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**Good Governance Safeguards for  
Economic Recovery Programs**

**Investments in clean energy and 21<sup>st</sup> century transportation infrastructure will be the centerpiece of the emerging economic recovery package. This is an intelligent and innovative approach.** It allows us to address several national priorities within one package. It will create and retain jobs, it will keep dollars at home rather than shipping them overseas, it will enhance our national security, and it provides for U.S. climate protection efforts in a way that strengthens our hand in international negotiations.

**However, unless good governance safeguards are applied to federal expenditures this economic recovery strategy, no matter how well intentioned, will not succeed.** It will deliver more boondoggle than benefit, and fail to achieve the job creation and economic recovery goals for which it is intended. It could well undermine the prospects for future energy and climate protection legislation.

**The following recommendations, if adopted, are designed to enhance the benefits, and avoid the pitfalls, of an economic recovery package.** They can help guide the design and implementation of *all* elements of the package, a key point given the variety of federal, state and local programs that will be involved.

1. Communicate to the public, the media, and policymakers that the Obama Administration's overall approach to good governance will apply to economic recovery programs

*Shared responsibility* means that the federal government can and must identify policies and measures that recipient governments agree to in order to receive federal funds. This will create a policy environment in which federal dollars can be invested wisely and used as intended. In the case of energy investments, recipient governments that have not already done so can undertake low-bar initiatives like measuring GHG emissions and agreeing to develop and implement a state and/or local plan for climate protection within a given time frame. In exchange for transportation dollars, recipient governments might be required to measure reductions in Vehicle Miles Traveled (VMT) and identify how their use of federal funds will reduce, rather than increase VMT. Natural resource management and the development of adaptation programs for people and nature might also be part of this shared responsibility framework.

*Transparency and public oversight* provisions are important for two reasons. First, they provide additional safeguards for ensuring that federal funds will be spent effectively and as intended. Second, they provide mechanisms by which the public can become engaged in the economic recovery effort, both in its design and implementation. Said differently, transparency and public oversight allows for a sense of public ownership and responsibility for program success rather than suggesting this will operate as an entitlement program. Under this approach, recipient governments must demonstrate, prior to receiving federal funds, how they will use the Internet and other information portals to ensure transparency. They will establish public advisory councils with ample and timely access to information, and afford the councils an ability to comment on policies, programs, and related budget matters.

*Accountability for measurable results* is sometimes an afterthought that governments are resistant to adopting. Notwithstanding the complexity this entails, economic recovery projects should incorporate some of the best practices of organizational management—the identification of measurable goals and objectives; a source of accountability for results; and a process for making course corrections where needed. To be eligible for funds, recipient governments must identify clear goals and objectives for a given program component, including but not limited to projected job creation and GHG emission reduction targets. They must indicate how they will keep track of progress towards these benchmarks, and identify processes for making course corrections where needed on a no less than annual basis.

2. It's critical that 2009-2010 allocation formulas reflect the goals of the recovery effort.

Rather than using a state's population or GDP to allocate funds, federal programs should use unemployment and GHG emissions as allocation factors. A state's share of national unemployment and the state's portion of national GHG emissions would target federal dollars to create jobs where they are needed most, and to make an appreciable dent in GHG emissions where it is most difficult to do so. These allocation factors are good policy, and might be good politics as they demonstrate how investments in a clean energy future can help rather than hinder economic development. This is important when one considers some of the difficulties in promoting new energy policies and approaches, including those related to climate protection.<sup>1</sup>

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<sup>1</sup> A state's share of national unemployment is different than a state's unemployment *rate*. For example, California might have an unemployment rate of about 9%, but because of the state's size, and its relative share of unemployment, 15.5% of all unemployed workers in America are in California. In addition to targeting federal dollars to states with a large number of unemployed workers, directing these dollars to high emissions states is also good policy and good politics. In states that have disproportionately greater emissions per capita, disproportionately greater federal allocation seems a fair quid pro quo for the efforts they would make to adopt forward looking clean energy policies, programs, and projects. This is critical not just for the success of economic recovery package, but to demonstrate to the public the benefits of climate protection through job creation and economic development.

