



BUDGET ACTION BULLETIN

CALIFORNIA STATE ASSOCIATION OF COUNTIES

2009-10 Proposed State Budget Week of February 23, 2009

February 23, 2009

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

FROM: Paul McIntosh, CSAC Executive Director

RE: **Budget Action Bulletin #3**

The Governor signed the budget package for 2008-09 and 2009-10 on Friday afternoon, using his blue pencil to eliminate approximately \$957 million in expenditures for 2009-10. The Governor indicated his appreciation for resolution on the package and expressed that he was “ecstatic” over the reforms eventually included in the package approved by the Legislature.

The line-item vetoes fell mainly to the Department of Corrections and Rehabilitation and the state constitutional offices, including the Lieutenant Governor, Department of Justice, State Controller, and Department of Insurance. The Governor indicated in his veto message that he was reducing the appropriations in the personal services budgets of the constitutional officers by 10 percent, to reflect reductions in employee compensation costs for furloughs, overtime reform, and elimination of two state holidays. Counties will recall that the constitutional officers asserted that they were not required to comply with the Governor’s Executive Order establishing the two-day per month furlough for state employees. The Governor indicated that these reductions were necessary to “ensure equity among all executive branch agencies relative to employee compensation levels.”

This Budget Action Bulletin outlines the Governor’s final action on the budget package and clarifies some budget issues that have come to light over the past few days. For further information on the elements of the budget package, refer to our [Budget Action Bulletin #2](#) published on February 19. A complete listing of the measures that comprise the enacted budget package is provided on page 6 of this Bulletin. Please don’t hesitate to contact us if we can help answer your questions.

**2009 Budget Act
General Fund Update
(Dollars in Millions)**

	2008-09	2009-10
Prior Year Balance	\$2,375.7	-\$2,434.8
Revenues and Transfers	\$89,373.2	\$97,728.5
Total Resources Available	\$91,748.9	\$95,293.7
Non-98 Expenditures	\$59,148.1	\$51,641.7
Prop. 98 Expenditures	\$35,035.6	\$40,523.6
Total Expenditures	\$94,183.7	\$92,165.3
Fund Balance	-\$2,434.8	\$3,128.4
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$1,079.4	\$1,079.4
Special Fund for Economic Uncertainties	-\$3,514.2	\$2,049.0
Budget Stabilization Account	\$0.0	\$0.0
Total Reserve	\$-3,514.2	\$2,049.0

**How the Budget Gap is Solved
(Dollars in Millions)**

	2008-09	2009-10	Total	Percent of Total
Expenditure Solutions	\$6,725	\$8,129	\$14,854	36%
Revenue Increases	\$1,534	\$10,980	\$12,154	30%
Federal Stimulus Funds	\$2,730	\$5,150	\$7,880	19%
Borrowing	\$268	\$5,135	\$5,404	13%
Vetoed		\$957	\$957	2%
Increase from Target Reserve		-\$49	-\$49	0%
Total	\$11,257	\$30,303	\$41,559	100%

WHAT'S BEEN HAPPENING

ADMINISTRATION OF JUSTICE

Line-item Vetoes: Corrections. The largest single component of the Governor's line-item vetoes applied to the budget package signed last Friday came in the form of a \$400 million unallocated reduction to the Department of Corrections and Rehabilitation's (CDCR) budget. This cut alone comprises two-thirds of the \$600 million in line-item vetoes applied overall.

In taking this action, the Governor indicated in his veto message that he expects the savings to be achieved "as a result of various reforms and actions" implemented by the CDCR Secretary and "in a manner that promotes rehabilitation and preserves public

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safety.” CDCR Secretary Matt Cate met with stakeholders by phone last week to assure that he would be reaching out to develop a plan that meets both objectives.

Counties will recall that over the last several years a range of proposals have been put forth by a variety of sources — expert panels, the Administration, and the Legislature, among others — that aim to reform the corrections system, while realizing cost savings. These proposals include various approaches to parole reform, credit enhancement, increasing thresholds for property crimes, and other sentencing changes. It is not certain whether CDCR will pursue these or other means for achieving the \$400 million in savings, but the CDCR Secretary and staff have assured counties and local law enforcement stakeholders that they welcome input and suggestions, given that any reform effort is sure to impact local governments and local public safety. CSAC will continue to be engaged on counties’ behalf regarding these proposals and any others that may be considered in order to meet the Governor’s directive.

Youthful Offender Block Grant (YOBG). We neglected to mention in our previous summary that the YOBG funds — which represent the financial support directed to counties to cover the costs of the 2007 juvenile justice population transfer, pursuant to SB 81 — remain untouched in both the current and budget years. YOBG will continue to be funded through the state General Fund and is not one of the programs that will receive a portion of the local public safety VLF increment. YOBG funding in 2008-09 remains \$66.2 million, growing to \$92 million in 2009-10 at which time it is expected that counties will feel the full impact of assuming responsibility for the realigned population.

State Court Facilities Construction Fund. Counties should be aware that the overall budget bill — SBX3 1 (Ducheny) — authorizes a \$40 million transfer from the State Courthouse Construction Fund to the General Fund.

