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**VIA ELECTRONIC MAIL**

May 14, 2009

To: Chairs of the Board  
CSAC Executive Committee  
County Administrative Officers

From: Paul McIntosh, CSAC Executive Director  
Jean Kinney Hurst, CSAC Legislative Representative

Re: **May Revision to the 2009-10 State Budget**

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Governor Arnold Schwarzenegger released a plan for revision of the 2009-10 state budget this afternoon. (Just a reminder: the state actually already has a 2009-10 budget in place. The 2009-10 May Revision essentially addresses an emerging budget shortfall in the existing budget plan.) The May Revision proposal outlines a \$15.4 billion budget deficit; that deficit skyrockets to \$21.3 billion if the May 19 special election ballot measures fail. Acknowledging the magnitude of the potential deficit and in an effort to communicate the state's dire fiscal straits to the public, the Department of Finance has prepared both a May Revision and a number of contingency proposals that are offered as solutions if the ballot measures were to fail.

It is unclear how the Legislature will address the May Revision process, given the unprecedented times. It has been rumored that a joint legislative conference committee may be convened as early as next week to begin the budget deliberation process. CSAC will keep counties apprised of all budget-related activities as soon as we are aware of them.

This summary outlines the May Revision as presented by the Department of Finance in a factual manner, without editorial comment. Please keep in mind that there are very few details provided, and we expect more information to come out as the weeks progress. Furthermore, CSAC will be contacting counties tomorrow with an action plan to address the significant and severe proposals contained in the Governor's May Revision.

Please be sure to note that we have organized our summary in two parts. The first section, under *Proposed May Revision* (starting on page 3), describes the Governor's budget solutions that anticipate a \$15.4 billion deficit in 2009–10. The second section, under *Proposed Contingency Plan* (starting on page 7), describes the **additional** cost savings proposals the Governor's has outlined in the event that the propositions on the May 19 special election ballot fail.

A copy of the May Revision can be found online at the Department of Finance's website.

## May Revision Summary Charts

### May Revision Budget Shortfall (\$ in millions)

		<b>Total Reserve</b>
<b>6/30/10 Reserve, Projected as of 2009 early Budget Act</b>		<b>\$2,103</b>
Workload Adjustments:		-\$15,546
Revenues	-12,401	
Prop 98 Expenditures (mainly property tax loss)	-1,090	
Non-Prop 98 Expenditures	-2,317	
Federal Stimulus Funds, General Fund Offset	262	
Rebuild Reserve		-2,000
Budget Shortfall Assuming Passage of Propositions		-\$15,443
Budget Shortfall if the Propositions Fail on May 19		-\$21,279

### Recap by Category of May Revision Proposals (\$ in millions)

	<b>2008-09 &amp; Prior</b>	<b>2009-10</b>	<b>Two-Year</b>	<b>Percent of Total</b>
Reorganization/Consolidation	\$0.0	\$50.0	\$50.0	0.3%
Program Savings	2,020.0	3,539.6	5,559.6	38.2%
Cuts Requiring Federal Waivers	0.0	750.0	750.0	5.2%
Revenue Accelerations/Fees	0.0	988.9	988.9	6.8%
Fund Shifts	12.5	92.9	105.4	0.7%
Other	0.0	1,100.0	1,100.0	7.6%
Borrowing	0.0	6,000.0	6,000.0	41.2%
<b>Total</b>	<b>\$2,032.5</b>	<b>\$12,521.4</b>	<b>\$14,553.9</b>	<b>100.0%</b>
Change in Reserve (from \$2 billion)		889.0	889.0	
Total w/ Change in Reserve	\$2,032.5	\$13,410.4	\$15,442.9	

### 2009-10 May Revision Proposals General Fund Budget Summary With Budget Solutions (\$ in millions)

	<b>2008-09</b>	<b>2009-10</b>
<b>Prior Year Balance</b>	\$2,308	-\$4,248
Revenues and Transfers	85,947	90,518
<b>Total Resources Available</b>	<b>88,255</b>	<b>86,270</b>
Non-Prop 98 Expenditures	58,195	44,769
Prop 98 Expenditures	34,308	39,311
<b>Total Expenditures</b>	<b>\$92,503</b>	<b>\$84,080</b>
<b>Fund Balance</b>	<b>-\$4,248</b>	<b>\$2,190</b>
Reserve for Liquidation of Encumbrances	1,079	1,079
<b>Special Fund for Economic Uncertainties</b>	<b>-\$5,327</b>	<b>\$1,111</b>