3. Recovery efforts need to be adequately funded, and provide for a reasonable investment in both state and local government programs.

Local governments can and should take the lead in program delivery where they have a strong suit, including but not limited to local building codes, some specific transportation policies, energy retrofits of municipal buildings and schools, and the like. The purview of state governments includes matters like state energy policies; and the creation of public benefit funds; and the design and funding of transportation infrastructure. Both state and local efforts need to be funded sufficient to achieve the level of job growth that President Obama and Congress have called for.

As a case in point, the Energy Efficiency and Conservation Block Grant (EECBG) is a centerpiece of the recovery effort, and one of the most promising provisions in the 2007 federal energy bill. At that time it was authorized at \$2 billion. Even though the current request is to fund it at \$6 billion, if one runs the numbers it's apparent that funding falls well short of what's needed to reach the Obama Administration's job creation and climate protection goals. Moreover, the current program formula provides a mere 9% of funds to states—further limiting the ability of states to become full participants in the overarching national clean energy strategy.

Funding for the EECBG should increase dramatically, and provide for states receive either 25% or 50% of program revenues. This would actually result in an increase in federal funding for both state and local efforts.<sup>2</sup>

4. Don't abandon quality control measures!

Again, the EECBG is a good example. Under current law, the Secretary of Energy must approve a proposal from a recipient state or local government prior to the expenditure of federal funds. Unfortunately, some of those who attack governmental regulation, and some who are concerned with accelerating the disbursement of economic recovery dollars, have suggested eliminating this provision. That would be a tragic error, and is unnecessary. A middle ground is to adopt a streamlined proposal format. This can be less cumbersome than what is required under current law, but still require recipient governments to adopt policies and processes necessary to ensure that federal funds will be used effectively, and as intended. To do this in a timely and effective manner, a nimble but adequately funded office needs to be created in the Executive Branch. It might make sense to locate the review process in the new National Energy Council where a more coordinated federal response can be realized.<sup>3</sup>

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<sup>2</sup> Further information on how proposed federal programs compare to the job growth numbers called for by President Obama is available via [Hudson@tremainefoundation.org](mailto:Hudson@tremainefoundation.org). The Center for American Progress, the Apollo Alliance, the Center for Climate Solutions, Environment Northeast, and Climate Communities are other importance sources of information and sound policy advice. More precise estimates of what's needed is based on the scale of national goals—e.g. how many commercial, residential, and governmental receive federally funded audits and retrofits; the level of worker retraining; the nature and extent of transportation and renewable energy investments, etc.

<sup>3</sup> A sample economic recovery proposal format is included as Appendix A to this paper.

5. Filters and screens that weed out bad programs, projects, and policies, should be established as a further element of quality control.

This need not be complex. State or local governmental proposals should demonstrate how their intended activities will create jobs and reduce GHG emissions, and they can provide numerical benchmarks for progress in each of these areas. They should identify provisions that provide for transparency and public oversight, as well as where the accountability for measurable results is located. Projects that run counter to these objectives and requirements should not be funded. In addition, the current list of eligible activities under the 2007 energy bill is too broad and should be more focused. A streamlined application process (see Appendix A of this memo) would allow for employing filters and screens of this type, in keeping with a tighter definition of what are the allowable uses of federal funds.

6. Given the urgency of this crisis, innovation is to be rewarded.

As an illustration of this point, consider the Green Jobs Act. The Act was signed into law in December 2007 and the Department of Labor was tasked with designing a grant program by which funds could be disbursed. Unfortunately, Congress has yet to appropriate funds for the Act; DOL has not completed the program design; and when the program is unveiled it will take up to a year for the funds to reach potential trainees. Instead of relying on customary ways of doing business, why not replace the grant program with \$2000 stipends, available to unemployed workers and distributed by existing state agencies. This would disburse the funds quickly, and create near term job opportunities at existing training centers (e.g. community colleges, private sector training, and government agencies). More importantly, a stipend-based approach accelerates the creation of a larger trained workforce, i.e. one that can satisfy the demand for green collar workers jobs as a result of the recovery package.

