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Chairman Towns, Ranking Member Issa, Members of the Committee, thank you for inviting me to speak to you today about the implementation of the American Recovery and Reinvestment Act.

To understand where we are, it is important to recognize how dangerous a path our economy was on just a few months ago. We are working to come out of the worst economic crisis since the Great Depression. For the fourth quarter of 2008, the United States experienced a negative growth rate of 6.3 percent, the worst since the recession of 1982. Employment fell in every month of 2008. The economy has lost a record 5.7 million jobs over the past year and 6.5 million since the recession began in December 2007. The manufacturing and construction sectors have accounted for nearly half of total job losses.

After a long and unprecedented housing boom, house prices have fallen 11 percent since their peak in April 2007, and, over the same period, residential investment has fallen by more than more than 40 percent.

$9.8 trillion of wealth has been lost in the market. The financial crisis has choked off lending, contributing to further economic decline. And some of our most prominent businesses have closed, merged, or been forced to take drastic steps to stay afloat.

In essence, we are facing a significant gap between what our economy is capable of producing and what it is actually producing. Equal to about $1 trillion in 2009, this output gap is equivalent to roughly seven percent of the estimated potential output of our economy.

In January, when this Congress was sworn in and when the President took the Oath of Office, when we worked in concert to approve the Recovery Act, no one knew the full depth of this recession. Make no mistake, all of us knew the economic situation was bad; none of us expected that it was so terribly off track.

Immediately after taking office, the President and the Congress focused on restoring the demand for goods and services that our economy could produce with its existing capacity as the key to returning the nation to a path of economic growth. Passing the Recovery Act was an important step to provide immediate relief to struggling families, create and save jobs, and jumpstart the economy. Signed just 28 days after the President took office; the Recovery Act is bigger than any comparable effort in American history—amounting to about 2.5 percent of GDP each year for the next two years. By contrast, Federal stimulus during the first year of Franklin Roosevelt's first full year in office amounted to 1.5 percent of GDP and was mostly reversed the next year.

The Recovery Act was crafted to address both the immediacy of this recession and invest in rebuilding our economic foundation. For too long, core infrastructure building blocks have been neglected. As an example, the American Society of Civil Engineers gives the nation's infrastructure a dismal grade of "D," noting the country's failing drinking water systems, crumbling roads and highways, and inland waterways that cannot handle today's capacity.

Add to that crumbling foundation the skyrocketing costs of health care, the inconsistent education in our classrooms, the incredible pressures of global competition, and the overreliance on foreign energy, and it quickly becomes clear that our challenge is more than most of us ever imagined.

Priorities

President Obama has put the economy front and center. Working with Congress, the Administration has stabilized the financial markets and started to see stabilization on housing. We are slowing the economic freefall. As a nation, we are moving from a long period of economic slowdown to a time of new industry, opportunity, and innovation. The Recovery Act is an important part of that effort.

The Recovery Act invests in those things that create jobs now while strengthening the foundation for sustainable economic growth. It also invests in people, providing direct support to families and small businesses struggling to keep ahead of the recession's pressures.

Just this month, eight days into July, the Department of Education is helping states with their increasing budgetary pressures by accelerating more than $2.7 billion in Recovery Act funds well ahead of schedule. The Administration opened competition on more than $15 billion in high-speed rail, smart grid, and broadband programs. All 50 states obligated at least half of their highway funds before the July 1 deadline. As a result, right now, there are more than 1,900 highway projects underway across the country.

An important point on transportation funds: States are routinely receiving low bids for highway and airport construction projects that are 10 to 20 percent and, in some cases, 30 percent lower than expected. These lower bids are allowing states to stretch taxpayer dollars, complete additional projects, and create more jobs.

Also this month, the Department of Energy moved forward with more than $460 million for cutting-edge emission-reduction projects that will be central to the nation's innovative clean-energy future. The Interior Department pressed forward with another $134 million for critical water reclamation projects in the West. The Department of Veterans Affairs completed $500 million in Recovery payments to approximately 1.9 million Veterans and beneficiaries to help them keep pace with their bills. And the EPA released more than $82 million for clean diesel projects throughout the country.

Overall, about 34 percent of Recovery Act funding is being distributed through grants or direct Federal spending by the Federal agencies. Of those funds, about 80 percent are grants. Of these grants, approximately $88 billion are competitive awards and approximately $135 billion are distributed through block or formula-funds to States and localities.

Investments in people are providing immediate help to struggling families.

Approximately 37 percent of the funding is in tax credits and incentives that increase Americans' disposable income and help spur the production of consumer goods and put people back to work.

