approval of its summer youth employment provider—City Connect— which can take several months. The other challenge they cited was having more applicants than available jobs, which has caused them to do much more screening than in previous years. In addition, Detroit's MWA is coordinating with other local service organizations such as United Way of Southeastern Michigan to evaluate the impact of Recovery Act funds on area employment and the benefit to youth. Finally, Detroit officials told us that they plan to hire up to 150 additional staff by June 30, 2009 to monitor their summer youth program work sites.

Assessing the Effects of Recovery Act Spending

Absent timely guidance from the federal Office of Management and Budget (OMB), and from the state, Michigan departments have relied on other resources to develop criteria to measure jobs created and retained for the programs each administers. For example, after DELEG officials worked with a contractor to develop a method of estimating the number of jobs created and retained as a result of the Recovery Act, they received different guidance from DOE on how to provide these estimates. In addition, working with FHWA, on April 3, 2009, MDOT developed guidance and provided notice to all contractors bidding for Recovery Act transportation projects that they will be required to report on the number of jobs created. The company that is awarded the contract must provide the lead engineer a monthly report that includes:

- the total number of employees, including prime contractors, subcontractors, and consultants, who performed work on the contract;
- the total number of hours worked by employees who performed work on the contract; and
- the total wages of employees who performed work on the contract.

MDOT was also developing an automated system, expected to be operational by July 1, 2009, that would allow contractors to input relevant job data directly into a database. At the time of our review, contractors must fill out a form and submit it to MDOT. In addition, MDOT planned to put in place a quality-assurance process for monitoring and assessing the accuracy and completeness of the data reported by contractors. As of June 2009, MDOT officials did not have a time frame for putting this process in place.

Officials from the Michigan Economic Development Corporation told us that estimating jobs created and retained is difficult for several reasons. One of the difficulties in developing these estimates is the difficulty of defining full-time employment. For example, construction work is full-time in certain states, but seasonal in Michigan. Another difficulty is identifying the number of "indirect"[27] jobs associated with the use of Recovery Act funds. Michigan's Department of Information Technology was developing a comprehensive project-tracking database system for Recovery Act reporting requirements, including the source and use of funds. The Michigan Economic Recovery Office issued guidance to state departments on the information they should provide to the office and officials said they intend to test the system in July 2009 in preparation for the first Recovery Act report due from the state to OMB in October 2009. Officials told us that the test is to include some information on jobs created. State agency officials told us that they intend to use this test to assess whether information they are collecting is accurate and meets all federal reporting requirements.

[27] Indirect jobs created include the number of employees associated with increased businesses that provide products or services to employees hired directly through contracts funded through Recovery Act funds.

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