February 19, 2009

TO: CSAC Board of Directors  
County Administrative Officers  
CSAC Corporate Associates

FROM: Paul McIntosh, CSAC Executive Director

RE: Budget Action Bulletin #2

After a marathon 45.5 hour session, the California State Senate was able to approve a budget package early this morning. A few hours later, the Assembly passed that package and sent it to the Governor for his signature. The 17-month budget plan represents mid-year reductions for the 2008-09 budget and the earliest budget on record for the upcoming (2009-10) fiscal year.

Over the past five days, legislative leaders and the Governor scrambled to achieve the 27 votes needed in the Senate for passage of the budget bills. The grueling process resulted in late night floor sessions; press conferences; closed door meetings; and heavy doses of frustration, anger, and exhaustion. In the end, Senator Abel Maldonado joined Senators Dave Cogdill and Roy Ashburn to provide the votes needed to pass the budget package out of the Senate. Senator Maldonado’s affirmative vote, however, relied on a number of changes and additions to the budget package, including a ballot measures calling for an open primary and a ban on legislative pay increases when the state budget is in deficit. Senator Maldonado also demanded that the proposed 12-cent gasoline tax increase be removed from consideration. New components of the budget package are described below.

This Bulletin attempts to outline our best understanding of the package as it stands now. However, as of this writing, final bill language is not yet available and likely will not be available until late tomorrow after the Governor signs the package and finalizes line-item vetoes.
Delays and Deferrals

Contrary to information we received as late as Saturday morning, the plan does include some deferrals of payments to counties for social services and transportation. The deferral language is included in ABX3 8. Details include the following:

- Transportation Deferrals: For February, March, and April 2009, a suspension of the monthly transfers of fuel excise tax allocations to cities and counties. Payments will resume in May 2009, and deferrals will be repaid in May 2009.

- Social Services Deferrals: Authorizes two-month deferrals of health and social services payments to counties from July and August to September 2009. The language requires the state to repay counties by September 30, 2009. Counties with populations under 40,000 are exempt.

Regarding the Controller’s delays of payments to counties, conversations with the Controller’s office this morning indicate that they anticipate needing at least a week or two to determine the impact of the approved budget package on the state’s cash crisis. They estimate that, upon the Governor’s signature of the budget bills, the Department of Finance will take about a week to develop a new cash plan. Once that cash plan is provided to the State Controller, it will take about another week to complete a review and perform stress testing. CSAC will be in contact with the Controller’s office frequently until regular payments to counties are resumed and those delayed payments are fully repaid.

“Trigger” Cuts

The budget package includes a number of cuts and revenue that are tied to the federal economic stimulus package. The cuts below would be enacted in statute and could only be “turned off” if expected revenues from the federal economic stimulus package are certified by the Department of Finance to equal or exceed $10 billion (this includes revenue anticipated to be received by June 30, 2010). If the cuts go into effect because revenues are not sufficient to meet the target amount, they would be permanent (i.e., requiring a future statutory change to undo). If the cuts are pre-empted from going into effect by federal revenue, this action would also be permanent. Future statute would be necessary to enact these cuts should they become necessary.

The language on the trigger cuts is contained in ABX3 8 and ABX3 16. Please note that ABX3 16 increases the federal fund amount necessary to prevent cuts from $9.1 to $10 billion. When Senator Ducheny presented this measure on the Senate floor early this morning she said that she remained confident that the State General Fund would receive at least $10 billion in federal stimulus. Some estimates have put California’s share of the federal stimulus package at as large as $30 billion.
The Department of Finance would be required to make its certification by April 1, 2009. If the federal funds do not materialize, we believe the cuts would be implemented either 90 days after the budget is signed or on July 1, 2009. Specifics vary by program.

Cuts include:

- CalWORKs grants
- Medi-Cal benefits and reimbursements
-SSI/SSP grants
- In-Home Supportive Services (IHSS)
- Judicial branch
- Higher education

For more details on the health and human services cuts, please see the *Health and Human Services* section of this bulletin.

