

December 2009

RECOVERY ACT

Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Michigan)



GAO

Accountability * Integrity * Reliability

Appendix X: Michigan

Overview

This appendix summarizes GAO's work on the fourth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Michigan. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

What We Did

We reviewed three program areas funded under the Recovery Act: Highway Infrastructure Investment, the Weatherization Assistance Program, and Education. We selected these program areas because they had a number of risk factors, including the receipt of significant amounts of Recovery Act funds or a substantial increase in funding from previous years' levels. These programs also provided an opportunity for us to consider the design of internal controls over program activities. Our work focused on the status of the program areas' funding, how funds are being used, safeguards and controls, and issues specific to each program. Our review of the Highway Infrastructure Investment program included a site visit to the largest Recovery Act-funded highway project in the state. As part of our review of the Weatherization Assistance Program, we visited two local agencies that had begun weatherization work—one in Jackson and another in Pontiac. Additionally, for Education, we surveyed a nationally representative sample of local educational agencies (LEA) to obtain information about their use of Recovery Act funds for three education programs. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-232SP](#).

To gain an understanding of the state's experience in meeting Recovery Act reporting requirements, we discussed the reporting process with officials at Michigan's Economic Recovery Office (ERO), Michigan's Department of Transportation (MDOT), the state's Department of Human Services (DHS), two transportation vendors, and two local agencies that conduct weatherization work.

We also monitored the state's fiscal situation and visited three Michigan localities to assess the economic challenges they faced and the Recovery Act's impact on these communities. We met with state budget officials and visited the cities of Flint and Royal Oak, as well as Allegan County, where we met with city and county officials. We selected these communities because they represented rural, urban, and suburban areas with a variety of unemployment rates and population sizes.

What We Found

- **Highway Infrastructure Investment Funds.** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned \$847 million in Recovery Act funds to Michigan. As of October 31, 2009, the federal government had obligated \$707 million to Michigan—most of which was for highway pavement improvement projects—and reimbursed \$142 million. Michigan has adapted its existing internal controls to oversee and monitor Recovery Act-funded projects. State officials told us contracts generally have been awarded for less than the original official estimates, and that excess funds are being used to fund additional projects.
- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) obligated \$243.4 million to Michigan for weatherization activities under the Recovery Act but it has limited the state's access to 50 percent of these funds. As of September 30, 2009, DHS had obligated \$198.7 million to 32 local agencies with the goal of weatherizing approximately 33,000 units by March 31, 2012. DHS officials told us program expenditures and reimbursements to local agencies totaled \$5.3 million through September 30, 2009. Michigan officials told us they use existing internal controls to oversee and monitor the weatherization program and have increased the number of monitors and other oversight staff to address the increased volume for this program. Officials from the two local agencies we visited told us they are also using existing safeguards and plan to increase the scope of their oversight activities for weatherization projects. DHS officials told us Michigan's Recovery Act-funded weatherization work was delayed until the prevailing wage rates required under the Davis-Bacon Act¹ were established by the U.S. Department of Labor for weatherization work. According to state officials, as of October 29, 2009, 9 of Michigan's 32 local agencies had begun conducting weatherization work, and they estimated that 287 units had been weatherized as of October 31, 2009.
- **Education.** The U.S. Department of Education (Education) allocated \$1.592 billion in State Fiscal Stabilization Fund (SFSF) monies to Michigan, of which \$1.302 billion are education stabilization funds and \$290 billion are government services funds. In addition, Michigan was allocated \$390 million for Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended, and \$414 million for Parts B and C of the Individuals with Disabilities Education

¹40 U.S.C. §§ 3141-3148.

Act (IDEA), as amended. An estimated 87 percent of Michigan's 97 LEAs that responded to the survey reported that they planned to use more than half of their SFSF allocation to retain staff; however, an estimated 45 percent of Michigan LEAs told us they anticipated job losses even with the SFSF allocation.

