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RECOVERY ACT

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

GAO

Accountability * Integrity * Reliability

GAO-10-232SP

Appendix I: Arizona

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 Arizona. 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 specific program areas—Education, Highway Infrastructure, and Public Housing—funded under the Recovery Act. We selected these program areas primarily because they have received and are in the process of obligating Recovery Act funds. Our work focused on the status of the program area's funding, how funds are being used, and issues that are specific to each program area. (For descriptions and requirements of the programs we covered see appendix XVIII of GAO-10-232SP.) As part of our review, we surveyed a representative sample of local educational agencies (LEAs) from across the nation, including those in Arizona about their planned uses for Recovery Act funds for the State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; and Part B of the Individuals with Disabilities Education Act (IDEA), as amended. We also visited five LEAs and two community colleges. For highway infrastructure work, we spoke with the Arizona Department of Transportation (ADOT) and the Arizona Division of the Federal Highway Administration. We also spoke with representatives of two localities receiving Recovery Act funds. As part of our review, we revisited five public housing agencies that we reported on earlier in 2009.

To gain an understanding of the state's experience in meeting Recovery Act reporting requirements, we examined documents prepared by and held discussions with, the Governor's Office of Economic Recovery and ADOT. Because Arizona is a centralized reporting state, each prime recipient of Recovery Act funds is required to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and retained. The first quarterly reports were due and submitted in October 2009.

Our work in Arizona involved monitoring the state's fiscal situation and, for the first time, visiting two counties to review their use of Recovery Act funds. We chose to visit the counties of Maricopa and Yavapai because they were among the localities that have experienced consequences of the economic downturn. According to county officials, the counties are using the funds to provide critical, timely, and increased services to households hardest hit by the economic downturn.

What We Found

- **Education.** Arizona has received approximately $529 million in Recovery Act funds as of November 13, 2009, for SFSF, ESEA Title I, Part A and IDEA Part B education programs. Arizona used SFSF funds to stabilize the state budget; the state distributed funds to kindergarten through 12th grade (K-12) LEAs by making a regular state aid payment, and the community colleges we visited used the money to restore services and to pay instructional salaries. The LEAs are using the Recovery Act ESEA Title I, Part A funds to hire new staff and offer additional educational programs. They also planned to use the Recovery Act IDEA, Part B funds to hire new staff, to support student needs, and as seed money for new educational initiatives.

- **Recipient reporting.** Arizona used a centralized reporting system to report data for the state agencies that received Recovery Act funds through the state. Other recipients, such as counties and housing authorities that received Recovery Act funds directly from federal agencies, submitted their first quarterly recipient reports directly to www.federalreporting.gov (FederalReporting.gov). We found that the initial recipient reporting was timely with a few ultimately resolved challenges.

- **Arizona's fiscal condition.** The Recovery Act funds have been used in Arizona in place of, or to match state contributions for, state-funded services such as education. In addition, nonfederal funds freed up as a result of the Recovery Act have been used to cover certain Medicaid costs. However, despite $750 million in Recovery Act funds in fiscal year 2009 and $1.13 billion for fiscal year 2010, Arizona is facing an estimated $2 billion state budget shortfall in this fiscal year, according to Arizona Joint Legislative Budget Committee staff estimates.

- **Counties' use of Recovery Act funds.** Maricopa County reported receiving $55 million and Yavapai County received $1 million in Recovery Act funds directly from federal agencies. The counties are using the funds to expand healthcare and human services in response to demand resulting from the economic downturn and to enhance law enforcement by upgrading communication and security equipment.

- **Highway Infrastructure Investment.** As of October 31, 2009, the U.S. Department of Transportation's Federal Highway Administration has obligated $293 million of the $522 million of Recovery Act funds apportioned to Arizona. Thirty percent of all apportioned highway funds are required to be suballocated to metropolitan and local areas of the state under the Recovery Act, and of the $157 million in these suballocated funds, only $29 million, or about 18 percent, has been obligated. Nevertheless, local officials from two metropolitan planning organizations we spoke to and ADOT said that they expect Arizona to obligate 100 percent of its apportionment by the March 2010 deadline.

- **Public housing.** Arizona has 15 public housing agencies that have received about $12 million from the Public Housing Capital Fund. As of November 14, 2009, the agencies used funds to complete several projects that have improved existing public housing sites, such as rehabilitating kitchens, installing new heating and cooling systems, and replacing rooftops. Arizona also received one Capital Fund competitive grant, which the city of Phoenix Housing plans to combine with other funding to renovate 374 housing units.

