



Global Economic Crisis Hits California

By Sanford Michelman

MOST AMERICANS BECAME acutely aware of the global economic crisis in September 2008 when a number of the nation's staunchest financial institutions failed, merged or solely avoided catastrophe through the acceptance of a government conservatorship. Although the warning signs of an impending crisis had loomed for months prior to September's collapse, the private sector, government and the public failed to heed these signs resulting in the country's current recession.

With the election of President Barack Obama, the government has sought to quell the economic crash by enacting the American Recovery and Reinvestment Act of 2009, a stimulus package that the 44th President signed into law on February 17, 2009. The \$789 billion stimulus is designed as a nationwide effort to create more than three million jobs in a variety of industries over the next two years, jumpstart growth and transform the American economy to compete in the 21st century.

In addition to providing tax relief for individuals and companies in the form of tax cuts equaling \$288 billion and \$357 billion in funding to federal social programs and spending programs, the act devotes \$144 billion, or 18% of the total bill's expenditures, to state and local fiscal relief. Providing the states with financial assistance is an integral part of stimulating the economy. The federal government used a formula based mainly on demogra-

phics to determine how much assistance each state would receive. About 61 %of the allocation is based on the state's share of population of 5- to 24-year-olds. The remaining 39% is based on the state's share of the national population. California, the largest state by population with about 37.5 million people, is due to receive the greatest portion of federal stimulus money of any state.

California is expected to secure approximately \$26 billion in total for over 40 programs, including \$2.57 billion to build and repair the state's roads, bridges and highways, the largest share of transportation funding from the federal government's stimulus package to any of the fifty states. Most of the \$26 billion will support the state's health and education programs as the act calls for more than 90% of the aid provided to each state be used to prevent cuts to Medicaid and education.

The U.S. Senate Policy Committee estimates that California will likely receive federal assistance in the following programs:

- \$160.2 million – Drinking Water State Revolving Funding to address the backlog of drinking water infrastructure projects.
- \$284.6 million – Clean Water State Revolving Funding to address the backlog of clean water infrastructure needs.
- \$2.6 billion – Highway Funding to be used on activities eligible under

the Federal aid Highway Program's Surface Transportation Program and could also include rail and port infrastructure activities at the discretion of the states.

- \$1.1 billion – Transit Formula Funding for investments in mass transit.
- \$118.6 million – Public Housing Capital Funding to enable local public housing agencies to address a national \$32 billion backlog in capital needs - especially those improving energy efficiency in aging developments - in this critical element of the nation's affordable housing infrastructure.
- \$324.2 million – HOME Funding to enable state and local government, in partnership with community-based organizations, to acquire, construct, and rehabilitate affordable housing and provide rental assistance to poor families.
- \$190 million – the Homelessness Prevention Funding to be used for prevention activities, which include: short or medium-term rental assistance, first and last month's rental payment, or utility payments. As such, most of this funding will go directly into the economy of local communities, as the funds will be used to pay housing and other associated costs in the private market.
- \$6 billion – the State Fiscal Stabilization Funding to local school districts and public colleges and universities in California and

additional funding for other high-priority needs such as public safety and other critical services, which may include education.

- \$1.2 billion – Special Education Part B State Grants to help improve educational outcomes for individuals with disabilities, raising the federal contribution to nearly 40 percent, the level established when the law was authorized more than 30 years ago.
- \$1.6 billion – Title I Education for the Disadvantaged to help close the achievement gap and support disadvantaged students.
- \$225 million – Dislocated Workers State Grants, particularly for grants that support immediate strategies for regions and communities to meet their need for skilled workers, as well as longer-term plans to build targeted industry clusters with better training and a more productive workforce.
- \$224.5 million – the State Energy Program.
- \$192.1 million – the Weatherization Assistance Program.
- \$1.7 billion – Supplemental Nutrition Assistance Program benefits (formerly Food Stamps).
- \$220.2 million – Child Care and Development Block Grants to provide quality child care services for in low-income families who increasingly are unable to afford the high cost of day care.

On March 2, 2009 the federal government released a disbursement of the act's stimulus funds to the states. With the money in and the state's unemployment rate rapidly growing as its health and education programs remain in danger, California must now determine how to appropriately allot these funds in order to stimulate the state's desperate economy and prevent further socio-economic erosion. According to the Sacramento Bee, part of the stimulus money will be immediately used to aid the state's unemployed citizens by automatically adding an extra \$25 per week to Californians unemployment insurance checks.

In addition to concern for its citizens, under federal rules, at least half the sum of the assistance provided to each state must be obligated through contracts by July 1, 2009 and under the state budget agreement, Finance Department Director Mike Genest and Treasurer Bill Lockyer must decide the level of input from the act on the state's General Fund by April 1, 2009 in order to determine whether to implement

additional tax hikes and spending cuts. A public hearing was held on March 17, 2009 to seek public input on a plan to eliminate \$3 billion in budget cuts and income tax increases if the state receives \$10 billion in federal stimulus dollars by June 30 of next year. In all likelihood, the state will not receive the needed \$10 billion.

With California's proverbial clock ticking, Sacramento as well as county and local governments must move to swiftly allocate the assistance funds while the government, public service organizations and the legal community prepare for the regulatory, legislative and legal issues that will arise. Efficiently and satisfactorily handling these issues will be critical to successfully navigating the challenges inherent in receiving all of the potential federal funding and then implementing that funding.

New legislation will be necessary to fully maximize the stimulus funds that California has already received and will continue to receive from the act, and legal issues will likely arise in conjunction with additional legislation.

For example, the state will need to address several inconsistencies between its health care rules and the requirements of the act. In particular, Medi-Cal, California's Medicaid program, may find itself in the middle of various legal battles because several of the state's current rules conflict with

the requirements set forth in the stimulus act. For example, certain Medi-Cal eligibility rules will have to be revised to qualify for an estimated \$10 billion from the act. Under the current rules, amended in September 2008, the state requires parents to verify children's eligibility for the program twice annually in order to receive stimulus funds, but the federal act specifically bars receipt of Medicaid funding if a state's Medicaid programs' eligibility requirements are more restrictive than they were on July 1, 2008.

The legal community in particular must continue to closely monitor Sacramento as the Governor, lobbyists and state officials determine allocation of the stimulus funds. Preparing now for the legal issues that will arise from the state's disbursement will be key to the success of the federal stimulus act. ✎

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