7. Pilot projects are a good way to bring innovative investments to scale.

A good example here is the need for transmission infrastructure to bring renewable energy to market. Instead of facing a choice between a large and relatively untested federal program, and no spending at all, why not explore a pilot program that could bring wind energy from the Great Plains to energy markets in the Midwest. This could demonstrate the potential challenges and likely benefits of such an effort, including strategies for bringing these and other transmission infrastructure investments to scale.

8. Smart policy and smart politics should co-exist.

The Tremaine Foundation and others have been working on an array of state and federal energy initiatives, including those in the recovery package, that create jobs and provide

for climate protection.<sup>4</sup> One initiative, consistent with overarching national goals, is to accelerate the deployment of energy efficient goods and services as rapidly as possible in politically strategic geographic areas. While some of this will be accomplished in the recovery package, more can be achieved through the use of incentives associated with state efficiency spending per capita.

Currently, 31 states spend less than \$5 per capita on energy efficiency, and another 7 states spend less than \$10 per capita. Not surprisingly, these states include those with the highest rate of per capita GHG emissions. Imagine what would happen if a national goal of state spending of no less than \$20 per capita were established, and federal dollars provided to bring states up to the minimum. While providing support for all states, the system would be designed to direct *additional* resources to the high emitting states in return for their acceptance of ambitious clean energy and transportation goals. Also included in state conditionality would be the installment of strategies and programs oriented to climate adaptation. The system is based on one inescapable fact—the high emitting states are those where the transition to a clean energy economy will be the most difficult, and they will need incentives to do so. Given that all states have a stake in the rapid deployment of energy efficient goods and services across the country; it is acceptable policy to design a system that does just that.<sup>5</sup>

9. Good governance requires that the federal recovery effort not fall into the valley of death in 2011 and 2012—action can be taken now to avoid that possibility.

The recovery package will help avoid a deeper recession and lead to economic growth in 2010, if not sooner. However, to be fully effective throughout a business cycle the effort will have to continue, in some form, in 2011 and 2012. One way of preparing for this eventuality is to design an evolution of the package for application in 2011 and 2012. In the out years, federal funds can be conditioned on the provision of state and local matching funds. This would help reduce federal outlays, and could leverage state and local funds where they are needed most. A second and complementary policy would base federal support on actual *performance* toward reaching job creation and climate protection goals, as compared to the standards-based approach that will dominant the architecture of the current recovery package. Performance toward actual goals and objectives in 2009 and 2010 could, for example, be the basis for continued support in the out years, 2011 and 2012. One final tweak to keep things going in the out years—states and localities might be allowed to use residual project funds from 2009 and 2010 to undertake federally approved activities in 2011 and 2012.

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<sup>4</sup> The Georgetown State Federal Climate Resource Center will play a key role in identifying state and federal responsibilities related to a number of these energy initiatives. More information can be obtained from the Center Director, Vicki Arroyo at [arroyo@georgetown.law.edu](mailto:arroyo@georgetown.law.edu)

<sup>5</sup> ENID (Energy Efficiency and Infrastructure Development) is a system that would provide a proportionately larger share of federal funds to high emitting states in return for their adoption of aggressive climate protection and energy measures. It could be included in the recovery package, or ensuing energy initiative. A fuller description of the ENID strategy is available via [Hudson@tremainefoundation.org](mailto:Hudson@tremainefoundation.org) and highlights provided as Appendix B.

