



**2012-13 Governor's May Revision
Week of May 13, 2012**

May 14, 2012

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

FROM: Paul McIntosh, CSAC Executive Director
Jim Wiltshire, CSAC Deputy Executive Director

RE: **Summary of the Governor's May Revision**

The Governor released his May Revision to the 2012-13 State Budget this morning, calling for “a modicum of stoicism” as he outlined how he proposes to rectify a \$15.7 billion estimated deficit. The deficit is larger than his Administration predicted in January due to lower than expected revenues (-\$4.3 billion loss), higher than expected school costs (-\$2.4 billion loss), and decisions by the federal government and courts that blocked certain budget cuts (-\$1.7 billion loss).

Governor Brown's proposed budget relies on voters approving his November statewide ballot initiative, and all of his May Revision materials (and therefore the information below) are based on the presumption that it will pass. Accordingly, the May Revision Budget would increase school funding from the current year by \$5.2 billion (16 percent). Spending outside of Proposition 98 would decline by \$2.4 billion (-4.5 percent), although that number excludes a \$2.1 billion repayment of funds borrowed pursuant to Proposition 1A three years ago.

The May Revision includes severe trigger cuts should the ballot measure fail to pass so that the state can borrow money to meet its cash flow needs with intra-year financing. These trigger cuts of \$6.1 billion would fall largely on schools, both K-14 (\$5.5 billion) and higher education (\$500 million). Other trigger cuts, some of which would affect programs of interest to counties, are detailed later in this *Budget Action Bulletin*.

The Governor's ballot measure would constitutionally protect the revenues shifted to counties to fund 2011 Realignment. It would also temporarily raise taxes; the sales and use tax would rise one quarter cent for five years and the personal income tax would,

for seven years, rise one, two, and three percent for joint filers making over \$500,000, \$600,000, and \$1 million respectively (half of those amounts for single filers).

Finally, the Governor’s budget would balance into future years, and the state would even be able to begin paying down the \$33 billion in outstanding budgetary borrowing – called the “Wall of Debt” by Governor Brown – that it has regularly accumulated since the dot-com bust. The May Revision notes that the proposal, with “diligent fiscal management,” would reduce this \$33 billion to only \$6.6 billion by the end of 2015-16.

Budget Balancing Proposals
(\$ in millions)

Expenditure Reductions	50%
<u>Health and Human Services</u>	
Medi-Cal	\$1,219.2
CalWORKs	879.9
In-Home Supportive Services	224.5
Other HHS Programs	161.0
<u>Education</u>	
Proposition 98	1,497.9
Child Care	452.5
Cal Grant Program	291.7
Other Education	64.4
<u>All Other Reductions</u>	
Redevelopment Assets	1,405.0
State Mandates	828.3
Judiciary	544.0
Employee Compensation	401.7
Other Reductions	333.4
Expenditure Reductions	\$8,303.5
Revenues	35%
Temporary Taxes	\$5,579.8
Other Revenues	339.1
Revenues	\$5,918.9
Other	15%
Loan Repayment Extensions	\$1,158.3
Transfers and Loans from Special Funds	612.2
Additional Weight Fee Revenues	385.2
Unemployment Insurance Interest Payment	312.6
All Other	49.6
Other	\$2,517.9

Total	\$16,740.3
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With Budget Balancing Solutions — General Fund
(\$ in millions)

	2011-12	2012-13
Prior Year Balance	-\$2,844	-\$2,535
Revenues and Transfers	\$86,809	\$95,689
Total Resources Available	\$83,965	\$93,154
Non-Proposition 98 Expenditures	\$53,988	\$53,658
Proposition 98 Expenditures	\$32,512	\$37,729
Total Expenditures	\$86,500	\$91,387
Fund Balance	-\$2,535	\$1,767
Reserve for Liquidation of Encumbrances	\$719	\$719
Special Fund for Economic Uncertainties	-\$3,254	\$1,048
Budget Stabilization Account	-	-
Total Available Reserve	-\$3,254	\$1,048

Revenue Sources — General Fund
(\$ in millions)

