County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

March 4, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE - FEDERAL ECONOMIC STIMULUS LEGISLATION

INTRODUCTION

On February 17, 2009, President Obama signed the major economic stimulus/fiscal relief legislation, H.R. 1, the American Recovery and Reinvestment Act. The bill's total Federal cost will be approximately $787 billion over ten years according to estimates by the Congressional Budget Office (CBO). The bill includes an estimated $212 billion in tax relief and $575 billion in increased one-time spending, including $308 billion for discretionary programs and $267 billion for entitlement spending programs. As estimated by the CBO, approximately 20 percent of the total spending would occur in Federal Fiscal Year (FFY) 2009, 60 percent in FFYs 2010 and 2011, and the remaining 20 percent in FFYs 2012 through 2019.

The bill's actual costs may vary significantly because the CBO's estimates are based on major assumptions about the expenditures of states for entitlement programs, such as Medicaid and Temporary Assistance for Needy Families (TANF), which will affect the amount of Federal revenue received by states. This means that state and local governments ultimately may receive less funding than assumed by the CBO.

SUMMARY OF POTENTIAL COUNTY IMPACT

This report describes the potential impact of this legislation on the County. **We caution that the overall fiscal impact on the County cannot be determined with certainty** for the following reasons.

- Most of the legislation's impact will be indirect, and determined by its ultimate effectiveness in improving economic conditions in the State and the County, which, in turn, will affect State and local tax revenues and decrease health, welfare, and other State and County expenditures.

- Similar to existing Federal funding streams, relatively little funding in H.R. 1 will be allocated, by formula, to the County. Instead, the County will receive most of its Federal revenue through Medicaid (Medi-Cal) and TANF (CalWORKs) -- programs for which the County's revenues and costs are significantly affected by future changes in caseloads, costs, and allocations, which, in turn, are affected by State budget and policy decisions.

- Most of the bill's discretionary (appropriated) funding for State and local programs either will be awarded by Federal agencies on a competitive basis or will flow through the State, which will have considerable discretion over the allocation of funds.

- **One of the biggest unknowns is the bill's ultimate fiscal impact on reducing the State's budget deficit, which, in turn, will affect future State funding for the County.** For example, unless the State determines that increased Federal revenue will be available to offset $10 billion in State General Fund expenditures by June 30, 2010, an estimated $30 million in State health funding to the County would be reduced, pursuant to recently enacted State budget legislation.

- The County may receive less Federal funding in the future due to the increased need and pressure to reduce the size of the huge Federal budget deficit to which the bill greatly contributed.

The bill's greatest positive fiscal impact on the County, by far, will come from a **temporary increase** in the Federal Medical Assistance Percentage (FMAP), which is the Federal match rate for non-administrative Medicaid costs and Title IV-E foster care maintenance and adoption assistance payments. **The County may realize an estimated $441.7 million in savings from the FMAP increase over the 27-month period from October 1, 2008 to December 31, 2010,** based on current estimates of the County's percentage share of non-Federal Medicaid costs and assuming no change in State Medi-Cal policies. These estimates will change as the County's overall Medi-Cal revenue estimates change over time. **The County also may receive an estimated savings of $7 million for adoption assistance from the Title IV-E FMAP increase,** and would receive additional foster care savings if the Federal share of costs under the County's capped annual Title IV-E waiver allocations is renegotiated and increased to reflect the higher actual FMAP than assumed when the waiver was negotiated.

The County Department of Health Services (DHS) estimates that it will receive a combined total of $11.3 million from a one-time increase in Medicaid Disproportionate Share Hospital payments for FFYs 2009 and 2010. The County also is likely to benefit from a new one-time TANF Emergency Fund in FFYs 2009 and 2010. However, neither the amount of California's quarterly grant nor the County's share can be estimated at this time. The State's grant will depend upon the quarterly statewide increase in certain CalWORKs expenditures over a prior base quarter, which will be affected by future changes in caseloads and in State and other counties' policies that affect statewide expenditures levels. The County's share will depend upon how the State decides to use and allocate its TANF grant funds.

Under discretionary programs for which Federal spending is set by appropriations, **the County should receive an estimated total of $81.5 million in one-time funding through existing programs, such as the Community Development Block Grant, Workforce Investment Act, and Byrne Justice Assistance Grants, under which the County receives formula grants. In addition, the County will receive an estimated $21.8 million in Federal highway funds through the Metropolitan Transportation Agency (MTA) and an additional $10.8 million in highway funds if proposed State legislation is enacted for a total of an estimated $32.6 million.**

We cannot estimate the amount that the County will receive through other discretionary programs because funds will be awarded by the Federal government on a competitive basis by the State at its discretion, or under new programs, such as broadband deployment grants, for which the Federal allocation metholodogy will have to be developed by Federal agencies.

The State of California will receive major Federal revenue from the bill. However, it is unclear whether it will receive revenue that can be used to offset at least $10 billion in State General Fund expenditures by June 30, 2010, which is the amount needed to restore funding for certain programs, including an estimated $30 million in State health funding to the County, pursuant to recently enacted State budget legislation. The temporary Medicaid and Title IV-E FMAP increases, TANF Emergency Fund, and child support enforcement revenue in the bill clearly can be used to offset some State General Fund expenditures. However, whether the State will receive $10 billion in such Federal revenue is likely to depend upon how much of an anticipated $5.96 billion State Fiscal Stabilization Fund will be received by the State to offset such expenditures.