**Tax Package**

The proposal to increase the gas tax by 12 cents was removed from the package at Senator Maldonado’s request. The lost revenue will be replaced with increased reliance on federal stimulus revenues, additional line-item vetoes reportedly totaling $600 million, and the change in the personal income tax surcharge.

**Personal Income Tax.** The personal income tax provisions of the budget package were modified in the early morning hours. What was once an up to five-percent surcharge on personal income tax liability became a 0.25 percent increase in each personal income tax bracket. If the state receives at least $10 billion in federal stimulus money, the increase drops to 0.125 percent. According to press reports, this proposal raises about $400 million more than the previous proposal.

**Vehicle License Fee (VLF).** The Legislature voted to increase the VLF rate from 0.65 percent to 1.15 percent; 0.15 percent of that is dedicated to local public safety programs, as detailed in the Administration of Justice section of this bulletin. The remaining 0.35 percent of the increase will be deposited into the General Fund. The budget also imposes a 0.65 percent rate on commercial vehicles. The higher rates would take effect on May 19 and last until July 1, 2011. If the spending cap measure passes at the May 19 special election, then the increase would last two additional years.

**Sales and Use Tax.** Under the budget deal, the state's portion of the sales and use taxes would increase by one-percent, beginning on April 1, 2009 and lasting until July 1, 2011. If the spending cap measure does not passes at the May 19 special election, then the increase would last one additional year.
Special Election Scheduled for May 19

The Legislature appropriated $10 million to the Secretary of State for the purposes of a special election, which can go up by another $5 million if necessary to cover costs. The Legislature did not address reimbursement of counties for holding the election, and they did not authorize any additional counties to conduct this election by mail-only ballots. However, Governor Schwarzenegger announced at his press conference this morning that he was “absolutely convinced” that counties would receive reimbursement for the cost of the election. CSAC has requested that the Governor include language in the signing message on SBX3 11 that indicates the state’s intention to provide such reimbursement.

The Legislature specified that the following measures will appear on the May 19 ballot (any initiatives that have collected the necessary signatures in time would share the ballot, as would measures from locally consolidated elections):

- Proposition 1A – Rainy day fund
- Proposition 1B – School money
- Proposition 1C – Lottery “modernization”
- Proposition 1D* – Proposition 10 (First 5) modification
- Proposition 1E* – Proposition 63 (mental health) modification
- Proposition 1F – Legislative Pay

* For more information on the changes to Proposition 63 and Proposition 10, please see the Health and Human Services section of this bulletin.

Spending Cap/Rainy Day Fund

One of the measures on the May 19 ballot combines the ideas of a “rainy day” fund and a spending cap. Each year, the Controller would deposit three-percent of General Fund revenues into the rainy day fund. Spending would be limited to the trend of revenues over the previous 10 years; revenues above that trend would go to the rainy day fund. The spending cap could accommodate tax increases. The rainy day fund would be considered “full” when it equals 12.5 percent of revenues. When the rainy day fund is full, revenues above the 10-year trend line could be used for a variety of specific one-time purposes, which the law puts in priority order. Those priorities are as follows:

- First, to pay down obligated payments to local government relating to Proposition 1A and Proposition 42 and bond debt.

- Second, other one-time expenditures, unfunded liabilities (such as pension or other post-employment benefits), the rainy day fund, or a one-time taxpayer refund.
The Governor can suspend the non-education-related transfer. The Legislature can appropriate money from the fund when the Governor declares an emergency and the forecast revenue for the year would not cover the previous year’s expenditures as adjusted for population and inflation. The General Fund can borrow from the rainy day fund if the loan is repaid within the same fiscal year.

If another ballot measure, relating to education funding, passes, then beginning in 2011 half of the transfer to the rainy day fund (or 1.5 percent of General Fund revenues) would instead be used to fund education up to $9.3 billion. Once the $9.3 billion is paid off, that 1.5 percent could be used to pay down bond debt.

