

# Budget Action Bulletin No. 1XXX

2007-08 Third Extraordinary Session

Week of February 15, 2008

## Via Electronic Mail

DATE: February 15, 2008

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

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

RE: **Budget Action Bulletin #1XXX**

Today, the Senate and Assembly passed a package of bills to send to the Governor to address the state's fiscal emergency. The package of seven bills achieve reductions of about \$1.5 billion and cash flow solutions of about \$8 billion, including the sale of \$3.3 billion in Economic Recovery Bonds. The largest components of the reductions are in K-14 Education and Medi-Cal. While most of the package impacts current year spending, there are budget year impacts. All measures required a 2/3 vote for immediate implementation upon the signature of the Governor.

This Budget Action Bulletin outlines the components of the package, as well as an attached chart outlining the total package and its contents. Of interest to note that one component of the package, the so-called "yacht loophole" closure, was not approved by either house. This measure would have reinstated the 12-month rebuttable presumption for vehicles, vessels, and aircraft brought into California. The current presumption is 90 days. Vehicles, vessels, and aircraft purchased out of state by a California resident are presumed to have been purchased for use in California and are subject to use tax if they are brought into the state before the end of the presumption period. Approval of this measure would have resulted in a General Fund revenue gain of \$5 million in 2007-08 and \$21 million in 2008-09 and annually thereafter, as well as additional revenues to local governments annually.

Today's action may end the Legislature's work in the Third Extraordinary Session, although neither house closed down the session. Recall that the Governor proclaimed a fiscal emergency on January 10 and presented a plan to resolve the current year budget crisis, as authorized by Proposition 58. The Legislature then had 45 days in which to send measures to the Governor that "address" the state's fiscal crisis. With today's action, the Legislature has beat the deadline by a week.

As we've shared previously, CSAC was particularly concerned about the proposed deferral of payments to counties for a variety of programs and services. We specifically requested three modifications to the proposal: certainty for terms of payment, exemptions for those counties that could not manage the deferrals, and interest and borrowing costs associated with counties' own borrowing to cover the cash flow. The various components of the deferrals will be discussed in detail below; however, for the most part, the statute indicates when each proposed deferral will begin, when payments resume, and when the full deferred amount will be paid. Exemptions for those counties who will have difficulty managing the deferrals were not included in the package; however, we are involved in ongoing discussions with the four caucuses and the Department of Finance to include exemption provisions in a clean-up measure that follows the emergency reduction package. And, in fact, a number of legislators in both houses spoke out about this issue. There are no provisions for reimbursement of interest or borrowing costs contained in the package. CSAC believes that costs associated with borrowing to continue mandated programs should be reimbursable.

## **WHAT'S BEEN HAPPENING:**

### **ADMINISTRATION OF JUSTICE**

There appear to be no significant mid-year reductions in public safety programs. While the two key policy proposals in the Governor's budget — early prison release and summary parole — were not included in the mid-year package, it is our understanding that these items will be revisited this spring in the context of 2008–09 budget discussions.

We would further note that mid-year reductions applied to the judicial branch budget will result in a delay in new judgeships—for 10 of the 50 new judgeships authorized in 2006 and for all 50 new judicial officers authorized in 2007.

### **GOVERNMENT FINANCE AND OPERATIONS**

**State Mandates.** The state will not pay for local governments' estimated mandate costs in the 2007-08 budget, for a savings of \$75 million; they will instead only pay actual claims from previous years. This is an ongoing delay that gives the state one-time savings.

### **HEALTH AND HUMAN SERVICES**

In the health and human services budget, the Legislature approved current year and budget year cuts, cash deferrals, and payment changes. All the actions detailed below can be found in AB 3 XXX (General Fund cuts), AB 5 XXX (Health, Healthy Families, Mental Health, and Developmental Services) or AB 6 XXX (Human Services). Please note that the Legislature did not adopt a number of the Governor's January proposals, including the CalWORKs policy changes, and funding reductions to Mental Health Managed Care (Medi-Cal) rates, Proposition 36, child welfare services, and adult protective services.

#### **MEDI-CAL**

**Medi-Cal Provider Rates.** The package reduces provider rates by 10 percent beginning July 1, for \$544 million General Fund (\$1.1 billion all funds) of savings in 2008-09. The rate reductions include hospital-based nursing facilities, but excludes freestanding nursing homes that pay a quality assurance fee that helps to finance their rates. The reduction also applies to inpatient care provided by hospitals that do not contract with Medi-Cal, but excludes payments to contracting hospitals. Additionally, monthly payments to Medi-Cal managed care plans will be reduced on an actuarially-equivalent basis.

The 10 percent Medi-Cal provider rate cut adopted by the Legislature differs from the Governor's proposal by delaying the reduction by one month and by excluding rates paid for family planning services and the Breast and Cervical Cancer Treatment Program, both of which draw down high rates of federal funds. Like the Governor, the Legislature exempted hospital inpatient, long term care facilities, Adult Day Health Care centers, Federally Qualified Health Clinics, and Rural Health Clinics.

According to Assembly documents, the primary purpose for the 1-month delay in implementing the cuts until the start of the fiscal year is to allow time for further review of provider rates during the regular budget process.

**Provider Rates for Other Health Programs.** The Legislature also reduced provider rates by 10 percent beginning July 1 for the non-Medi-Cal components of the California Children's Services (CCS) Program, Child Health and Disability Prevention (CHDP) Program, and the Genetically Handicapped Persons Program (GHPP) for a 2008-09 savings of \$14.2 million. Please note that the Medi-Cal rate reductions mentioned above will reduce the rates paid for these services to Medi-Cal enrollees, and this particular reduction was adopted to create parity for the rates paid for these program services inside and outside of Medi-Cal.