More detailed analyses of the potential fiscal impacts of H.R. 1 on the County are discussed below in three separate sections: 1) health and welfare entitlement programs through which the County will receive most of its revenue; 2) discretionary program funding; and 3) other spending provisions of County interest, which would not result in additional Federal revenue to the County.

I. HEALTH AND WELFARE ENTITLEMENT PROGRAMS

Temporary Federal Medical Assistance Percentage Increase for Medicaid

The temporary Federal Medical Assistance Percentage (FMAP) increase will provide the State and County far more Federal revenue and fiscal relief than any other provision in H.R. 1. The FMAP is the Federal Match Rate for non-administrative Medicaid costs and Title IV-E foster care maintenance and adoption assistance payments. The Congressional Budget Office estimates the total Federal cost of the FMAP increase at $87 billion, and the General Accountability Office (GAO) estimates that California's Medicaid revenue will increase by more than $11 billion over the 27-month period. We caution that both estimates are based on major assumptions and that the actual impact may vary significantly.

The bill increases the FMAP from October 1, 2008 through December 31, 2010. All states receive a base 6.2 percentage point FMAP increase, and most states will receive an additional unemployment-related FMAP increase with California qualifying for the maximum possible unemployment-related increase of 5.3935 percentage points. As a result, the State's FMAP will increase from the statutory minimum of 50.0 percent to 61.5935 percent during the 27-month period. In effect, the County will receive $1.60 per non-Federal matching dollar instead of the dollar per dollar match under the existing 50 percent FMAP.

To receive the increased FMAP during the 27-month period, a state must meet the following requirements:

- Medicaid eligibility standards, methodologies, or procedures may not be more restrictive than those in effect on July 1, 2008, except that a state may receive the higher FMAP if it rescinds eligibility restrictions in effect on the date of enactment by July 1, 2009. This language will discourage California from imposing new restrictions on Medi-Cal eligibility. To qualify for the higher FMAP, the State also must rescind certain eligibility restrictions, such as the application of mid-year status reporting to children and shortening of continuous eligibility from 12 months to six months for children, which took effect after July 1, 2008;

- A state may not deposit or credit "any amounts attributable (directly or indirectly)" to the FMAP increase into a state reserve or rainy day fund. This means that the State would be ineligible for the FMAP increase if it deposits any General Fund savings attributable to the FMAP increase into the State's rainy day fund; and

- A state, such as California, which requires local governments to contribute to the non-Federal share of Medicaid costs, may not require them to incur a greater percentage of such non-Federal costs during any quarter than the percentage share required under the State Medicaid Plan on September 30, 2008.

The temporary FMAP increase will not apply to Medicaid Disproportionate Share Hospital (DSH) payments and any payments for medical assistance provided to individuals who would have been ineligible for such benefits under income standards in effect on July 1, 2008. Therefore, California cannot take advantage of the FMAP increase to help finance higher Medi-Cal income eligibility standards. However, the FMAP increase would apply to any other increased Medicaid spending, including increases in provider payment rates, non-income eligibility standards, the scope of covered services, and the number of beneficiaries.

The impact of the FMAP increase on the State and County will be affected by changes in Medi-Cal caseloads as well as future changes in Federal and State budget and policy decisions affecting Medicaid, which cannot be predicted in advance. Barring any change in current State law, the increased Federal Medicaid revenue from the FMAP increase will reduce the State General Fund share of total Medicaid (Medi-Cal) costs by a corresponding amount. The County and other providers will only receive a net increase in Medi-Cal fee-for-service payments for which the non-Federal share is financed by the State if the State raises its payment rates.

However, the County-supported language, which prevents a state from increasing the local share of non-Federal Medicaid costs, will require the State to use part of its increased Medicaid revenue to reimburse counties in proportion to their respective shares of total non-Federal costs. Based on current estimates of costs eligible for the FMAP increase, the County may realize an estimated $441.7 million in total cost savings, including $139.6 million in Fiscal Year (FY) 2008-09, $201.4 million in FY 2009-10, and $100.7 million in FY 2010-11. The estimated $441.7 million County cost savings over the 27-month period includes:

- $180.8 million of the County's share of In-Home Supportive Services (IHSS), as estimated by the Department of Public Social Services;

- $149.2 million of the County's share of Medi-Cal redesign costs under the Medicaid Hospital Financing Waiver, as estimated by the Department of Health Services; and

- $111.7 million of the County's share of mental health costs, as estimated by the Department of Mental Health.

The temporary FMAP increase also will afford the State and the County the opportunity to leverage more Federal Medicaid matching funds using non-General Fund matching funds, such as provider fees, intergovernmental transfers, certified public expenditures, Proposition 63 Mental Health Services Act funding, and Realignment Program funds. However, the ability of the County to leverage more Federal revenue will be limited by current Federal payment limits and by pending Medicaid regulations, such as the government provider payment limit, which would further limit Federal financial participation.

Title IV-E Foster Care and Adoption Assistance FMAP Increase

The bill would apply the temporary across-the-board 6.2 percentage point FMAP increase to Title IV-E foster care maintenance payments and adoption assistance payments. This means that California's Federal match rate for such Title IV-E costs would increase from 50.0 percent to 56.2 percent from October 1, 2008 through December 31, 2010.

