

10 Minutes on the US Stimulus Package*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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The plan targets short- and long-term economic results

Highlights

- Modernizing core US infrastructure, whether highways, healthcare or power grid, is a central goal.
- Social spending elements of the plan are intended to help maintain confidence and stability by providing benefits to Americans who are losing jobs, health benefits and homes, and to better enable them to rejoin the workforce.
- Accountability, transparency and governance are being stressed for companies carrying out stimulus projects as well as agencies disbursing funds.

The \$787 billion American Recovery and Reinvestment Act signed by President Obama on February 17 is an attempt to invigorate a faltering economy marked by rising job losses, falling GDP, continuing uncertainty in the capital markets and world economic weakness.

Stimulus provisions are divided between spending of \$575 billion and tax relief of \$212 billion, according to the Congressional Budget Office. Nearly three-quarters of the package is intended to enter the economy by the end of September, 2010.

Designers of the package hope to make both short- and long-term impacts with investments that not only create jobs and stem the decline but also pay future dividends by building infrastructure; promoting science, innovation and education; improving healthcare; and spurring clean energy.

All public agencies dispensing monies and businesses receiving funds will face strict demands for control, transparency and accountability.

Tax actions in the plan largely cover individuals, but proposals also target businesses and infrastructure.

1. A cancellation of indebtedness provision allows companies that reacquire or modify outstanding corporate debt trading at a discount to defer recognition of taxable income. This action, amounting to \$35 billion through fiscal 2010, is planned to give businesses with difficulty in repaying outstanding debt an increased opportunity to shore up balance sheets and avert bankruptcy.
2. In an effort to improve liquidity, companies can continue to use “bonus depreciation” enacted last year to accelerate recovery of the cost of capital expenditures for new, 2009 investments.
3. Infrastructure financing will be enhanced through extended ability to qualify for tax-exempt financing.
4. Americans will receive withholding tax cuts of \$116 billion over two years intended to increase disposable income and bolster consumer confidence.

At a glance

The administration's goals for the stimulus package...

Short-term tactics

- Spend money on programs and projects
- Reduce taxes...
- ...To save or create jobs
- Put a brake on the economic decline
- Hasten the upturn

Long-term strategy

- Create innovative approaches to the infrastructure
- Reinvigorate education, health care and energy...
- ...To make a transformative impact on the US economy and environment
- Enhance the wellbeing of Americans
- Keep the nation globally competitive

The desired impact: Boost the economy now, seed US growth later

It is difficult to predict exactly the results of the Act. The economic environment is unlike any in the last 50 years, on which models are based. Predictions also depend on a range of forces and the judgments made about them.

Despite that, a reasonable picture of what may emerge can be drawn from projections by respected authorities like the CBO,¹ the forecaster Macroeconomic Advisers² and our own economists' review. Based on that:

- **Tax cuts and aid to state and local governments will kick in fastest,** compared to projects that are not “shovel ready,” requiring time to break ground as peaks in demand risk logjams and a range of evaluations and approvals remain to take place.
- **The economy's downward trajectory will be tempered,** and the package will slow the GDP slide this year by one to two percentage points. However, stability and recovery will take longer

to achieve as the effects of the Act work their way into the economy and other stimulative forces have the opportunity to come into play (including monetary policy actions and the inherent cyclical dynamics of replacing or repairing durables such as inventories, equipment and consumer products).

- **The package should hasten the path toward recovery,** with upswing beginning anywhere from fall 2009 to two years from today. Realistic optimism suggests early 2010. The package should ease, but not likely stop, state and local problems.
- **Unemployment could be reduced** by one to one-and-a-half percentage points in the next two to three years, which broadly translates to two to three million jobs saved or created.

In the longer term, the package is intended to invest in the future of America. The program hopes to make a transformative impact by funding infrastructure and education that will bolster global competitiveness, sustain productivity growth and support our national and individual wellbeing.

¹ Congressional Budget Office, Year-by-year analysis of the economic effects of the pending stimulus legislation, transmitted from CBO Director Douglas W. Elmendorf to Judd Gregg, ranking member of the Committee on Budget, US Senate, February 11, 2009.

² Macroeconomic Advisers, Macro Focus—Fiscal Stimulus to the Rescue: Final Answer!, February 19, 2009.

How could the stimulus plan change your business strategy?

The Act is intended to stimulate economic activity for businesses and individuals. Healthcare, transportation and clean, renewable energy are three areas receiving particular emphasis.

1. Healthcare rejuvenation

About \$150 billion is dedicated to healthcare and medical research. The lion's share of this amount, however, expands the federal government's share of healthcare coverage by \$86.6 billion to Medicaid and \$24.7 billion to COBRA, estimated to protect coverage of some 27 million people. These monies will supplement the social safety-net to the unemployed and indigent.