Tax relief began to appear in Americans' paychecks in April. So far, there has been about $15 billion in tax breaks through the Making Work Pay tax provision that increases 95 percent of working American households' take-home pay. It is anticipated that this tax cut will increase consumer spending on products that they haven't been buying over the past year-and-a-half. Such spending in turn helps to create economic activity that would not have otherwise occurred, and thus stimulate further job growth through a multiplier effect.

Another important piece of the Recovery Act is the change to the First-Time Homebuyers Tax Credit. The Act modifies the credit so it can be used for a down payment or closing costs, helping to stabilize the housing market. To date, nearly 1.1 million new homeowners have claimed the $8,000 credit.

And the Act does more, focusing on improving the skills and abilities of the American people so we can build better products more efficiently and effectively. That means improved schools and teachers, specialized training for green jobs and cutting-edge industries, and financial help for those men and women ready to start their own business.

Helping people also means strengthening the resources available to people who find themselves without work and in need of assistance.

The Recovery Act extends or expands programs like Unemployment Insurance, Social Security Income and FMAP. These programs account for about 29 percent of total Recovery Act funds. They are focused on providing people with a safety net during these difficult times while moving money back into the economy by increasing demand for basic necessities like groceries and medical supplies.

Additionally, recession-related job losses threaten health coverage for many families. To help people maintain coverage, the Recovery Act provides a 65 percent subsidy for COBRA continuation premiums for up to nine months for workers who have been involuntarily terminated and for their families. With COBRA premiums averaging more than $1,000 a month, this assistance is vitally important.

At a time when private sector spending is low, these government investments are creating and saving jobs as well as completing important work that needs to be done.

The Committee undoubtedly will hear from these Governors about the fiscal pressures facing states. They face very difficult choices. A recent analysis by the Center for Budget and Policy Priorities found that the Recovery Act – through these safety-net and fiscal stabilization investments -- is providing states with much-needed relief, reducing the size and extent of budget cuts and closing 30 to 40 percent of state fiscal shortfalls. We will continue to work with states in the months ahead to make sure that we keep our eye on the future – reforming health care and bringing down its cost, investing in health care, and creating new clean energy jobs – so that we can build a new, solid foundation for our children and grandchildren.

Impact

The investments we are making through the Recovery Act are having an impact. They are stimulating the economy, creating jobs, providing aid to hard-hit individuals and communities, and advancing key longer term priorities.

As of June 30, almost $201 billion, or approximately 26 percent, of all Recovery Act funding had been obligated or distributed. This includes $157.7 billion of obligations, representing all major agencies—of which over a third has been outlaid—and $43.2 billion of tax relief.

Improvements to safety-net programs are providing immediate relief to the nation's most vulnerable citizens. For example, 54 million seniors are receiving $250 Social Security payments in the mail, and Veterans are receiving similar payments. States have received more than $21.9 billion in assistance to avoid Medicaid cuts. This accounts for nearly 90 percent of the total amount that was appropriated for the program under the Recovery Act. Last week, the Bureau of Economic Analysis reported that Recovery Act benefits – like the $250 relief payments and the tax credits – boosted personal income by $17 billion in May.

Investments in discretionary programs are creating or saving jobs and improving communities. For example, 40 states have now qualified for their share of the $44 billion in State Fiscal Stabilization Funds under the Recovery Act, an investment that is expected to create or save hundreds of thousands of education-related jobs.

Since April, Recovery Act tax cuts and spending program increases have contributed to increases in real disposable personal income (DPI). DPI increased by 1.6 percent in May and 1.2 percent in April, after decreasing in February and stagnating in March. According to the Bureau of Economic Analysis, the May change in DPI was boosted by the Recovery Act provisions that reduced taxes and increased government social benefit payments. Absent these factors, BEA estimates that DPI would have increased by just 0.2 percent in May, and 0.9 percent in April. Real Personal Consumption Expenditures also increased slightly in May, after stagnating or declining in all months since February.

Further, the Recovery Act is making significant resources available to States that are struggling during these difficult economic times. Since almost all States have to balance their fiscal budgets, even in the face of recession, 40 have cut benefits and services, 28 have raised taxes, and more are considering both measures. These actions deepen the impact of the downturn, but the cuts and tax increases would have had to be much larger without the Recovery Act.