In Los Angeles County, Alameda County, and the State of Florida, annual Title IV-E foster care allocations are capped under existing Title IV-E waivers. Therefore, the County's annual capped Title IV-E allocations will have to be renegotiated in order for the County to receive increased Title IV-E foster care funding. The County's Washington, D.C. advocates informed us that House Ways and Means Committee staff indicates that the Department of Health and Human Services (HHS) is committed to providing more funding for the waiver jurisdictions, based on their discussions with HHS staff responsible for Title IV-E waivers.

The Department of Children and Family Services estimates that the temporary FMAP increase may reduce the County's adoption assistance costs by a total of $7 million over the 27-month period, including $3.1 million in FFY 2009, $3.1 million in FFY 2010, and $0.8 million in FFY 2011. The County would realize additional foster care cost savings if the Federal share of costs under the County's annual capped Title IV-E waiver allocations is renegotiated and increased to reflect the increase in the Federal match rate to 56.2 percent from the 50 percent FMAP that was assumed when the annual allocations originally were determined.

Medicaid Disproportionate Share Hospital (DSH) Funding

The bill includes language, which increases each state's Medicaid DSH allotment in FFYs 2009 and 2010 by 2.5 percent. Based on the Centers for Medicare and Medicaid Services' preliminary state DSH allotments for FFY 2009, California's combined FFYs 2009 and 2010 DSH allotments would increase by roughly $54 million. The County's DHS estimates that it would receive a total of $11.3 million in increased DSH payments, including $5.8 million in FFY 2009 and $5.5 million in FFY 2010.

A summary table of the fiscal impact of the FMAP and Medicaid DSH increases, by fiscal year, is attached (Attachment I).

Moratoria on Final Medicaid Regulations

H.R. 1, as enacted, extends the current moratoria on three Medicaid regulations (targeted case management services, school-based services, and provider taxes) for three additional months through June 30, 2009. It also applies the moratorium to the Medicaid outpatient hospital services rule, which had not been subject to the previous statutory moratorium. Each of these four Medicaid rules already had been issued as final rules and otherwise would take effect on April 1, 2009.

The final bill also included "Sense of Congress" language that the Secretary of Health and Human Services (HHS) should not promulgate final regulations on proposed Medicaid rules on graduate medical education and rehabilitation services and on the Medicaid government provider payment limit rule, which a U.S. District Court had determined to have been improperly promulgated. These rules, if implemented, would significantly reduce Medicaid payments to the County. Congress did not extend the moratoria for these three rules because they will not take effect unless HHS issues them as final rules, which is unlikely, and because the CBO would have "scored" such moratoria as increasing the overall Federal cost of the legislation.

Transitional Medicaid Assistance

The bill extends the state option to provide transitional Medicaid assistance to individuals who leave welfare for work for 18 months through December 31, 2010. California currently exercises this state option.

Temporary Assistance for Needy Families (TANF) Emergency Fund

Next to the temporary FMAP increase, the County is likely to receive the most Federal revenue from the bill's new $5 billion TANF Emergency Fund for FFYs 2009 and 2010. This new <u>one-time</u> emergency fund is targeted at states which are experiencing a growing need for TANF-funded assistance due to the recession. It is intended to make more Federal resources available and to reduce the need for financially distressed states, such as California, to reduce TANF-related expenditures.

To be eligible for payments under the fund during any quarter of FFYs 2009 and 2010, a state's average cash assistance caseload must be higher than the quarter in which the caseload was lowest in FFYs 2007 or 2008. An eligible state will receive a quarterly grant equal to 80 percent of its increase in quarterly expenditures for basic assistance, subsidized employment, and non-recurrent short-term benefits under TANF (CalWORKs in California) over the corresponding quarter in FFYs 2007 or 2008 in which expenditures for each of these three expenditure categories were lowest. Total emergency fund revenue to an eligible state may not exceed 50 percent of its annual TANF block grant – a maximum limit of $1.832 billion for California.

It is certain that California will receive a significant amount of increased Federal revenue because its caseload and expenditures have grown significantly. The amount of increased revenue, however, cannot be estimated at this time because it will be significantly affected by future changes in CalWORKs caseloads and expenditures, which also will be affected by future State budget and policy decisions. In addition, the calculation of increased expenditures is complicated as total statewide State maintenance-of-effort and TANF expenditures must be counted and compared, by category and quarter, with those in the quarter in which expenditures were lowest in FFYs 2007 or 2008.

Under the bill, the State can use its TANF Emergency Fund grant for any allowable use of TANF funds, not limited to the expenditure categories for which its grant amounts are based. Therefore, the County's share of total grant funding will depend on how the State decides to allocate and use the funds.

Child Support Enforcement

The bill restores the ability of states to use Federal child support incentive payments as matching funds under the Child Support Enforcement program in FFYs 2009 and 2010 at an estimated Federal cost of $1 billion, according to the CBO. This state option was eliminated under the Deficit Reduction Act of 2005, which, in effect, shifted child support enforcement costs to states. California would save the roughly $30 million a year in State General Fund monies that it has been spending to backfill the lost use of incentive payments as matching funds.

Health Information Technology

The bill includes the Health Information Technology for Economic and Clinical Health (HITECH) Act, which provides an estimated $38.37 billion over seven years for a major new Federal health information technology (HIT) initiative that has the goal of ensuring that each person has an electronic health record (EHR). The HITECH Act requires the development of HIT standards and policies, strategies to enhance the use of HIT to improve the quality of care and reduce medical errors, and policies, technologies, and approaches for protecting the privacy and security of health information. The bill includes an appropriation of $2 billion for the initial development and implementation of HIT policies, standards, and infrastructure, some of which would be available for grants to states to promote health information technology. The Secretary of HHS will have broad discretion over how the $2 billion is allocated and spent.