	2011-12	2012-13	\$ Change	% Change
Personal Income Tax	\$52,958	\$60,268	\$7,310	13.8%
Sales and Use Tax	18,921	20,605	1,684	8.9%
Corporation Tax	8,208	8,448	280	3.4%
Motor Vehicle Fees	92	27	-65	-70.7%
Insurance Tax	2,148	2,089	-59	-2.7%
Estate Taxes	-	45	45	-
Liquor Tax	331	337	6	1.8%
Tobacco Taxes	93	90	-3	-3.2%
Other	4,058	3,740	-318	-7.8%
Total	\$86,809	\$95,689	\$8,880	10.2%

Expenditures by Agency — General Fund
(\$ in millions)

	2011-12	2012-13	\$ Change	% Change
Legislative, Judicial, Executive	\$2,541	\$2,074	-\$467	-18.4%
State and Consumer Services	619	689	70	11.3%
Business, Transportation & Housing	573	448	-125	-21.8%
Natural Resources	1,933	1,921	-12	-0.6%
Environmental Protection	51	46	-5	-9.8%
Health and Human Services	26,772	25,963	-809	-3.0%
Corrections and Rehabilitation	8,082	8,889	807	10.0%
K-12 Education	34,038	38,540	4,502	13.2%
Higher Education	9,770	9,516	-254	-2.6%
Labor and Workforce Development	354	342	-12	-3.4%
General Government:				
Non-Agency Departments	443	485	42	9.5%
Tax Relief/Local Government	544	2,531	1,987	365.3%
Statewide Expenditures	780	-57	-837	-107.3%
Total	\$86,500	\$91,387	\$4,887	5.6%

REALIGNMENT

In the May Revision, the Administration is updating the funding allocations on a program-by-program basis with updated caseload information and proposing trailer bill language to create a permanent funding structure for 2011 Realignment. The trailer bill is expected to be released on the Department of Finance [website](#) later today. Once CSAC reviews the trailer bill language, we will provide counties with additional information.

Below is an updated funding chart. Compared to the program allocation and funding chart included in the January Budget, the 2011-12 and 2012-13 funding level for several programs has increased.

Note: Realignment information pertaining to public safety programs can be found in the Administration of Justice section of this *Budget Action Bulletin*.

2011 Realignment Funding
(\$ in millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	\$496.4	\$496.4	\$496.4	\$496.4
Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	989.9	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Mental Health Services				
EPSDT	-	584.2	584.2	584.2
Mental Health Managed Care	-	196.7	196.7	196.7
Existing Community Mental Health Programs	1,083.6	1,120.6	1,120.6	1,120.6
Substance Abuse Treatment	183.6	183.6	183.6	183.6
Foster Care and Child Welfare Services				1,621.1
Adult Protective Services	55.0	55.0	55.0	55.0
Existing Juvenile Justice Realignment	97.1	98.8	98.8	98.8
Program Cost Growth	-	221.7	456.6	1,014.7
TOTAL	\$5,592.3	\$5,889.8	\$6,303.6	\$6,810.9
1.0625% Sales Tax	5,152.9	5,434.7	5,840.3	6,339.8
Vehicle License Fee Funds	439.4	455.1	463.6	471.1
TOTAL Revenues	\$5,592.3	\$5,889.8	\$6,303.6	\$6,810.9

The updated allocation chart reflects changes to the base for the following programs in 2011-12:

- The allocation for Substance Abuse Treatment programs has increased by \$3.9 million, from \$179.7 to \$183.6 million. These funds will be included in the Behavioral Health Subaccount beginning in 2012-13.
- The allocation for Foster Care, Child Welfare and Adult Protective Services increased by \$5.1 million from \$1,562.1 million to \$1,567.2 million. These funds will be included in the Protective Services Subaccount beginning in 2012-13.

Additional changes include:

- The 2011-12 allocation for Existing Community Mental Health Programs is \$1,083.6 million, which represents the amount that will be allocated to the Mental Health Account pursuant to the formula in statute for 2011-12. This amount is greater than the \$1,068.8 million that is now estimated to have been available for Mental Health in 2011-12 under 1991-92 Realignment.
- The 2012-13 allocation for Existing Community Mental Health Programs is \$1,120.6 million, which represents the amount that is estimated to otherwise have been available for Mental Health in 2012-13 under 1991-92 Realignment. Although this is less than the \$1,164.4 million reflected in the Governor's Budget, Mental Health programs have a dedicated growth account in the new ongoing funding structure. These programs will also continue to receive any Mental Health growth resulting from 1991-92 Realignment.
- The allocations for Early and Periodic Screening, Diagnosis and Treatment program and the Mental Health Managed Care program have increased by \$48.1 million, from \$732.8 to \$780.9 million. Please recall that the 2012-13 funding level establishes the base for these programs and these programs will be included in the Behavioral Health Subaccount beginning in 2012-13.
- The allocation for Foster Care and Child Welfare Services now changes from year-to-year from 2012-13 through 2014-15. This reflects the costs for counties to expand foster care benefit eligibility up to age 21 as authorized by Chapter 559, Statutes of 2010 (AB 12) for a cumulative increase of \$53.9 million. These funds are included in the Protective Services Subaccount and will be phased in over a three-year period beginning in 2012-13.

ADMINISTRATION OF JUSTICE

While the vast majority of local public safety programs now are funded through the 2011 realignment construct, several justice-related budget items of interest to counties are addressed in the Governor's May Revision, which are summarized below. Please note that overall 2011 Realignment funding issues are discussed in a separate section dedicated to that topic.

Division of Juvenile Justice

As counties will recall, the Governor proposed in his January 2012-13 budget the closure of the Division of Juvenile Justice (DJJ), beginning with ceasing intake of youthful offender commitments beginning January 1, 2013. In the May Revision, the Governor revises his juvenile justice proposal to keep DJJ available as a placement option for youthful offenders, but makes other proposed operational efficiencies and policy changes, which include:

- A new fee structure that would charge counties \$2,000 per month (\$24,000 annually) for each ward committed to the DJJ by a juvenile court; the fee would be charged beginning July 1, 2012, and would apply to all eligible youthful offenders regardless of commitment date;
- A change in the DJJ age jurisdiction from 25 to 23 years, applied prospectively;
- Termination of juvenile parole six months early (on January 1, 2013 instead of July 1, 2014); and,
- Reduction of administrative staffing levels within the California Department of Corrections and Rehabilitation (CDCR) headquarters and DJJ facilities.

With these changes, the trigger fee — that was part of the 2011-12 budget and originally scheduled to be levied against counties beginning January 1 of this year — will essentially be forgiven.

2011 Public Safety Realignment

It is anticipated that the trailer bill language related to the 2011 Realignment fiscal structure – not yet available at the time of this writing – will detail a county-by-county allocation related to both the AB 109 programmatic activities as well as the separately allocated funds to district attorneys and public defenders for new revocation activities associated with Realignment. Details on the recommended allocation formula, which would be in place for 2012-13 and 2013-14 (with a permanent formula to be determined), have been sent to county administrative officers statewide under separate cover.

In addition, we also anticipate that budget trailer bill language will include a provision that permits two consenting counties to enter into a contract for transfer of jail inmates. It is our understanding that the inmate transfer authority would be in place for three years to allow for review and evaluation of frequency and usage.

Finally, we anticipate that trailer bill language will be made public later today that recasts and revises statute governing the provision of court security services (Government Code Sections 69920-69927). These changes are necessitated by the change in the funding structure for court security.

Department of Corrections and Rehabilitation

Last month, CDCR released what is being called its “blueprint” plan to save billions of dollars over a four-year period as the department adjusts to its changing demographics as a result of realignment. In the May Revision, the Governor reiterates his commitment to following through on the CDCR blueprint. Of particular interest to counties is that the

state will be restructuring the delivery of its rehabilitation programs due to the reduction in the state's prison population. As a result of the 2011 criminal justice realignment, the state will be able to engage approximately 70 percent of its remaining population in rehabilitation programs by converting existing space into rehabilitative programming space.

Additionally, CDCR will be establishing reentry hubs within some of its institutions to better prepare inmates for reintegration back into the community. Further, as a result of the state reducing its prison population through realignment, the CDCR will return 10,000 inmates currently housed in out-of-state facilities to its 33 state prisons. Counties interested in viewing the complete blueprint can do so by visiting CDCR's [website](#). Upon full implementation of realignment and implementation of this blueprint, CDCR will save over \$1 billion annually.

