

PENNSYLVANIA STIMULUS OVERSIGHT COMMISSION

OCTOBER 30, 2009

Summary Report

Ron Naples, Chairman, convened the meeting of the Commission at 11:00 a.m. on October 30, 2009, in Conference Room 1 of the Forum Place Building, Harrisburg. Members in attendance included Charlie Battaglia (representing Sen. Specter), Guy Ciarrocchi, Secretary Jim Creedon, Rep. Brian Ellis, Terry Kostoff (representing Sen. Casey), Tony Ross, Don Siegel, Sen. Mike Waugh and individuals representing Gene Barr, Rep. Mann, and Sen. Mellow.

Meeting Agenda

- 1) Welcoming Remarks – Ron Naples
- 2) Implementation Report – Jim Creedon, Secretary of the Department of General Services
- 3) Presentations
 - Federal Report (1512) Final Review – Jim Creedon and Christian Soura, Senior Advisor for Recovery Implementation
 - Review of Broadband Proposals – Naomi Wyatt, Secretary of Administration
 - Workforce Programs Update – Sandi Vito, Secretary of Labor and Industry
 - Tax Credits Presentation – Pennsylvania Institute of Certified Public Accountants (PICPA), Federal Tax Committee: Nicholas Crocetti, Margie Navarro, Edward Jenkins

Welcoming Remarks

Ron Naples began the meeting with opening remarks reiterating the role of the Commission. Additionally, he mentioned that four reports of waste, fraud or abuse have been received by the Commission's Hotline and these reports have been referred to the Inspector General for review. No requests for waivers have been made relative to the Buy America provisions of ARRA.

Implementation Report

Secretary Creedon, Chief Implementation Officer, provided the Implementation Report to the Commission. As of October 22, 2009, the total investment of ARRA funds by the Commonwealth was \$4.301 billion, of which \$2.637 billion has already been spent and \$1.663 billion is in progress.

Transportation and Infrastructure

Highways and Bridges – As of October 30, 2009, \$902 million or 88 percent of the funds estimated to be received have been obligated. A total of 273 of the 293 anticipated projects have opened bids; 263 projects have Notice to Proceed; 180 projects have started work; and 23 projects are completed. Low bid savings continue to average 13 percent with an average of

4.5 bids received per project. PennDOT reported that 5,777 direct jobs were created or sustained for the month of September.

Clean Water and Wastewater

As of October 30, 2009, 80 of the 118 projects awarded by PennVest in April and July have settled, totaling \$150.7 million in ARRA investment. Sixty-three of the projects settled have started and the estimated number of jobs on these projects, as reported by the grantees, is 3,847.

Energy

PA Conservation Works! – \$23 million in ARRA funding is available through the state’s competitive program. At the close of the application period on August 14, over 500 applications totaling \$63 million had been submitted.

PA Green Energy Works – The application period for the Sustainable Heat and Power program, which has \$11.3 million to award, closed on October 9. Thirty-three applications were received requesting a total of \$33 million. The application period for the Clean Biogas program, which has \$5 million to award, closed on October 23. Twenty applications totaling approximately \$27 million were received. Solar Project applications for Round 1 funding, with \$7 million available, are being accepted through November 9.

Weatherization – Contracts have been executed for 28 of the 43 participating agencies, and 16 agencies are scheduled to receive funds as early as the week of November 2. Seven state-wide training sites have been selected to provide training and certification for weatherization service providers. Additionally, one grantee to provide technical assistance and another to develop an apprenticeship program have also been selected.

State Fiscal Stabilization Fund

The Commonwealth filed its application plan on October 21, 2009.

Education Stabilization – \$748 million from the Fund has been allocated as follows: \$300 million to implement the second year of Pennsylvania’s school funding formula; \$355 million to avoid deep cuts in education funding; and \$93 million to restore funding to public institutions of higher education.

Government Services – \$172.9 million from the Fund has been allocated to the Department of Corrections to replace state funding.

Executive Order

On October 28, 2009, Governor Rendell signed executive order 2009-02. This executive order: 1) established as an overall Commonwealth goal that at least ten percent of ARRA funds should go to small disadvantaged businesses as contractors, subcontractors, grantees, sub-

grantees and suppliers; 2) requires agency participation in outreach efforts to encourage and increase small and disadvantage business interest and participation; and 3) directs agencies to track and report participation in ARRA opportunities.