The estimated total of $36.37 billion in remaining Federal HIT costs mainly consists of incentive payments to Medicare and Medicaid providers for the purchase, implementation, and use of certified EHR technology, beginning in FFY 2011. The CBO estimates that implementation of this new technology will save the Federal government an estimated $15.55 billion in offsetting Federal Medicare, Medicaid, and other health savings, resulting in $22.82 billion in net Federal HIT costs through FFY 2019. The CBO's estimate of HIT costs is especially subject to error because the standards and specifications of the required HIT/EHR technology have yet to be determined.

County DHS hospitals should qualify for both Medicare and Medicaid incentive payments. Most County Federal HIT funding will be in the form of Medicaid incentive payments to acute care hospitals, which have at least 10 percent of patient volume attributable to Medicaid beneficiaries. At this time, we are unable to estimate how much Federal HIT revenue that the County will receive because the standards and specifications for the EHR technology and Federal guidelines and payment methodologies must be developed.

II. DISCRETIONARY PROGRAM FUNDING

H.R. 1 includes one-time appropriations for discretionary programs for which funding would be available to state and local governments, including the County. For the most part, the bill funds existing programs and uses their existing funding mechanisms to distribute funds rather than creating and funding new programs. Thus, most of the State and local grant funding for which the County is eligible to receive funding either will be awarded by Federal agencies on a competitive grant basis or will flow through the State, which will have considerable discretion over the allocation and use of funds. However, the bill includes funding for a number of programs through which the County will receive formula grant funding either directly from the Federal government or indirectly through the State.

It also is noteworthy that despite media reports, which have highlighted the bill's infrastructure project funding, relatively little of the discretionary grant funding which the County is likely to receive will be for infrastructure/capital projects. Discretionary program funding that is potentially available to the County under the bill is as follows.

Highways

The largest source of infrastructure funding in the bill is $27.5 billion for highway and bridge and other infrastructure investments nationwide. Of this amount, approximately $17.86 billion will be allocated directly to states, $8 billion to metropolitan planning organizations (MPOs), and $800 million for the Transportation Enhancement Activities (TEA) program. There is no local matching fund requirement and states are required to give priority to projects that can be completed within the next three years and/or are located in economically distressed areas.

California's share of the $17.86 billion is $2.57 billion, which includes approximately $771 million that must be sub-allocated to MPOs such as the Los Angeles County Metropolitan Transportation Agency (MTA). According to the MTA, the Los Angeles County region's share of the $771 million is $215 million, which is proposed to be allocated to local governments on a population basis with a minimum of $500,000 per jurisdiction. Of the $215 million available for the Los Angeles County region, the MTA indicates that the County's direct share for the unincorporated areas is approximately $21.8 million. Of the $800 million for the TEA program, California's share is approximately $77 million of which $12.8 million will be made available to the MTA for the Los Angeles County region. TEA projects can include pedestrian and bicycle facilities and scenic easement and/or historic site acquisition.

The Governor is circulating draft urgency State economic stimulus legislation, which would affect the distribution of these Federal stimulus funds. We believe that the intent of the draft legislation is that 37.5 percent of all flexible highway funds made available to California would be allocated to Caltrans and 62.5 percent would be allocated to the MPOs. If such legislation is enacted, the MTA estimates that available funding for the Los Angeles County region would increase from $215 million to $438 million, of which the MTA proposes to suballocate $315 million to cities and the County. The County's additional share would be an estimated $10.8 million, increasing the County's total allocation to approximately $32.6 million. The draft legislation also would increase the MTA's estimated TEA funding from $12.8 million to approximately $21.6 million which would be available through the MTA.

Army Corps of Engineers

H.R. 1 appropriates $4.6 billion in total funding for the Army Corps of Engineers (Corps) civil works activities, including $2.075 billion for operations and maintenance, $2 billion for construction, and $25 million for general investigations. The remaining balance would go to other Corps projects and activities, which would not be available to fund Corps projects located within the County. Funding only can be used for programs, projects, activities or elements of programs that can be completed with funding made available by the bill. Conference report language is included indicating Congressional intent that the Corps use funds to carry out authorized projects, which would maximize national benefits, can be executed quickly, and result in high, immediate employment.

Formula Grant Funding to the County

H.R. 1 appropriates funds for existing State and local grant programs under which the County would receive an estimated combined total of nearly $81.6 million that will be allocated, either directly or indirectly through mandatory state pass-through formulas. Except for highway funding that may be allocated to the County, formula grant programs are the only discretionary programs for which the County will have broad decision-making authority over the specific use and allocation of funds within the County. For other programs, the County will have to submit competitive grant applications or pursue funding through the State with the Federal and/or State governments having decision-making authority over which projects or services are funded.

The existing programs for which the County would receive formula grant allocations include Housing and Urban Development (HUD) programs, Department of Labor programs, Department of Health and Human Services (HHS) programs, and a Department of Justice program -- the Federal departments through which the County currently receives nearly all of its Federal formula grant allocations. The program funding levels and estimated County allocations under the bill are as follows:

- Community Development Block Grant (CDBG): The bill includes $1 billion in Community Development Block Grant funds through regular formula allocations to grantees that received funding in FFY 2008. The County's CDBG allocation is $7.97 million. In selecting projects to be funded, grantees must give priority to project applicants that can award contracts based on the bids in a timely manner. The Secretary of HUD has authority to waive any statutory or regulatory provisions except for requirements related to fair housing, nondiscrimination, labor standards and the environment to expedite the use of funds.