**Open Primary/Legislative Pay**

We have yet to see final language, but the Legislature approved a constitutional amendment to be placed before the voters in June 2010 that would create an open primary for congressional and state races in 2012 and beyond. As reported by the press, the top two candidates would face off in a general election. While candidates would not participate in partisan primaries, they would continue to be identified with their party affiliation.

The Legislature also approved a constitutional amendment banning legislative pay increases when the state budget is in deficit. This measure is slated for the May 19 special election.

**WHAT’S BEEN HAPPENING**

**Administration of Justice**

**Local Public Safety Funding.** While the budget resolution imposes significant mid-year reductions to local public safety programs, those cuts are largely mitigated by a restoration of cuts and a more stable funding source in the out-years. A portion of the Vehicle License Fee (VLF) increase — 0.15 percent of a vehicle’s value — will be redirected to a new Local Safety and Protection Account and dedicated exclusively to local public safety programs. As with the other tax increases approved in the budget package, the public safety portion of the VLF increase will remain in effect through July 1, 2011 if the spending cap measure fails in the May 2009 special election; if the spending cap is approved by the voters, the 0.15 VLF increase and its dedication to public safety will remain in place through July 1, 2013. It is estimated that the public safety VLF increase will produce $502 million in 2009-10, growing to $534 million in 2012-13.

The mid-year public safety reductions are contained in SBX3 2, while the increase to the VLF is in ABX3 3. Further, SBX3 8 apportions the funds from the Local Safety and
Protection Account to specific local programs. It is expected that in the budget year, programs will effectively return to the funding level enacted in the 2008–09 budget passed last fall. While the specific details remain somewhat murky today, the table below provides the best information we have to date on current- and budget-year funding levels by program.

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Note that the estimates for 2009–10 funding levels based on total VLF revenue of $502 million and specific percentage appropriations stipulated in SBX3 8; totals may not add due to rounding.

**Judicial Benefits.** The budget package also contains a measure, SBX2 11 (Steinberg), that will address the *Sturgeon decision* related to the provision of supplemental judicial benefits. Counties will recall that the appellate court ruling issued in October 2008 deemed that the provision of local supplemental benefits to judges was unconstitutional on the grounds that Section 19, article VI of the California Constitution gives the Legislature the sole authority to “prescribe compensation.” SB X2 11 will make the provision of local judicial benefits permissible, by doing all of the following:

- Obligate any county that was providing supplemental judicial benefits as of July 1, 2008 to sustain the same level of benefits that were effective on that date for the term of the judge (at most six years).
- Give counties an option of terminating future benefit obligations, following the submission of a six-month written notice to the Administrative Director of the Courts.
- Provide immunity to entities that provided supplemental judicial benefits prior to the effective date of this measure.

**Court Facility Construction.** As counties will recall, SB 1407 (Perata) of 2008 authorized a variety of increases to penalties and fees to support the issuance of lease revenue bonds for purposes of financing planning, design, construction, rehabilitation, renovation, replacement, leasing or acquisition of state trial court facilities. Proceeds from the fee increases and surcharges, which became effective on January 1, 2009, are now being be deposited into a new account within the State Court Facilities Construction Fund, the Immediate and Critical Needs Account (ICNA). As SB 1407 made its way through the legislative process last year, the provisions granting the judicial branch expenditure authority were stripped out.

SBX2 12 (Steinberg) provides the judicial branch with the necessary expenditure authority to move forward with court construction projects. The measure also requires the Judicial Council to report to the Legislature annually on the status of construction projects and on an accounting of the ICNA.

**AB 900 “Fix”.** SBX3 14 (Ducheny) provides the necessary technical corrections to the language codified in AB 900 — the corrections reform measure passed in 2007 — regarding lease-revenue bond proceeds that are intended to finance the construction of reentry facilities, infill beds, and local detention facilities. Changes in SBX3 14 also are made to the language that authorized the sale of $100 million in lease revenue bonds.
for juvenile offender facilities, as authorized in SB 81 (2007). These modifications are necessary to permit the Attorney General to render a clean bond opinion, which is required before the Public Works Board can go to market for the bonds.