Arizona Schools Are Facing Budget Reductions, but Recovery Act Funds Helped Prevent Potential Layoffs and Provided Seed Money for Educational Programs

Arizona has received approximately $529 million in Recovery Act funds as of November 13, 2009, for the three Recovery Act education programs GAO reviewed (see table 1). The approximately $12 million from Recovery Act IDEA, Part B and $17 million from Recovery Act ESEA Title I, Part A funds were in addition to the regular IDEA and ESEA Title I funds the state received. The state has also drawn down approximately $500 million in SFSF funds. Due to state budget shortfalls, Arizona used the SFSF funds to maintain state education funding levels by making a state aid payment for elementary and secondary education (K-12) and freeing up state general funds for other needs. In addition, the state's institutions of higher education used the SFSF monies as a reimbursement for fiscal year 2009 expenses.

Table 1: Allocations, Draw Downs, and Expenditures for the Three Recovery Act Education Programs Reviewed in Arizona

Recovery Act program	Made available to Arizona[a]	Drawn down by Arizona	Expenditures by subrecipients[b]
SFSF education funds	$557,352,452	$499,519,094	$499,517,793
ESEA Title I, Part A	$195,087,321	$17,002,033	$13,460,217
IDEA Part B	$184,178,924	$11,986,711	$10,844,641

Source: GAO analysis of U.S. Department of Education and Arizona Department of Education data.

[a]Data as of November 6, 2009.

[b]Data as of November 13, 2009.

Arizona used SFSF funds to stabilize the state budget and distributed funds to K-12 LEAs equal to one regular state education aid payment. We visited five LEAs for this report, and officials at the LEAs said they primarily used the SFSF funds to pay teachers and other district staff.[1] One LEA also used some of its SFSF funds to pay for utilities at its elementary schools.

Since our discussion of the impact of SFSF on Arizona's universities in our September 2009 report, we also visited two community college districts.[2] The officials at these community college districts stated that they used the SFSF funds as reimbursement for fiscal year 2009 instructional salaries, and have plans to use the resulting freed-up funds to stabilize their educational programs. Both community college districts reported reductions in state education aid over the past 2 years, and one expressed concerns regarding additional mid-year cuts expected to occur in fiscal year 2010. One community college district chose to keep the state funds freed-up by SFSF as a cash reserve to prevent having to reduce educational programs if the anticipated mid-year cuts occur. The other community college district planned to restore educational programs that had been reduced by budget cuts in fiscal year 2009. For example, the community college district would like to restore summer school course offerings, which had been reduced by 35 percent. Officials in neither community college district planned to use the funding to begin new educational programs out of concern that they would not be able to sustain new programs when the SFSF funding was no longer available.

The LEA officials we interviewed said they are using the additional Recovery Act ESEA Title I, Part A funds to hire new staff and offer additional educational programs. For example, Arlington Elementary District is using its ESEA Title I, Part A money to fund a reading and writing specialist to improve students' performance on the state standardized tests. Another LEA, Buckeye Elementary District, is using its ESEA Title I, Part A funds to purchase software for a longitudinal data system that it had been developing in collaboration with several other Arizona districts over the past 10 years to help bring students up to grade level or beyond. The LEA did not have the funding to purchase the

[1]One LEA we visited was only eligible for $622 of SFSF funding, and so declined the funding.

[2]Arizona's Community College system is organized as districts. One district we visited has 6 campuses, while the other district is comprised of 10 individually accredited colleges.

necessary software and train its staff until the Recovery Act ESEA Title I, Part A funding was made available.

The LEAs we visited planned to use the Recovery Act IDEA, Part B funds to hire new staff, to support student needs, and as seed money for new educational initiatives. For example, several LEAs planned to increase the number of specialty teachers, such as a reading specialist, thereby serving more students. Buckeye Elementary District plans to use its funding to implement a new educational initiative, called Response to Intervention. This program targets struggling students and provides them with instructional assistants who can address the students' learning needs, thereby preventing them from needing more intensive special education services. The Recovery Act IDEA, Part B funds will also serve as seed money for this district to purchase software for the program and to hire six instructional assistants specializing in communication and emotional difficulties.