- Homelessness Prevention Fund: The bill includes $1.5 billion in homeless prevention funds of which the County's allocation is $12.19 million. The funding may be used for activities, such as rental assistance, housing relocation and stabilization services, credit repair, security or utility deposits, utility payments, case management, and the rapid re-housing of persons who have become homeless. Grantees may use up to five percent of total funding for administrative costs.

- Public Housing Capital Fund: The bill provides $4 billion in Public Housing Capital Funds of which $3 billion is allocated using the existing FFY 2008 formula to public housing agencies, which are to give priority to capital projects that can be awarded quickly, and to vacant rental units. The County's estimated allocation is $7.4 million. The remaining $1 billion in funding would be awarded on a competitive basis to leverage private capital and for energy conservation retrofit investments.

- Workforce Investment Act (WIA) Adult Grants: The bill provides $500 million for WIA Adult Grants. The Department of Community and Senior Services (CSS) estimates that the County's Workforce Investment Board (WIB) will receive $6.5 million. The bill includes language to ensure that supportive services and needs related payments are available to support the employment and training needs of priority populations, including recipients of public assistance and other low-income individuals.

- WIA Youth Grants: The bill provides $1.2 billion for WIA Youth Grants of which the County's WIB will receive an estimated $15.1 million, according to CSS. The bill allows funds to be used for summer youth employment as well as for year-round youth employment activities. It also allows funds to be spent on youth through age 24 to allow local programs to reach young adults who have become disconnected from both education and the labor market.

- WIA Dislocated Workers Grants: The bill provides $1.25 billion for Dislocated Worker Grants of which the County's WIB will receive an estimated $9.1 million, according to CSS. Conference committee report language was included to urge the Secretary of Labor to provide guidance to States and local workforce investment boards to establish policies that ensure that supportive services and needs-related payments may be necessary for an individual's participation in job training activities.

- Community Service Employment for Older Americans: The bill provides $120 million for the Community Service Employment for Older Americans program of which the County will receive an estimated $2.3 million, according to CSS. These funds will be distributed to current grantees, such as the County, to support additional employment opportunities for low-income seniors.

- Older Americans Act Nutrition Services: The bill provides $100 million for Older Americans Act nutrition programs, including $65 million for Congregate Nutrition Services, $32 million for Home-Delivered Nutrition Services, and $3 million for Nutrition Services for Native Americans. The County's estimated allocation will total $1.6 million, according to CSS.

- Community Services Block Grant: The bill provides $1 billion for the Community Services Block Grant (CSBG). The Department of Public Social Services estimates that it will receive $9.8 million. In addition, CSS estimates that the County will receive $594,000 for the Native American Program.

- Byrne Justice Assistance Grants: The bill includes $2 billion for Byrne Justice Assistance Grants (JAG) of which approximately 40 percent of total funding is allocated, by formula, to cities and counties. The County's JAG allocation will be $8.9 million. Under current law, the State will be required to pass through slightly more than 67 percent of its separate JAG allotment of $135.6 million to cities and counties. Federal law provides states with discretion over how they allocate mandatory pass-through funds to local governments though California historically has awarded these funds on a discretionary project basis.

A summary table of the County's estimated highway and discretionary formula grant funding is attached (Attachment II).

Energy Efficiency and Conservation Block Grant (EECBG)

H.R. 1 includes $3.2 billion for the EECBG, which was authorized under the Energy Independence and Security Act of 2007 (Public Law 110-140). The bill specifies that $400 million will be awarded through competitive grants and $2.8 billion by formula. Under P.L. 110-140, 68 percent ($1.9 billion) of total funding would be allocated directly to counties with populations over 200,000 and cities over 35,000. States receive 28 percent of total funding and the remaining funds go to Indian tribes and competitive grants. Because the EECBG was never funded and implemented, the Department of Energy, which administers the program, must develop program guidelines and establish the allocation formula before EECBG funds are distributed.

Federal Competitive Grants

H.R. 1 includes appropriations for programs for which funds will be awarded by the Federal government on a competitive grant application basis for which the County is eligible to apply, in addition to formula grant funding that would be awarded competitively, as described in the previous section. Because these funds will be awarded competitively, we are unable to estimate how much funding the County ultimately will receive. The programs include the following:

- Airport Improvement Projects. The bill includes $1.1 billion to fund airport improvement projects on a competitive grant process with priority given to applications which demonstrate that projects can be completed within two years of the bill's enactment, and supplement rather then supplant planned expenditures from airport-generated revenues or other State and local revenue sources. Federal grant funds would cover 100 percent of project costs.

- National Surface Transportation Grants. The bill includes $1.5 billion for competitive grants to State and local governments or transit agencies for surface transportation projects that will "have a significant impact on the nation, a metropolitan area or region." It includes language directing the Secretary of Transportation to ensure an equitable geographic distribution of funds and appropriate balance in addressing the needs of urban and rural communities.

- Community-Oriented Policing Services (COPS) Hiring Grants: The bill includes $1 billion for COPS Hiring Grants for the hiring or rehiring of additional law enforcement officers, who must be retained after the three-year Federal grant period ends. The bill also waives the 25 percent non-Federal match requirement and per officer salary cap. The Department of Justice indicates that the grant funding will be based on current entry-level salary and employee benefits (S&EB) and that any additional costs for higher S&EB for any officer must be financed by the grantee.