**Agriculture and Natural Resources**

**Williamson Act.** The final budget package includes $34.7 million for Williamson Act subventions payments to local government for 2009-10. Subvention payments for 2008-09 retain the $34.7 million as approved last September, which was a 10-percent decrease in funding from the previous year. Additionally, the Department of Conservation is appropriating $910,000 to (1) provide technical assistance to local jurisdictions that have a history of non-compliance with Williamson Act policy development, (2) assist compliance with state law, and (3) provide procedural guidance programs to maintain statewide consistency.

**Regulatory Relief**

**Diesel Regulations.** As part of the budget package the Legislature passed ABX2 8, which relaxes air quality standards for heavy duty construction equipment. The bill requires the Air Resources Board (ARB) to amend specified provisions of its In-Use Off-Road Vehicle Regulation to provide increased compliance flexibility and credits to offset emissions reduction requirements. From years 2011 to 2013, off-road diesel fleets will be required to be retrofitted under the following schedule: 20 percent of the fleet in 2011, 20 percent of the fleet in 2012, and the balance of the fleet by 2013.

**Carl Moyer Program.** The final budget package also includes changes to the Carl Moyer Memorial Air Quality Standards Program related to farm equipment. According to the Governor’s office, the Carl Moyer Program enhancements will act as an economic stimulus, providing incentives for faster equipment turnover in the agricultural industry. Specifically, the enhancements allow an off-road project that includes farm equipment to receive an emissions reduction grant from the Carl Moyer Program regardless of whether the improvements funded by the program will be for compliance with any future local, state or federal statue, rule or other regulation.

**CEQA Relief.** Included in the budget package is California Environmental Quality Act (CEQA) exemptions for the sale of surplus state land. Specifically, trailer bill language exempts “as is” sale of surplus state property from the CEQA process.

**California Conservation Corps (CCC).** The budget approved by the Legislature rejected the Governor’s proposal to realign the CCC by eliminating the state corps and increasing state grant funding to the local corps, which would have resulted in $17 million in general fund savings. The final budget package rejected this change and restored $17 million to the CCC, restoring their budget to approximately $34 million.
Government Finance and Operations

Employee Relations

Employee Compensation. In an effort to reduce state employee compensation costs by $1.4 billion, the budget agreement includes provisions that prohibit paid or unpaid leave time from being considered time worked when calculating a 40-hour work week and cash overtime pay. Overtime will only be paid based on actual time worked. Additionally, the state will eliminate two paid holidays, Lincoln and Columbus, and will change the way employees working on the remaining holidays are compensated. Instead of receiving overtime pay for holiday work, state employees will receive straight time pay and holiday credit time to use at another date. This action will generate savings in the 24-hour state facilities, among other state departments. Finally, at least one union has reached an agreement with the Governor to be furloughed one day per month for the next 17 months, but that agreement has not yet been ratified by the Legislature.

Prevailing Wage. SBX2 9 proposes generally to move away from the Labor Compliance Program model and to fund the Department of Industrial Relations (DIR) directly to enforce prevailing wage requirements on public works projects. The bill establishes the State Public Works Enforcement Fund and authorizes the director of DIR to establish and assess a fee on all bonds issued by the state to fund public works projects, in an amount not to exceed one-quarter of one percent of the bond proceeds, and a similar fee on other specified public works projects. These changes apply to contracts awarded on or after the effective date of DIR’s adoption of the fee and the specified regulations, expected to take a year to complete.

Revenue and Taxation

Seniors' property tax payment postponement. The “Senior Citizens and Disabled Citizens Property Tax Postponement Law” is effectively halted by this budget. It states that the Controller shall not accept applications for postponement on or after the effective date of the budget bills.