Digitizing health records could spawn new sectors

Health IT, or the digitization of electronic healthcare records, authorized for \$19.2 billion, is likely to generate growth in sectors including electronic health record vendors, data security, software

and personal health record companies. Additionally, IT companies—from computer systems to data storage producers—would stand to benefit as a national, interoperable health IT system is built out. Once such a system is in place, myriad emerging industries marrying IT and healthcare, such as telemedicine, could experience rapid growth and lower costs by eliminating duplication of tests and identifying health risks earlier.

NIH: a shot in the arm for R&D

The National Institutes of Health will receive a \$10 billion increase from the Act, aimed at R&D. Grants will likely ease sky-rocketing clinical trial costs, aiding drug and medical device researchers across areas including: academic medical centers, pharmaceutical and biotech companies, research universities and physicians. These grants could speed drugs to market.

Primary contractors, servicers and suppliers with an innovative, high-tech edge will benefit

2. A smarter transport system

The package authorizes \$27.5 billion for building, modernizing and repairing highways and bridges, \$8.4 billion for mass transit and \$9.3 billion for high-speed rail and Amtrak. These infusions target job growth and vehicular congestion reduction. This spending will also offer a helping hand to flagging industries—especially in hard-hit commodities and heavy industry sectors, such as the metal and cement industries, and heavy industrial equipment.

A modernized and more efficient surface transportation system could have important business strategy implications surrounding shipping logistics. As companies strive to cut fuel use and reduce carbon footprints, transport infrastructure improvements have knock-on benefit effects for manufacturers, such as makers of consumer products, whose distribution supply chain is tied to outmoded, inefficient and expensive shipping channels. Companies that successfully and swiftly remodel supply chain strategies around the changing transportation infrastructure will benefit.

Transportation infrastructure projects funded will likely be those

demonstrating job growth, limited environmental impact and greenhouse gas reduction. Also, projects integrating innovative technology in legacy or new infrastructure will likely be front-running candidates for stimulus monies.

3. Cleantech bounce

Some \$83 billion in tax incentives and spending affect cleantech sectors, including solar, wind, biofuels, geothermal, landfill gas, and other resources. Also included are extended renewable energy production credit, new advanced energy manufacturing credits, an opportunity to monetize energy credits, loan guarantees for renewable and alternative energy, efficiency and weatherization programs and smart grid investment incentives.

Large and small businesses, in and outside the energy industry, are the target. Major players (such as solar panel and wind turbine producers) are likely to benefit through loan guarantees. An \$11 billion outlay to modernize the electricity grid will benefit companies producing components along the “smart grid”—from smart meters to energy storage systems. Green building materials makers will likely get a boost from the push for building efficiency.

Key practices to keep in mind: Accountability, transparency and control

Companies executing stimulus projects as well as public agencies disbursing funds all need to be aware of some key considerations and requirements.

All executives need to understand:

Success will be measured. On the program and project level, detailed measurements will be required from assessment to design to operations and through audit and final evaluation. Companies and agencies will need to define the right measures and data at the start, collect the data, ensure transparency and post results as widely as possible.

Rigorous audit and review is intended to touch everything. Accountability and transparency measures are built in to the Act. Public program managers and private businesses implementing programs all have to anticipate and prepare for rigorous review by government inspector generals and the Office of Management and Budget, among others. All need to assure accountability, consistency, controls, collaboration with auditors and transparency.

Short-term benefit and speed of action must be balanced with strong controls. Speed is needed to implement projects to invigorate the economy. This can easily cause bubbles in demand that can lead to bottlenecks. Effort should be made to head off logjams and resource shortages, expedite grant-making and contracting, and properly train workers to raise productivity. At the same time, speed of execution cannot come at the expense of quality controls and safeguards.

Restrictions will be placed on TARP recipients, including those on executive pay and the ability to hire employees with H1B visas.

Requirements to use American iron, steel and manufactured goods may apply to some projects.

Long-term benefits must be maximized and that requires planning and analysis today. One goal of the Act is creating ongoing benefit. It is very possible that government may require metrics to gauge the Act's success. Public agencies especially may want to start developing measures now to demonstrate long-term results.

Upcoming 10Minutes topics

Top concerns for boardroom directors

After a year of unprecedented challenge and change, directors are revisiting their oversight of risk management and corporate culture. 10Minutes looks at how the ongoing credit crisis affects these and other corporate governance issues, sizing up the potential impact on your business.

Realizing enterprise resource planning (ERP) value

Across industries, at one level or another, enterprise applications sit at the core of a company's ability to weather the current economic downturn—or capitalize on it. 10Minutes discusses how economic downturns can be the best times to undertake a wide range of ERP-related actions.

Recently published editions

Help your company manage through the downturn and, at the same time, position it better for the long term with these recently published 10Minutes editions on these topics:

- Rethinking pivotal talent
- Sustainable cost reduction
- Making divestitures successful
- Finance & accounting shared services
- Bolstering corporate liquidity

How PwC can help

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