Board of State and Community Corrections

Effective July 1, 2012, the Corrections Standards Authority (CSA) will be reconstituted as the Board of State and Community Corrections (BSCC). The BSCC will, in addition to other specified functions, assume the duties of the CSA and will take on a newly enhanced role to provide statewide leadership, coordination and technical assistance for the state and local jurisdictions as they operate California's juvenile and adult corrections systems. Further, it will be the responsibility of the BSCC to guide state and local jurisdictions through the implementation stages of the 2011 criminal justice realignment.

The May Revision outlines funding to the BSCC, which includes \$27.7 million in General Fund and \$92.2 million in other funding sources. Other components of interest in the BSCC's proposed budget include:

- **AB 900 Phase III local jail construction funding** – The May Revision includes \$500 million of additional lease revenue bond authority to assist counties in managing offender population in county jails. These funds are in addition to the current \$1.2 billion already awarded to counties for Phase I and Phase II AB 900 local jail construction projects. The parameters and criteria surrounding the release of Phase III funds will be determined by the BSCC through a stakeholder process similar to the previous two phases.
- **Local subvention grants to city police departments** – The BSCC will develop a formula to award \$20 million in state general funds (not tied to realignment funding) to local police departments in recognition of reductions to city police departments.

Judiciary

The Governor's May Revision signals intent to evaluate the effects of trial court funding reforms. Given that 15 years have passed since the enactment of the Trial Court Funding Act of 1997 (AB 233), the Administration proposes to establish a working group to analyze workload metrics and staffing standards, among other factors, in an effort to assess the effective statewide administration of the trial courts.

As for the judicial branch budget, the Governor's May Revision proposes a \$544 million General Fund reduction, of which \$419 million is one-time and \$125 million is ongoing. However, in 2012-13, \$540 million of the reduction would be offset using trial court reserves and delaying courthouse construction. The remaining \$4 million in reductions would be achieved by permanent changes in retirement contributions for Administrative Office of the Court, supreme and appellate court, as well as Habeas Corpus Resource Center employees. Additional permanent reductions include \$40 million that will be redirected from court construction funds to support trial court operations.

Department of Justice

The Governor proposes to reduce funding to the DNA Identification Fund by eliminating the \$10 million general fund transfer to the fund. This elimination will be offset by an increase in the penalty assessment of \$1 for every \$10 in base fine.

AGRICULTURE AND NATURAL RESOURCES

Governor's Reorganization. As part of Governor Brown's Reorganization Plan, he submitted a comprehensive plan to the Little Hoover Commission (Commission) in May. The May Revision states that the Commission is expected to submit its findings and recommendations to the Legislature by May 22. The Governor's plan calls for the Emergency Management Agency to become an office directly reporting to the Governor; the Department of Resources, Recycling and Recovery (CalRecycle) to be transferred from the Natural Resources Agency to the California Environmental Protection Agency (EPA); and the Delta Stewardship Council to be transferred to the Natural Resources Agency.

Department of Food and Agriculture. The Governor's May Revision includes a permanent, unallocated reduction of \$2.5 million to the Department of Food and Agriculture's budget. This builds on the \$31 million General Fund reduction already adopted, which primarily affects various programs related to border control stations, pest prevention and food safety activities.

GOVERNMENT FINANCE AND OPERATIONS

Redevelopment

The May Revision assumes that local K-14 schools will receive an additional \$818 million in property taxes in 2011-12, and \$991 million in 2012-13. These gains offset the state's Proposition 98 obligation. The amounts are down from the \$1.05 billion and \$1.08 billion assumed in the January budget proposal. The declines from previous estimates are due to lower-than-expected property tax revenues and samples of obligated payment schedules of successor agencies. These are ongoing revenues.

ABX1 26, which dissolved redevelopment agencies, requires that unencumbered assets be distributed to taxing entities, but sets no deadline for doing so. The May Revision would create a framework for those distributions, and the Administration estimates that \$2 billion would go to K-14 schools, \$1.4 billion in 2012-13 and \$600 million in 2013-14. Again, these funds would offset the state General Fund's Proposition 98 expenses. These are one-time revenues.

The May Revision also proposes to increase school funding by allowing K-14 schools to retain some of the money that would under current law otherwise offset the state's Proposition 98 guarantee. Specifically, schools could retain one percent of the increased property taxes and five percent of the distributed assets.