Competitive Application Status

<u>Agency</u>	<u>Program</u>	<u>Status</u>
Administration	Broadband	Applied 8/24
DCNR	The National Map	Application due 12/1
DCNR	NOAA-Coastal Habitat Restoration	Not selected for funding
DCNR	State Forestry Funds	Not selected for funding
DCNR	Site Characterization – CO2 Storage	Not selected for funding
DEP	EECBG – Competitive	Application due 12/14
DEP	Appliance Rebate Program	Applied 10/15
DMVA	Fire Station Construction	Applied 7/10
DOC	Byrne Competitive Grants	Not selected for funding
DOT	Intercity Passenger Rail (1,3)	Applied 8/24
DOT	TIGER	Applied 9/15
DOT	Intercity Passenger Rail (2)	Applied 10/2
Education	Statewide Data Systems	Application due 11/19
GOHCR	Health IT	Applied 10/16
Health	Putting Prevention to Work	Application due 12/1
Health	Health Homes Demo	Awarded \$875,000
Health	Healthcare Associated Infections	Awarded \$1,020,480
Health	Primary Care Offices	Awarded \$42,555
Health	State Loan Repayment Program	Awarded \$156,000
Health	WIC – EBT Balance Transfer	Awarded \$462,264
Health	WIC – EBT Hardware/Software	Applied 6/26
Health	Immunization and Vaccines Plan	Awarded \$1,803,140
Health	Ambulatory Surgical Center	Applied 8/31
L&I	Market Info. Improvement	Applied 8/13
L&I	SESP Training Grants	Applied 10/20
L&I	Health Care & Emerging Indust.	Applied 10/5
L&I	Workforce Training for Power	Application due 11/30
PHMC	Geothermal Technologies Program	Applied 8/6
PSP	COPS Hiring Recovery Program	Not selected for funding
PSP	Byrne Competitive Grant	Not selected for funding
PSP	Rural Law Enforcement	Not selected for funding

Presentations

Section 1512 Federal Reporting – Jim Creedon and Christian Soura

The ARRA legislation required the filing of initial 1512 reports by October 10, 2009. After review and comments by federal agencies, the Commonwealth then submitted revised final versions by the October 30, 2009 deadline. In total, 276 reports were filed covering 13 recipient

agencies, 955 sub-recipients, 738 vendors and 280 sub-vendors. All reports are available on the federal website, www.recovery.gov or the state website, www.recovery.pa.gov

Review of Broadband Proposals – Naomi Wyatt

Nationally, requests totaling \$27.6 billion were submitted for the available \$7 billion in broadband funding. Each state was given the opportunity to review and prioritize projects submitted from their state. This input was due to NTIA on October 14th. A total of 130 projects were submitted from Pennsylvania and the Commonwealth recommended to NTIA 25 projects totaling \$343 million. This recommendation is only one element in the NTIA review process and the state input is not binding.

Workforce Programs Update – Sandi Vito

Labor and Industry programs awarded ARRA funds include the following:

- Workforce Investment Act
- AmeriCorp/PennServe
- Office of Vocational Rehabilitation
- Unemployment Compensation/Modernization
- Weatherization

Workforce Investment Act -- A total of \$99.7 million in ARRA funds have been awarded to Pennsylvania. WIA Adult has received \$16.5 million, WIA Dislocated Worker received \$42.5 million and WIA Youth received \$40.6 million.

The priorities for adult and dislocated workers funds were to 1) to promote long term economic growth through skills training, 2) to transform the workforce development system, 3) to promote coordination across all state and local agencies and 4) to require accountability. As of September 30, 2009, WIA Adult outcomes showed 1,226 participants served and 784 participants received training services, WIA Dislocated Worker outcomes showed 2,691 participants served and 1,876 participants received training services.

The WIA Youth ARRA funding focused on the Summer Employment Program and expanded the eligibility from 21 years of age to 24 years of age. The goal of the program was to have 8,692 participants. As of September 30, 2009, the goal was exceeded with 9,218 participants, 6,593 in-school and 2,625 out of school.

AmeriCorps – Approximately \$2.8 million (\$1.2 million formula; \$1.6 million competitive) was awarded. Ten AmeriCorp programs are supporting the creation of employment and community service opportunities for approximately 540 young people throughout Pennsylvania. Through September 2009, the programs served approximately 6,309 citizens.

Office of Vocational Rehabilitation – Over \$22 million has been awarded. These funds are being used to develop and operate 12 projects that will help individuals with disabilities

prepare for, obtain, and maintain employment. Also, funding is provided to eight innovative Independent Living Old & Blind projects.

An additional \$552,000 is being used to award grants of \$50,000 to nine Centers for Independent Living and another \$100,000 in competitive grants.

Unemployment Compensation – A total of 79 weeks of UC benefits are currently available; up to 26 weeks of regular state UC and up to 53 weeks of ARRA related benefits. Since February 18, 2009, 892,209 individuals have received some type of ARRA funded UC benefit and, to date, Pennsylvania has paid out nearly \$1.2 billion in ARRA-related UC benefits. As of the week ending October 17, 2009, 446,603 claimants were receiving the Federal Additional Compensation of \$25 per week; 166,398 claimants were receiving the Emergency Unemployment Compensation (the additional 33 weeks of benefits); and 41,768 claimants were receiving the Extended Benefits (the 20 additional weeks of benefits).