- **Recipient reporting.** State officials told us that the state met the October 10, 2009, deadline for reporting information to the federal government on the use of Recovery Act funds and on jobs created and retained through September 30, 2009. State officials and vendors said they experienced some challenges in preparing and submitting Recovery Act reports but did not identify any significant problems. State officials told us they used a centralized reporting process wherein each state agency receiving Recovery Act funds is required to report quarterly to the ERO on a number of measures—including the use of funds and estimates of the number of jobs created and retained—and in turn the ERO submits this information to the federal government.
- **State and local government's fiscal condition and use of Recovery Act funds.** Michigan continues to experience rising unemployment and declining tax revenues, and its fiscal year 2010 budget addresses projected shortfalls with a mix of spending cuts and Recovery Act funds. State officials expressed grave concern about the state's long-term budget outlook, when the shortfalls are expected to continue and little or no Recovery Act funds will be available. According to local government officials, Recovery Act funds awarded through the Community Oriented Policing Services (COPS) Hiring Recovery Program and the Energy Efficiency Conservation Block Grant (EECBG) will be used to restore police officer positions and to increase the efficiency of city buildings. Local officials told us Recovery Act-funded programs are having minimal or no effect on local budgets. Local officials also told us they have experienced some challenges, such as identifying federal grant programs appropriate for their localities.

Michigan Is Using Recovery Act Funds for Many Highway Projects

As we reported in September 2009, FHWA apportioned \$847 million to Michigan in March 2009 for highway infrastructure and other eligible projects. As of October 31, 2009, Michigan had obligated \$707 million—83 percent of the funds²—and \$142 million had been reimbursed by the federal government.³

The Majority of Funds Obligated in Michigan Are for Highway Pavement Projects

As of October 31, 2009, about \$430 million of the \$707 million of Recovery Act highway funds obligated—61 percent—were used for pavement improvement projects such as resurfacing and rehabilitating roads. As we reported in September 2009, MDOT selected mostly pavement projects because the primary focus of Michigan’s capital improvement plan for highways has been maintaining existing roads and bridges, and improving pavement conditions. An additional 19 percent of Michigan’s obligated Recovery Act highway funds were for pavement widening, including the largest Recovery Act-funded project in the state.

As of October 31, 2009, Michigan had awarded 222 contracts for highway projects, work had begun on 172 contracts, and 15 contracts had been completed. MDOT officials told us contracts for Recovery Act projects have been awarded for less than the amounts officially estimated when the funds were obligated, due in part to increased competition among contractors. The officials said that they qualified about 130 new contractors for MDOT work from January to October 2009—and attributed this increased interest to decreased work in the private sector. MDOT officials also told us that as of October 19, 2009, they had identified an estimated \$106 million of excess funds from the lower bids. They said they requested that FHWA deobligate these funds in order to fund additional projects and, as of October 19, 2009, FHWA had obligated funds for 19 additional highway projects totaling \$33 million.

²For the Highway Infrastructure Investment Program, the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government’s commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

³States request reimbursement from FHWA on an ongoing basis as the state makes payments to contractors working on approved projects.

Michigan Uses Its Existing Contracting Procedures and Internal Controls to Award and Oversee Recovery Act Contracts

MDOT is using its existing procedures and internal controls to award and oversee highway contracts using Recovery Act funds. We reviewed two contracts for locally administered pavement improvement projects. According to MDOT officials, these two contracts were awarded competitively to prequalified contractors using its existing contracting procedures that, among other things, require contractors to be prequalified by MDOT before bidding on any contracts. MDOT also checks to determine that the contractors have not been suspended or debarred.⁴ Consistent with internal controls in place prior to receiving Recovery Act funds, MDOT assigned contract oversight personnel to these projects. In addition, MDOT officials told us they adapted their existing procedures to monitor these contracts once the projects had begun.