In addition to visiting the Arizona LEAs, we surveyed a representative sample of LEAs—generally school districts— nationally and in Arizona about their planned uses of Recovery Act funds. Table 2 shows Arizona 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 three education programs to retain staff, (2) anticipate job losses even with SFSF monies, and (3) reported a total funding decrease of 5 percent or more since last school year. In Arizona, an estimated 61 percent of LEAs said they planned to use more than 50 percent of their SFSF funds to retain staff. Because the SFSF funds were distributed to LEAs to restore a shortfall in state education aid, these funds did not represent increased funding levels for LEAs, and an estimated 34 percent of Arizona LEAs anticipated they would lose staff, even with SFSF funds.

Table 2: Selected Results from GAO Survey of LEAs

Responses from GAO survey	Estimated percentages of LEAs	
	Arizona	Nation
Plan to use more than 50 percent of Recovery Act funds to retain staff		
IDEA funds	29	19
Title I funds	23	25
SFSF funds	61	63
Anticipated job losses, even with SFSF funds	34	32
Reported total funding decrease of 5 percent or more since school year 2008-2009	22	17

Source: GAO survey of LEAs.

Note: Percentage estimates for Arizona have margins of error, at the 95 percent confidence level, of plus or minus 13 percentage points or less. The nation-wide percentage estimates have a margin of error of plus or minus 5 percentage points.

Because in Arizona the SFSF monies did not increase overall K-12 education funding levels but instead were used to make a regular state education funding payment, there was confusion among some of the LEAs we visited regarding the impact of SFSF on jobs retained. Without the state payment, some LEAs we visited said they would have had to reduce costs, which could have included reducing jobs. However, because the SFSF money was provided instead of state funding, some LEAs were not sure how to calculate the number of retained jobs for the Recovery Act's Section 1512 recipient reporting. A Governor's Office of Economic Recovery (OER) official said they were concerned that this confusion among LEAs could lead to inconsistent jobs data reporting. Therefore, the OER did not delegate subrecipient reporting to the LEAs. Instead, the OER prepared the report and determined the number of jobs retained through SFSF funds using the actual SFSF expenditures and the average educational employees' total compensation that included average salary and benefits.

First Quarterly Recipient Reporting Completed and Met October Reporting Deadlines

Under the Recovery Act, all prime and subrecipients are to report quarterly, with the first report due on October 10, 2009. For the first quarterly recipient report, Arizona used a centralized reporting system to submit data for Arizona agencies that received Recovery Act funds through the state. Other recipients, such as counties and housing authorities, that received Recovery Act funds directly from federal agencies, submitted their first quarterly recipient reports directly to the respective federal agencies that provided those funds. Under both methods, data were submitted using FederalReporting.gov. Arizona and the other recipients that we spoke with—Yavapai County, Maricopa County, and five housing authorities[3]—submitted their project-level data on time to meet the required October 10, 2009, deadline. The data were made available to the public at www.recovery.gov on October 31, 2009.

Initial Recipient Reporting Was Timely with a Few Ultimately Resolved Challenges

As stated in our September report,[4] Arizona planned to use a centralized reporting approach, known as Stimulus 360, for reporting the Recovery Act funds that the state received. Using this centralized approach, the OER compiled more than 400 Section 1512 reports from its 18 prime recipients, including all of its state agencies and Arizona's institutions of higher education. Close to half of the recipient reports that were submitted, according to OER officials, were for ADOT Recovery Act highway projects. According to OER officials, several challenges occurred initially while compiling the data for the submission deadline. These challenges included such issues as recipients not having the required DUNS numbers[5] and lengthy wait-times for answers from the Office of Management and Budget (OMB) help site on technical questions. The OER team was able to overcome these issues and submitted its Section 1512 reporting data on time. Subsequent to the submission, the OER team continued to make corrections and identified data that did not conform to the expected data ranges during the time specified by OMB for corrections. OMB guidance set aside the period between the initial submission on October 10, 2009,

[3]City of Phoenix Housing Department, Pinal County Housing Department, City of Glendale Community Housing Division, City of Tucson Department of Housing and Community Development, and Housing Authority of Maricopa County.

[4]GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to be Fully Addressed (Arizona)*, GAO-09-1017SP (Washington, D.C.: September 2009).

[5]A data universal numbering system (DUNS) is a number issued by Dun and Bradstreet that provides business information.

and October 21, 2009, as the period for prime recipients—in this case, the state agencies—to make corrections and revisions, and the period between October 22, 2009, and October 29, 2009, as the period for the respective federal agencies to make corrections and revisions. The OER received corrections and revisions from both the state and federal agencies. An OER official said that by working with both sources, the data, overall, were more accurate. According to these officials, one of the positive outcomes of the reporting process was that representatives of many different state agencies developed new and improved working relationships by collaborating to help ensure data reliability.