Orange County property tax bump. Orange County, which currently receives roughly six cents of each of its property tax dollars, gets a boost in the budget deal. The Orange County auditor is directed to transfer the additional funds from either ERAF or the property tax shares of non-excess tax school districts to the county. The transfers will equal $35 million in 2009-10 and 2010-11, then $50 million in each fiscal year thereafter.

Opening Glendora's Box. Beginning with the 2008-09 fiscal year, the tax increment limit for Glendora Community Redevelopment Agency’s Project Area No. 3 is increased to the
greater of either $2.6 million or the gross tax increment it received during 2007-08. That amount may grow each year by the greater of two percent or the average percentage increase in the increment growth in the agency's other project areas. The 2006-07 tax increment limit for Glendora Community Redevelopment Agency Project Area No. 3 is just under $2.1 million.

**Significant Financial Distress Applications.** In ABX3 1, the Legislature tolls the time limit that the Commission on State Mandates has to process county applications for findings of significant financial distress until the Legislature makes an appropriation to the Commission so it can carry out its duties. This language has been in budget bills for several years now, but it seems more relevant this year due to many counties' fiscal distress. When a county applies for such a finding, the Commission requests the money from the Legislature. The last time a county filed, in 2005, it took fewer than forty days for the Legislature to appropriate the funds. The process costs the Commission approximately $100,000 and takes precedent over all of the Commission's other work. The Commission then has 90 days to make their final determination of “fiscal distress.”

**Mandates.** The Legislature moved the reimbursement date for mandates from August 15 to October 15. This change is not limited to any particular fiscal year and appears to be permanent.

The Legislature deferred the annual payment for pre-2004 mandates, which according to statute will be paid off by 2020.

The Legislature allocated just less than $250 million for local mandate payments:

- $134 million for established reimbursable costs incurred in fiscal years 2004-05 through 2007-08, including AB 3632 claims from before 2006-07 (see “Funded Mandates” table below for specific programs).
- $104 million for AB 3632 costs incurred in 2006-07 through 2008-09, with priority going to the oldest claims.
- $8 million for POBOR (CSM-4499) costs incurred in fiscal years 2005-06 through 2007-08.
- $2.961 million for Administrative License Suspension (98-TC-16) costs incurred in fiscal years 2006-07 and 2007-08 (funded through DMV).
- $75,000 for Pesticide Use Reports (CSM-4420) costs incurred in fiscal years 2006-07 and 2007-08 (funded through Department of Pesticides).

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<td>Pesticide Use Reports</td>
<td>CSM-4420</td>
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<td>Police Officer’s Cancer Presumption</td>
<td>CSM-4416</td>
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**May Revise Moved to June.** The budget deal also includes language that, for this year only, moves the date of the May Revise from May 14 to June 8. This will give the Department of Finance time to include the effects of the May 19 special election in their revenue and expenditure estimates.

**Health and Human Services**

This section covers the majority of health and human services issues, including changes to Propositions 10 and 63, contained within the budget package as passed by the Legislature this morning. Some of the bill language is not yet in print; CSAC staff has made every effort to verify the proposals outlined below, but additional details may emerge as hard copies of the bills begin to circulate. CSAC will continue to provide updated information as we receive it.

The relevant health and human services bills or bills that contain health and human services-related issues include:

- ABX3 1 (Evans) – 2009-10 Budget Bill
- SBX3 2 (Ducheny) – Revisions to 2008-09 Budget Bill
- ABX3 5 (Evans) – Health Omnibus Trailer
- ABX3 6 (Evans) – Human Services Omnibus Trailer
- ABX3 8 (Evans) – General Government Omnibus Trailer
- SBX3 9 (Ducheny) – Proposition 10 (Ballot Measure)
- SBX3 10 (Ducheny) – Proposition 63 (Ballot Measure)
- ABX3 16 (Evans) – Additional Trigger Cut Language
- ABX3 17 (Evans) – Modifications to Proposition 10 Ballot Measure Proposal

**Cash Deferrals**

Contrary to information we received as late as Saturday morning, the plan does include some deferrals of payments to counties for social services and mental health programs. The deferral language is included in ABX3 8. The measure authorizes two-month deferrals of social services and mental health payments to counties from July and
August to September 2009. The language requires the state to repay counties by September 30, 2009. Counties with populations under 40,000 are exempt. This deferral language also was utilized in July and August 2008, which delayed approximately $1.2 billion in payments to counties for health and human services programs.