Dry-Period Financing

The Governor's January Budget proposed allowing charter schools to borrow money from county treasuries upon a showing of need. This benefit is currently granted only to entities that bank solely through the county treasury, like public schools. In those cases, the treasury is assured of repayment. Extending this to private entities, as many charter schools are, is both legally questionable and financially risky. The May Revision includes this provision, but it is not specific as to whether the lending would be optional or mandatory.

EMPLOYEE RELATIONS

State Employees. In his May Revision, Governor Brown proposes eliminating the use of retired annuitants and temporary employees for non-essential positions which are not critical to a department's core mission.

Additionally, the Governor proposes to score \$830.1 million savings in state employee compensation by pursuing a four-day, 38-hour work week for most represented and unrepresented employees (about 214,000 positions). This would require re-opening existing labor contracts and/or amending them; the Administration hopes to negotiate these changes by July 1, 2012.

The Governor's May Revision includes an intention to further save state costs by continuing to pursue changes to current employees' and retirees' health coverage.

Unemployment Insurance Program. Counties will recall that due to a structural imbalance between revenues and benefit payments, the Unemployment Insurance (UI) Fund has been making benefit payments with borrowed federal funds since 2009. The UI Fund deficit is projected to be \$11.7 billion at the end of 2012. Interest in the amount of \$303.5 million was paid in September 2011 through a loan from the state's Unemployment Compensation Disability Fund. The Governor's January budget proposed to continue to borrow from the Disability Fund to pay the 2012-13 interest expense of \$417 million; his May Revision includes this expense, but costs it at \$412.6 million as the federal government has since lowered the interest rates on funds borrowed.

The Governor additionally proposes in his May Revision an increase of \$4.3 billion in 2012-13 for UI benefit payments due to additional federal benefit adjustments and an increase of \$16.9 million and redirection of \$6.3 million UI Administration Fund in 2012-13 to provide continued support for the Unemployment Insurance Modernization Project, a federal incentive program offered through the American Recovery and Reinvestment Act that provided states with additional UI administration dollars to modernize information technology.

Reducing State Government. As mentioned above, Governor Brown proposed eliminating or consolidating several employment-related boards and commissions in January and provided his blueprint for doing so to the Little Hoover Commission. The plan includes the creation of a "CalHR" department which would combine the State Personnel Board and the Department of Personnel Administration, and aligns the Public Employment Relations Board (PERB) with the Labor Workforce Development Agency. Again, the Commission is expected to submit its findings and recommendations to the Legislature by May 22.

HEALTH AND HUMAN SERVICES

The Governor's May Revision includes \$1.2 billion in cuts to health and human services out of \$8.3 billion total proposed cuts for the 2012-13 fiscal year. The California Health

and Human Services Agency's total budget for 2012-13 is \$103.9 billion, of which \$25.5 billion is state General Fund and \$78 billion in federal and other funds.

Medi-Cal

Coordinated Care Initiative. The Governor proposes a number of changes to the Coordinated Care Initiative (CCI) in the May Revision. The Administration is proposing to phase-in long-term care benefits as each county transitions into managed care. The Administration is reducing the number of counties in phase one from 10 to 8 (Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo and Santa Clara) and will delay implementation from January 1, 2013 to March 1, 2013. Sacramento and Contra Costa counties, along with the other counties with existing Medi-Cal managed care plans, will be in the second phase of CCI implementation in 2014.

Counties will continue to assess and authorize hours for the In-Home Supportive Services (IHSS) program. Consumers will continue to select and direct their provider. The Administration is proposing a county-specific maintenance of effort to hold county expenditures to the estimated level that would have been incurred absent the CCI. As CCI is implemented, collective bargaining will eventually transition to the state. The Administration does not provide additional detail about collective bargaining changes; the most recent trailer bill language leaves collective bargaining to local public authorities and does not address future changes.

The modified CCI proposal saves \$663.3 million in 2012-13 (as in January the savings are from the Medi-Cal payment deferral) and \$887 million when fully implemented. The CCI savings are contingent on securing a six-month stable enrollment period and 50 percent shared savings from the federal government.

Hospital Payment Changes. The Administration proposes to reduce supplemental payments to private hospitals, eliminate public hospital grants and eliminate increases to managed care plans for supplemental payments to designated public hospitals. All told, these changes save \$150 million General Fund in 2012-13 and \$75 million in 2013-14. The May Revision also proposes to delay the transition to a new diagnosis related group-based payment methodology for hospitals by six months (from January 1, 2013 to July 1, 2013).

