



**Revisions to the 2009-10 State Budget
Week of June 15, 2009**

June 17, 2009

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

FROM: Paul McIntosh, CSAC Executive Director
Jim Wiltshire, CSAC Deputy Executive Director
Jean Kinney Hurst, CSAC Legislative Representative

RE: **Budget Action Bulletin #6**

The Budget Conference Committee wrapped up its work Tuesday night after taking votes on a number of controversial issues, including party-line votes on a revenue package that: 1) includes a 9.9% oil severance tax and a \$1.50 tobacco excise tax increase, and 2) repeals recent corporate tax breaks, including carryback of net operating losses and assignment of unused tax credits to affiliated corporations. These measures total about \$1.9 billion in new taxes. According to an Assembly summary of conference committee actions, these actions and actions taken previously, result in a balanced budget with a \$3.8 billion reserve. Of the total budget, the Conference Committee plan includes \$11 billion in program reductions and cuts, \$5 billion in revenue accelerations and fees, the aforementioned \$1.9 billion in new taxes, and \$5 billion in other solutions. This *Budget Action Bulletin* outlines the additional actions taken by the Conference Committee since we last reported on June 12, 2009, except where otherwise noted.

It is important to note that, while the Conference Committee is not scheduled to meet again, the budget process is nowhere near final. Not only is it unlikely that this version will meet the 2/3 vote requirement for approval in the Legislature, but Governor Schwarzenegger made it clear to the press today that he would not sign the budget as it approved by conferees if it were to reach his desk.

Democratic leaders today promised legislative action on a budget plan in short order, predicting passage of a budget, with or without tax increases, by the middle of next week. "We will surprise you all," said Senate President Pro Tem Darrell Steinberg.

Look for more information from CSAC over the coming days. We will provide you with the most current budget information available.

WHAT'S BEEN HAPPENING

ADMINISTRATION OF JUSTICE

Local Public Safety Funds. Counties will recall that the Legislature dedicated a portion of the 0.5 percent Vehicle License Fee (VLF) increase approved in February and directed those revenues into a newly created Local Safety and Protection Account (LSPA) for purposes of supporting local public safety programs previously funded through the state's General Fund. (Please see the [information sheet and FAQs](#) on the new local public safety funding structure, published jointly by CSAC, the sheriffs' association, and the chief probation officers' association.)

The Legislative Analyst's Office (LAO) offered, in its series of cost-saving alternatives, a proposal to redirect \$250 million in the VLF public safety funding (about half of the LSPA) back into the state General Fund. The conferees took no action on the proposed funding diversion from the LSPA and, for now, the local public safety funds are preserved for programs as specified when the account was created in February. However, it is worth mentioning that while a number of conferees spoke in favor of maintaining the funding commitment to local public safety, there are others who believe that the broader question of untangling the state/local fiscal relationship warrants further review.

Judicial Branch Issues. The Conference Committee approved a judicial branch budget compromise that contains the following elements, which are expected to achieve an overall reduction of \$393 million to the trial courts:

- **Approval of Court Closure.** Under this action, courts statewide — including superior, appellate, and the supreme courts, along with the Administrative Office of the Courts — will close on the same day once a month; it is expected that the date of closure will be the third Wednesday of the month. This proposal is expected to save the courts \$102 million, attributable to the following areas:

Trial court contributions	\$69.8 million
Trial court security	\$23.3 million
Trial court employee compensation	\$7.9 million
State judiciary security	\$50,000
Appellate/Supreme Court justice compensation	\$746,568
Trial court judge compensation	\$9.3 million

- **Other savings.** The conferees also adopted a series of other actions to produce an additional \$291 million in judicial branch savings, as follows.

Shifting trial court reserves	\$71 million
Transfer fund balances from (1) statewide court case management system (CCMS) ; (2) Immediate and Critical Needs Account established by SB 1407 (Perata, 2007) for two years (\$25 million in Year 1 and \$20 million in Year 2; and (3) other funds	\$130 million

Increase by \$10 (for a total of \$30) court security fee	\$40 million
Additional \$5 court reporter fee on civil filings	\$7 million
\$10 Post- judgment fee*	\$11 million
Elimination of State Appropriations Limit (SAL) adjustment	\$32 million

** Resources derived from post-judgment fee will support court operations for two years; in future years, it will be dedicated to providing legal services to the underserved, as contained in AB 590 (Feuer).*