OER officials reported data centrally for each state agency. For example, ADOT provided its data to the OER but was responsible for calculating the number of jobs retained or created for its Recovery Act highway funds. According to one of the contractors we met with, ADOT receives detailed information from its contractors on the number of employees working on Recovery Act projects, along with the payroll data ADOT uses to calculate the full-time equivalents reported to FederalReporting.gov. Additionally, ADOT itself had oversight staff on these Recovery Act projects who reported on the activities and the status of the contractors' data. On the other hand, OER calculated the number of jobs retained or created for SFSF using data from the Arizona Department of Education's data system.

The two local governments—Maricopa County and Yavapai County—and the five housing authorities that we visited received Recovery Act funds directly from various federal agencies and did not participate in the state's centralized recipient reporting. County officials submitted the counties' relevant recipient reporting data directly to FederalReporting.gov. According to officials from both Maricopa and Yavapai counties, they had some initial challenges. For example, Maricopa county officials said that it was challenging to report data by the October 10, 2009, deadline because the accounting period ended only 10 days prior, on September 30, 2009. However, according to both counties' officials, they overcame the challenges and were able to submit their report data on time. Officials from the five public housing authorities that we met with stated that they were prepared with the appropriate information to enter project and job data and did successfully submit data on time, but also encountered various access and data entry challenges. For example, two of the housing officials said that they had difficulty obtaining codes to access the reporting system, and one official stated that data were lost during transmission. These issues, however, were resolved. Most of the housing officials we visited with commented that the recipient reporting was not an easy process for the first reporting round, but believe that the next reporting round should be easier as a result of this first experience.

Recovery Act Funds Providing Some Relief While Arizona Faces Ongoing Fiscal Challenges

Arizona has used Recovery Act funds in place of or to match state contributions for state-funded services such as education. In addition, nonfederal funds freed up as a result of the Recovery Act have been used to cover certain Medicaid costs. These offsets of general fund spending have allowed the state to reduce anticipated state budget shortfalls. However, despite $750 million in Recovery Act funds in fiscal year 2009 and $1.13 billion anticipated for fiscal year 2010, Arizona is facing a $2 billion state budget shortfall in fiscal year 2010, according to Arizona Joint Legislative Budget Committee (JLBC) staff estimates.

Facing these fiscal conditions, Recovery Act funding for fiscal year 2010 provides Arizona with some relief and has prevented deeper state agency budget cuts. For example, as of November 20, 2009, the state used $320 million of Recovery Act SFSF monies rather than Arizona general fund monies to make a payment for K-12 education state aid. This kept the average daily balance for the state's operating fund positive in September, according to the JLBC. Actions such as this temporarily ease the burdens placed on the state's general fund and help Arizona to continue meeting the needs of its citizens.

Yavapai and Maricopa Counties Use Recovery Act Funds to Expand Services, Especially to Low- and Moderate-Income Households Hit Hardest by the Economic Downturn

Given that Recovery Act funds now flow to localities, we visited two counties in Arizona—Yavapai County and Maricopa County—to review their use of these funds.[6] Both counties have experienced consequences of the economic downturn. According to county officials, the two counties have used Recovery Act funds to provide critical, timely, and increased services to low- and moderate-income households hit hardest by the economic downturn. Recovery Act funds have also enhanced law enforcement operations in both counties.

Yavapai County

Spanning more than 8,000 square miles in central Arizona, Yavapai County is a sparsely populated rural county with a population of 215,503 and an unemployment rate of 9.5 percent.[7] The county government is one of the largest employers in the area, with more than 1,600 employees. As of November 18, 2009, Yavapai County was awarded three Recovery Act grants—two grants were awarded to the Yavapai Community Health Center (CHC) for health care and a third was awarded to the Sheriff's Office for public safety (see table 3):

Table 3: Recovery Act Grants Awarded to Yavapai County Government

Category	Number of grants	Award amounts
Health	2	$839,326
Public safety	1	$173,853
Total	**3**	**$1,013,179**

Source: GAO presentation of Yavapai County government data.

According to county officials, Yavapai CHC has expanded dental care services from 2 to 4 days a week, with new staff funded by the $254,166

[6] GAO's examination of Recovery Act funds counties received includes only funds received by the local governments directly from federal agencies.