There is clear evidence that these investments are helping States to weather this recession. As outlined in the GAO report released today, Recovery Act funding has relieved pressure on state budgets, allowing them to provide better service and avoid job cuts. States reported that because of the Recovery Act, they were able to maintain current Medicaid benefits and eligibility levels and meet the rising level of need. School district officials reported that the State Fiscal Stabilization Fund (SFSF) would offset budget cuts so that they could maintain staffing levels.

The New York City School district estimated that this would save approximately 14,000 jobs. In California, the SFSF is helping to keep college more affordable by enabling the State to raise tuition by 9.2 percent instead of 26 percent.

Last week's report on the employment situation made it clear that we face important challenges as we work to end this severe recession. But, the fact that leading indicators, such as building permits, orders for advanced durable goods, and measures of consumer confidence, have turned upward is an encouraging sign that the Recovery Act and our programs to stabilize the housing sector and financial markets are having a positive impact. Both the Administration's estimates and those of private forecasters suggest that the impact of the Recovery Act will increase substantially over time, and will move from leading indicators to genuine economic expansion and crucial job creation.

Implementation

To maximize the effectiveness of the Recovery Act, it is crucial that all levels of government take extraordinary measures to implement its programs quickly yet wisely.

From the moment that the President signed the Recovery Act, he stressed the great responsibility that comes with implementing a recovery package of this size, and that all levels of government would be held accountable for the results. The Act is an unprecedented response to a record recession; similarly, the transparency and oversight involved are also unprecedented.

Both the President and Congress have been active in assembling a strong leadership structure for Recovery Act implementation. Within a week of signing the Act, the President designated Vice President Biden to coordinate the Federal response to the Act. The Vice President's office—together with OMB—has set up a Recovery Act implementation team, and Vice President Biden is regularly engaged with their efforts. Since February 11, the Vice President has participated in over 40 events, cabinet meetings, and conference calls related to the Recovery Act.

In order to develop a structure for creating transparency and accountability, there are a number of other entities that play critical roles in Recovery Act implementation.

Within the Act, Congress established the independent Recovery Accountability and Transparency Board—which is chaired by Earl Devaney and includes 12 Federal inspectors general. The Board is responsible for coordinating and conducting oversight of Recovery Act funds to prevent fraud, waste, and abuse. It is tasked with producing quarterly and annual reports on the use of Recovery Act funds. It also makes recommendations to agencies about how they can spend money better. Pursuant to the requirements of the Act, the Board also maintains Recovery.gov, which is designed to make information about Recovery Act spending available to the public to provide greater accountability and transparency. The Administration initially launched the website on the day that the Act was signed and the Board was established. However, the Board now has full control over website and makes all decisions with respect to what content is included and how it is displayed.

In addition to the Vice President and the Board, the responsibility for oversight and implementation is a shared responsibility of Federal, State, and local governments. To name a few:

- The Government Accountability Office (GAO) is tasked with a range of responsibilities including conducting bimonthly reviews on how funds are used by select States and localities; reviewing certain areas like education, small business and health care; and commenting on recipient funding reports.

- The Council on Economic Advisers (CEA), in consultation with OMB and the Treasury Department, submits quarterly reports to the House and Senate Appropriations committees on the impact that Recovery Act programs are having on employment, estimated economic growth, and other key economic indicators.

- The Congressional Budget Office (CBO), along with GAO, will provide comments on quarterly reports within 45 days of their submission.

- The inspectors general for Federal departments and agencies conduct audits and respond to the public's concerns about the use of Recovery Act funds.

- The Federal agencies themselves are responsible for producing detailed spend plans, reporting on their specific programs, and have the principal responsibility for executing those programs. They do all of this in close partnership with the State and local governments who receive funding for most discretionary programs and are responsible for executing them at the ground level.

- Almost all states have appointed Recovery Coordinators who communicate regularly with the Administration about reporting guidance and other significant issues.

Role of OMB

The role of the Office of Management and Budget is to coordinate the "nuts and bolts" of Recovery Act implementation within the Executive branch and make sure that these implementation efforts are consistent with the Act's mission and the President's priorities.

We work closely with the agencies to oversee their progress on Recovery Act implementation — from planning, to implementation, to audit and evaluation. In practice, this means everything from designating officials within agencies to be accountable for Recovery Act implementation, to reviewing agency Recovery plans and projects, to coordinating the technology and processes for collecting data.

One of our principal responsibilities is to uphold the President and Congress' commitment to the American people that the Recovery Act be implemented with an unprecedented level of transparency and accountability. Section 1512 of the Recovery Act holds recipients of Recovery Act funding accountable for reporting data with greater detail and speed than ever before.