Unexpended Federal Waiver Funds. The May Revision proposes to split unexpended federal funds from the Medi-Cal Section 1115 Bridge to Reform Waiver equally between the state and designated public hospitals. The proposal saves \$100 million General Fund in 2012-13 and \$9 million in 2013-14. The unexpended funds come from the funding available for the Low-Income Health Programs designated for persons with incomes over 133 percent of the federal poverty level. Subsequently, the unexpended funds

were earmarked to reimburse public hospitals for uncompensated care costs. The Administration is asking public hospitals to use their uncompensated care costs to draw down federal match and split the federal match with the state for the benefit of the state General Fund.

Non-Designated Public Hospital Payment Changes. Non-designated public hospitals have historically been funded similar to private hospitals (50 percent General Fund, 50 percent federal funds), rather than like designated public hospitals (no state General Fund; local funds are used to draw down federal match) for inpatient Medi-Cal fee-for-service. The Administration is proposing to align non-designated hospital funding with designated hospitals funding methodology for inpatient Medi-Cal fee-for-service. The proposal generates \$75 million in General Fund savings in 2012-13 and ongoing. The Department of Health Care Services (DHCS) will be seeking additional federal funds for these hospitals through an amendment to the Section 1115 Bridge to Reform Waiver. Please note the non-designated public hospitals are primarily district hospitals.

Nursing Homes. The Administration is proposing to rescind the 2012-13 nursing home rate increase while continuing the collection of fee revenue. The state would retain the fee revenue for a General Fund benefit of \$47.6 million. Existing law also requires DHCS to set aside one percent of nursing home payments for supplemental payments based on quality measures. The Administration is proposing to sweep the one percent for a General Fund benefit of \$23.3 million.

First 5 Funding. The Administration is proposing that \$40 million of state First 5 Commission funds be used for Medi-Cal services for children aged birth through 5. This decreases Medi-Cal General Fund dollars by \$40 million.

Medi-Cal Caseload Adjustment. The Administration is projecting a decrease in Medi-Cal caseloads, which results in a \$200 million General Fund savings in 2011-12 and \$700 million General Fund in 2012-13.

Provider Payments. The Administration is adjusting the May budget to reflect court rulings that have prevented the implementation of provider payment reductions. The May Revision includes an additional \$245.5 million in 2011-12 and \$174.6 million in 2012-13.

Co-Payments. The federal government rejected the Administration's 2011-12 budget proposal to implement co-payments. The May Revision reflects the increased costs from the proposal not being implemented – \$555.3 million in 2012-13.

Additionally, the Administration is proposing new co-payments of \$15 for non-emergency emergency room visits and \$1 and \$3 pharmacy co-payments based on drug

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status and how medications are dispensed to achieve \$20.2 million in General Fund savings in 2012-13.

Healthy Families Program (HFP)

The May Revision continues to anticipate the shift of 875,000 Healthy Families Program (HFP) participants into Medi-Cal starting in October of this year. However, the savings anticipated have dropped from about \$64 million to about \$49 million. This is due to an increase in the estimated per-member per-month average cost of a Medi-Cal beneficiary from \$76.86 to \$83.91. This new estimate includes the costs for mental health managed care benefits for this population. Further, the Administration has been forced to drop its January budget proposal to increase premium and copayments in HFP to save \$42 million because it was blocked by the federal government.

CalWORKs

The Administration makes some policy changes to its January proposal to “redesign” the CalWORKs program into two tracks, but the basic structure introduced in January remains, including:

- **CalWORKs Basic.** This track would serve as the entry-point for the welfare-to-work program and would be operational by October of this year. The eligibility time limit for this phase would be 24 months, with an assessment of the recipients’ progress after 12 months. For six months following the October 2012 implementation of the CalWORKs Basic program, all currently aided eligible adults will be eligible for welfare-to-work services and child care. The budget has increased the county single allocation by \$35.6 million to provide some of these services. Additionally, families who are sanctioned for more than three months would be disenrolled from the program.
- **CalWORKs Plus.** If a CalWORKs Basic participant maintains unsubsidized employment at specified levels (30 hours for adults and 20 hours for those with children under age 6), they would move to the CalWORKs Plus program. This program would become operational in April 2013, and reward participants with a higher grant level by allowing them to utilize a higher income disregard (first \$200 earned and 50 percent of subsequent income). Participants would be eligible for this program for up to 48 months, and if they reach the time limit but continue to work specified amounts, they would retain the higher earned income disregard.
- **Child Only Grants.** The income support program of child only grants will continue under the name of Child Maintenance Program (CMP), but grants will

be cut by 27 percent, or about \$70 a month, beginning in October of this year. Also, families on CMP will be subject to annual eligibility determinations and required to have children in the program seen annually by a doctor.