## 10. Additional thoughts related to communicating the benefits of the recovery package<sup>6</sup>

### Sell the sizzle *and* the steak.

As with the Senate version of last year’s climate bill, all too often the public is being asked to consider a laundry list of programs, rather than being sold on the overarching goals toward which the programs are directed. *The result--too much initial attention to what a given array of programs will cost, rather than what the programs will buy.* In this case, an economic recovery package buys job growth, a stronger U.S. economy, reduced dependence on foreign oil, and an economically efficient way to address climate change and clean energy. This will be accomplished through investments in clean energy, 21<sup>st</sup> century transportation, and effective natural resource management.

An understanding of what the economic recovery package is designed to achieve, and the value of what it will accomplish, is the only way to encourage a genuine discussion of the costs of inaction versus the costs of recovery and the means of paying for it.

### Talk about small businesses, clean air and water...as well as jobs and climate protection.

Small businesses are the engine of job growth in America, they are politically important, and they will create clean energy jobs more quickly than large businesses. In this current climate, Americans will identify more with Mom and Pop small businesses than with more impersonal and relatively larger corporate entities. Recovery programs should do more to focus on the needs of small business, and the potential for them to contribute to the creation of a new energy economy.

Americans care about their health and their kids—they should be reminded that repair and maintenance of our natural resource base creates clean air and clean water, the two basics that link health and environmental protection to economic development. The same goes for investments in adaptation strategies and programs.

### “Workforce ready” should replace “Shovel ready”

Given its connection to transportation projects, “shovel ready” is a media-friendly way of identifying projects that appear ready for federal funding. As attractive as this phrase is, it misses the point in several respects. First, it says nothing about the project’s potential for job creation, and how an individual project would compare to others in that regard. It says nothing about project quality and if left unchallenged would *guarantee* the same polluting and inefficient infrastructure projects federal dollars have funded in years past. Finally, it’s hard to apply the “shovel ready” concept to projects outside of the transportation sector. The choice of project slogans is important—initiating a debate between workforce ready and shovel ready is one way to illustrate differences between good government, and business as usual.

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<sup>6</sup> A potential communications overview is provided as Appendix C.

**Appendix A****Economic Recovery--Project Proposal Format**

*No more than four page narrative and two page budget.*

*Must be accompanied by signed endorsement of Governor or Mayor.*

1. Primary Implementing Agency; Senior Contact; Key Staff (include phone/email):
2. Project Sector (Energy, Transportation, Natural Resources/Adaptation):
3. Total Annual Cost of Project vs. Amount Requested (per federal fiscal year):
4. Project Period (start and end date, indicate if one or two year request):
5. Primary Project Purpose: (one to two sentences):
6. Primary Objectives (list of 5-7) including numerical benchmarks and timetables for GHG reductions and job creation or retention associated with project activities:
7. How does the proposed work build upon current state (or local) programs, policies, and projects? (no more than three bulleted paragraphs):
8. Potential Implementation Partners (list and describe potential role for private sector, non-profit organizations, organized labor, governmental agencies, et. al.)
9. Key Activities and Proposed Use of Funds (short list, per quarterly basis; provide in chart format, and in accordance with federal definition of allowable uses):
10. Deliverables or Outcomes (list along with quarterly timetable in a chart format):
11. Describe mechanisms that will be adopted prior to receipt of federal funds re: transparency and public oversight (no more than three paragraphs):
12. List project mechanisms for ensuring accountability for measurable results, and course corrections during implementation (no more than five bulleted measures):
13. Describe risks affecting project outcomes (describe major risk(s) and they will be managed—the presence of risks is not a negative, lack of risk management is):
14. Indicate if funding will be needed beyond the project period and potential sources:
15. Provide evidence that the federal funds will be **additive** rather than replacing state or local funds that are currently available, or that would be available for the project:
16. Provide a detailed budget for each year of the project, including major line items and projected quarterly expenditures. Please indicate any in-kind contributions and for key staff, including the Senior Contact, indicate the average hours per week they will dedicate to the project.