Department of Corrections and Rehabilitation. The conferees took action on a \$1.2 billion comprehensive corrections package, which incorporates a series of proposals outlined below. As counties will recall, the proposed reductions — to achieve the \$400 million unallocated reduction to CDCR imposed by the Governor when he signed the February 2009–10 budget package as well as more than a billion in savings needed to help close the current gap — contain a variety of programming cuts as well as sentencing and parole reforms. Details on the package adopted yesterday by the conferees are somewhat limited, and changes will require budget and/or trailer bill language not yet developed. Elements of the corrections savings proposals approved by the conferees are as follows:

- **Prison and parole reforms:**
 - Reduced parole agent caseloads;
 - Increased probation supervision and programs using federal stimulus dollars (see Byrne-JAG funding below);
 - Expanded reentry courts using federal stimulus funds (see Byrne-JAG funding below)

→ **\$10 million in savings**
- Convert certain “wobblers” to misdemeanors, making punishable only by a term in county jail;
- Adopt targeted commutations for illegal immigrants currently detained in state prisons;
- Adopt alternative custody options to include the use of global positioning devices and community sanctions;

→ **\$403 million in savings**

- Reduction in rehabilitative programming, with direction to CDCR to prioritize and preserve the most effective programming;

→ **\$175 million in savings**

- Additional unallocated reduction of \$100 million to CDCR, with a minimum of \$20 million coming from headquarters;

→ **\$100 million in savings**

- Elimination of one-time special repairs budget for state prison facilities;

→ **\$47.6 million in savings**

- Previously adopted action by Conference Committee to adjust juvenile and adult populations in state facilities
→ **\$52.6 million in savings**

Byrne-JAG Federal Stimulus Funds. The Conference Committee approved \$500,000 for state operations and \$135 million in local assistance from the state's Byrne-JAG American Recovery and Reinvestment Act (ARRA) federal stimulus grants. The conferees indicated that budget bill language will be developed to specify allocation of funds; it is anticipated that these funds will be dedicated to programs such as increased probation supervision (SB 678, Leno and Benoit) as well as a reentry court program. CSAC will provide more details on this item as they become available.

Department of Justice (DOJ). As noted previously, the budget conference committee took action last week on two items in the DOJ budget that have serious impacts to counties:

- **Forensic Lab Fees.** The Budget Conference Committee approved the LAO proposal to reduce DOJ's forensic services budget by \$20 million with the expectation that a fee-for-service would backfill the reduction. The conferees expressed concern about the impact on local entities in particular and about whether the expected savings level could be achieved, but directed the DOJ to develop a fee-for-service schedule, taking into account the need for a hardship exemption and potentially a sliding scale based on ability to pay. Because this proposal would affect all state and local entities that make use of the DOJ forensic lab services, the specific county impact is not known at this time.
- **Bureau of Narcotic Enforcement (BNE).** The conferees adopted the LAO recommendation to reduce BNE funding by \$20 million. As counties are aware, BNE offers support through the operation and coordination of regional offices and assistance to multi-agency drug and gang task forces. To the extent that counties collaborate with BNE on any of these task force efforts, jurisdictions would experience a reduction in BNE resources.

AGRICULTURE AND NATURAL RESOURCES

The Budget Conference Committee covered the remaining open environment and resources items on June 15 and 16. The following is a summary of those actions.

Williamson Act. The Budget Conference Committee voted to suspend Williamson Act subvention payments for one year, for a General Fund savings of \$34.7 million. The Committee did not include in its vote any recommendation for statutory changes related to contracts with landowners. CSAC continues to advocate for full Williamson Act subvention funding.

Emergency Response Initiative. The Budget Conference Committee voted to adopt the Governor's proposal to increase the insurance surcharge from 2.8 percent to 4.8 percent on all residential and commercial property insurance statewide for the purposes of funding fire prevention and forestry activities. 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. Additionally, the Budget Conference Committee approved the LAO recommendation to include a fee on structures located with the State Responsibility Areas (SRA). The fee involves a \$30-50 surcharge per structure, depending on where it is located within the fire hazard zone.

State Parks Fees. The Budget Conference Committee voted on an alternative proposal that would keep California's state parks open. The Committee approved the Governor's proposed general fund reduction to parks funding, and approved a \$15 Vehicle Parks Pass surcharge for the purposes of funding the state park system. All vehicles registered in California would pay the fee and, in turn, receive free entrance to California State Parks.

Beverage Container Recycling Fund. The Governor's proposal to restructure the Beverage Container Recycling Fund through various reductions and suspensions was left open by the Budget Conference Committee.

Offshore Oil Drilling. The Conference Committee also left open the Governor's proposal that would allow the state to enter into a lease for the extraction of oil or gas from state-owned tidal and submerged lands in the California Coastal area off the Santa Barbara coast known as Tranquillon Ridge. This proposal is anticipated to generate \$100 million in royalties in 2009-10 and \$1.8 billion in royalties over the next 14 years.