**Recap by Category, May Revision Contingency Proposals**

(\$ in millions)

	<b>2008-09 &amp; Prior</b>	<b>2009-10</b>	<b>Two-Year</b>	<b>Percent of Total</b>
Reorganization/Consolidation	\$0.0	\$0.0	\$0.0	0.0%
Program Savings	617.0	2,822.8	3,439.8	50.8%
Cuts Requiring Federal Waivers	0.0	0.0	0.0	0.0%
Revenue Accelerations/Fees	0.0	1,776.5	1,776.5	26.2%
Fund Shifts	0.0	0.0	0.0	0.0%
Other	0.0	78.3	78.3	1.2%
Borrowing	0.0	1,482.0	1,482.0	21.9%
<b>Total</b>	<b>\$617.0</b>	<b>\$6,159.7</b>	<b>\$6,776.7</b>	<b>100.0%</b>
Change in Reserve (from \$2 billion)		-941.0	-941.0	
Total w/ Change in Reserve	\$617.0	\$5,218.7	\$5,835.7	

**Recap by Category of All May Revision and Contingency Proposals**

(\$ in millions)

	<b>2008-09 &amp; Prior</b>	<b>2009-10</b>	<b>Two-Year</b>	<b>Percent of Total</b>
Reorganization/Consolidation	\$0.0	\$50.0	\$50.0	0.2%
Program Savings	2,637.0	6,362.4	8,999.4	42.2%
Cuts Requiring Federal Waivers	0.0	750.0	750.0	3.5%
Revenue Accelerations/Fees	0.0	2,765.4	2,765.4	13.0%
Fund Shifts	12.5	92.9	105.4	0.5%
Other	0.0	1,178.3	1,178.3	5.5%
Borrowing	0.0	7,482.0	7,482.0	35.1%
<b>Total</b>	<b>\$2,649.5</b>	<b>\$18,681.1</b>	<b>\$21,330.6</b>	<b>100.0%</b>
Change in Reserve (from \$2 billion)		-52.0	-52.0	
Total w/ Change in Reserve	\$2,649.5	\$18,629.1	\$21,278.6	

**2009-10 May Revision and Contingency Proposals  
General Fund Budget Summary With All Budget Solutions**

(\$ in millions)

	<b>2008-09</b>	<b>2009-10</b>
<b>Prior Year Balance</b>	\$2,308	-\$3,631
Revenues and Transfers	85,947	92,218
<b>Total Resources Available</b>	<b>88,255</b>	<b>88,587</b>
Non-Prop 98 Expenditures	58,195	48,804
Prop 98 Expenditures	33,691	36,652
<b>Total Expenditures</b>	<b>\$91,886</b>	<b>\$85,456</b>
<b>Fund Balance</b>	<b>-\$3,631</b>	<b>\$3,131</b>
Reserve for Liquidation of Encumbrances	1,079	1,079
<b>Special Fund for Economic Uncertainties</b>	<b>-\$4,710</b>	<b>\$2,052</b>

**Proposed May Revision**

**STATEWIDE ISSUES**

**Issuance of Registered Reimbursement Warrants (RAWs).** The May Revision proposes the issuance of \$6 billion in Registered Reimbursement Warrants (RAWs) to assist the state in covering its cash shortfall. The amount will be treated as an offset of 2009-10 expenditures but additional cashflow borrowing will be required to address the state's cash needs. The Department of Finance indicates that it

will be working with the State Controller and the State Treasurer to develop a strategy for addressing cash borrowing over the coming weeks.

**School Financing, Deferrals, and Dry-Period Financing.** The Governor proposes to cut K-12 and community college appropriations by \$1 billion in 2008-09 and \$2 billion in 2009-10. The reductions are allowable without suspending Proposition 98 because of the drop in expected revenues on which the Proposition 98 base relies. The Legislature must enact the 2008-09 reductions before the end of this fiscal year, or they permanently become part of the Proposition 98 base, which not only takes away the \$1 billion in 2008-09 savings, but also raises the guarantee in all future years, including 2009-10.

Like the Legislature did when they cut school funding earlier this year, the Governor proposes to increase schools' budget flexibility. Most notably, local districts would have the option of reducing up to one week of instructional time, for no more than three years.

Also of note, the May Revision outlines potential plans to move certain K-12 payments from the scheduled payment dates to a later date. This may be of interest to counties as schools may require dry-period financing from the county investment pool to cover their cashflow shortfalls.