“Trigger” Cuts

The budget package includes a number of cuts that are tied to the federal economic stimulus package. The below cuts would be enacted in statute and could only be “turned off” if expected revenues from the federal economic stimulus package are certified by the Department of Finance to equal or exceed $10 billion (this includes revenue anticipated to be received by June 30, 2010). For more detail on the trigger mechanism, please see the introduction section of the bulletin.

The language on the trigger cuts are contained in ABX3 8 and ABX3 16. When Senator Ducheny presented this measure on the Senate floor early this morning she said that she remained confident that California would receive the $10 billion in federal stimulus. Some estimates have put California’s share of the federal stimulus package as large as $30 billion.

Proposed health and human services trigger cuts included:

- Medi-Cal: Eliminate optional benefits, such as adult dental, optometry, acupuncture, chiropractic, podiatric, and psychology services. The proposal also contained a 10 percent redirection of federal Safety Net Care Pool funding away from public hospitals. Estimated savings of $183.6 million General Fund in 2009-10. The cuts would go into effect 90 days after the budget is signed.

- CalWORKs: Reduce grants to recipients by four percent. Estimated savings: $146.9 million General Fund in 2009-10. The reduction would go into effect July 1, 2009.

- SSI/SSP: Reduce grants by 2.3 percent, which would have translated into a $20 per month reduction for individuals and a $35 per month reduction for couples. Estimated savings of $267.8 million in 2009-10. The reduction would go into effect July 1, 2009.

- IHSS: Cap the state share of wages at $9.50 per hour (it is currently $11.50 per hour) and keep the state’s share of individual health benefits at $.60 cents. There was also a proposal to increase the share of cost for new IHSS recipients based on their functionality index. Estimated savings of $78.0 million GF in 2009-10, with increasing annual savings thereafter. The reduction would go into effect July 1, 2009.
Human Services

CalWORKs. ABX3 1 suspends the 2.94 percent cost of living adjustment (COLA) for CalWORKs clients scheduled to take place July 1, 2009, for an estimated state savings of $79.1 million.

The budget bill also adopts the Governor’s proposal to suspend the county Pay for Performance program for a savings of $40 million. The Pay for Performance program was established in 2005-06 to create incentives for counties to achieve program outcomes; however, counties have never received funding for meeting or achieving those outcomes.

Legislators also adopted the Governor’s proposal to delay the scheduled replacement of Los Angeles County’s automated benefit and eligibility determination system (LEADER Replacement System or LRS) by six months for a savings of $14.6 million General Fund.

Supplemental Security Income/State Supplementary Payment (SSI/SSP). The budget package also suspends the scheduled June 2010 state COLA for a cost avoidance of $27 million, and withholds the federal January 2009 SSI COLA for a state savings of $79.8 million General Fund in the current year and $487.3 million General Fund in 2009-10.

Health

Medi-Cal. ABX3 5 eliminates the 2009-10 County Medi-Cal Cost of Doing Business Adjustment for county eligibility operations. The state estimates that this will be a cut of $49.4 million ($24.7 million General Fund) to counties.

Mental Health. ABX3 5 has language requiring the Department of Mental Health to approve, deny, or request information regarding county Mental Health Services Act (MHSA) expenditure plans no later than 60 days upon receipt.

Proposition 63, the Mental Health Services Act of 2004 (MHSA): Ballot Measure

SBX3 10 (Ducheny) is the bill that authorizes the state to place a ballot measure before the voters asking for a total of $460.7 million in MHSA funding to be redirected to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program over a two-year period.