- Byrne Competitive Grants: The bill includes $225 million for Byrne Competitive Grants, which may be used by the Department of Justice to fund a broad range of activities to prevent and control crime and improve the criminal justice system. Besides state and local governments, eligible applicants include profit and non-profit organizations, institutions or higher education, faith-based organizations, and Indian tribes.

- Assisted Housing Energy Retrofit Investments: The bill provides $2.25 billion for assisted housing stability and energy and green retrofit investments. This total includes $2 billion for Section 8 project-based rental assistance payments to owners for 12-month periods and $250 million for grants or loans to upgrade HUD sponsored low-income housing to improve energy efficiency. HUD may provide incentives to owners to undertake energy retrofits and green investments as part of these programs, including but not limited to fees for investment oversight and implementation, or to encourage job creation for low- or very-low-income individuals.

- Neighborhood Stabilization Program: The bill provides $2 billion in Neighborhood Stabilization Program (NSP) funds for which states, local governments, and non-profit entities, or consortia of non-profit entities are eligible to apply. In awarding funds, HUD is to ensure that grantees are in areas with the greatest number and percentage of foreclosures and can expend funds in a timely manner. Additional award criteria include demonstrated grantee capacity to execute projects, leveraging potential, and concentration of investment to achieve neighborhood stabilization. The bill stipulates that a grantee may not use more than 10 percent of the funds for establishing and operating land banks or demolishing blighted structures unless HUD determines that these activities represent an appropriate response to local market conditions. In addition, HUD may use up to 10 percent for capacity building of and support for local communities.

- Economic Development Assistance Programs: The bill provides $150 million for the Economic Development Assistance programs administered by the Economic Development Administration (EDA) to leverage private investment, stimulate employment, and increase incomes in economically distressed communities. Of this total, $50 million is available for economic adjustment assistance to help communities recover from sudden and severe economic dislocation and massive job loss due to corporate restructuring. Up to $50 million may be transferred to federally authorized regional economic development commissions.

- WIA Dislocated Worker National Reserve Grants: The bill includes $200 million for the Dislocated Worker National Reserve Grants, which will be awarded as emergency competitive grants by the Department of Labor in response to plant closings, mass layoffs, and other worker dislocations.

- Worker Training in High Growth and Emerging Industry Sector Grants: The bill provides $750 million for competitive grants for worker training and placement in high growth and emerging industry sectors, including $500 million for projects to prepare workers for careers in energy efficiency and renewable energy. With the remaining balance, priority will be given to projects that train workers in health care. Other allowable activities including training for wireless and broadband deployment and advanced manufacturing and other high demand industry sectors identified by local workforce investment boards.

- Health Professions Workforce Grants: The bill includes $500 million to address health professions workforce shortages, including $300 million for the National Health Services Corps (NHSC) for recruitment and field activities and $200 million for primary care medicine, dentistry, public health, preventive medicine, scholarship and loan repayment programs. The NHSC helps medically underserved communities recruit and retain primary care clinicians, including dental, mental and behavioral health professionals who serve in their communities.

- Fire Station Construction and Upgrades: The bill includes $210 million for competitive grants to modify, upgrade, or construct non-Federal fire stations with a maximum grant limit of $15 million. The Federal Emergency Management Agency, which will administer the funds, may retain up to 5 percent of the total amount for its program administrative costs.

- National Endowment for the Arts: The bill includes $50 million for the National Endowment for the Arts to be distributed in direct grants for arts projects and activities which preserve jobs in the non-profit arts sectors threatened by declines in financial support due to the economic downturn. The bill specifies that 60 percent of total funding will be awarded as competitive grants with the remaining 40 percent allocated to State art agencies and regional arts organizations.

Potential Funding Through State Formula Grants

In addition to the WIA, Byrne JAG, and highway formula grant funding, which was discussed previously, H.R. 1 appropriates funds for five state formula grant programs for which the State of California will have the discretion to provide grants to local governments, including the County. Therefore, there is not any assurance that funds will be made available to the County under these programs which include:

- State Energy Program: The bill includes $3.1 billion for the State Energy Program (SEP), which may be used by states for a wide range of activities to promote renewable energy and energy efficiency. The California Energy Commission administers SEP funds in the State. Under the program's allocation formula, California should receive more than $200 million (roughly 6.5 percent) of total funding. That amount far exceeds the roughly $3 million in annual SEP funding that the State has received in recent years. This huge increase reflects the fact that the $3.1 billion in SEP funding is far greater than its $44 million FFY 2008 funding level.

- Weatherization Assistance Program: The bill includes $5 billion for the Weatherization Assistance Program which is an amount that far exceeds its FFY 2008 funding level of $227 million. This program funds services to improve the energy efficiency of homes of low-income families. Under its allocation formula, California would receive roughly $192 million, which far exceeds the $6.3 million that it received in FFY 2008. The State Department of Community Services and

Development administers the program. Weatherization assistance service providers include community-based organizations (CBOs) and local government agencies. All of the funded service providers in the County currently are CBOs.

- Clean Water State Revolving Fund. The bill includes $4 billion for the Clean Water State Revolving Fund of which more than $280 million should be allocated to California under its statutory allocation formula. One-half (or 50 percent) of the funds must be used to provide additional subsidies to eligible recipients in the form of forgiveness of principal, negative interest on loans or grants, or a combination of both as long as such debt was incurred on or after October 1, 2008. At least 20 percent of the total funding must be used for projects to address green infrastructure, water or energy efficiency improvements, water quality improvements, stormwater runoff mitigation, water conservation or other environmentally innovative activities. The existing requirement for a 20 percent match is waived under the Act. These funds cannot be used to purchase land or easements.