**Appendix B**  
**ENID**  
**(Energy Efficiency and National Infrastructure Development)**

ENID--An approach to economic recovery and energy efficiency that uses good governance safeguards and financial incentives to achieve national economic and clean energy goals. It is based on a partnership between federal, and state and local governments and is designed to deploy energy efficient goods and services as widely and as rapidly as possible. The architecture of the ENID approach can also be applied to investments in renewable energy, smart grid and transmission projects, and 21<sup>st</sup> century transportation infrastructure.

**Goal #1—Creation of Green Collar Work Force**—*By 2010 federal and state governments will have provided training to over a million workers who can then find or retain good paying, sustainable jobs in the new energy economy.*

To reach this goal, every state would receive an allocation (based on current state unemployment numbers) of \$2000 tuition stipends from the federal government. These vouchers will be made available for worker training in the performance of energy audits and EE services, as well as other important green collar jobs. Allowing for some key modifications, this is essentially a broadening of the green training program that Congress approved and the President signed into law as part of the 2007 Energy Act. In this way, green job training will be expanded and accelerated. The benefits to organizations that provide training (community colleges, private facilities, government agencies) would be immediate. Federal investment at full participation for one million participants per year: \$2.0 billion.

**Goal #2—Rapid Reduction in Energy Costs**—*By 2010 over 20 million small businesses, homes, apartment buildings, schools, and public buildings will have received energy audits and assessments. Tax incentives and public funding mechanisms will ensure that energy retrofits are provided to over 5 million residences and apartment buildings, schools and small businesses, including but not limited to the installation of energy efficient appliances and clean energy technologies by 2011.*

Funds for this purpose will be allocated to states based on their share of national GHG emissions. This effort will depend on and provide employment opportunities for the newly expanded green collar work force. It will lead to a much needed integration of energy services with energy efficiency product sales, installation, and maintenance. ESCOs and manufacturers of energy efficiency appliances, fixtures, systems and machinery would benefit from the increased demand. Tax credits would help buy down the initial cost of equipment and retrofits, and loan guarantees would also play a role. Estimated federal direct investment for the audits, based on \$200 average per audit: \$4.0 billion. Federal fiscal support through tax credits and other loan guarantees, based on an average cost of \$2000, would be \$10 billion.

**Goal #3—Increased Efficiency Investments**—*Each state will expend no less than \$20 per capita on energy efficiency in Year 1, and additional federal incentives will encourage the same minimum expenditure in Year 2.*

Currently, 31 states spend less than \$5 per capita and another 7 spend slightly less than \$10 per capita on energy efficiency. Given the national interest in a timely and effective deployment of energy efficiency, the federal government would provide funding to raise all states to a new national standard of state expenditures of no less than \$20 per capita in 2009. In 2010, states would receive a \$2 to \$1 match for all efficiency expenditures the states made in 2009 and 2010, up to a maximum of \$20 per capita. Federal investment at full participation: \$10.2 billion.

### **ENID Eligibility Requirements**

Shared responsibility is reflected in the eligibility requirements applied to recipient states (and localities) under this approach.

Eligibility #1—Energy Policy--States (and localities) must adopt energy policies that allow for the effective deployment of investments in energy efficiency. These policies would include but not be limited to legislative and regulatory decoupling of utility revenues from the volume of energy sold. Policies could also include the adoption of green building codes at a state and local level; adoption and strengthening of energy efficiency standards; and the like. A significant amount of state and local governments have successfully implemented these laws and regulations, and can provide ample evidence of their economic and job creation benefits. Given the tracks that have already been laid, these policies and programs would not be hard to replicate in all 50 states and territories, and a long list of U.S. towns, cities, and counties.

Eligibility #2—Use of Funds—Recipient governments must agree to apply federal dollars to federally approved activities and use of funds. This requirement provides a range of flexibility to the states as they can select from a menu of allowable activities. It will prevent them from using federal funds for unrelated purposes, such as reallocating the funds to general use or state treasury. Failure to adhere to the allowable use provisions (which will be subject to public oversight and federal audits) will result in states having to reimburse the federal government for all funds received.