GOVERNMENT FINANCE AND OPERATIONS

Special Election Reimbursement. On February 20, Governor Schwarzenegger signed SBX3 19, which calls a statewide special election for May 19. In his signed letter, he states that, “Calling a special election does not come without costs to California counties. As such, I am signing this measure with the understanding that the Legislature will reimburse counties for the costs of the election as soon as possible.”

This statement mirrors the language the Governor used when signing the 2007 bill that split California’s Presidential Primary. The state reimbursed counties for that election within the same calendar year; the Governor’s SBX3 19 signing message gives hope that the same might be true for this Spring’s special election.

HEALTH AND HUMAN SERVICES

While the outcome of many elements of the budget packages as signed into law by Governor Schwarzenegger last week remains unclear – such as the passage of a raft of ballot propositions pertaining to the state’s General Fund balance – there also remains some confusion about the Proposition 10 ballot measure and the possibility of “trigger cuts” to SSI/SSP, Medi-Cal benefits, CalWORKs grants, and IHSS wages and eligibility. While CSAC will continue to closely monitor these issues, we provide the information below to answer questions that counties may have about these two unusual provisions of the enacted budget package.

“Trigger” Cuts. As detailed in the February 19 Budget Action Bulletin, the budget package included a number of cuts that are tied to the federal economic stimulus package. The cuts 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 in General Fund expenditure relief (this includes revenue anticipated to be received by June 30, 2010).

According to recently released budget documents, the Department of Finance estimates the state will receive \$2.7 billion in 2008-09, and \$5.2 billion in 2009-10, for a total of \$7.8 billion. It is unclear how the Department will score all the stimulus monies received by the state at this time, including the Federal Medical Assistance Percentages (FMAP) increase as described below. CSAC will continue to monitor this issue as more federal stimulus funding is released. The Department of Finance and State Treasurer have until April 1, 2009 to notify the Legislature of the status of federal funds.

The Obama Administration will release the first two quarters of FMAP starting this Wednesday, February 25. FMAP – the federal match for Medicaid – helps pay for California’s Medi-Cal program. California’s share for the first two quarters is nearly \$2 billion at this time. The state is estimated to receive about \$11.23 billion over the life of the recovery package.

Proposition 10, The California Children and Families Act of 1998 (First 5 Commissions): Ballot Measure. Questions have been raised about the nature of the “sweep” of Proposition 10 funding and the impacts on local First 5 Commissions. We have updated the analysis from February 19.

AB X3 17 (Evans) 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 \$1.680 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 back-fill State General Fund for 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.

The annual \$268 million transfer would occur for the following five fiscal years: 2009-10, 2010-11, 2011-12, 2012-13, and 2013-14. State funds 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 measure does not sweep local funds.

The bill also increases the amount to be deposited in the Unallocated Account from two to eight percent and ensures 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 county “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 State Children’s Health Insurance Plan (SCHIP) reauthorization. The anticipated drop in revenue related to the federal tobacco tax increase could result in the redirection of state and local funds at a higher percentage than the measure’s threshold of 50 percent. We will be working on getting further information.

WHAT’S GOING TO HAPPEN NEXT

We continue to work through the various cash management issues that have resulted from the state’s budget problems and are communicating regularly with the Department of Finance and the State Controller’s Office. CSAC will communicate the latest news to counties as further details emerge.

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!

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Budget Agreement Bill Package

Third Extraordinary Session: Budget and Trailer Bills

SBX3 1 – 2009-10 Budget Bill

SBX3 2 – Amendments to 2008-09 Budget Bill

SBX3 4 – Education

SBX3 6 – Human services

SBX3 7 – Transportation

SBX3 8 – General Government (includes many county issues like delayed payments and mandates)

SBX3 10 – Proposition 63 funds swept to backfill EPSDT

SBX3 14 – AB 900 provisions

SBX3 15 – Tax cuts

SBX3 19 – Calls May 19 special election, includes list of measures and their summaries

SBX3 20 – Reneges on \$1 million appropriation to State Controller for furniture

ABX3 3 – Taxes

ABX3 5 – Health

ABX3 11 – Calls May 19 special election

ABX3 12 – Lottery

ABX3 13 – Cash flow (loans from special funds)

ABX3 16 – Trigger language for stimulus money

ABX3 17 – Proposition 10 swept to the General Fund

ACAX3 1 – State spending cap

ACAX3 2 – Prop. 98 “maintenance factor”

Second Extraordinary Session: Economic Stimulus Bills

SBX2 3 – Amends the Carl Moyer Memorial Air Quality Standards Attainment Program

SBX2 4 – Design-build authority

SBX2 7 – Foreclosures

SBX2 9 – Prevailing wage

SBX2 10 – Car rental companies and VLF

SBX2 11 – Judicial benefits issue

SBX2 12 – Courthouse construction expenditure authority

SBX2 15 – Newly constructed home purchasers' tax credit

SBX2 16 – Horse racing

ABX2 5 – Flex-time

ABX2 8 – CEQA changes

Regular Session: Other Measures

SB 6 – “Open/blanket” primary (complements SCA 4)

SCA 4 – “Open” or “blanket” primary system for state and congressional elections, for June 2010 ballot

SCA 8 – Prohibits pay to legislators and constitutional officers in deficit years