Section 1512 requires that within 10 days of the end of each quarter (beginning in October 2009), all recipients of Recovery Act funds submit reports to the agencies from which they received funds. Those reports are to be published by the Recovery Board within 30 days of each quarter's end. By law, these reports require recipients across the nation to publicly present new information on how dollars are being spent, including:

- The total amount of recovery funds received from the agency;

- The amount of recovery funds received that were expended or obligated to projects or activities; and

- A detailed list of all projects or activities for which recovery funds were expended or obligated, including the name of the project or activity, description, and an evaluation of its completion status, an estimate of the number of jobs created and retained, a rationale for cases of infrastructure investments, and detailed information on any subcontracts or sub-grants awarded by the recipient (aggregate reporting is allowed on awards below $25,000).

To initiate these reporting requirements, OMB has released three rounds of implementing guidance. The first was issued just one day after the President signed the Recovery Act. From the very beginning, our guidance has called on agencies to go beyond standard operating procedures and recognize the need for an unprecedented degree of transparency. We have consistently asked for information beyond what is required by the Recovery Act itself in order to uphold the President's commitment to the American people.

While the Recovery Act does not require full and comprehensive financial reporting or name a specific date at which reporting must begin, we wanted to have information as soon as possible. Our initial implementing guidance established a financial reporting system effective immediately that was more comprehensive than that mandated by law. We asked agencies to report their total obligations and outlays, and their block grant allocations, and major communications each week. In order to make sure that agencies were distinguishing Recovery Act dollars from other funds, we required unique Treasury appropriation fund symbols in agency financial systems that would clearly identify Recovery Act dollars to anyone looking at the data. Much of the data that is currently available on Recovery.gov was collected because of the financial reporting requirements that were included in OMB's initial guidance.

As we worked to achieve unprecedented levels of disclosure, it quickly became clear that there was a huge public demand for this information. Recovery.gov received 3,000 hits per second the day it was launched and more than 150 million hits by early March. In early April, we responded to the public appetite for more information in our second round of guidance, which asked agencies to provide "significant" funding announcements to OMB as they occur in order to provide a better "real-time" sense of what projects are being funded, where they are, and how much funding they are receiving.

This round of guidance also took a forward-looking approach by beginning preparations for meeting the October 10 funding disclosure deadline. The guidance provided details on the recipient reporting requirements that would begin at this time and established standard data-definitions, as well as standardized Terms and Conditions for Federal grants, loans, contracts, and other awards. The guidance also announced for the first time that OMB and the Recovery Board would oversee the development of a centralized technological platform to streamline the process through which data is collected and made available to the Recovery Board for publication on Recovery.gov.

Finally, we used this round of guidance to underscore the importance of facilitating an open discussion with the American people about the implementation of the Recovery Act by establishing a “comment period” that allowed the public to provide additional input and feedback on our guidance. We have taken this feedback seriously, as is reflected in our third and most recent round of guidance, issued on June 22.

This latest guidance further clarifies the reporting process as we approach the October 10 deadline and addresses continued demand for more information. On the technology front, the guidance includes a clear overview of how the central reporting platform—Federalreporting.gov—will function, and what this will require of recipients.

The guidance explains that, by October 10, recipients will be required to report on project descriptions, the status of funds, job creation, and sub-recipient information, as established by Section 1512 of the Recovery Act. It also includes detailed information on each of these elements, focusing on specific areas where we know particular public concern exists.

For example, since the Recovery Act became law, uncertainty has remained about the methodology for counting the number of jobs that have been created or retained. The new guidance gives primary Recovery funding recipients’ two options to report on the jobs that they are creating or saving. 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. Funding departments and agencies will provide instructions on the standards for implementing this method.

In addition to meeting the data elements required by Section 1512, OMB also responded to public desire in expanding the depth of reporting requirements on Recovery Act expenditures. 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 to help with a project 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 dollars down to the local entities and their vendors. This level of visibility has never before been available to the public on grants.

For federal contracts, the prime contractor has the primary responsibility for collecting and reporting information on the use of Recovery funding, including significant products or services provided, totals for invoices submitted to the government, and specific information on the prime's subcontracts. Required subcontract information includes subcontractor name, location, dollar value of the subcontract, and products or services to be provided. Once again, OMB's guidance goes beyond the transparency requirements included in the Recovery Act and also requires compensation information from prime contractors. This information will be available to the public for the first time in October.