GOVERNMENT FINANCE AND OPERATIONS

Proposition 1A Suspension Rejected. This week, the Budget Conference Committee rejected the Governor's proposal to suspend Proposition 1A (2004). Counties will recall that this proposed suspension would have shifted nearly \$2 billion in local property tax revenues from counties, cities, and special districts to fund various state services. Conferees expressed concern about additional borrowing as a means to resolve the state's budget crisis.

Redevelopment Agencies ERAF Shift. The Budget Conference Committee adopted trailer bill language to achieve the \$350 million in General Fund relief resulting from the 2008-09 shift of property taxes from redevelopment agencies. Counties will recall that redevelopment agencies successfully sued the state on this issue, arguing that the constitutional provisions dating back to the 1950s authorizing redevelopment and tax increment financing prohibited the state from directing funding to schools with revenues dedicated to redevelopment activities. The State has appealed the original decision; at the same time, the new trailer bill language reflects an attempt to address the decision of the trial court by requiring the distribution of redevelopment funds transferred to ERAF to be directed to those schools within the redevelopment agency area.

The Conference Committee also extended the \$350 million shift to 2009-10 and 2010-11.

Mandates. The Budget Conference Committee voted to delete funding for several mandates, including those related to animal adoption, sexually violent predators, and the Peace Officer

Procedural Bill of Rights. The Committee retained funding for many of the mandates, including for provisions of the Brown Act and those relating to vote-by-mail ballot procedures. The LAO suggested the committee delete funding for the sexually violent predator mandate and other related mandates, but redraft the law in such a way as to let various voter-approved initiatives take effect. Since measures passed by voters are not reimbursable, the service mandate remains even with the reimbursement deleted. The LAO also suggested the committee direct the Department of Finance (DOF) and counties to work out a simpler reimbursement methodology for election-related mandates, since its research indicates that counties' claims for these mandates vary widely. The animal adoption mandate garnered considerable attention, and eventually, the Conference Committee suspended the mandate, but replaced the existing required 6-day hold with the previous 3-day hold requirement.

Attached to this Budget Action Bulletin is a list of mandates and the action taken by the Conference Committee for each.

HEALTH AND HUMAN SERVICES

The Conference Committee closed out on human services issues on June 16. The following is a summary of the actions they took on those items.

CalWORKs

The Conference Committee took the following actions on CalWORKs:

- Reduced funding for child care and employment services for a net savings of \$175 million.
- Adopted placeholder trailer bill language to allow for county flexibility for a two-year period to exempt categories of or provide good cause exemptions to individuals with high supportive services costs, such as parents of very young children. Exempt recipients would have their five-year service time clocks suspended during the exemption period. Also adopted language to increase county flexibility to transfer funds from the mental health and substance abuse accounts to the single allocation if needed.
- Adjusted the CalWORKs caseload growth from 15.5 percent to 13 percent, for savings of \$17.5 million.
- Reverted \$43 million of mid-year adjustments funds and score for state General Fund purposes for 2009-10.
- Transferred \$35 million from the Employment Training Fund to offset General Fund costs in CalWORKs.
- Adopted the proposal to authorize local partnership initiatives to use the American Recovery and Reinvestment Act (ARRA) Temporary Aid to Needy Families (TANF) Emergency Contingency Fund for subsidized employment, short-term non-recurring benefits and supplemental basic assistance for TANF eligible low-income families. Local partnerships include food banks, private employers, community colleges, workforce agencies, and/or nonprofits. Action includes \$365 million in federal spending in 2009-10 for local initiatives (no General Fund impact).
- Rejected the Administration's other reduction proposals and the May Revision trailer bill language to permanently eliminate the CalWORKs cost of living adjustment.

In-Home Supportive Services (IHSS)

The Conference Committee adopted a compromise on the Governor's IHSS proposals; the actions save \$117.8 million for ten months in 2009-10.

- **Wages and Benefits.** Rejected the proposal to reduce wages to \$8/hour.
- **Share of Cost.** Increased the share of cost by 50 percent for IHSS recipients receiving a state buyout effective September 1, 2009. This proposal saves \$20 million in 2009-10 and \$24 million in 2010-11.
- **Cost Containment.** The Committee adopted two proposals to contain costs, for savings of \$53.2 million. The first proposal eliminates IHSS domestic and related services for recipients with Functional Index (FI) rankings below 4. Recipients with paramedical services, protective services, and recipients receiving 120 or more overall hours per month would be exempted. The second proposal would eliminate all IHSS services for recipients with FI scores below 2. Recipients with paramedical services, protective services, and recipients receiving 120 or more overall hours per month would be exempted.
- **Program Integrity/Fraud.** The Committee adopted \$40 million in savings from existing positions and initiatives in the Department of Health Care Services, continued Quality Assurance at the Department of Social Services (DSS) and within counties, and the additional 6 positions included in the enacted 2009-10 budget. The action included the adoption of language on reporting program integrity review in IHSS and tightening and clarification on the provider enrollment form.
- **Public Authority Administration.** Reduce Public Authority administration rates by 20 percent for a savings of \$4.6 million.