The first contract we reviewed—a fixed-price \$55.7 million pavement-widening project on M-59 in an economically distressed area near Detroit—is the largest Recovery Act-funded highway project in Michigan. MDOT awarded this contract in July 2009 and officials told us the work began in August 2009 and is scheduled to be completed by September 2012. An MDOT official told us that, as of November 3, 2009, this project was about 20 percent complete and most of the work will be completed by December 2010. Figure 1 shows the work that was underway on M-59 at the time of our visit. The second contract we reviewed was a fixed-price \$621,392 pavement improvement project on I-94 in an economically distressed area outside Ann Arbor. MDOT awarded this contract in August 2009 and, according to the officials, it was completed November 2, 2009.

⁴According to state officials, MDOT can debar a contractor if (1) the contractor has been debarred by the federal government and is on the debarment list posted on a federal Web site maintained by the General Services Administration (<https://www.epls.gov>) that lists contractors excluded from receiving federal contracts and certain subcontracts, or (2) the contractor has serious performance issues, such as felony convictions, work performance and safety issues, or contract violations.

Figure 1: Recovery Act-Funded Pavement-Widening Project on M-59 near Detroit



Source: GAO.

MDOT officials told us their oversight procedures for monitoring these projects include steps for monitoring contractor performance, safety, and quality. Further, MDOT monitors the projects over time for adherence to the contract schedule and the original contract budget. Additionally, officials told us they hold biweekly meetings with contractors to discuss construction progress and all issues involving quality.

Weatherization Work Has Begun, but Few Projects Have Been Completed

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which DOE is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent over a 3-year period. This program enables low income families to reduce their utility bills by making long-term energy efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.

DOE obligated \$243.4 million in Recovery Act funds to Michigan for its Weatherization Assistance Program, but it has limited the state's access to

50 percent of these funds until 30 percent of the housing units in the state's plan have been weatherized, at which time it plans to make the remaining funds available. As of September 30, 2009, DHS, the state agency responsible for administering the state's Weatherization Assistance Program, had obligated \$198.7 million to its network of 32 local agencies. The majority of agencies (27) use contractors to perform the work, while a handful use their own staff or a combination of their staff and contractor personnel. DHS officials told us that, as of October 29, 2009, 9 of its 32 agencies had begun conducting weatherization work. DHS officials told us program expenditures and reimbursements to local agencies totaled \$5.3 million through September 30, 2009. DHS estimated that its local agencies had weatherized 287 units as of October 31, 2009.

Michigan's Weatherization Work Was Delayed Until Prevailing Wage Rates Were Established Under the Davis-Bacon Act

DHS officials told us Michigan's Recovery Act-funded weatherization work was delayed due to a requirement to establish prevailing wage rates for this work under the Davis-Bacon Act. In prior years, the Weatherization Assistance Program funded through annual appropriations was not subject to the requirements of the Davis-Bacon Act, but the Recovery Act required it to be applied to all programs. State and local officials stated that local agencies did not solicit contractors for weatherization work under the Recovery Act until they received these wage rates, which were established by the U.S. Department of Labor on August 14, 2009.

Officials at DHS and the two local agencies we visited told us preparatory actions taken by Michigan's agencies positioned them to quickly begin weatherization work once the wage rates were established. These actions included determining the eligibility of applicants, conducting pre-inspections of homes, and hiring new staff.⁵ DHS officials also told us that, despite the delayed start of the weatherization work, they expect to meet their statewide goal of weatherizing 33,410 units by March 31, 2012.

⁵Other actions included conducting energy audits, purchasing materials and equipment, establishing new accounts for Recovery Act funds, and providing training to inspectors and other staff.

Concerns about Compliance with the National Historic Preservation Act Have Been Resolved

In August 2009, DOE notified DHS officials that a review under the National Historic Preservation Act⁶ was required of properties that would be weatherized under the Recovery Act-funded Weatherization Assistance Program. DHS officials initially told us that an estimated 90 percent of the homes to be weatherized would need such a review, which could cause a significant delay in the state’s weatherization work.