The OMB analysis shows that, for about 95 percent of Recovery Act dollars subject to reporting requirements, data on prime recipients and sub-recipients will capture virtually all critical spending information. This means that most of the significant spending on projects and activities will be initiated by the either the prime recipient or sub-recipient. For example, in transportation and energy programs, the prime recipient (i.e., state) or that prime recipient's sub-recipient (i.e., local municipality) will do most of the actual spending (to pay contractors or vendors) for projects funded by Recovery dollars. In these program areas, our analysis has determined that the existence of a second tier sub-recipient (i.e., a lower-level municipality receiving funds from a sub-recipient) doing any significant spending of Recovery dollars will be limited.

Part of OMB's job in determining the scope of reporting requirements is help maintain an appropriate balance between gathering information and creating undue burden. When adding specific data elements, it is critical to weigh the potential benefit of specific information against the burden that collecting it would place on recipients.

There is a rigorous process of assessment before making these kinds of decisions. For example, prior to adding the vendor data requirements into our most recent guidance, OMB vetted the concept with recipients, the Recovery Board, and GAO. Together, we determined that it was feasible to require prime recipients to report on vendor identity, purchase amount, and purchase description. Likewise, we determined that more planning and outreach would be necessary before extending similar requirements to smaller sub-recipients, and so we required that they report only on vendor identity.

Responsiveness

The Administration will continue to monitor progress and work with agencies to improve our processes for data collection. We've shown ourselves to be responsive to concerns raised by Agencies, States and localities, members of Congress, and the public.

As noted in the GAO report issued this week, OMB has worked very closely with a broad array of stakeholders on the development of guidance materials and each policy we have issued reflects critical input from the public. Specifically, OMB's regular communications with groups like the National Governors' Association and the National Conference of State Legislatures have informed our guidance. In addition, we hold weekly conference calls with groups representing State Auditors, Comptrollers, Treasurers, CIOs, and Budget and Procurement officers. Representatives from OMB have also participated in the National State Auditors Association Conference, the National Association of State Treasurers Conference, and the Association of

Government Accountants Conference. OMB has also held “town hall” meetings with representatives from agencies, States, and localities.

In short, we listen to feedback. We view ourselves as being part of an ongoing conversation with Agencies, States and localities, and the American people, and we look forward to their continued feedback over the coming weeks and months.

As we approach the October 10 reporting deadline and beyond, we will continue to focus on exactly this sort of self-assessment. We will actively solicit feedback and think about how to perfect the reporting process so that we can get the best information possible while avoiding placing excessive burdens on recipients.

Between now and the deadline, we are running trials on FederalReporting.gov to make sure that it will operate smoothly during the upcoming data collection period, while also working closely with the Recovery Board to plan a series of seminars to train agencies and recipients about how to use this new technology. We have already begun to explore options for expanding the system so that if we do decide that any additional data elements are necessary, we will be able to implement those changes efficiently.

After October 10, we will conduct aggressive outreach and fact-finding to see how the process is working for recipients so that we can help them troubleshoot and determine whether there is a need to collect further data elements and a capacity to do so without taxing the system beyond the point that is productive.

We are committed to undertaking a thorough analysis of burden before making further decisions. In doing this analysis, we will consult Congress to help us understand the nature of the reporting burden at the local level, its potential impact, and strategies for overcoming these hurdles so that critical spending data can be made available to the public.

Next Steps

Perfecting our reporting requirements and data collection will feature prominently in our efforts over the next two to three months. These are important steps that we have to take in order to live up to the President’s promise of transparency and accountability. However, we need to do so without losing sight of 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.

We have accomplished a lot in a short time, but we still have a long way to go, and we need to steadily increase the pace of our Recovery Act work. The President and the Vice President have outlined an aggressive agenda for the next two-to-three months with the goal of creating or saving hundreds of thousands of jobs by the time that the second “hundred days” of the Recovery Act are completed.

As we move forward into the summer and the final months of the fiscal year, we need to continue to balance the conflicting pressures of speed, quality, and accountability. We are committed to doing what it takes to sustain that balance, implement the Recovery Act effectively, and help overcome this recession and make progress towards long-term prosperity.

Is any of this easy? No. Is our work complete? Not even close. But are we on the right path? Yes, without question.

The President is not satisfied -- and will not be satisfied -- until we are adding jobs again, providing Americans with the dignity of a job and a dependable income, and ensuring that everyone who wants to can get to the middle class and stay there. That's why we will continue to do whatever is necessary to put Americans back to work.

Mr. Chairman, we know that, in times of past economic crisis, the government did not make the solutions. Rather, government gave the American people the tools to fix what was broken. Government catalyzed private enterprise. Government energized people and opportunity. That is what we are working to accomplish again today.

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