Proposition 36/Offender Treatment Program

The Conference Committee eliminated the \$90 million in funding for the Proposition 36 program. The Committee left \$18 million for the Offender Treatment Program and directed staff to continue to seek federal funds as a match for OTP. Senator Ducheny stated that it was the conferees intent that it be a one-time reduction. Many members expressed support for the program and regret for the action.

Realignment

The Conference Committee rejected the May Revise proposal on Health and Human Services realignment. The Committee did approve a \$300 million realignment of CalWORKs grants to counties, which increases the existing county share of 2.5 percent. The Committee earmarked revenue for the shift from the Vehicle License Fee administrative funds at the Department of Motor Vehicles. This fund source was identified by the LAO last year. Under the LAO proposal, it is recommended that the DMV raise fees to cover the loss of their administrative funds.

Cash Assistance Program for Immigrants (CAPI)

The Conference Committee rejected elimination of CAPI and of the California Food Assistance Program (CFAP). CAPI grants will be reduced because the grant level is tied to the SSP grant level, as described below

Supplemental Security Income/State Supplemental Payment (SSI/SSP)

The Conference Committee took the following actions on SSI/SSP grants:

- Reduce the grants for couples to the minimum allowed under federal law.
- Reduce grants to individuals by \$5 per month.
- Rejected the trailer bill language to eliminate the annual cost of living adjustment.

Aging Programs

The Conference Committee rejected elimination of the Multipurpose Senior Services Program. Conferees also approved a \$2.5 million reduction to the Linkages program effective October 1, 2009; approved eliminating the General Fund support of the Senior Companion Program; approved eliminated General Fund support for the Respite Purchase of Service Program; and approved a reduction of \$1.2 million, effective October 1, 2009, to the Alzheimer's Day Care Resource Center program. The reductions total \$4.2 million.

Health Actions

The Conference Committee closed out the remaining health budget items on June 15. The following is a summary of those actions.

Healthy Families Program

The Conference Committee rejected elimination of the Healthy Families Program. Instead, the Committee voted unanimously to reduce funding by \$70 million and direct the Managed Risk Medical Insurance Board (MRMIB) to obtain other sources of funding for federal match. The Committee did not take action to alter eligibility. If MRMIB is unable to secure the additional funding from philanthropic organizations, donations or other sources, the Board would have to establish waiting lists.

Medi-Cal

Governor's Federal Medi-Cal Flexibility and Stabilization. The Conference Committee adopted the \$1 billion savings assumption from the Medi-Cal program. The Committee adopted budget bill language to provide for the state to obtain federal funds owed to California, including but not limited to: (1) disability insurance benefits that resulted in state expenditures instead of federal Medicare expenditures; (2) the retroactive payment of Medicare Part B premiums dues to systemic errors by the Social Security Administration; (3) adjustments to formulas that penalize California, such as the Medicare Part D "clawback"; and (4) receipt of federal funds due to California under various existing Medi-Cal waiver programs.

The \$1 billion in savings comes from the following assumptions: receiving \$700 million owed to the state from disability insurance expenditures, receiving \$75 million in Medicare Part D clawback, and receiving over \$400 million from other waivers.

Restrict Medi-Cal Services. The Conference Committee rejected the proposal to restrict Medi-Cal services for "Newly Qualified Legal Immigrants" and PRUCOL individuals. The vote was along party lines.

Private Hospital Reduction. The Conference Committee adopted a \$23.9 million reduction to the Distressed Hospital Fund. The Medicaid Hospital Financing Waiver of 2005 established a

Distressed Hospital Fund for contract hospitals that meet all of the specified requirements, as determined by California Medical Assistance Commission (CMAC) in its discretion. Payments available for qualifying contract hospitals under the Distressed Hospital Fund are subject to negotiations with the CMAC.