- Drinking Water State Revolving Fund: The bill includes $2 billion for the EPA Drinking Water State Revolving Fund, of which nearly $160 million should be allocated to California under its statutory allocation formula. Funding can be used to support construction of public water system facilities, including replacement projects (sources, treatment, distribution, and storage) to meet public health standards and system reliability consistent with state waterworks standards. One-half (or 50 percent) of the funds must be used to provide additional subsidies to eligible recipients in the form of grants, forgiveness of principal or negative interest on loans, or a combination of both, provided that such debt was incurred on or after October 1, 2008. At least 20 percent of the funds must be used for projects to address green infrastructure, water or energy efficiency improvements or other environmentally innovative activities. The existing requirement for a 20 percent match is waived under the Act. These funds cannot be used to purchase land or easements.

- Tax Credit Assistance Program: The bill provides $2.25 billion in Tax Credit Assistance Program grants to be distributed to state housing credit agencies for capital investments in Low-Income Housing Tax Credits projects. These funds would be allocated to states based on the percentage share of HOME funds each state received for FFY 2008. California's allocation is $325 million. Allocating agencies must award funds competitively giving priority to projects that are expected to be completed in a timely manner.

Potential Funding Under Federal Discretion

The bill also includes funding for a number of major program areas for which the Federal agencies will have broad discretion over the use of funds, including the amount if funds to be made available for grants to state and local governments and other entities. These program areas include:

- Broadband Technology: The bill includes $4.7 billion for a new Broadband Technology Opportunities Program (BTOP), which is intended to accelerate broadband deployment in unserved and underserved areas. The bill sets aside a portion of that amount for developing and mapping a national broadband inventory map of existing broadband service capability and availability, which will be important for determining the allocation of funds. It also specifies that at least $200 million be used for competitive grants to expand public computer center capacity at community colleges and public libraries and at least $250 million for competitive grants for innovative programs to encourage the adoption of broadband service. The National Telecommunications and Information Administration (NTIA), which will administer the funds, will have considerable discretion over deciding how the large remaining balance of funds is used to expand broadband deployment. Under the BTOP, grants may be made to a wide range of eligible applicants, including state and local governments, corporations, non-profit organizations, associations, and any other entity determined by the NTIA. The bill requires the NTIA to award grants by September 30, 2010.

- Prevention and Wellness Fund: The bill provides $1 billion to HHS for prevention and wellness programs including $300 million for immunization, $650 million for evidence-based clinical and community-based prevention and wellness strategies to address chronic disease rates, and $50 million for states to implement health care-associated infection prevention strategies. HHS will have broad discretion in the allocation of these funds.

- Wildland Fire Management: H.R. 1 provides $500 million to the U.S. Forest Service for wildland fire management of which $250 million is for State and private forestry activities, including hazardous fuels reduction, forest health and ecosystem management on State and private lands. The Forest Service has broad discretion over the allocation of funds.

III. OTHER SPENDING PROVISIONS OF COUNTY INTEREST

The bill has several other spending provisions of County interest, which would not result in additional Federal revenue to the County. The most significant provision is the State Fiscal Stabilization Fund because, as explained below, the amount of Federal revenue that the State receives through this fund that can be used to offset State General Fund expenditures will be critically important to the determination of whether the State will meet the $10 billion threshold of Federal stimulus revenue that is needed to restore certain State funding of importance to the County.

State Fiscal Stabilization Fund

Except for increased Medicaid funding, the single biggest source of funding for the State of California is from the bill's $53.6 billion State Fiscal Stabilization Fund, which will be administered by the U.S. Department of Education. Of the total amount, $48.3 billion will be allocated by formula to states, $5 billion will be used for competitive education incentive grants to states, and $650 million will be used for an Innovation Fund which recognizes academic achievement gains made by local education agencies. California's formula grant allocation will total $5.960 billion of which at least 81.8 percent ($4.875 billion) must be spent on K-12 education or public higher education. Governors are required to first use education funding to restore:

- In each of FYs 2009, 2010, and 2011, the level of support provided through state K-12 education allocation formulas to the greater of the FYs 2008 or 2009 level, and to allow existing K-12 formula increases to be implemented, if such increases were enacted prior to October 1, 2008; and

- In each of FYs 2009, 2010, and 2011, the level of support provided to public higher education institutions to the greater of the FYs 2008 or 2009 level.

The Governor may use up to 18.2 percent ($1.085 billion) of California's allocation for public safety and other government services. As a condition for receipt of funding, the bill requires each state to commit to a maintenance-of-effort (MOE) requirement that it maintain state support for elementary and secondary education and public higher education institutions in each of fiscal years FYs 2009, 2010, and 2011 at least at the level of such support in FY 2006. To relieve the fiscal burdens on states and local educational agencies that have experienced a "precipitous decline in financial resources," the Secretary of Education may waive any requirement relating to maintaining fiscal effort in any fiscal year, provided that the state or local educational agency not provide a smaller percentage of total available revenues to K-12 education than in the preceding fiscal year.