**Property Tax Forecast.** The state has changed its property tax forecast; they revised their 2008-09 estimate down to 2.3 percent growth from 4.4 percent, and revised their 2009-10 estimate down to 4.1 percent decline from 0.3 percent growth. The Administration reports having solicited county assessors throughout the state to develop these revised estimates, as well as considering steep price declines for residential properties in 2008, which will drive reductions in 2009-10.

**Vehicle License Fee (VLF) Forecast.** The state has revised its VLF forecast for 2009-10 down 2.1 percent from the Budget Act estimate and revised the 2008-09 forecast up 4.0 percent. With these two changes, they now expect 2009-10 VLF revenues to be four-and-a-half times higher than in 2008-09.

**Sales and Use Tax (SUT) Forecast.** The state has altered its SUT forecast for 2008-09 down 6.5 percent from the Budget Act estimate and its 2009-10 forecast down 8.7 percent. With these two changes, the Administration now expects 2009-10 SUT revenues to be about 12 percent higher than in 2008-09, which in turn were about 7.5 percent below 2007-08 levels.

**California Economic Indicators.** The state projects nonfarm wage and salary employment to drop by 3.9 percent in 2009 and another 0.9 percent in 2010, which will drive the state's unemployment up to 12.0 percent. Despite this, the Administration projects personal income to rise 1.4 percent in 2010 and 3.9 percent in 2011. Personal income's projected decline by 1.0 percent in 2009 is the first since 1938.

The state estimates housing permits, which dropped 42.5 percent in 2008 to about 65,000 units, to drop another 24.4 percent in 2009 to about 49,000 units. However, the Administration projects a 74.9 percent increase in 2010 to 85,000 units.

## **ADMINISTRATION OF JUSTICE**

The Governor's May Revision proposes no specific local public safety program reductions. We would note that the local public safety subventions previously supported by the state General Fund are now, pursuant to the February budget resolution, funded by a 0.15 percent increase to the Vehicle License Fee (VLF). The new local public safety funding construct is not affected by either the May Revision or the Governor's contingency plan.

## **AGRICULTURE AND NATURAL RESOURCES**

**Williamson Act.** The Governor's May Revision proposes to eliminate all state Williamson Act subvention payments to local government. This proposal reflects \$34.7 million in payments to cities and counties with Williamson Act contracts. The Governor's 2009-10 budget reduced the Williamson Act subventions by 10 percent, but did not eliminate funding.

**Flood Protection.** The Governor's May Revision proposes to shift funding for flood protection activities to Proposition 1E. The May Revision proposes to shift funding for floodplain evaluations and mapping and support for Delta levees to Proposition 1E. General Fund support for these programs will need to be restored when bond funds become unavailable.

## **GOVERNMENT FINANCE AND OPERATIONS**

**Employee Health Care Costs.** The Governor proposes \$132.2 million in program savings beginning in January 2010, by contracting for lower cost health care coverage either through CalPERS or directly from an insurer. The savings from this proposal would prefund Other Post-Employment Benefits costs.

**Employer Costs.** The Governor's May Revision seeks to shift major Department of Industrial Relations programs to fees, thereby increasing employer fees to fund the Occupational Safety Hazard and Labor Standards Enforcement programs.

**State Employee Cuts.** Governor Schwarzenegger today ordered his Administration to send layoff notices to 5,000 state employees, cutting that workforce by five percent.

## **HEALTH AND HUMAN SERVICES**

**In-Home Supportive Services.** The Governor's May Revision resurrects a number of budget cut proposals from prior years. The cuts would be effective October 1, 2009. The cut proposals including the following:

- **Wages and Benefits.** The Administration proposes to roll back state participation in IHSS wages to the current state minimum wage of \$8 per hour for a savings of \$114.1 million General Fund. Currently, the state participates in wages up to \$11.50. Effective July 1, 2009, state participation will decrease to \$9.50. Under the proposal, the state would maintain participation in benefits at \$0.60 per hour.
- **Limit Services.** The Administration is also proposing to eliminate domestic and related services for all consumers with a functional index below 4, for a savings of \$40.8 million General Fund.
- **Increase Cost Sharing for Consumers.** As proposed last year, consumers with a functional index below 4 would not be eligible for a state-funded share of cost buyout, giving these consumers a share of cost for services. The proposal would save \$38.2 million.