DHS and the State Historic Preservation Office executed an interagency agreement on November 18, 2009, that details the process for conducting these reviews, including the conditions under which such reviews are required and, to the extent permissible under applicable laws and regulations, allowing the process to be expedited. With this agreement in place, state officials said they are confident that the historic preservation requirements can be met without causing further delays.

Some Weatherization Work Has Been Completed

We visited two agencies and four homes where weatherization work was either in progress or had been completed. At one agency, 17 units had been weatherized and work at 67 units was in progress. At the other agency, work was in progress on 35 units, and no units had been completed. Table 1 summarizes the weatherization work at the two agencies we visited.

Table 1: Weatherization Activities at Two Michigan Agencies

Agency	Community Action Agency of Jackson, Lenawee, Hillsdale	Oakland Livingston Human Services Agency
Recovery Act allocation	\$5,767,356	\$11,688,604
Amount received	\$1,041,318 ^a	\$1,267,813 ^b
Units to be weatherized	824	1,681
Approved applications	472 ^a	632 ^c
Units completed	17 ^a	0 ^c

Source: DHS; Community Action Agency of Jackson, Lenawee, Hillsdale; and Oakland Livingston Human Services Agency.

^aAs of October 15, 2009.

^bAs of September 30, 2009.

^cAs of October 21, 2009.

⁶Pub. L. No. 89-665, 80 Stat. 915 (Jan. 10, 1966) (codified as amended at 16 U.S.C. §§ 470 et seq.).

Figures 2 and 3 show weatherization work in progress at the Community Action Agency of Jackson, Lenawee, and Hillsdale and at the Oakland Livingston Human Services Agency, respectively.

Figure 2: Contractors Installing Side Wall Insulation in Jackson, Michigan Under the Recovery Act-Funded Weatherization Assistance Program



Source: GAO.

Figure 3: Contractor Installing Foundation Insulation in Hazel Park, Michigan Under the Recovery Act-Funded Weatherization Assistance Program



Source: GAO.

DHS and Local Agencies Are Implementing Monitoring Procedures for Oversight of Recovery Act Funds

DHS officials told us they have monitored local weatherization agencies' use of Weatherization Assistance Program funds since 2005, including reviewing their fiscal procedures and internal controls. In addition, an independent public accountant conducts an annual financial audit of each agency.

To assist in monitoring the use of Recovery Act funds, DHS officials told us they planned to add 22 additional staff. In October 2009, they said they

had hired 15 staff, including 11 weatherization technical monitors, 2 fiscal monitors, and 2 weatherization technical supervisors. They also said they planned to hire a reports analyst, a contract administrator, a program monitor, an additional fiscal monitor, a Davis-Bacon Act analyst, and two historical preservation review analysts. The technical staff will monitor 5 to 10 percent of all weatherization projects. In addition, the DHS Office of Inspector General hired two staff to conduct weatherization audits.

DHS officials told us they had developed a monitoring plan for the 32 local agencies, which includes desk reviews by state agency staff to cover such things as the contractor selection process, compliance with Davis-Bacon Act requirements, and Recovery Act reporting. The plan also includes visits to work sites by DHS weatherization technical monitors. Agency officials at the two locations we visited told us their internal controls include using separate accounting codes to track Recovery Act funds and contracting for annual independent external audits. In addition, officials at one agency told us that they recently hired a business operations coordinator and contracted with a Davis-Bacon Act compliance specialist. Officials from both agencies described measures they plan to use to ensure that quality goods and services are provided with Recovery Act funds, including conducting pre- and post-inspections of projects, customer surveys, contractor evaluations, and requiring satisfactory post-inspections to be completed prior to paying contractor invoices.

Local Agencies Are Using Existing Procedures to Select and Monitor Recovery Act Contractors

Officials at the two agencies we visited told us they had pre-established procedures for selecting and monitoring contractors. According to these officials, the criteria used to select contractors included consideration of prior weatherization experience. We reviewed two weatherization contracts at each of the two agencies. In each case, agency officials told us they used their existing contracting procedures but added specific language to the contracts related to Recovery Act and Davis-Bacon Act requirements. Officials also told us that the contracts were awarded competitively and included detailed price schedules covering labor and material for each weatherization task, such as installing insulation and weather-stripping.