The State of California could use $1.085 billion of its allocation to offset State General Fund expenditures prior to June 30, 2010. However, it is not clear that much, if any, of the $4.875 billion can be used to offset State General Fund expenditures by that date, especially if the Secretary of Education does not grant a waiver of fiscal effort requirements for K-12 and higher education. This is important because the amount of State Fiscal Stabilization Fund monies that can be used to offset State General Fund expenditures is critically important to the Department of Finance's and State Treasurer's determination of whether $10 billion in Federal economic stimulus funds will be available to offset State General Fund expenditures by June 30, 2010. If that $10 billion threshold is not met, $30 million in State health funding to the County that was reduced in recently enacted State budget legislation, including $24.4 million in Safety Net Care

Pool and South Los Angeles Preservation funding and $5.6 million in Medi-Cal optional benefits for the County, would not be restored.

Other Spending Provisions

Other spending provisions in H.R. 1 of County interest include the following:

- An estimated $20 billion in increased spending for a 13.6 percent increase in Supplemental Nutrition Assistance Program (Food Stamp) benefits over two years;
- An estimated $7 billion to states for increased unemployment insurance benefits, including financial incentives for states to expand eligibility to more workers and including $500 million for state administrative costs;
- $2 billion in increased Child Care Development Block Grant funds to states of which California will receive an estimated $220 million. States must use their allocations to supplement, not supplant, state expenditures for child care assistance;
- $8.4 billion in mass transit funding; and
- $4 billion for high speed rail corridor and intercity rail grants for which priority should be given to high speed rail projects.

The implementation of this landmark legislation will occur throughout the next few months. Accordingly, it will be important for County departments to monitor closely the administrative and regulatory requirements necessary to access funds and to identify opportunities to shape the development of formulas and criteria. Our office will continue to work closely with County departments to ensure that the County maximizes the opportunity afforded by this legislation.

We will continue to keep you advised.

WTF:GK
MAL:MT:sb

Attachments

c: All Department Heads
Legislative Strategist

Summary of Entitlement Program Funding

Temporary Federal Medical Assistance Percentage Increase for Medicaid Estimated County Cost Savings (1)				
Department	**FY 2008-09** (10/1/08 – 6/30/09)	**FY 2009-10** (7/1/09 – 6/30/10)	**FY 2010-11** (7/1/10 – 12/31/10)	**Total**
Public Social Services (2)	$ 56.9 million	$ 82.6 million	$ 41.3 million	$ 180.8 million
Health Services	$ 45.8 million	$ 68.9 million	$ 34.5 million	$ 149.2 million
Mental Health (3)	$ 36.9 million	$ 49.9 million	$ 24.9 million	$ 111.7 million
Total	**$139.6 million**	**$ 201.4 million**	**$ 100.7 million**	**$ 441.7 million**

(1) County cost savings amounts are based on the FMAP rate increasing from the current 50% to 61.5935%.
(2) Estimates for the Department of Public Social Services are for Medicaid-funded In-Home Supportive Services (IHSS)
(3) Estimates for the Department of Mental Health include $18.9 million of indirect savings over the three year period.

Temporary Federal Medical Assistance Percentage Increase for Title IV-E Estimated County Cost Savings (1)				
Department	**FFY 2009** (2) (10/1/08 – 9/30/09)	**FFY 2010** (2) (10/1/09 – 9/30/10)	**FFY 2011** (2) (10/1/10 – 12/31/10)	**Total**
Children & Family Services	$ 3.1 million	$ 3.1 million	$ 0.8 million	$ 7.0 million

(1) County cost savings in this table are for adoption assistance costs and do not include foster care savings which would result if the County's annual capped IV-E waiver allocations are renegotiated and increased to reflect the higher 56.2 percent FMAP than the 50 percent FMAP that was assumed when annual IV-E allocations originally were determined.
(2) Estimates are by Federal Fiscal Year.

Medicaid Disproportionate Share Hospital (DSH) Funding Estimated County Cost Savings (1)			
Department	**FFY 2009** (2) (10/1/08 – 9/30/09)	**FFY 2010** (2) (10/1/09 – 9/30/10)	**Total**
Health Services	$ 5.8 million	$ 5.5 million	$ 11.3 million

(1) Estimated County cost savings is based on the 2.5% increase to each state's Medicaid DSH allocation.
(2) Estimates are by Federal Fiscal Year.

Attachment II

Summary of Discretionary Program Funding

Highway Funding Available to the County	
Department	**Total**
Highway Account Funding • Department of Public Works - Unincorporated Areas [1] • Additional County Allocation - Pending State Legislation	$ 21.8 million $ 10.8 million
Total	$ 32.6 million

(1) Estimate is based on the amount the Metropolitan Transportation Authority (MTA) would receive from the State, and the MTA's planned allocations to local governments in the Los Angeles County region.

Formula Grant Funding Available to the County	
Department / Program	**Total**
Community and Senior Services • Workforce Investment Act (WIA) Youth Grants - $15.1 million • WIA Dislocated Worker Grants - $9.1 million • WIA Adult Grants - $6.5 million • Community Service Employment for Older Americans - $2.3 million • Older Americans Nutrition Services - $1.6 million • Community Services Block Grant/Native American Program - $0.6 million	$ 35.2 million
Community Development Commission/Housing Authority • Homeless Prevention Fund - $12.19 million • Community Development Block Grant - $7.97 million • Public Housing Capital Fund - $7.4 million	$ 27.6 million
Public Social Services • Community Services Block Grant - $9.8 million	$ 9.8 million
County-related Justice Activities • Byrne Justice Assistance Grants - $8.9 million[1]	$ 8.9 million
Total Formula Grant Funding	**$ 81.5 million**

(1) Grant funding is allocated for Countywide programs.