In addition, the Administration is proposing an **IHSS Fraud Initiative**, projected to save \$15.8 million. There is no detail on the fraud initiative at this time.

**CalWORKs.** The May Revision includes \$156.7 million in savings associated with enacting the following cuts effective October 1, 2009:

- **Modified Safety Net program.** This proposal would provide benefits only for Safety Net cases that meet federal work participation requirements.
- **60-month time-limit for child-only cases.** The May Revision also assumes that grants for children of unaided adults will be subject to a 60-month time limit.
- **Self-Sufficiency Reviews.** The Administration is also proposing to require face-to-face interviews, which they are calling Self-Sufficiency Reviews, with all recipients who are not meeting work requirements. The interviews would occur every six months.
- **Grants.** The Administration is proposing to reduce the CalWORKs maximum aid payment standard by six percent. The 2009 Budget Act includes a 4 percent grant reduction effective July 1, 2009.

## Medi-Cal

- **Federal Medi-Cal Flexibility & Stabilization.** The May Revision document includes a placeholder to pursue \$750 million in savings to the Medi-Cal program by requesting a federal waiver. According to the Administration's document, the state can no longer afford its Medi-Cal program as currently structured and governed by federal rules. Under the new federal requirements of the American Recovery and Reinvestment Act of 2009 (ARRA), California cannot reduce eligibility to create savings. California has been unable to implement Medi-Cal rate reductions. The Governor will be petitioning the Obama Administration to secure program flexibilities to slow the rate of program growth and manage Medi-Cal within available resources. They will also work with Congress to resolve longstanding, unreimbursed Medicaid claims owed to states regarding classification of certain permanent disability cases. The document provides no detail on the types of "flexibility" that the Administration will be pursuing.
- **Legal immigrants** (Qualified Alien or Permanently Residing in the U.S. under Color of Law (PRUCOL)). Proposes to reduce the scope of benefits available to legal immigrants, age 20 and older, from full-scope Medi-Cal to emergency services, pregnancy, long-term care and breast and cervical cancer treatment. This proposal would save \$125 million.
- **Private Hospitals.** Reduce Medi-Cal payments to private hospitals by 10 percent to achieve \$20 million in savings. This is commensurate to the public hospitals reduction included in the 2009 Budget Act.
- **Eliminate Certified Application Assistance.** Eliminate certified application assistance for \$2.7 million in savings. This assistance helps individuals enroll and remain in subsidized children's' health insurance coverage.
- **Family Planning Services Rates.** Reduce rates for family planning services to the pre-January 2008 level, which saves \$36.8 million.
- **Pharmacy Reforms.** Implement new federal and state drug pricing policies effective October 1, 2009. Reforms would require federal Drug Pricing providers to dispense only drugs purchased through the program, would require manufacturers of HIV/AIDS/cancer drugs to pay particular rebates subject to a penalty of non-compliance, establish billing limits for drugs and would require the state to perform therapeutic category review of antipsychotic drugs.
- **Anti-Fraud Initiative.** More aggressively target fraud in adult day health care centers, pharmacy, physicians, durable medical equipment, and transportation for a savings of \$47.9 million. The costs to start the initiative include \$3.4 million General Fund for 62 positions.

**Immigrant Programs.** Savings of \$120.2 million, effective October 1, 2009, by eliminating:

- **Cash Assistance Program for Immigrants (CAPI).** The Administration proposes to eliminate the CAPI program, which provides cash assistance to approximately 12,000 immigrants who are aged, blind or disabled but who do not qualify for Supplemental Security Income (SSI) due to immigration status, for a savings of \$111.2 million General Fund. To be eligible for CAPI an individual must be either a Qualified Alien or Permanently Residing in the U.S. under Color of Law (PRUCOL). Many CAPI recipients would become eligible for county General Assistance programs.
- **California Food Assistance Program (CFAP).** The Administration also proposes to eliminate the CFAP, which provides benefits to 22,000 low-income legal non-citizens.

**Child Welfare Services.** The May Revision proposes to request that the federal government allow the federal Fostering Connections to Success and Increasing Adoptions Act funds to be used to offset General Fund spending on the Kinship-Guardianship Agreement Payment (KinGAP) program. If federal

support is obtained, \$31 million General Fund would be saved. The Administration formally made this request to Health and Human Services Agency Secretary Sebelius on May 13, 2009.

