

Budget Action Bulletin No. 12

2007-08 Proposed State Budget

Week of August 20, 2007

Via Electronic Mail

DATE: August 24, 2007

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

FROM: Paul McIntosh, CSAC Executive Director
Steve Keil, CSAC Director of Legislative Services
Jean Kinney Hurst, CSAC Legislative Representative

RE: **Budget Action Bulletin #12**

The Governor signed the state budget today, 55 days later than the California Constitution requires. He has the authority to veto line-items in the budget bill, and used it to cut \$703 million of State General Fund spending and \$240 million in special and bond fund expenditures. This *Budget Action Bulletin* describes only the reduction contained in the Governor's line-item vetoes. Once the Governor signs the budget trailer bills, which he is expected to do over the next two weeks, CSAC will issue a full and final report on the 2007-08 state budget, as enacted.

WHAT YOU SHOULD DO:

Read this Bulletin, forward to appropriate persons, then go home and get some rest.

WHAT'S BEEN HAPPENING:

ADMINISTRATION OF JUSTICE

Juvenile Justice Planning and Competitive Grants. The Governor eliminated funding for two separate local assistance grants that were elements of the overall juvenile justice realignment package. Counties will recall that SB 78 contained, among other appropriations, funding for two grant programs that would have assisted counties in preparing for the shift of responsibility for certain non-violent juvenile offenders. Counties will further recall that the corrections trailer bill, SB 81, contains provisions to carry out this realignment. Beginning September 1, 2007, counties will be permitted to commit to state detention facilities administered by the Division of Juvenile Justice only those wards adjudicated for a violent offense defined in Welfare and Institutions Code Section 707(b). All other offenders (i.e., "non-707(b)s") must remain at the local level for programming and supervision.

The Governor vetoed the following two elements — valued at \$14.9 million — of the juvenile justice package:

- County Juvenile Justice Planning Grants (\$4.9 million): These one-time planning grants were to be allocated to counties based on size (\$150,000 for the 10 largest counties; \$100,000 for the next 20 largest counties; and \$50,000 for the 28 smallest counties).
- County Juvenile Justice Competitive Grants (\$10 million): These one-time competitive grants were intended to support the development of (1) regional approaches for care and supervision of the non-707(b) youthful offenders; (2) local services and programs to address the specialized

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needs of youths with histories of mental illness, substance abuse, violence, and other serious behavioral problems; and (3) evidence-based programs, risk and needs assessments, and a plan for a continuum of care.

The Governor’s veto message explains that “[t]hese reductions are necessary in order to further build a prudent reserve in light of the various uncertainties in revenues and spending that we face this year.”

Loan Repayment Program for Public Interest Attorneys. As counties may recall, CSAC is sponsoring AB 171, by Assembly Member Jim Beall, on behalf of the County Counsels’ Association. That measure will incorporate county counsels into the list of practice areas eligible for a state-sponsored loan repayment program for public interest attorneys. Contemporaneously, a variety of stakeholders has undertaken an effort to secure start-up funding for the loan repayment program, which was created statutorily in 2001 but has never been funded. The 2007–08 budget approved by the Legislature contained \$100,000 in support for the Student Aid Commission intended to begin implementing the Assumption Program for Loans for Law in the Public Interest (APLLPI). As he had done to a similar appropriation last year, the Governor vetoed these funds.

AGRICULTURE AND NATURAL RESOURCES

Williamson Act Contracts. The Governor left Williamson Act funding intact.

GOVERNMENT FINANCE AND OPERATIONS

Public Library Funding. The Governor vetoed two items that provide funding to local libraries. He cut the Public Library Foundation (PLF) Program by \$8 million, from \$22.4 million to \$14.4 million, more than undoing the Legislature’s \$1 million augmentation. The PLF has never been fully funded. He also cut funding for the Direct Loan and Interlibrary Loan Program by \$7 million, from \$18.6 million to \$11.6 million.

County Assessor Grants. Governor Schwarzenegger completely deleted the \$3.5 million that the Legislature had budgeted for county assessors. The grants would have been proportionately distributed to the property taxes received by their K-14 schools, and would have helped to offset the costs counties are required to absorb because of the fact that schools are the only agencies that don’t pay their share of property tax administration.

Board of Equalization Use Tax Pilot Program. The Governor deleted a legislative augmentation of \$400,000 for a program designed to increase awareness and payment of use taxes.

State Augmentation for Employee Compensation. Governor Schwarzenegger reduced the amount budgeted for employee compensation by \$72 million — from \$525.3 million to \$453.3 million. Each department will find their augmentation cut proportional to their General Fund expenditures for personal services. These pay augmentations will instead be funded "by a redirection within existing resources by individual departments."

HEALTH AND HUMAN SERVICES

The majority of line item vetoes were made to health and human services funding. Of the \$703 million in vetoes, \$527 million come from health and human services programs. Vetoes include the following:

Integrated Services for Homeless Adults, AB 2034. The Governor eliminated the \$54.8 million for the Integrated Services for Homeless Adults with Severe Mental Illness Program, thus eliminating all state funding for this program. The Governor went on the explain that although he supports the goals of the program, he believes that counties can choose to support it by utilizing funding sources such as federal funds, realignment funds, or Proposition 63 funds.

Adult Protective Services. The Governor deleted the legislative augmentation of \$12 million for Adult Protective Services.

Outreach, Enrollment, Retention, and Utilization (OERU) Program. The Governor vetoed \$34.6 million (\$15 million General Fund (GF)) in funding for the county grants portion of this initiative, which is intended to increase children's enrollment in Medi-Cal and Healthy Families. The Governor directed his Department of Health Care Services to pay any outstanding valid claims from FY 2006-07.

Human Services Computer Systems. As part of the discussion on the cost of doing business for human services programs, the Administration has resisted providing funding to update and replace computer systems. The Legislature had provided augmentations to replace workstations for a number of different computer systems. The Governor vetoed \$23 million (\$9.4 million GF) to fund hardware replacement and help desk staff. Specific vetoes include the following:

- CWS/CMS – \$5.1 million (\$2.5 million GF)
- LEADER – \$7.1 million (\$2.8 million GF)
- CalWIN – \$9 million (\$3.4 million GF)
- CalWIN Help Desk Staff – \$1.8 million (\$.7 million GF)

In his veto message, the Governor argues that counties should replace computers with existing county administration funding. Please note that general county administration funding has remained flat over the last seven years.

Local Public Health Funding. The Governor cut \$8.5 million in allocations to local health departments for local pandemic influenza preparedness and response planning.

Suspended Legislation. The Governor vetoed \$4 million (\$2.6 million GF) on a one-time basis to suspend funding for two items that counties are required to implement. The items are summarized below. Implementation of the bills is not contingent upon a budget act appropriation so it is not clear if the Governor has the legal authority to veto the funds. The Governor is directing the state Department of Social Services (DSS) to notify counties that these activities should be suspended FY 2007-08; however, it is not clear to what extent counties will continue to be required to implement these items. CSAC will be consulting with county counsel on the effect of these vetoes.

- Foster Children Relationships (AB 408 and AB 1412) – The Governor suspended funding to counties for activities related to identifying important persons in the lives of children who are in the child welfare system and to involve children in the development of their case plans.
- Foster Youth Identity Theft Premise (AB 2985) – The Governor suspended funding to counties for activities related to prevention and resolution of foster youth identity theft.

Medi-Cal Reserve. The Governor blue-penciled \$644.8 million (\$331.9 million GF) from the Medi-Cal reserve fund. In his veto message, he explains that the reduction was based on historical data showing that on average over the last three fiscal years, Medi-Cal expenditures have been more than \$400 million General Fund lower than the budget estimate. This cut does not affect Medi-Cal services, as the state will be required to backfill any funding needs with state General Fund, should the need arise.

Medi-Cal Managed Care Rates. The Governor deleted \$106.3 million (\$53.1 million GF) of the rate increases for managed care plans in the Medi-Cal program.

Expanded Access to Primary Care (EAPC). The Governor cut \$10 million GF from EAPC. In his veto message, the Governor promised to seek a subsequent bill this session to fund the EAPC program with Proposition 99 (tobacco tax) funding.

California Discount Prescription Drug Program. The Governor deleted \$4.3 million intended to specifically fund local assistance implementation costs for the California Discount Prescription Drug Program.

Mental Health Managed Care. The Governor made a technical adjustment to conform the budget with the Assembly's action to eliminate the \$12 million legislative augmentation for the 5 percent mental health managed care rate restoration.

Fresno Medi-Cal Field Office. The Governor vetoed budget language prohibiting the use of funds to relocate the office because "it interferes with the Executive Branch's ability to effectively administer programs."

Self-Certification Pilot (SB 437, Statutes of 2006). The Governor vetoed \$26.8 million (\$13.4 million GF) to delay implementation of SB 427 for one year. The bill would pilot a project to allow Medi-Cal applicants to self-certify income and assets.

Food Bank Funding. The Governor reduced \$2.9 million in local assistance payments to food banks and Foodlink earmarked for those facilities affected by last winter's freeze in the Central Valley. The Governor goes on to explain that not as many people applied for assistance as was anticipated.

HOUSING, LAND USE AND TRANSPORTATION

Public Transit. The Governor vetoed \$100 million from the State Transportation Assistance (STA) Program. Thus, the final STA Program is estimated to be \$316 million statewide, not \$416 million as reported on Tuesday, August 21.

The budget continues to provide \$948 million in Public Transportation Account (PTA) funds for general obligation transportation bond debt service payments that are supposed to be paid by the General Fund, or that have already been paid. In addition to this \$948 million, the package includes another \$311 million in PTA shifts to non-transit purposes: regional center transportation costs (\$129 million), home-to-school transportation (\$99 million), and repayment of debt owed by the General Fund to Proposition 42 programs (\$83 million), for a total of \$1.259 billion in non-transit expenditures.

Indian Gaming: FY 2007-08 Budget Update. The Governor vetoed \$30 million from the California Gambling Control Commission for the purpose of implementing the Special Distribution Fund (SDF) program. The SDF program provides local government agencies grants to mitigate the impacts of tribal casinos on local communities.

The Governor's rationale for the line-item veto rests on the recently released Bureau of State Audits report on the SDF program. The report found that while no local agency acted outside of the law, it was unclear to the Auditor as to the original intent and manner in which the grants could be used. The report made numerous recommendations regarding the SDF program, one of which was to seek a legislative fix to clarify what grants can and cannot be used for. Until such clarification is made, the Governor has cut funding to the program. He did indicate however, that he would support legislation that includes an appropriation if the SDF program is reformed.

WHAT'S GOING TO HAPPEN NEXT:

The Governor will sign the trailer bills over the next two weeks. CSAC will release a final Budget Action Bulletin once he does so.

Stay tuned for the final Budget Action Bulletin!

If you would like to receive the Budget Action Bulletin electronically, please e-mail Jean Hurst, CSAC Legislative Representative, at jhurst@counties.org. We're happy to accommodate you!



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FOR IMMEDIATE RELEASE

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CALIFORNIA COUNTIES DISMAYED BY LINE-ITEM CUTS TO BUDGET

SACRAMENTO – Following the Governor's signing today of the final 2007-08 state budget, California's counties expressed their appreciation for the Governor's leadership in crafting the state's spending plan, and working with the Legislature on a compromise to end the budget impasse, but are extremely concerned about the funding cuts to vital county programs and services.

"We acknowledge that the Governor had to make some very difficult decisions regarding this budget, and we appreciate his continued support and funding for many important county programs, including transportation, public safety and the Williamson Act," said Paul McIntosh, CSAC Executive Director. "However, the additional cuts sustained by some programs undermine our ability to provide critical services to Californians. For example, the cut to Adult Protective Services leaves thousands of seniors and dependent adults vulnerable to victimization, and the elimination of the Integrated Services for Homeless Adults grant funding will be devastating to county mental health programs. These cuts come at a time when critical policies are being reformed, including health care and corrections, which will no doubt have extensive financial and other impacts on counties."

Over the last seven years, the state has shorted counties more than \$800 million in funding to cover cost increases in human services and mental health programs, forcing counties to cut or backfill. Counties feel strongly that this is not the time to make additional cuts to health and human services programs.

This budget also eliminates funding for local assistance grants to support the transfer of juvenile offenders from state to county facilities, which certainly will hamper counties' ability to successfully deliver the needed rehabilitative services and supervision to youthful offenders. In an era when counties are being asked to assume new responsibilities for both adult and juvenile offenders, this budget reduction forces us to question the state's true commitment to improved offender outcomes.

California Counties are, however, pleased that the budget maintains funding for several crucial county programs, including the Williamson Act and local public safety, and provides a substantial amount of funding for local transportation projects.

"We are anxious to move forward on transportation projects and are pleased with the budget's commitment to transportation by fully funding Proposition 42 and the significant appropriation levels for Proposition 1B; the budget contains nearly \$1 billion for local streets and roads," said Frank Bigelow, CSAC President and a Madera County Supervisor. "We hope to rely on our successful partnership with the Legislature and the Governor to resolve some duplicative oversight provisions contained in the budget in the remaining weeks of the session to ensure projects get underway now."

CSAC will continue to work with the Governor and the Legislature to address these funding challenges, and ensure counties' ability to deliver critical programs and services to all Californians.

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CSAC is a nonprofit corporation that promotes the interests of California's 58 counties at the state and federal level. One of the association's primary goals is to educate the public about the value and necessity for county programs and services. Founded in 1895, CSAC is based in Sacramento.