**Checkwrite, County and Provider Payment Delays.** The Legislature voted to permanently delay the June 19, 2008 Medi-Cal checkwrite until July for a budget savings of \$165 million in the current year. Again, the June checkwrite delay will be permanent, and is in line with what the Governor proposed in January.

However, the following two payment delays will be accomplished administratively: A one-month delay in \$686 million in payments to Medi-Cal institutional providers and managed care plans from August until September 2008, and a one-to-two month delay in the first quarterly payment of \$164 million to counties for Medi-Cal administration in 2008-09.

#### **MENTAL HEALTH**

**Early Periodic Screening, Diagnosis, and Treatment Program (EPSDT).** The Legislature approved a reduction in the cost per client rate by establishing a central Short-Doyle Medi-Cal Unit responsible for monitoring and improving the processes and procedures for claiming, county provider payments, and technical assistance to counties for an estimated savings of \$1.8 million, and eliminated the cost of living increase for EPSDT rates for a savings of \$1.9 million. These two actions are estimated to result in a total savings of \$3.7 million in the current year and \$14.6 million in 2008-09.

#### **HUMAN SERVICES**

**CalWORKs Pay for Performance Incentive Funding.** The Legislature eliminated \$40 million in Pay for Performance incentive funds in the current year, as these funds have not yet been awarded to counties.

**Social Services Cash Deferral.** The Legislature temporarily suspended the monthly advance of state general funds to counties in July and August for a savings of \$814 million. These funds were to be used by counties for benefits, aid grants, administration, and employment and supportive services, but payments to counties for SSI/SSP and the In-Home Supportive Services (IHSS) program are exempted from this temporary suspension. The deferred payments to counties will resume on September 1, and be made no later than September 30. There is language in AB 6 XXX detailing the deferral for social services programs. Counties will be paid for all 12 months of program costs in 2008-09.

**ISAWS Migration Project.** The Legislature modified the Administration's Interim Statewide Automated Welfare System (ISAWS) Migration proposal. The Legislature delayed implementation for one month from June 1 to July 1 for a current year savings of \$3.5 million. Please recall that the Administration had proposed to eliminate the Interim ISAWS migration project entirely.

**CWS/CMS Savings.** The Legislature also cut current year funding for the Child Welfare Services/Case Management System (CWS/CMS) by \$3 million to reflect automation savings.

**Delay of the CalWORKs COLA.** The package delays the effective date of the July 2008 CalWORKs cost of living adjustment until October 1, 2008 on a one-time basis. This proposal is estimated to save \$41.5 million in 2008-09, and will not affect the July 2009 COLA effective date.

**Delay of the SSI/SSP COLA.** Also delays the effective date of the June 2008 COLA for recipients in the Supplemental Security Income/State Supplementary Payment Program (SSI/SSP) until October 1, 2008 on a one-time basis. This action is estimated to save \$23.3 million in the current year, and a savings of \$67.8 million in 2008-09. This action will not affect the June 2009 COLA effective date as well.

#### **ALCOHOL AND DRUG PROGRAMS**

**Drug Medi-Cal.** The package also reduces the current year appropriation for Drug Medi-Cal by \$100,000 to recoup available state operations dollars and leaves the budget year reduction to be evaluated in the regular spring budget process.

**California Methamphetamine Initiative.** The Legislature cut \$360,000 from the current year budget for the program to recoup unspent dollars.

#### **REDUCTIONS IN STATE OPERATIONS**

The Legislature also approved a number of reductions to state operations for the following three departments:

- A \$200,000 current year reduction in the Department of Child Support Services
- A \$70,000 current year reduction in the Department of Social Services
- A \$722,000 current year reduction in the Department of Mental Health

#### **HOUSING, LAND USE AND TRANSPORTATION**

**Gas Tax Deferral/Prop 1B.** Due to the state's severe cash flow situation, the Legislature acted to delay the payment of the local portion of the state gas tax to cities and counties over five months, beginning in April. AB 7XXX would withhold the transfer of just over six cents of the state's 18-cent gas tax. The delay only impacts the city and county portion of the gas tax equivalent to approximately \$500 million. Specifically, the bill states that the March through July monthly revenues will be transferred with the August 2008 revenues, which are due to cities and counties in September 2008 payment.

CSAC expressed concern over this delay for a variety of reasons, including the fact that many counties do not have sufficient cash balances to absorb this delay. This is particularly true since the gas tax is the most flexible revenue stream available to local governments, and relied upon for operations and maintenance.

The Department of Finance is advocating that cities and counties substitute Proposition 1B local streets and roads funds during this delay period. While this solution will impact project delivery at a time when investing in the state's economy is critical, we know some counties will need this flexibility to maintain basic operations. AB 7XXX does include a provision that intends to provide flexibility in the use of Proposition 1B funds as a substitute for gas taxes; however, the actual language only references utilizing the funds for "maintenance" purposes, which is already an eligible use under statute. CSAC continues to seek further clarification to ensure that, for those counties that need operating revenues during this suspension period, they can rely on Proposition 1B revenues without any consequence.

#### **WHAT'S GOING TO HAPPEN NEXT:**

We expect the Governor to sign this package in short order. Next Wednesday, the Legislative Analyst's Office will release their analysis of the Governor's budget and we start the process all over again. Look for information from CSAC on the LAO analysis, as well as upcoming budget discussions in the Legislature.

**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](mailto:jhurst@counties.org). We're happy to accommodate you!**