Most LEAs Plan to Use Recovery Act Funds to Retain Jobs

Education allocated \$1.592 billion in SFSF funds to Michigan—of which \$1.302 billion was education stabilization funds and \$290 million was government services funds. In addition, Education allocated \$390 million for ESEA Title I, as amended; and \$414 million for IDEA, as amended. As

previously reported, Michigan Department of Education officials told us that:

- LEAs plan to use most of the SFSF funds allocated thus far for teacher salaries;
- State officials have encouraged LEAs to use their ESEA Title I Recovery Act funds for programs such as professional development for teachers and professional staff and for supplemental reading programs;
- LEAs intend to use the IDEA Part B grants to, among other things, retain special education teachers, acquire new technologies, enhance professional development for teachers, and provide additional bus transportation services to students with disabilities; and
- LEAs intend to use the IDEA Part C grants for early intervention services.

Table 2 shows the amounts of Recovery Act funding for these three education programs available to Michigan as of November 6, 2009.

Table 2: Education-Related Recovery Act Funds Awarded to Michigan as of November 6, 2009

	Total grants awarded	Grants drawn down	Percentage of grant funds drawn down
SFSF	\$872.6 million	\$615.8 million	71
ESEA Title I	\$389.9 million	\$4.7 million	1
IDEA ^a	\$414.0 million	\$9.6 million	2

Source: Education.

^aIncludes both Part B and Part C funds.

We surveyed a representative sample of LEAs—generally school districts—nationally and in Michigan about their planned uses of Recovery Act funds.⁷ Table 3 shows Michigan and national GAO survey results on the estimated percentages of LEAs that (1) plan to use more than 50 percent of their Recovery Act funds from the three Education programs to retain staff, (2) anticipate job losses even with SFSF funds, and (3) reported a total funding decrease of 5 percent or more since last school year.

⁷Of the 134 LEAs surveyed in Michigan, 97 responded.

Table 3: Selected Results from GAO Survey of LEAs

Responses from GAO survey	Estimated percentages of LEAs	
	Michigan	Nation
Plan to use more than 50 percent of Recovery Act funds to retain staff		
IDEA funds	37	19
ESEA Title I funds	23	25
SFSF funds	87	63
Anticipate job losses in school year 2009-2010, even with SFSF funds	45	32
Reported total funding decrease of 5 percent or more since school year 2008-2009	13	17

Source: GAO survey of LEAs.

Note: Percentage estimates for Michigan have margins of error, at the 95 percent confidence level, of plus or minus 11 percentage points or less. The nationwide percentage estimates have a margin of error of plus or minus 5 percentage points.

State and Local Governments Experienced Some Challenges, but Were Able to Meet the Recovery Act Reporting Requirements

The Recovery Act requires each recipient of Recovery Act funds to report information quarterly to the federal government on each award, including: (1) the total amount of Recovery Act funds received, (2) the amount of funds expended or obligated, and (3) the estimated number of jobs created and retained.⁸ The first reporting deadline was October 10, 2009 for all activity through September 30, 2009, with quarterly reports due 10 days after the end of each subsequent quarter.

According to state officials, all state agencies that are required to report on Recovery Act funds used a centralized reporting process to submit reports to the ERO, which then submitted this information to the federal government. ERO officials told us a key internal control procedure was the requirement that state agency officials review the information in agency reports and attest to its accuracy and completeness. In addition, the ERO reviewed the reported information for reasonableness and, as necessary, coordinated with state agency officials on any issues identified during these reviews, such as incomplete data. ERO officials said Michigan met the October 10, 2009, deadline, and that they plan to use the same centralized reporting process for the reports due in January 2010.

⁸Recovery Act, div. A, title XV, § 1512(c).