The bill, which sunsets on July 1, 2011, would permit the sum of $226.7 million in MHSA funding in the 2009-10 fiscal year and up to $234 million in the 2010-11 fiscal year to be redirected to EPSDT. The measure requires the funds earmarked for EPSDT to be appropriated before all other MHSA funds in 2009-10 and 2010-11.

This ballot measure will be placed before voters in a May 19 special election, along with five other budget-related measures.
**Proposition 10, the California Children and Families Act of 1998 (First 5 Commissions): Ballot Measure**

SBX3 9 (Ducheny) is the bill that sweeps funds from the state commission and assumes a redirection of 50 percent of state and local funds to children’s programs through 2013-14, for savings of $608 million over the two-year period and $1.4 billion over five years.

The measure authorizes a $268 million annual transfer through fiscal year 2013-14 of funds from the state and local First 5 Commissions to a newly created state “Proposition 10 Health and Human Services Fund.” The funds would then be directed by the state to early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, kinship guardianship assistance payments (Kin-GAP), and direct health care services upon appropriation by the Legislature as part of the annual budget process or in another statute.

Early this morning, the Legislature also passed ABX3 17, which alters the amount that measure can take from the state commission. Apparently, SBX3 9 would have allowed a sweep of more funds that are available at the state commission.

The annual $268 million transfer would occur for the following five fiscal years: 2009-10, 2010-11, 2011-12, 2012-13, and 2013-14. Moneys not encumbered or expended by July 1, 2009 – including reserves – would also be redirected to the new Proposition 10 Health and Human Services Fund.

The bill also increases the amount to be deposited in the Unallocated Account from two to eight percent to ensure that every county commission has a base level of funding of at least $400,000 for the duration of the statute.

The bill also has a small section that would allow local controllers to use money in the local Children and Families Trust Funds for loans to the local general fund.

Please note that though the intention was to redirect 50 percent of the First 5 funds, local commissions do not believe the measure accounts for the impact of the federal tobacco increase that was part of the SCHIP reauthorization. The anticipated drop in revenue related to the federal tobacco tax increase could result in the redirection of funds at more like 65 percent of state and local funds – instead of 50 percent. We will be working on getting further information.

**Housing, Land Use and Transportation**

The budget contains a three-month deferral of the local portion of the gas tax. Counties are paid gas taxes one month in arrears from when the revenues are actually collected.
The budget will delay the January, February, and March payments until the April payment is made in May 2009. The budget contains identical language to last year’s gas tax deferral that would allow counties to use Proposition 1B local streets and roads revenues to backfill for this loss. However, due to the state’s inability to access the credit markets and the backlog with the Pooled Money Investment Account, we are uncertain when the Controller’s office will begin releasing the bond funds to counties. We understand that Proposition 42 is fully funded and estimated to equal $1.7 billion should the sales tax increase be extended for the full five years. Further, as previously reported, the 12-cent gas tax increase that would have been allocated primarily for debt service in the first two years and then partially for state transportation projects if increased for five years was dropped from the budget package.

**WHAT’S GOING TO HAPPEN NEXT**

We at CSAC are grateful for the assistance of county officials who responded quickly to our requests to contact members of the Legislature. Your efforts were most effective and appreciated. We also extend our thanks to the Capital press corps, who kept us all informed with the most up-to-date information during the wee hours of the morning. Mostly, though, we are appreciative to those members of the Legislature who resolved to come to a budget agreement and were unfailingly tenacious in their efforts. We know the work is just beginning, but for now they deserve a few good hours of sleep.

**STAY TUNED FOR THE NEXT BUDGET ACTION BULLETIN!**

*If you would like to receive the Budget Action Bulletin electronically, please e-mail Amanda Yang, CSAC Legislative Assistant, at ayang@counties.org. We’re happy to accommodate you!*