[7] According to U.S. Census Bureau of Labor Statistics, population data are from July 1, 2008; and, unemployment rates are preliminary estimates for September 2009, have not been seasonally adjusted, and are shown as a percentage of the labor force.

Increased Demand for Services Grant;[8] and the $585,160 Capital Improvement Grant,[9] along with funds from the county and CHC reserves, will be used to build a new health care facility.

Yavapai County spent more than 50 percent of general fund expenditures in fiscal year 2009 on criminal justice. According to county officials, its Edward Byrne Memorial Justice Assistance Grant[10] (JAG) will be used to enhance its law enforcement operations through upgrading communication and security equipment.

Maricopa County

Located in south central Arizona, Maricopa County is the state's most heavily populated county with a population of 3,954,598 and an unemployment rate of 8.5 percent.[11] Phoenix is the county seat, and the county is also home to other metropolitan areas, such as Mesa, Scottsdale, and Tempe. The county spans more than 9,000 square miles.

As of October 16, 2009, more than $55 million in Recovery Act funds have been awarded to Maricopa County across six categories, spanning human services, public safety, workforce training, transportation, energy and environment, and health care. Table 4 presents a summary of the awards.

[8]The U.S. Department of Health and Human Services Increased Demand for Community Health Center Services grants support the expansion of services offered by Community Health Centers and allow them to serve more patients, as more Americans join the ranks of the uninsured.

[9]The U.S. Department of Health and Human Services made Capital Improvement Program grants available to Community Health Centers to support their efforts to upgrade and expand their facilities and open their doors to more patients.

[10]The JAG program within the Department of Justice's Bureau of Justice Assistance provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as crime prevention and domestic violence programs, corrections, treatment, justice information sharing initiatives, and victims' services. JAG funds are allocated based on a statutory formula determined by population and violent crime statistics, in combination with a minimum allocation to ensure that each state and territory receives some funding.

[11]According to U.S. Census and Bureau of Labor Statistics, population data are from July 1, 2008; and, unemployment rates are preliminary estimates for September 2009, have not been seasonally adjusted, and are shown as a percentage of the labor force.

Table 4: Recovery Act Grants Awarded to Maricopa County Government

Category	Number of grants	Award amounts
Human services[a]	7	$19,854,623
Public safety	11	$15,867,354
Workforce training	2	$7,874,563
Transportation	3	$7,219,193
Energy and environment	3	$3,567,800
Health	3	$1,006,250
Total	**29**	**$55,389,783**

Source: GAO presentation of Maricopa County Government data.

[a]Human services includes Head Start/Early Head Start, Community Services Block Grant, Community Development Block Grant, Homeless Prevention Rapid Re-housing, and Weatherization.

Recovery Act funds allow the county to provide critical, timely, and increased services to low- and moderate-income households hardest hit by the economic downturn, according to county officials. In particular, county officials have observed an increase in demand for human services programs, such as education, as well as workforce training programs. According to county officials, Recovery Act funds have allowed the county to expand some services to residents, particularly in areas where demand has increased:

- Recovery Act funds will support an increase in enrollment and create new teaching and other positions in Head Start and Early Head Start programs. Contract employees are being used to help administer programs that are funded through the Recovery Act for the duration of the grant.
- With rising unemployment in the county, visits to the county's workforce centers have increased significantly, according to county officials. Under the Workforce Investment Act, Recovery Act funds allow the county to expand services that support the entry or re-entry of dislocated adults into the job market and encourage young people to complete their education.[12]

Recovery Act funds also support law enforcement programs that previously were reliant on declining state resources. Maricopa County had $1.25 billion for public safety in its 2010 budget and received a total of

[12]Recovery Act, 123 Stat. 172-173.

$15.9 million in public safety grants in that period, $10.5 million of which are JAG grants. Agencies and municipalities formed a partnership within Maricopa County to allocate the $10.5 million in JAG funds among the members and to coordinate the programs to fund, such as the following:

- County agencies are using roughly 70 percent of the JAG funds to retain and hire personnel, including hiring a specialized prosecutor and retaining two juvenile probation officers that were on a reduction-in-force list.
- Municipalities within the county are using their more than $8 million in JAG funds for security and communications equipment to enhance areas such as surveillance, patrolling, information software, and community outreach.