HIV/AIDS Programs. The Conference Committee adopted a compromise that saves \$33.5 million. The actions include the following:

- Reduce the administrative portion of the Pharmacy Benefit Contract (\$500,000 General Fund savings).
- Conform to Medi-Cal action on Medi-Cal benefits to legal immigrants (delete \$1.62 million in Rebate funds).
- Utilize \$12.3 million in AIDS Drug Rebate Fund to backfill for proposed May Revision reduction of \$12.3 million.
- Utilize \$12.7 million in AIDS Drug Rebate Fund to offset General Fund support of the same amount.
- Reduce Therapeutic Monitoring Program by \$714,000 (\$7.286 million remains).
- Reduce Education and Prevention Functions by \$2.2 million General Fund (\$28.8 million — \$22.4 million in General Fund — remains).
- No reduction to HIV/AIDS counseling and testing.
- No reduction to early intervention projects.
- Reduce Home & Community Based Care by \$538,000 (\$11.2 million — \$5.8 General Fund million — remains).
- Reduced Surveillance and epidemiologic studies by \$1 million (\$9.2 million — \$7.65 million General Fund — remains).
- Reduced housing by \$101,000 (\$4.5 million — \$992,000 General Fund — remains).
- Reduced Office of AIDS state operations by \$3.4 million, which is 36 positions.
- Adopted budget bill language stating the Legislature’s intent that the appropriation is utilized to maintain core active surveillance activities to meet federal reporting requirements and to continue HIV/AIDS prevention and education efforts for which federal funds are not available.

Adult Day Health Care (ADHC). The Conference Committee adopted a compromise that achieves \$26.8 million in savings and does not eliminate the benefit. The Committee adopted trailer bill language to: (1) limit the maximum participation rate for enrollees to 3 days as of August 1, 2009 and until a higher threshold for medical necessity/medical acuity is established by the Department of Health Care Services; (2) establish definitions of medical acuity; and (3) engage a stakeholder workgroup process to proceed with implementation. The Committee also froze rates effective August 1, 2009, provided 7 nurse evaluator positions to conduct on-site treatment authorization reviews of ADHCs.

Maternal and Child Health Programs. In lieu of eliminating the maternal and child health programs, the Conference Committee adopted the following compromise:

- Black Infant Health. Reduce funding by \$900,000, leaving \$3 million for the program.

- Adolescent Family Life. Reduce funding by \$1.75 million, leaving \$9 million for the program.
- Local County Maternal and Child Health. Eliminated all \$2.13 million in funding.
- Provider Training. Eliminated all \$250,000 in funding.
- State Operations, including Birth Defects Monitoring. Eliminated all \$3.55 million in funding.
- California Children’s Services (CCS) Program. Shifted \$3 million of the Title V reserve to the CCS program. The action saves \$3 million General Fund.

Community-Based Clinics. A total of \$14 million savings were achieved by reducing clinic funding as follows:

- Rural Health Services. Reduce by \$2.2 million, leaving \$6 million for the program.
- Seasonal Migratory Worker. Reduce by \$1.9 million, leaving \$5 million for the program.
- American Indian. Reduce by \$1.5 million, leaving \$5 million for the program.
- Expanded Access to Primary Care Clinics. Reduce by \$4.5 million General Fund and \$3.9 million in Proposition 99 funds, leaving \$9 million General Fund and \$10 million in Proposition 99 for the program.

The \$3.9 million in Proposition 99 funds would be used to backfill General Fund support in the Medi-Cal program for the Orthopedic Hospital Settlement Agreement to provide funds for outpatient hospital services.

HOUSING, LAND USE AND TRANSPORTATION

The Budget Conference Committee took no further action on local transportation funding, including Highway User Tax Account (HUTA) and Proposition 42, before closing down yesterday. The Conference Committee report still maintains the following actions:

- “Take” \$986 million of the local share of the gasoline excise tax from counties and cities for transportation related bond debt service in FY 09-10.
- “Take” \$745 million of the local share of the gasoline excise tax from counties and cities for debt service in FY 10-11.
- DOF has also proposed to suspend the first two quarters of the local portion of Prop 42 in FY 2009-10, equivalent to another \$288 million for cash flow purposes. The proposal is to payback these funds to local governments in May 2010.

TOTAL LOSS: \$2.019 billion

WHAT YOU SHOULD DO

We ask that each county evaluate the full scope of budget revisions approved by the Budget Conference Committee and assess local impacts. In particular, we ask that you contact your legislative delegation to express your county’s strong opposition to the HUTA raid, with a clear explanation of impacts on your workforce and ability to maintain county roads.

WHAT'S GOING TO HAPPEN NEXT

Please stay tuned for further updates on Big Five discussions and legislative action related to the revisions to the 2009-10 Budget as approved by the conferees. Keep your eye out for future updates from CSAC as the budget situation evolves ...

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!*

ACTION