**Supplemental Security Income/State Supplemental Payment (SSI/SSP).** The May Revision proposes reducing the maximum monthly grants to the minimum allowed under federal law. This grant cut would be effective September 1, 2009 and would save \$248.5 million. Grants would be reduced to \$830 per month for an individual and \$1,407 per month for a couple. The 2009 Budget Act includes a 2.3 percent grant reduction effective July 1, 2009.

Housing, Land Use and Transportation

## **HOUSING, LAND USE AND TRANSPORTATION**

**Proposition 42.** The Governor's proposed May Revision to the 2009-10 state budget does not include a proposal to borrow Proposition 42.

**Transfer of Spillover.** The Governor proposes to divert \$336 million in "spillover" revenue that are projected to accrue in 2009-10 to fund transit bond debt service. Spillover revenues occur when revenue derived from sales taxes on gasoline is proportionately higher in relationship to revenue derived from all taxable sales, and generally reflect higher gasoline prices.

## **Proposed Contingency Plan**

**Suspension of Proposition 1A (2004).** As widely reported, Governor Schwarzenegger included the suspension of Proposition 1A (2004) in the contingency plan for resolution of the state budget deficit if the May 19 ballot measures fail. There is little detail to the description, except that the state is anticipating borrowing \$1.982 billion in property tax revenues from counties, cities, and special districts for the 2009-10 fiscal year. The summary assumes repayment within three years, as required by the Constitution, and specifically notes that the Administration will propose legislation to create a joint powers authority to allow local agencies to borrow against the state repayment as a group.

Counties may be aware that the League of California Cities released a by-county, by-city estimated breakdown of the Proposition 1A reduction. We encourage counties to compare this information with estimates prepared using your most current information on allocated 2008-09 property tax revenues. While an 8 percent property tax reduction is a fairly straightforward calculation, please keep in mind that there is no proposed allocation of the reduction in the contingency plan to our knowledge. Article XIII, Section 25.5 of the California Constitution specifies that the allowed property tax reduction is "a total ad valorem property tax revenue loss to all local agencies within a county that exceeds 8 percent of the total amount of ad valorem property tax revenues that were allocated among all local agencies within that county for the fiscal year immediately preceding the fiscal year."

**Reduce RAW borrowing.** The contingency plan reduces the size of Registered Reimbursement Warrants (RAWs) by \$500 million to reduce the overall borrowing in the budget package.

**Targeted Reductions in Prison Population.** The Governor's May Revision contingency plan calls for a release of an estimated 19,000 undocumented immigrant inmates from the state prison system. The state would turn over the undocumented criminals to the federal government for immediate deportation. The Governor's budget materials identify the historic underfunding of the State Criminal Alien Assistance Program (SCAAP) as its rationale for the early release of undocumented criminals. Apparently, the state intends to solicit applications for commutations of sentences by undocumented immigrants in the state prison system. This Governor's contingency plan assumes that this proposal would yield savings of \$182.1 million.

We would point out that the 19,000 figure associated with the early release of undocumented immigrant detainees is only half of the 38,000 early release figure cited in press reports earlier today. Whether a larger prison release plan is assumed as part of the broad state worker layoff is not known at this time. We will continue to seek information on the prison population reduction proposal in the coming days.

**Shifting Populations to County Jails.** The Governor's contingency plan also would change sentencing options for low-level offenders, eliminating "wobbler" provisions — whereby an offense can be charged as either a misdemeanor or a felony — and making those crimes punishable only by a term in county jail. The Governor's budget documents indicate that this change will create state savings (and, presumably, a similarly sized county cost) of \$99.9 million.

**Emergency Response Initiative.** As part of the contingency plan, the Governor proposes to increase the insurance surcharge included in his budget from 2.8 percent to 4.8 percent on all residential and commercial property insurance statewide. The increase would fund a portion of the Department of Forestry and Fire Protection's baseline firefighting operations and provide assistance to local first response agencies in support of the state's mutual aid system. Proposed enhancement to the state's emergency response capabilities would be delayed until 2010-11. The Governor estimates that the surcharge would average approximately \$48 per insurance policy holder.

**State Parks Fees.** Included in the contingency plan is a proposal to increase existing fees in popular state parks and establish new fees in Old Town San Diego State Park and Sonoma Coast State Beaches. Funds will be used to offset General Fund expenditures, which are estimated to achieve \$5.6 million in General Funds savings.

The May Contingency plan contains approximately \$600 million in additional cuts to health and human services programs.