Both Counties—Yavapai and Maricopa—Are Preparing for the End of Recovery Act Funds

According to the county officials, both counties recognize that Recovery Act funds are temporary and are developing plans for the end of the grant period. Yavapai CHC believes that once the economy begins to recover, its new facility will have the resources necessary to serve the population's needs. CHC officials also recognize that the Increased Demand for Services grant is temporary and intended to enable CHC to meet the surge in demand for patient services resulting from the increase in unemployment. Maricopa county officials said that all new positions funded by Recovery Act funds are contract positions for the duration of the grant and that the program activity will be monitored and assessed to determine if the program is worthy of non-stimulus funding in the future.

In the case of JAG grants, Yavapai County's plans for the funds are, generally, for one-time expenditures for the duration of the grant; therefore, the county would face limited, if any, problems when Recovery Act funds are no longer available. However, Maricopa County officials noted the potential for a "cliff effect" at the end of the grant period and hope that the economy will improve and that the programs can then be sustained—otherwise programs will have to be eliminated.

Highway Funds in Arizona Continue to be Obligated, but Obligations for Local Area Projects Continue to Lag and Steps are Being Taken to Comply with Federal Guidance

The Federal Highway Administration (FHWA) apportioned $522 million in Recovery Act funds to Arizona, 30 percent of which is required to be suballocated to metropolitan and local areas. As of October 31, 2009, the federal government has obligated[13] $293 million to Arizona, and reimbursed the state[14] $56 million.

Table 5: Arizona Recovery Act Federal Aid Highway Amounts as of October 31, 2009 (in millions)

Total apportionment = $522	Amount obligated = $293	Amount reimbursed = $56
Suballocated amount = $157	Amount obligated = $29	Amount reimbursed = $.7

Source: GAO analysis of FHWA data.

Recovery Act highway funds were apportioned to Arizona, which was then required to suballocate 30 percent of those funds to metropolitan and local areas. As we stated in our September 2009 report, these local projects lagged behind statewide projects and only three contracts had been awarded with those suballocated dollars. This is because localities did not have "ready-to-go" projects, and were largely unfamiliar with federal highway requirements. Between September 1 and October 31, 2009, only one additional locality's solicitation had been publicized. Overall, only $29 million of the $157 million suballocated to localities has been obligated. ADOT has instituted a December 2, 2009, deadline for localities to submit their proposals for suballocated highway projects in localities and said that it would have a better idea of where those projects stand after that date. ADOT reported that if it finds that projects in localities are not able to be advertised for construction prior to the March 2010 deadline,[15] ADOT would use Recovery Act funds on "ready-to-go" statewide highway

[13]For 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. This does not include obligations associated with $1 million of apportioned funds that were transferred from FHWA to Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

[14]States request reimbursement from FHWA as the state makes payments to contractors working on approved projects.

[15]The Recovery Act mandates that all apportioned funds, including suballocated funds, need to be obligated before March 2, 2010, one year from apportionment or they will be subject to withdrawal by FHWA.

projects in order to not lose any Recovery Act highway funding. Similarly, officials from two localities we visited said that if the projects intended for Recovery Act funds were in danger of not having funds obligated by the March 2010 deadline, they would use the funds on projects whose designs are complete but were not initially targeted for Recovery Act funds. The localities would also do this in order to not lose Recovery Act funding. We will follow-up on these matters in a future report.

To meet Recovery Act reporting requirements, ADOT officials state that they included in all of ADOT's contracts a mandate that contractors report on the number and types of jobs created or preserved through this work. Contractors we spoke to said that they reported on the jobs and pay of both laborers and office staff working on Recovery Act projects, and ADOT said that it converted the hours and pay reported to them into full time equivalent positions for recipient reporting to the Office of Management and Budget.[16]

Arizona is Taking Steps to Ensure Compliance with Updated Federal Guidance on Maintenance of Effort Requirements and Support to Economically-Distressed Areas

Arizona is working to comply with Recovery Act requirements on both maintaining state levels of transportation spending and giving priority to projects located in economically-distressed areas. First, as part of Section 1201 (a) of the Recovery Act, states are required to certify to the Secretary of Transportation that the state will maintain the level of state transportation spending that it had planned on the day the Recovery Act was passed. This is known as the maintenance-of-effort (MOE) requirement. Arizona has submitted two certifications that were reviewed by FHWA. However, on September 24, 2009, FHWA issued supplemental guidance on MOE, which clarified that states should include in their MOE-certified amounts the level of funding that the state provided to local governments or agencies for transportation projects; Arizona did not provide this information in its initial submission because the state was unaware that the state transportation funding to local governments were part of its MOE requirement. As a result, Arizona plans to recalculate and recertify its highway MOE amount, although the U.S. Department of Transportation (DOT) has not yet set a submission deadline for the revised MOE certification. According to a FHWA official in Arizona, this recertification most likely would not have an impact on ADOT meeting its MOE requirement.

[16]Recipients of Recovery Act funds are required to submit quarterly reports under Section 1512 of the act to the federal agencies apportioning those Recovery Act funds.

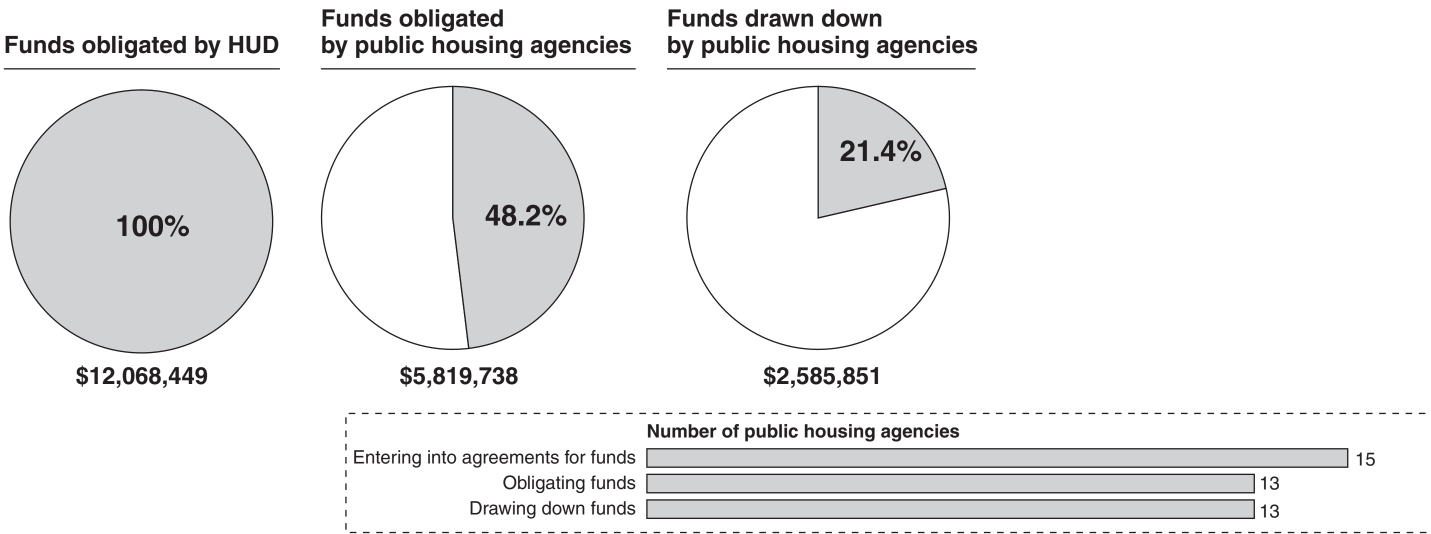
Second, under the Recovery Act, states are required to give priority to highway projects that can be completed within 3 years and that are located in economically-distressed areas. When the Recovery Act was enacted, ADOT based the identification of economically-distressed areas on home foreclosure rates and other factors—data not specified in the Public Works Act. We recommended that DOT develop criteria for states to identify "special need" areas that do not meet the statutory economically distressed criteria in the Public Works Act. In response to our recommendation, DOT, in consultation with the Department of Commerce, developed such criteria and issued guidance to the states in August 2009.[17] Applying this revised guidance, the state's calculation again concluded that all 15 counties in Arizona are economically distressed, so ADOT does not believe it will have to revise how it is distributing funding across the state.

Arizona is Using Public Housing Funds to Rehabilitate Housing; However, Jobs Created are Expected to be Temporary

Arizona has 15 public housing agencies that received a total of $12,068,449 in Recovery Act Public Housing Capital Fund formula grants (see figure 1). As of November 14, 2009, 13 public housing agencies have obligated $5,819,738 and have drawn down $2,585,851 of the total. On average, housing agencies in Arizona are obligating funds at about the same rate as other housing agencies nationally. We visited the following five housing agencies to determine the progress of projects: the city of Glendale Community Housing Division, the city of Phoenix Housing Department, the Housing Authority of Maricopa County, the Housing and Community Development Department of the city of Tucson, and the Pinal County Housing Department.

[17]As we reported, the criteria align closely with special need criteria used by the Department of Commerce's Economic Development Administration in its own grant programs, including factors such as actual or threatened business closures (including job loss thresholds), military base closures, and natural disasters or emergencies.

Figure 1: Percentage of Public Housing Capital Funds Allocated by HUD that Have Been Obligated and Drawn Down in Arizona, as of November 14, 2009



Source: GAO analysis of HUD data.

Housing Agencies Are Using Recovery Act Formula Capital Funds on Various Rehabilitation Projects and Are on Track to Meet Recovery Act Time Frames

The five housing agencies that we visited in Arizona received $8,840,880 in Capital Fund formula grants. Officials at each housing agency stated that they expect to meet the March 17, 2010, Recovery Act Capital Fund formula obligation deadline. As of November 14, 2009, these five housing agencies had obligated $3,675,832 and had drawn down $1,295,686 of the total award. The housing agencies we visited had completed 13 projects and had 22 projects underway that continue to follow their 5-year plans and most of the contracts were awarded within 120 days of when the funding was made available.[18] Some housing officials received contract bids for projects that were lower than cost estimates and were able to use the savings to reinvest in additional Recovery Act-funded projects. Housing officials believe that bids submitted below original estimated costs were caused by the current low levels of economic activity in the construction industry. Also, according to housing officials we met with, because all the projects were previously unfunded, the Recovery Act funds

[18]The 5-year plan addresses the housing agencies' mission and their overall plan and priority list of projects to achieve their mission goals.

were used to supplement, not replace or supplant other funds, in accordance with the Recovery Act.

One of the five public housing agencies—the city of Glendale Community Housing Division—expended all $319,325 of its allocated funds by completing the rehabilitation of 50 kitchens. The other four public housing agencies have completed at least one project.

- The city of Phoenix has expended a total of $352,877 on several projects such as interior and exterior painting, sidewalk repairs, roof replacements, and completed a roof seal coating project on two public housing sites which is expected to maintain the integrity of the roof and promote energy efficiency.
- Maricopa County installed new evaporative coolers, refrigerators, and stoves across several of its public housing sites at a cost of $45,141.
- The city of Tucson completed the interior and exterior rehabilitation of a single-family home at a cost of $46,700, which improved the physical condition of the home and installed water and energy efficient appliances.
- Pinal County completed two roof replacement projects at a cost of $132,403.

The Short-Term Nature of Recovery Act-Funded Projects in These Five Locations Yield Only Temporary Relief from Unemployment

According to housing officials and one contractor we spoke with, the types of formula-funded projects completed or currently underway have only temporarily created jobs and, in some cases, individuals that were hired for project work have already been laid off or let go. For example, city of Glendale officials stated that five out of seven newly-hired workers were laid off immediately after their 7-week kitchen rehabilitation project ended because no other work was available. In another example, a Pinal County housing official stated that an unemployed roofer worked on its first roofing project but once the 4-week project was completed, he again became unemployed. Also, according to a painting company owner in Phoenix, she hired three unemployed painters but after the 5-week project ended, she laid them off because the work was temporary and new work was not available to sustain their employment.

Arizona Received One Competitive Grant to Make Energy Efficient Upgrades

HUD awarded one Capital Fund competitive grant in Arizona to the city of Phoenix Housing Department for $3.4 million under the category for creating energy efficient public housing units. Of the five public housing agencies we met with, two stated they applied for the competitive grant, while the other three stated they did not apply because their priority was managing existing housing projects, they believed that their applications may not be as competitive, and they did not have enough time or staff available to complete the application within the required timeframe. The city of Glendale Community Housing Division submitted one application, which was not awarded, and the Phoenix Housing Department submitted three applications, one of which was awarded. Phoenix housing officials plan to combine their competitive grant award with other funding to renovate 374 units at the Marcos de Niza public housing site. According to the grant application, the total development cost is approximately $24.7 million and construction work is expected to begin in May 2010 and be completed by June 2011. Specifically, the project includes, among other things, converting evaporative cooling systems to geothermal-powered central heating and cooling systems, and installing water- and energy-conserving fixtures and appliances in units.

State Comments on This Summary

We provided the Governor of Arizona with a draft of this appendix on November 18, 2009. The Director of the Office of Economic Recovery responded for the Governor on November 20, 2009. The state agreed with our draft and provided some clarifying information which we incorporated.

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