Unemployment Modernization – Administrative grants of \$9 million have been used to hire 50 CareerLink specialists and direct reemployment assistance to approximately 50,000 UC claimants who have exhausted, or are likely to exhaust, their UC benefits. Incentive grants totaling \$273 million are also available to Pennsylvania, but the Commonwealth does not currently qualify. To qualify the following minimum changes to Pennsylvania's UC law would need to occur:

- Amend the law to allow for a movable or alternate base year if the claimant does not qualify under the current base year
- Amend the law regarding refusal of suitable work as it applies to part time workers
- Amend the law to grant benefits for separations due to “compelling family reasons” (separations due to domestic violence, illness of a family member, or to follow a spouse to a new work location)

Weatherization – The Department of Labor and Industry has received \$10 million from DCED to implement the weatherization training. This includes: 1) the organization and implementation of a skills certification process for weatherization workers and instructors; 2) the certification of approximately 400 incumbent workers and the training of 1,000 new weatherization workers; 3) the establishment of 5-7 weatherization training providers; and 4) the organization of 3 apprenticeship training programs.

Tax Credits Presentation – PICPA Federal Tax Committee

The ARRA legislation contains many selective and targeted benefits to stimulate segments of the economy. This presentation highlighted the tax credits and incentives in the ARRA for individuals and businesses.

Credits and Incentives for Individuals

Making Work Pay Credit – Provides a credit of 6.2 percent of earned income up to a maximum of \$400 for single return (\$800 joint) for tax years 2009 and 2010. This credit is paid

by reducing withholding and phases out above \$75,000 for an individual or \$150,000 for a joint return.

Earned Income Tax Credit – Temporarily increases the EITC for taxable years 2009 and 2010.

Child Tax Credit – A temporary reduction in the earnings threshold for the refundable portion of the child tax credit for taxable years 2009 and 2010.

American Opportunity Tax Credit – Amends the Hope Credit for 2009 and 2010 to increase the maximum credit, expand the time limit, and add textbooks to qualified education expenses.

First Time Home Buyer Credit – Provides a \$8,000 credit for first time home purchases from July 1, 2009 through December 1, 2009.

Unemployment Compensation Income – Effective for years beginning in 2009, the first \$2,400 of unemployment compensation is now excluded from adjusted gross income for tax purposes.

Sales Tax Deduction – The sales tax paid on car and truck purchases is now permitted as an “above the line” deduction. The deduction phases out at \$125,000 of MAGI (\$250,000 joint), applies to the time period of 1/1/09 to 12/31/09, and is limited to a maximum sales price of \$49,000.

AMT Relief – The alternative minimum tax exemption amount is increased to \$46,700 (\$70,950 joint) for 2009.

Recovery Payments to Retirees and the Disabled – A payment of \$250 was available to recipients of Social Security, Railroad Retirement Benefits, and Veterans Benefits.

Government Retiree Benefit – Provides a tax credit of \$250 (\$500 joint) for government retirees not covered by Social Security, RRB or VA benefits.

Premium Assistance for COBRA Continuation Coverage – Provides a 65 percent COBRA premium reimbursement for up to nine months for terminated employees. Former employees pay 35 percent of the COBRA payment and the remaining COBRA payment is reimbursed to the employer by a reduction of payroll tax liabilities.

Tax Credits and Incentives for Businesses

Bonus Depreciation – The special 2008 provision permitting an additional cost recovery allowance (depreciation) of 50 percent of the cost of property placed in service is extended to 2009.

Section 179 Capital Asset Expensing Election – The special 2008 provision permitting an increase in the amount of Section 179 expensing to \$250,000 from \$125,000 and increasing the dollar limitation of total capital expenditures from \$500,000 to \$800,000 is extended to 2009.

First Year Carryback of NOL for Smaller Businesses – ARRA permits 2008 NOL to be carried back up to five tax years to recover taxes paid therein; unabsorbed losses then carry forward twenty years.

Deferral of Income Recognition Arising from Cancellation of Indebtedness – ARRA permits deferral of COI recognition for discharges occurring in 2009 and 2010.

Additional Research Credits – Corporations can elect to claim additional Research or Minimum Tax Credits instead of bonus depreciation.

Work Opportunity Credit Enhanced – ARRA adds a tenth group, unemployed veterans and “disconnected youth”, to the targeted groups for which employers can take tax credits for hiring. This applies to specified individuals hired in 2009 and 2010.

Partial Exclusion for Gain from Certain Business Stock – Prior to ARRA, the gain from specified small business stock enjoyed a favorable tax treatment through reduced tax rates and the exclusion was limited to 50 percent of the gain. ARRA expands the exclusion to 75 percent of the gain and enhances the applicable tax rates.

S Corporation Built in Gains Tax Holding Period Changed – When a C corporation elects Subchapter S tax treatment and the corporation owns substantially appreciated assets a Built in Gains tax results. No corporate level gain is recognized on S conversion if the assets are not converted within 10 years. ARRA reduced the holding period from 10 years to 7 years.

New Business

Senator Mike Waugh expressed concern about the Pennsylvania Department of Education’s failure to issue criteria for the issuance of Qualified School Construction Bonds and asked Secretary Jim Creedon to comment on this matter. Secretary Creedon indicated he was unfamiliar with the issue but would obtain information and respond to the Senator.