**In-Home Supportive Services (IHSS).** Effective October 1, 2009, individuals who require minimal physical assistance from another person to perform an activity would no longer receive domestic and related services; individuals needing supervision from another person to perform an activity would no longer be eligible for IHSS services. This proposal is estimated to save \$301.5 million.

### **Child Welfare**

- **County Allocation.** The Administration proposed to reduce child welfare allocations to counties by \$70 million General Fund. Counties will lose the associated federal funds.
- **Rate Reductions.** The Administration is proposing to reduce the Group Home, Foster Family Agency, and specialized care and clothing allowance rates by 10 percent.

**Proposition 36.** The Governor's contingency plan would eliminate \$108 million in Proposition 36 funding (\$90 million in Substance Abuse and Crime Prevention Act funding and \$18 million in Substance Abuse Offender Treatment Program funding).

**Medi-Cal.** May Contingency proposals include the following:

- **Drug Medi-Cal.** Reduce Drug Medi-Cal rates by 10 percent, for \$8.8 million in savings. This proposal affects substance abuse treatment providers.
- **Adult Day Health.** Reduce the Adult Day Health Care optional benefit by limiting benefits to three days per week for a savings of \$25.5 million.

### **Children's Health**

- **Healthy Families Program.** The Administration proposes to roll back eligibility to 200 percent of the Federal Poverty Level for a savings of \$54.5 million. Approximately 225,000 children would lose health coverage through the program.
- **Children's Dental Disease program.** The Administration proposes to suspend the Children's Dental Disease program by a savings of \$2.9 million. The program provides comprehensive school-based

prevention program based on need. It operates in 31 counties and serves approximately 300,000 preschool and elementary school children.

**Proposition 99.** The Administration proposes to redirect \$60 million in Proposition 99 funds to offset Medi-Cal costs. The following Proposition 99 funded items would be affected: county health, clinics, Breast Cancer Early Detection, Asthma, Major Risk Medical Insurance, and Access for Infants and Mothers program.

#### **Public Health**

- **HIV Education and Prevention.** The Governor's contingency plan would eliminate \$24.6 million in funding that supports local efforts to prevent transmission of HIV, address attitudes and behaviors related to HIV, and promote risk reduction skills.
- **Maternal, Child and Adolescent Health Grants.** The contingency plan would eliminate \$10 million that supports local health services seeking to improve the health of mothers, infants, children, adolescents, and families.

#### **Other Items of Interest**

**Domestic Violence Programs.** The Governor's contingency plan would eliminate \$20.4 million in funding that supports services for victims of domestic violence through a network of 94 domestic violence shelters and centers. These service centers provide emergency shelter, transitional housing, legal advocacy, assistance with temporary restraining orders, counseling and other supportive services to victims of domestic violence and their children.

**Poison Control System.** The Governor's contingency plan would eliminate \$5.9 in state funding for the poison control system, a statewide network of trained personnel who are available by phone for immediate, free treatment advice regarding exposure to poisonous or hazardous substances.



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**FOR IMMEDIATE RELEASE**

May 14, 2009

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## **May Revision Proposal Would Devastate County Services**

California counties adamantly oppose the borrowing of nearly \$2 billion in local government funds, as proposed in the 2009–10 May Revision Contingency Plan — which contains budget proposals for consideration if the May 19 ballot measures fail. This proposal comes during a perfect storm for local programs and services: steeply declining revenue, double-digit caseload increases due to job losses, previous budgetary reductions by the state, and a new set of spending cuts that will annihilate local services.

This plan to sweep local property taxes would cripple counties' ability to provide vital services when the need is growing daily. The proposal is a short-sighted, irresponsible maneuver that does nothing to solve the state's long-term budget issues. In fact, the plan comes at a significant cost to the state as local governments have to be repaid within three years with interest.

The borrowing plan also has to be considered in the context of the Governor's overall budget proposal that, if enacted, would impose significant cost shifts on counties, place unmanageable strains on an already overcrowded jail system, and further tatter the frayed safety net that protects vulnerable Californians.

Counties recognize the State is dealing with unprecedented budget challenges and facing a deficit of between \$15.4 billion and \$21.3 billion. Counties also recognize the May Revision represents an initial attempt to frame the Legislative debate in the coming weeks. Tough decisions are ahead that are sure to affect programs and services across the state. However, borrowing local government funds brings with it dire consequences and does nothing to solve the state's long-term structural problems.

The California State Association of Counties, headquartered in Sacramento, is the voice of California's 58 counties at the state and federal level.

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