We discussed the reporting process with officials at two state agencies—MDOT and DHS—as well as staff at two MDOT vendors and officials at two local agencies that conduct weatherization work. They described some challenges in obtaining the necessary information and in preparing and submitting Recovery Act information to the state, but they did not identify significant problems. For example, one vendor told us that because the end of September fell in the middle of a pay period, complete payroll information through September 30, 2009, was not provided to the state agency by the deadline on October 2, 2009. We discussed this issue with an MDOT official who told us they instructed vendors whose last pay period extended into October to submit the last pay period information in their next report.⁹ Therefore, the full information for the split pay period would be included in the January 2010 report covering payrolls for the period from October 1, 2009, to December 31, 2009.

Non-state entities such as local governments, universities, and community colleges that received Recovery Act funds directly from federal agencies submitted their reports to the federal government rather than through the state's centralized system. Non-state entities that received Recovery Act funds through a state agency submitted their reports to the cognizant state agency. For example, localities receiving transportation funds submitted reports to MDOT, and localities receiving Recovery Act funds directly from federal agencies reported to FederalReporting.gov. Officials at local governments we visited told us they did not encounter any significant problems in meeting the reporting deadline of October 10, 2009.

ERO officials told us between 1,000 and 1,100 non-state entities in Michigan received Recovery Act funds directly from the federal government. They said the state does not have responsibility for oversight of these Recovery Act funds, and is not notified when these entities submit reports. The ERO officials also said that, although there is a public perception that the state is ultimately responsible for tracking all Recovery Act funds provided to Michigan, the state does not have access to the reports that non-state entities submit prior to their release to the general public. Therefore, although Michigan accesses available information and monitors this funding, they cannot track the funds in the same way they can track federal funds provided directly to the state.

⁹MDOT officials also told us vendors could choose to split the information for the last pay period of the year ended September 30, 2009, and report payroll information for September 2009 in their reports for that year and include payroll information for October 2009 in the report for the next quarter.

Recovery Act Funds Provide Assistance to the State and Localities, but Governments Continue to Face Significant Economic Challenges

The state enacted its fiscal year 2010 budget on October 30, 2009, and addressed its projected \$2.7 billion deficit through both spending cuts and the use of Recovery Act funds to free up other state revenues.¹⁰ Since our July report, Michigan has continued to experience rising unemployment and declining tax revenues. In September 2009, Michigan's unemployment rate was 15.3 percent, compared to 8.9 percent a year ago. State officials reported that, in recent months, the state's tax revenues have continued to fall short of previously reduced projections.

According to state officials, in comparison to the fiscal year 2009 budget, the state's spending cuts for fiscal year 2010 include an 8 percent cut in provider reimbursement rates for Medicaid services, 10 percent cuts to state agencies' budgets, an 11 percent cut in state revenue sharing funds provided to local governments, and an estimated \$292-per-pupil funding cut from the State School Aid Fund.¹¹ State officials projected that these cuts, as well as the \$1.423 billion in Recovery Act funding, should allow the state to complete fiscal year 2010 with a balanced budget. However, they expressed serious concerns about the state's long term budget outlook, when little or no Recovery Act funds will be available. Michigan is projecting a \$1.1 billion shortfall in fiscal year 2011—even after including over \$200 million in Recovery Act funds—and a projected shortfall of over \$1.5 billion in fiscal year 2012.

Michigan's local governments are also facing the pressure of balancing budgets with declining revenues, and have voiced concerns to the federal government that the Recovery Act does not directly alleviate local fiscal pressures. We visited three localities to better understand these pressures and the Recovery Act's impact in these communities. Table 4 provides recent population and unemployment data for these localities.

¹⁰The projected shortfall, per the state's May 2009 Consensus Revenue Estimate, is for both the state's General Fund and School Aid Fund.

¹¹State officials explained that, of the \$292 per-pupil budget cut, \$165 is a result of the state's approved fiscal year 2010 budget. After the budget was approved, Michigan's Treasurer estimated additional shortfalls in school aid tax revenue of \$212 million, or \$127 per pupil. On November 19, 2009, officials told us that, under state law, this shortfall required an additional reduction in state aid payments of \$127 per pupil.