Eligibility #3—Transparency, Accountability, Public Oversight—To be eligible for federal funds, recipient states must first establish processes that provide for transparent and auditable EE transactions. State programs (which could be run by independent third parties, utilities, or the states themselves) will be structured in accordance with a template established by the federal government. This template will ensure public participation and oversight. It will provide for some state flexibility, but provide for accountability in the use of funds. Over time, and perhaps in concert with a federal energy efficiency standard

or federal-state cap and trade, performance standards can be added to the list of state eligibility requirements.<sup>7</sup>

Eligibility #4—Climate Protection—Given the direct and obvious connection to national goals related to climate protection, it makes sense that all recipient states would and should participate in the Climate Registry. State climate plans, in place in a growing number of states, are important and those states that have yet to adopt such plans must set a timetable for doing so. They must also commit themselves to achieving the state's share of national climate goals established under the Obama Administration. Finally, as a means of connecting efficiency investments to the broader goal of climate protection, states should participate in one or more of the regional climate protection programs. A different set of requirements would need to be established for municipalities.

### **III. Conclusion**

Focus will be a critical component of ENID and other political strategies, and it's important to consider how benefits can be directed to a short list of climate battleground states. This list, generated by a variety of factors associated with these states (and Congressional districts and localities within these states) includes the following: ND, WI, MI, OH, PA, VA, NC, SC, FL, LA, AR, and TN. Allocation formulas can be adjusted to ensure these states receive a larger share of benefits conditioned on the commitment they make to aggressive policies and programs that support national energy and climate protection goals.

State allocations based on the architecture of the national mobilization goals, as articulated above, would provide some welcome results in this regard. First, the 31 states currently spending less than \$5 per capita would receive 72% of federal allocations compared to the 60% share they would receive under allocation formulas based on other factors. Second, these same states, which include 11 of the 12 climate battleground states, would receive an average of \$61 per capita in federal direct spending on energy efficiency. This is 50% more than the \$41 per capita for leadership states and should serve as an adequate incentive for their adoption of aggressive clean energy policies and programs.

Keep in mind that *all* states would receive benefits under this approach, but by providing a proportionally larger share to transition states it achieves two critical goals—the distribution of resources to states that have the greatest degree of difficulty in transitioning to a low carbon economy, and the generation of political support for an array of federal, state, and local policies that will make this transition a reality.

Admittedly, the urgency of the current economic crisis might make it difficult for ENID to be a feature of the emerging recovery package. At the least, we should encourage innovative ideas that, like ENID, are designed to be both good policy *and* good politics.

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<sup>7</sup> Including these initial EE provisions in economic recovery should also pave the way for additional provisions in future federal legislation, including but not limited to a national EE standard, and a potential federal and state climate partnership on cap and trade.

**Appendix C**  
**Economic Recovery Package--Communications Overview**

- ❖ The economic recovery package is built around investments in a new clean energy economy, and will generate, or help retain over 3 million jobs.
- ❖ The project has the following goals:
  - Rapid disbursement of economic recovery assistance
  - Job creation/retention for millions of workers
  - Assurance that funds are spent as intended
  - Assurance that investments help rather than hinder the transition to a low carbon economy
- ❖ The package will help reduce energy costs which continue to be a major strain on American families. It creates a transportation system that is more affordable, user friendly, and aids economic development at a state and local level.
- ❖ It will reduce carbon pollution by reducing greenhouse gas (GHG) emissions across the United States; and provide a strong position for the U.S. in global climate negotiations. It is good for people *and* nature.
- ❖ The package moves us toward energy independence and strengthens our national security. Instead of sending hundreds of billions of dollars overseas, we keep those dollars at home and where they can be put to good use in rejuvenating the U.S. economy.
- ❖ The benefits of the package are achieved through investments in clean energy and 21<sup>st</sup> century transportation infrastructure. Further support is provided for restoring America's natural resources, and adaptation programs that help states and local governments respond to the growing threat of climate change.
- ❖ To ensure that federal funds are spent effectively, the package is based on the Obama Administration's three principles of good governance:

