

Budget Action Bulletin No. 13

2007-08 Final State Budget

Week of August 27, 2007

Via Electronic Mail

DATE: August 28, 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 #13**

Over the weekend, Governor Schwarzenegger took action on 18 trailer bills, thus (finally!) finalizing the state budget for 2007-08. This Budget Action Bulletin reflects the final outcomes on issues affecting counties. We hope you've enjoyed this year's Budget Action Bulletins. See you next year!

WHAT YOU SHOULD DO:

The Legislature continues its work in Sacramento. CSAC will continue to keep counties informed of important issues in the waning days of the session.

WHAT'S BEEN HAPPENING:

ADMINISTRATION OF JUSTICE

Transfer of Juvenile Offenders. SB 81, the corrections trailer bill, provides the framework for the shift of responsibility for certain non-violent juvenile offenders to counties. Beginning September 1, 2007, counties will be permitted to commit to state detention facilities administered by the Division of Juvenile Justice (DJJ) only those wards adjudicated for an 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. CSAC will provide additional information as soon as it is available regarding the allocation of block grant funds to accompany this realignment of responsibility.

As mentioned in previous Bulletins, there will likely be technical amendments suggested to the Legislature for action in the closing weeks of session to assure successful transition of this population to counties, especially related to new non-707(b) supervision duties. It is not expected that the Legislature will consider any adjustment, however, to the statutorily defined effective date of September 1, 2007. Each county is encouraged to engage in discussions at the local level to determine whether it intends to exercise the opt-in component to SB 81 — which gives counties the ability to return non-707(b) offenders currently housed at DJJ back to county custody. These discussions should include court representatives given that the language of SB 81 grants the committing court the authority to recall the youthful offender.

Counties should note that the Governor indicated in his signing message that accompanied SB 81 that certain roles and responsibilities assigned to the Corrections Standards Authority — including review and approval of counties' Juvenile Justice Development Plans by January 1, 2008 — need further consideration and "should be clarified in clean-up legislation."

Counties also should recall that the Governor vetoed from SB 78, the supplemental budget bill, 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 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.”

Citizens’ Option for Public Safety (COPS)/Juvenile Justice Crime Prevention Act (JJCPA). The appropriation for the jointly funded COPS/JJCPA initiative is contained in the primary budget bill, SB 77. A total of \$238 million, to be divided equally between the two programs (\$119 million for each component), has been appropriated. It is anticipated that the funds will be allocated to counties sometime in September.

Booking Fee Alternative. SB 77, the main budget bill, also appropriates \$35 million to fund Local Detention Facility Revenue Accounts. These funds are intended to replace revenues counties otherwise would have anticipated by levying booking fees, as authorized in Government Code Section 29550. Changes to the booking fee structure, enacted in AB 1805 (Chapter 78, Statutes of 2006), became effective July 1, 2007. A set of suggested implementation guidelines related to AB 1805 is being finalized now and will be circulated to county and city agencies across the state within the next few weeks.

Mentally Ill Offender Crime Reduction (MIOCR) Grant Program. SB 78, the supplemental budget bill, assures the continuation of programs currently funded through the MIOCR program. Provisions in this measure provide for \$29.7 million in funding to maintain county programs that had previously been approved and funded through the 2006–07 Budget Act. MIOCR program expenditures and encumbrances would be permissible through September 30, 2008.

Rural and Small County Sheriffs. The 2007-08 budget also will continue the \$18.5 million local assistance grant program for county sheriffs’ departments in the 37 smallest counties. There is no specific appropriation in the budget bill given that Government Code Section 30070 provides for a continuous appropriation of the \$500,000 individual grants to the 37 designated counties.

Probation Pilot Projects. SB 81, the corrections trailer bill, also contains \$10 million in funding for two probation pilot projects. The investment will be shared equally between the two counties over a three-year period. One pilot project is designated for the Alameda County Probation Department for purposes of supporting efforts to de-escalate community conflict and promote mediation among probationers and other at-risk populations. The project is intended to fund employment development and education programs, and is expected to include collaborative efforts with community-based organizations and service providers. The other probation pilot project designated in SB 81 will be funded in a large, urban county that remains unnamed. It is intended to support prevention or supervision services for probationers, specifically targeted 18-to-25 year-olds with known gang affiliations.

Court Security. The 2007-08 budget provides no augmentation (proposed in the Governor’s May Revision for \$36.6 million) to fund court security services.

AGRICULTURE AND NATURAL RESOURCES

Williamson Act. The Governor's 2007-08 Budget funds the Williamson Act at the same level as last year – \$39.6 million – for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts.

Air Resources Board. The budget provides \$23.7 million and 125 positions for the Air Resources Board to continue the implementation of AB 32, the California Global Warming Solutions Act.

Department of Water Resources. The budget appropriates \$774.4 million from Proposition 1E and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) bond funds to continue the repair and evaluation of critical levees, provide subventions to help local governments protect their communities from flooding, and continue development of the state's strategic flood management capability. This funding will be dedicated to the following flood control projects: Mid-Valley Area Levee Reconstruction, South Sacramento County Streams, American River Watershed (Folsom Dam Raise), American River Watershed (Folsom Dam Raise, Bridge Element), American River Flood Control – Natomas Features, West Sacramento Project, Sutter Pumping Plant, Sutter Bypass East Water Control Structures, and for feasibility studies on additional projects.

The budget also reverts to the General Fund \$16 million from the State Flood Control Subvention Program. There is a possibility that this amount will be restored once the bond funds start flowing. In addition, the Governor deleted the \$10 million legislative augmentation for the Flood Protection Corridor Program, which leaves \$24 million of Proposition 84 funds for projects to implement this program. The Governor explained that the \$24 million in funding is sufficient to meet the needs of the program for the budget year, and committed to propose additional funds for the program in future budgets. The Governor also deleted the \$30 million legislative augmentation for the Floodway Corridor Program because criteria have not been developed for this new program created by Proposition 1E. Funding will be included in future budgets.

Department of Fish and Game In-Lieu Fee. The budget does not include any funding for the DFG In-Lieu Fee obligation to California's counties pursuant to Fish and Game Code Section 1504. The department is currently in arrears of approximately \$5.1 million. Additionally, the Governor deleted the \$838,000 legislative augmentation for the maintenance and management of the department's coastal wetlands properties.

SB 85 – Resources Budget Trailer Bill

SB 85, the resources trailer bill, was signed by the Governor. This bill makes a wide range of changes to laws affecting various natural resources and environmental protection programs. The following is a brief summary of the provisions that may be of particular interest to counties:

Department of Fish and Game. Requires the DFG to develop a vegetation mapping technical standard that will include methods for gathering and verifying biological data, standards for digital map production, training materials, mechanisms to merge new mapping data into existing systems, and digital mapping production guidelines.

Climate Change. Requires that all state agencies report quarterly to the Secretary of the California Environmental Protection Agency (CalEPA) on their greenhouse gas emission levels and actions taken to reduce their emissions. It also requires that funds appropriated to the Air Resources Board (ARB) for market-based greenhouse gas emission reduction strategies only be used for their evaluation and assessment and not for their adoption. The bill requires the Department of Water Resources (DWR) to comply with equal greenhouse gas performance standards as publicly owned electric utilities when procuring energy and directs DWR to report to the Legislature on the status of all contracts it has for fossil fuel generated energy. It also directs DWR to employ energy efficiency measures to the extent feasible within its own operations.

Flood Control – Cost Share. Grants authority to DWR to apply equal cost share requirements for local governments for the assessment of project and non-project levees in the Sacramento-San Joaquin Valley that protect urban populations and critical water conveyance infrastructure. It also directs DWR to adopt emergency regulations to apply variable cost share requirements on local entities for project levee repair and modifications.

GOVERNMENT FINANCE AND OPERATIONS

Fractionally Owned Aircraft and Business Use Taxes. SB 87, the budget trailer bill related to taxation, would change the method of assessing fleets of "fractionally owned" aircraft, making it more similar to the method used for scheduled commercial airlines. Fractionally owned aircraft fleets are often compared to real estate time-shares, since the fleets are managed and maintained by an operating company with ownership distributed among the users. Instead of the aircraft being assessed only in the county in which it is habitually situated, aircraft value will be apportioned to each county based on its annual share of takeoffs and landings (except emergency landings) as a proportion of the takeoffs and landings worldwide. An aircraft subcommittee of the California Assessors' Association will designate a lead county assessor's office for each fleet. Many counties have been deferring assessment of these fleets – which are a relatively recent phenomenon – until an approach like this could be developed. The bill also contains provisions to assist assessors in carrying out this new duty, such as requiring owners and operators of both public and private airports, as well as owners of aircraft, to provide detailed information about the presence and use of aircraft upon request of the assessor. These provisions apply beginning with the 2007-08 fiscal year, and for fractionally owned aircraft that have not been assessed in the past these provisions apply retroactively except to the degree that a statute of limitations applies. While the 2007-08 budget bill appropriated \$3.5 million from the General Fund in grants to county assessors, contingent on implementation of the assessment of these fleets, the Governor vetoed these funds.

SB 87 also requires the State Board of Equalization (BOE) to specify to county assessors that annual business personal property statements to be filed in 2008 or later are to include a brief statement noting the obligation to pay use tax on purchases for which sales tax was not applicable, as well as information on how to pay the use tax. The bill further directs the BOE to somehow do this in such a way that it does not increase local costs. The \$400,000 included in the budget for the BOE to implement this program, however, was vetoed.

Legislative staff analysis estimates that cities and counties will realize ongoing increased property tax revenues of about \$7 million from the fractionally owned aircraft assessment change. However, due to the retroactive provision, the 2007-08 benefit will be about \$28 million. There should also be an undetermined increase in future property tax revenue from previously unknown private aircraft and in use tax revenue from business equipment purchases.

Public Libraries. The Governor used his blue pencil to cut a total of \$15 million from two important public library programs; \$14 million of that was a part of the budget that he proposed to the Legislature in both January and May.

The Public Library Fund provides direct state aid to California public libraries for basic public library service. The Governor's proposed budget funded this program at a level of \$21.3 million, and the Budget Conference Committee increased that by \$1 million at the urging of Senator Ducheny, who reminded her colleagues how the program had never been fully funded and how the Legislature had managed to slowly increase the program through the 1990s only to see it slashed earlier this decade.

The Governor deleted \$8 million from this item, for a final appropriation of \$14.3 million.

The second library program affected by the Governor's blue pencil is the Direct and Interlibrary Loans Program. This budget item partially and proportionately reimburses libraries for the costs – such as mailing – of loaning books to distant customers and to each other. The budget as proposed by the

Governor and passed by the Legislature appropriated \$18.6 million for this program. But before signing the budget into law, the Governor cut \$7 million of this amount, leaving \$11.6 million.

Mandate Reimbursement Delay. The state's reading of Proposition 1A (2004) permits them to delay mandate reimbursements until the year after the mandate has been performed. Current practice has been to reimburse an estimated amount, and then true up to the actual cost in the next budget year. This new system will essentially deprive local agencies of one year's worth of reimbursements, since they are now – presumably permanently – pushed out one year. The only mandate payments included in the budget are the true up amounts for mandates performed in 2006-07. This delay is outlined in one of the budget trailer bills, SB 86, and is not related to the AB 1222, the mandate process reform bill that is moving through the legislative process.

The changes made to the mandate reimbursement process include:

- Local governments' due date for submitting annual mandate reimbursement claims moves from January 15 to February 15 (these are for established claims that have already been approved by the Commission on State Mandates);
- The State Controller will report annually by April 30 a list of claims filed by local governments, before April 1 (claims filed between February 15 and April 1 will be penalized; claims filed after April 1 will be penalized and repayments will be delayed by a year);
- The State Controller's annual due-date for payment of mandate claims moves from March 15 to August 15, shifting it into the next fiscal year, if not paid by this date interest accrues;
- Penalties for claims that are filed late increase from the lesser of \$1,000 or 10% of the total claim to the lesser of \$10,000 or 10% of the total claim.

The budget also suspends several mandates. For a list of these suspensions, and for the new language on mandate claims from SB 86, please visit the Government Finance & Operations section of the CSAC website (www.csac.counties.org) later this week.

HEALTH AND HUMAN SERVICES

The following is a summary of the major budget items of interest to counties. The majority of the Governor's blue pencil reductions were to health and human services programs. Please also note that the budget does not include any funding or trailer bill language for reimbursing counties for the cost of doing business for human services programs.

Medi-Cal

Implementation of Federal Deficit Reduction Act Citizenship Requirements. The budget includes \$50.8 million (\$25.4 million General Fund) and 3.8 positions to focus on implementing new federal requirements under the Deficit Reduction Act of 2005. Of this amount, \$50.4 million (\$25.2 million General Fund) is earmarked for county administrative activities.

Outreach, Enrollment, Retention, and Utilization (OERU) Program. The Governor vetoed \$34.6 million (\$15 million General Fund) 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 2006-07.

Medi-Cal Reserve. The Governor blue-penciled \$644.8 million (\$331.9 million General Fund) from the Medi-Cal reserve fund. 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 General Fund) of the rate increases for managed care plans in the Medi-Cal program.

Expanded Access to Primary Care (EAPC). The Governor cut \$10 million General Fund 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.

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

Public Health

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

Mental Health

Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT) Deficiency. Due largely to an accounting error between the state Departments of Health Services and Mental Health, state DMH ended 2005-06 with many unpaid Medi-Cal claims from counties, and no authority to pay those claims. The budget provides funding for the following:

- Prior Year Deficiencies (includes 03-04 cost settlement, 04-05 unpaid claims, 04-05 cost settlement, 05-06 unpaid claims): Funds \$86.7 million of \$260.2 million in deficiencies. Adopted trailer bill language requiring repayment over the next three fiscal years.
- 2006-07 Deficiency: Approved \$59.7 million of the \$59.7 million requested.
- 2007-08 Baseline Increase: Approved \$107.6 million of \$107.6 million requested.

This package provides funding of \$254 million General Fund, or 59 percent of the \$427.5 million owed.

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 to 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.

Mental Health Managed Care. The enacted budget does not include the \$12 million augmentation that would have funded a five percent mental health managed care rate restoration.

Social Services

Transitional Housing for Foster Youth (THP-Plus). The Governor accepted the Legislature's funding level of \$35.2 million in 2007-08 for the THP-plus program.

In-Home Supportive Services. The 2007-08 budget includes an increase in state participation in IHSS provider wages and health benefits from \$11.10 per hour to \$12.10 per hour. This increase became effective July 1, 2007.

Foster Care Rate Methodology. The enacted budget also includes a increase of \$17.2 million (\$9.6 million General Fund), effective January 1, 2008, to provide a five percent increase to foster family home base rates, specialized care increments, and group home rates; Adoption Assistance Program cases prospectively; and all Kin-GAP and Emergency Assistance cases.

CalWORKs. The enacted budget shifts \$84 million of the \$88 million in the TANF Reserve to the General Fund, but includes language that will allow access to those funds in the event of unanticipated CalWORKs costs. It also eliminates the semi-annual reporting proposal and eliminates the CalWORKs grant COLA. Lastly, the budget includes trailer bill language (SB 84) to compel the state to come up with

options for increasing CalWORKs welfare-to-work participation, including “ways to structure the CalWORKs grant in order to maximize full-time work and promote family stability” by October 1.

Adult Protective Services. The Governor deleted the legislative augmentation of \$12 million for Adult Protective Services. APS funding now stands at \$88.3 million for 2007-08.

Human Services Computer Systems. The Governor vetoed \$23 million (\$9.4 million General Fund) that would have funded county hardware replacement and help desk staff in human services administration. Specific vetoes include the following:

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

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.

Suspended Legislation. The Governor vetoed \$4 million (\$2.6 million General Fund) 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 for 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.

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.

Alcohol and Drug Programs

Proposition 36. The budget includes \$60 million for Proposition 36 and \$60 million for the Offender Treatment Program (OTP) in 2007-08. This is a \$25 million decrease in funding compared to 2006-07.

HOUSING, LAND USE AND TRANSPORTATION

Proposition 1B (Transportation Bond) Appropriations & Implementation

Proposition 1B (Transportation Bond) Appropriations	
Dollars in Millions	
Program	2007-08
Corridor Mobility	\$608
Local Transit	\$600
State Transportation Improvement Program	\$727
Local Streets and Roads	\$950
State Highway and Operation Protection Program	\$403

Grade Separations	\$123
Highway 99	\$14
Local Seismic	\$14
Intercity Rail	\$188
School Bus Retrofit	\$193
Air Quality	\$250
Transit Security	\$101
Port Security	\$41
Total Appropriation	\$4,212

*Source: California State Budget Summary 2007-08

The chart above provides the appropriation levels contained in the adopted budget for 2007-08 from Proposition 1B. If a particular account is not listed it is most likely due to the fact that the Legislature was unable to resolve implementation criteria as required by Prop 1B. It should be noted that there was no resolution on developing criteria for the \$1 billion State-Local Partnership Program, however there is a slight chance that consensus could be reached prior to the Legislature’s adjournment. Below we outline further implementation information for the local streets and roads account, which is the only account that provides direct subventions to counties.

Proposition 1B (Transportation Bond): \$2 Billion for Local Streets and Roads. The budget and corresponding Proposition 1B implementation trailer bill (SB 88) provide for a total appropriation of \$950 million to cities and counties in 2007-08 from the local streets and roads account. Per SB 88, the total appropriation is to be divided amongst cities and counties evenly (i.e., \$475 million for cities and \$475 million to counties). However, CSAC had requested an appropriation of \$400 million and the League of California Cities (League) had asked for \$550 in 2007-08. It is anticipated that the split of the total appropriation will be reconciled prior to adjournment to meet the request of CSAC and the League.

SB 88 also contains duplicative state oversight provisions, having local agencies provide project lists to both the State Controller and Department of Finance (DOF) and requesting different information regarding the projects proposed to be funded with the bond proceeds. While we have identified some suggested amendments to address this issue, we have yet to get a commitment to make these changes prior to adjournment, which could further delay the allocation of these funds by the Controller. One of the most problematic provisions would require adoption of guidelines by the Controller outlining very specific requirements for projects nominated and suggest project approval by the Controller. Obviously with the construction season coming to a close this could certainly delay projects for yet another six months.

However, the Governor included a signing message with SB 88, which recognizes the duplicative state oversight provisions contained in the measure and encourages the Legislature to correct this issue. His message specifically states, “...this bill appears to include a drafting error making the general reporting requirements for Local Streets and Roads under Article 1 applicable to the State Controller’s Office. Separate and simplified oversight requirements for that program are included under Article 10. I encourage the Legislature to quickly enact corrective legislation.”

CSAC has provided language to accomplish this goal and continues to work with the Legislature as the session nears an end.

Proposition 1C (Housing Bond) Appropriations & Implementation

Proposition 1C (Housing Bond) Appropriations	
Dollars in Millions	
Program	2007-08
Affordable Homeownership Programs	\$88
Affordable Rental Housing Construction	\$140
Housing for Farmworkers	\$40
Permanent Housing for the Homeless	\$95
Homeless Shelter Housing	\$10
Building Equity and Growth in Neighborhoods	\$40
Transit-Oriented Development	\$95
Infill Incentive Grants	\$300
Total Appropriation	\$808

*Source: California State Budget Summary 2007-08

The above chart details appropriation levels for the accounts funded in the budget from Prop 1C. Below we outline further information regarding the \$850 million Infill Incentive Grant Account of particular interest to counties.

Proposition 1C: \$850 million Regional Planning, Housing, and Infill Incentive Account. SB 86, the Proposition 1C implementation trailer bill, includes a \$300 million appropriation from the \$850 million Regional Planning, Housing, and Infill Incentive Account. \$240 million of this will go to the Housing and Community Development Department (HCD) for the Infill Incentive Grant Program of 2007 and \$60 million will go to California Pollution Control Financing Authority for the California Recycle Underutilized Sites (CalReUSE) program for the purpose of brownfield clean-up. As stated in a previous CSAC Budget Action Bulletin, CSAC was successful in ensuring implementation language that allows counties to compete for bond funding under the Infill Incentive Grant Program found in SB 86.

Transportation Budget

Proposition 42. The final state budget fully funds Proposition 42 at \$1.5 billion for 2007-08, which includes \$703 million for the State Transportation Improvements Program (STIP), \$602 million for the Traffic Congestion Relief Program (TCRP), and \$176 million for the Public Transportation Account (PTA). This concludes the obligation to fund the TCRP and also the payback by cities and counties from the local streets and roads portion to the STIP. Thus, the entire Prop 42 funding level of approximately \$1.5 billion in 2008-09 will for the first time be allocated 40% to the STIP, 20% to counties, 20% to cities and 20% to transit. Counties estimated share is \$314 million in 2008-09.

Climate Change and CEQA Relief. The issue of how to incorporate climate change into CEQA for future development and local and regional plans was a major issue of debate in order to break the budget impasse. It was resolved in the following manner: Budget trailer bill, SB 97, provides for a moratorium on climate change litigation under the California Environmental Quality Act (CEQA) against projects funded by Proposition 1B, the transportation bond and Proposition 1E, the flood control bond passed by voters in November 2006. Although there were discussions about a moratorium on litigation on city and county general plans and regional transportation plans as well as additional projects, this was ultimately not included in the final budget package.

The measure provides that the moratorium on litigation will sunset on January 1, 2010. Additionally, SB 97 requires the Governor’s Office of Planning and Research (OPR) to prepare CEQA guidelines regarding the reduction of greenhouse gasses by July 2009. The guidelines must then be adopted by the Resources Agency by January 2010 and updated on a periodic basis.

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.

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.

Transit Spillover. SB 79, the transportation budget trailer bill, enacts a permanent solution to the spillover revenue, which was the center of much attention this budget season. The measure diverts half of future spillover dollars to support General Fund programs. The remaining half would be retained for traditional PTA purposes and be subject to the following split: two-thirds to the STA Program and one-third to support transit capital projects in the STIP.

High-Speed Rail. The enacted 2007-08 budget appropriates \$20 million to the High-Speed Rail Authority.

Indian Gaming

Special Distribution Fund. Included in the budget cuts made by Governor Schwarzenegger was \$30 million dollars 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 report on the SDF program by the Bureau of State Audits. 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:

Until the next Budget Action Bulletin, friends...

Stay tuned for the next 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!

State Budget Watch

August 28, 2007

This document outlines the components of the enacted 2007-08 state budget that directly affect California counties.

This is the last in a series of periodic updates intended to keep interested parties informed about state budget proposals that could impact local programs and services.

Administration of Justice

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<p><i>Items 5225-001-0001 and 5225-101-0001</i> The Governor's May Revision proposed to transfer responsibility for certain juvenile offenders to the control and supervision of counties.</p>	<p>The budget approved by the Legislature contains provisions to enact the transfer of the juvenile population to counties, with an effective date of 9/1/07. All elements set forth in the corrections trailer bill (SB 81) reflect the components of the compromise reported in previous bulletins.</p>	<p>The Governor signed SB 81 into law, with an indication that certain of the responsibilities assigned to the Corrections Standards Authority require further clarification.</p> <p>In separate action, the Governor vetoed from SB 78 \$14.9 million in county planning (\$4.9 million) and competitive (\$10 million) grants that would have assisted counties in preparing for the offender transfer program.</p>	<p>Increased responsibility for juvenile offender housing, programming, and supervision at the local level, with funding (total amount unknown) provided by the state as a block grant to counties.</p>
<p><i>Item 5225-101-0001</i> The Governor's May Revision proposed to maintain current-year funding for the Mentally Ill Offender Crime Reduction (MICOR) grant program that serves juvenile and adult offenders, administered through the Corrections Standards Authority.</p>	<p>The budget contains \$29.7 million in funding to maintain county MIOCR programs that had previously been approved and funded through the 2006-07 Budget Act. MIOCR program expenditures and encumbrances would be permissible through September 30, 2008.</p>	<p>The Governor made no changes to this budget item.</p>	<p>Provisions in SB 78 assure that programs initiated under the MIOCR program in FY 2006-07 can continue delivery of services through an 18-month funding cycle.</p>

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<p><i>Item 5225-101-0001</i> The May Revision proposed to fund the California Adult Probation Accountability and Rehabilitation Act (CAPARA) at \$25 million, down from \$50 million proposed in the January budget. This new initiative would provide support to all local probation departments to expand adult probation services, with targeted program and supervision of adult probationers aged 18 to 25.</p>	<p>The budget approved by the Legislature funded two specific pilot programs, one in Alameda County and the other in an unspecified urban county. The probation department in each grantee county would receive \$5 million over a period of three years to target specific populations. (Provisions are contained in SB 81, the corrections trailer bill.)</p>	<p>The Governor made no changes to this budget item.</p>	<p>A total of \$10 million investment over a period of three years in specified pilot programs for two county probation departments. One program in an unspecified urban county would target 18 to 25 year-olds with gang affiliations; the other (in Alameda County) would fund efforts to address community conflict and encourage mediation among probationers and other at-risk populations.</p>
<p><i>Items 0250-101-0932, 0250-107-0932, 0250-111-0001; and 0250-117-0001</i> The Governor's May Revision provided a \$36.6 million augmentation to the judicial branch budget to cover court security costs.</p>	<p>The budget approved by the Legislature sustained the conference committee's action and provides no augmentation for court security.</p>	<p>The Governor made no changes to this item.</p>	<p>The rejection of a budget augmentation creates a significant gap between state funding levels and local costs for the provision of court security services.</p>
<p><i>Item 5225-101-0001</i> The Governor's May Revision provided \$16.9 million to fully reimburse local entities for costs of prosecuting inmate crimes, housing state inmates and other services provided to state inmates at the county level.</p>	<p>The budget approved by the Legislature sustained the Budget Conference Committee action. (Appropriation contained in SB 77.)</p>	<p>The Governor made no changes to this item.</p>	<p>This augmentation will allow the state to catch up with current year local assistance payments and to cover anticipated reimbursements for 2007-08.</p>

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
The Governor's May Revision maintained an overall commitment to supporting existing public safety assistance programs at current-year levels, including the Citizens' Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Act (JJCPA) – \$119 million for each program; Juvenile Probation Camp Funding – \$204 million; Rural and Small County Sheriffs' Program – \$18.5 million; Local Detention Facility Funding (new booking fee paradigm) – \$35 million; Methamphetamine Abatement Efforts – \$29.5 million; and Standards for Training and Corrections – \$19.5 million	The Assembly version of the budget sustains the funding for local law enforcement programs. (Appropriations, with one exception, are made in SB 77. The Rural and Small County Sheriffs' program is continuously appropriated through Government Code Section 30070.)	The Governor made no changes to these items.	Nearly \$600 million in support for local public safety programs ranging from intervention, prevention, apprehension, and front-line services.

Agriculture and Natural Resources

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<i>Item 9100-101-0001</i> The May Revision proposes to permanently eliminate <u>all</u> funding, amounting to approximately \$39.1 million, for subventions to counties for property tax losses incurred by enrolling agricultural land in Williamson Act contracts.	The budget contains \$39.1 million in funding for Williamson Act subventions.	The Governor sustained funding for Williamson Act subventions.	Loss of discretionary dollars will impact county's ability to provide important public health and safety services.

Government Finance and Operations

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<i>Item 6120-221-0001</i> Appropriates \$21.3 million for the Public Library Foundation.	The Legislature's version of the budget augmented the appropriation by \$1 million to \$22.3 million.	The Governor cut deeply into this program with his veto pencil, deleting \$8 million from its appropriation, taking it down to \$14.3 million.	These are funds that localities may use freely so long as the funds serve the public library purposes stated in the law. This is the lowest level of funding in recent years.

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<i>Item 6120-211-0001</i> Appropriates \$18.6 million for the Direct Loan and Interlibrary Loan Programs	The Legislature's budget left this item unchanged.	The Governor cut deeply into this program with his veto pencil, deleting \$7 million from its appropriation, taking it down to \$11.6 million.	These are funds that partially reimburse libraries the cost of loaning books, largely to one another.
<i>Item 8885-001-0001 and SB 86</i> Delays mandate reimbursements by one year.	The Legislature's budget sustains the mandate reimbursement language.	The Governor made no changes to this item.	Delays state mandate reimbursements until year after the mandate is performed, instead of making estimated payment in the same year and truing up the next. As a result, there will be one year (2007-08) of no mandate reimbursement (except for 2006-07 true-up).
<i>Item 0860-001-0001</i> Trailer bill language to authorize assessors to assess "fractional" aircraft and private aircraft. Also, includes a partnership program between the State Board of Equalization and county assessors to identify businesses who have an outstanding use tax liability.	The Legislature's version of the budget sustains the Conference Committee decision. Details are contained in SB 87.	The Governor deleted \$400,000 for BOE to implement the use tax partnership program.	Potential increased revenue to local governments of \$7 million for the "fractional" aircraft. Unknown potential revenue increase from increased use tax compliance.
<i>Item 9210-107-0001</i> Appropriates \$3.5 million in one-time grants to assessors contingent on \$30 million in statewide assessments of fractionally owned aircraft, proportional to K-14 property tax revenue.	The Legislature's version of the budget sustains the Conference Committee decision.	The Governor eliminated this item to "limit program expansions." He also deemed it unnecessary due to the revenue counties will realize from assessment of fractionally owned aircraft.	This revenue would have helped cover the schools' unpaid share of property tax administration.

Health and Human Services

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<p><i>Item 4200-105-0001</i> <i>Page 143</i> <i>Proposition 36</i> The Governor proposed \$60 million for Proposition 36 and \$60 million for the Offender Treatment Program (OTP). This is a \$25 million decrease in funding compared to 2006-07.</p>	<p>The budget provided \$100 million for Proposition 36 and \$20 for the OTP.</p>	<p>The Governor's signed budget provides \$120 million in total funds for Proposition 36 related services - \$100 million for Proposition 36 and \$20 for the Offender Treatment Program.</p>	<p>Counties will receive \$25 million less funding in 2007-08 than in 2006-07. Based on surveys conducted in 2005, counties believe that \$230-265 million is needed statewide to adequately fund the appropriate levels of treatment and supervision for Proposition 36. Counties' ability to make program improvements, as required by OTP, while funding is declining will be difficult.</p>
<p><i>Item 5180-151-0001</i> <i>Page 185</i> <i>Adult Protective Services</i> The Governor's budget includes \$88.3 million (\$50.1 million General Fund) for Adult Protective Services (APS).</p>	<p>The Legislature's version included a \$12 million augmentation for APS.</p>	<p>The Governor deleted the legislative augmentation of \$12 million for Adult Protective Services.</p>	<p>Funding for APS has been flat for the past six years, while the number of reported cases of abuse and neglect for this population has increased by 34 percent since 2000. The Governor's action will hamper counties' ability to respond to rising APS cases.</p>
<p><i>Item 4440-101-0001</i> <i>Page 172</i> <i>Integrated Services for Homeless Adults with Mental Illness</i> The Governor's budget proposed to eliminate funding for AB 2034, Integrated Services for Homeless Adults with Severe Mental Illness. The proposed cut would save \$54.9 million GF.</p>	<p>The Legislature's version preserved the \$54.9 million for AB 2034 services.</p>	<p>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 to 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.</p>	<p>Counties believe that any cut to AB 2034 funding is contrary to the Mental Health Services Act of 2005 (Proposition 63).</p>

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<p><i>Item 5180-151-0001</i> Page 181 <i>Transitional Housing for Foster Youth</i> The May Revision proposed \$15.5 million in 2007-08 for this program; the same amount proposed in January.</p>	<p>The Legislature's budget included \$35.2 million and still included language for current year claims to be reimbursed with budget year funding.</p>	<p>The Governor accepted the Legislature's funding level for the THP-plus program. Funding now stands at \$35.2 million.</p>	<p>Counties believe that the budget approved by the Governor will result in delays in program availability in some counties.</p>

Housing, Land Use and Transportation

Proposed Changes to Local Programs/Services	Legislature's Approved Budget	Governor's Action	Impact on Local Government
<p><i>Item 9350-104-6065</i> Proposition 1B (Transportation Bond): \$2 billion Local Streets and Roads Account.</p>	<p>The Legislature's version of the budget and accompanying trailer bill (SB 88) appropriates a total of \$950 million to cities and counties for local streets and roads improvements.</p>	<p>While the Governor did not make any changes to the appropriation level, he included a request in a signing message that the Legislature clean-up SB 88 with respect to the duplicative oversight and accountability provisions attached to the Local Streets and Roads Account.</p>	<p>Counties would receive nearly half of the Local Streets and Roads bond proceeds (\$475 million in FY 2007-08) for traffic congestion relief, preservation, transit, traffic safety, and other projects to improve the local transportation system. However, CSAC had requested only \$400 million in the new budget and is seeking clean-up language along with the League to clarify the appropriation amount for counties.</p>
<p><i>Item 2240-101-6069</i> Proposition 1C (Housing Bond): \$850 million Regional Planning, Housing, and Infill incentive Account.</p>	<p>The Legislature's version of the budget appropriates \$300 million from this account for 2007-08.</p>	<p>The Governor made no changes to this item.</p>	<p>HCD is administering this grant program that will be awarded on a competitive basis. Counties are eligible to compete for these grants.</p>
<p><i>Item 0855-101-0367</i> \$30 million for the California Gaming Control Commission (CGCC) for the Special Distribution Fund (SDF) program.</p>	<p>The Legislature's version of the budget included the \$30 million appropriation to the CGCC for the SDF program.</p>	<p>The Governor blue penciled \$30 million for the CGCC to implement the SDF program which provides grants for local governments to mitigate the impacts of Indian casinos on surrounding communities.</p>	<p>Counties, cities, and tribes would suffer a loss of \$30 million in local grants to mitigate casino impacts.</p>