Table 4: Population and Unemployment Data for Local Governments Visited

Locality	Population	Type	Unemployment rate
Flint	112,900	City	26.3%
Royal Oak	57,110	City	9.9%
Allegan County	112,975	County	13.2%

Source: U.S. Census Bureau and U.S. Department of Labor.

Note: Population data are from July 1, 2008. Unemployment rates are preliminary estimates for September 2009 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

City of Flint

City officials told us Flint was awarded \$4.5 million in Recovery Act-funded grants; however, as of October 15, 2009, none of these funds had been received. For example, Flint applied for funds through the COPS Hiring Recovery Program to restore 40 of the 100 police officers it had laid off, and was awarded funding to restore 8 positions. While these additional officers may help increase Flint’s public safety, officials told us the city will incur additional costs because the grant requires the city to retain the positions for at least 12 months beyond the grant-funded period using state and/or local funds. Also, because the grant provides salaries at the entry level, the city must make up the difference between the amount of the grant and the amount the city pays rehired officers. City officials told us the Recovery Act has not significantly impacted Flint’s budget. They said they are experiencing continuing declines in collected tax revenues, and estimated that state revenue sharing funds—the city’s largest single source of revenue—will decrease by \$2.7 million in fiscal year 2010.¹²

City of Royal Oak

City officials told us Royal Oak was awarded over \$1.4 million in Recovery Act funds and, although none of these Recovery Act grants will provide direct assistance in stabilizing the city’s budget, they plan to use some of these funds on projects that will achieve long-term cost savings. For example, funds from EECBG will be used to improve the efficiency of city buildings and reduce the city’s energy expenses. City officials also said they had some difficulty obtaining information about competitive grants and determining whether grants were appropriate for the needs of the city

¹² Additionally, Flint is in the first year of a state-approved plan to eliminate a \$10 million deficit. Under this plan, the city must adopt budgets that provide sufficient revenue to eliminate this deficit within 5 years.

due to the length and complexity of the grant applications. However, they said administering and reporting on Recovery Act grants did not present significant challenges for Royal Oak. City officials told us that, overall, the Recovery Act is not expected to have a significant impact on Royal Oak's budget. The officials expressed concerns about declining property tax revenues and cuts to state revenue sharing but said they believed the city is fiscally well-positioned due, in part, to its elimination of about 25 percent of city employees over the last 5 years through attrition and retirement.

Allegan County

Although county officials stated that the county has not directly received any Recovery Act funds, its Transportation Department was allocated a \$1.6 million Recovery Act grant through MDOT to construct a new facility and the County Road Commission was allocated over \$1.4 million of Recovery Act funds through MDOT to resurface county roads. The officials also told us the requirements and goals of many Recovery Act programs do not fit the needs of a rural county such as Allegan. For example, applicants for a grant from the U.S. Department of Transportation's Transit Investments for Greenhouse Gas and Energy Reduction program must apply for at least \$2 million, an amount that will make it difficult for Allegan County to put together a competitive application. In addition, they told us they were disappointed they have not received Recovery Act assistance to meet what they have identified as the county's most critical needs, including law enforcement and improved court facilities. The officials also told us they expect the Recovery Act to improve some county facilities and roads but not to significantly affect the county's budget in the long term. They said that, due to zero growth in property tax revenues and a decrease in revenues from sources such as court fees, property transaction fees, and state revenue sharing funds, the county is projecting a \$2 million budget shortfall for fiscal year 2010.

State Comments on This Summary

We provided the Governor of Michigan with a draft of this appendix on November 18, 2009, and staff in the Governor's office and the ERO reviewed the draft and responded on November 19, 2009. We also provided relevant excerpts to officials from the localities we visited. Officials agreed with our draft and provided clarifying or technical suggestions that were incorporated, as appropriate.

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