- **Work Participation.** Furthermore, under the proposed restructuring, low-income families who are CalFresh recipients or child care subsidies – but not on CalWORKs – and meet work participation requirements may receive \$50 bonus payments.

The May Revision includes some changes to the above policy proposals, including counting any combination of state-allowable work activities in the first 24 months and federally allowable activities for up to 48 months toward work participation, instead of counting only paid employment. Further, the May Revision also abandons the proposal to retroactively count previously exempt and sanctioned months toward the adult recipient's 48-month time limit.

Child Care

In January, the Governor had proposed nearly \$500 million in changes and reductions for subsidized child care programs in California. In the May Revision, the Governor remains committed to saving the state \$452.5 million in child care costs, but has altered some of the above proposals, including:

- Allow education and training activities, not just paid employment, to count toward eligibility for child care services for up to two years. This will cost the state \$180.1 million in 2012-13.
- Reduce reimbursement rates for voucher-based programs by \$184.2 million by reducing the reimbursement rate ceiling from the 85th percentile to the 40th percentile of the private pay market. License-exempt providers would be reimbursed based upon 71 percent of the lowered licensed ceilings.

The new proposals will eliminate 29,600 child care slots, while the previous plan would have eliminated 54,800.

In Home Supportive Services (IHSS)

The Governor continues to focus on the IHSS program for state savings, noting in the May Revision that costs for IHSS are "...considerably higher than in the 2011 Budget Act." One aspect of this plan, CCI, is covered in the Medi-Cal section of this document. Other proposals include:

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- **Reducing Hours by Seven Percent.** The May Revision includes a proposal to reduce total authorized IHSS hours by seven percent across the board to save \$99 million General Fund in 2012-13. This would be effective August 1, 2012. This is on top of the 20 percent across-the-board reduction that the courts prevented the state from implementing in the fall of 2011. The seven percent reduction is proposed to be permanent and ongoing.
- **Eliminating Domestic Services.** The Governor is maintaining his January budget proposal to eliminate domestic services and related services for IHSS consumers living with other adults who are not participants in the IHSS program, unless those adults are found to be unable to perform such services. This reduction in domestic services also applies to children in the IHSS program who reside with their parents, and the state assumes budget savings of \$164 million in the current year if implemented by July 1 of this year. This proposal would affect 254,000 IHSS recipients.

Please note that the Governor has been prevented from implementing the December 2011 IHSS 20-percent trigger cuts through a court injunction and Legislative action. The May Revision again includes a set-aside to fund the IHSS program in light of this reality.

Child Support

Suspend County Share. In January, the Governor asked to suspend the County share of child support collections and redirect it to the state's General Fund. He maintains that proposal in the May Revision for a state savings of \$32 million General Fund in 2012-13.

Reduce Funding to Local Agencies. In his May Revision, the Governor also proposes to decrease the funding for Local Child Support Agencies (LCSAs) by \$14.7 million in 2012-13 to save \$5 million General Fund. This is a significant cut to local agencies, and, as a result, the Administration has said that the LCSA's will no longer be required to prepare cases for state hearings. They would, however, still have to continue their required complaint resolution process and refer cases for state administrative review.

Reduce Automation Funding. The Governor also wants to reduce funding for the California Child Support Automation System (CSSAS) again in 2012-13, this time by \$1 million. The current 2011-12 budget reduced CSSAS funding by \$5.5 million. The 2012-13 reduction would be achieved by sweeping remaining CSSAS reappropriation dollars, and would reduce the ongoing project maintenance and operations budget by \$2.9 million.

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Public Health

AIDS Drug Assistance Program. The Governor maintains his January budget proposal to increase the client share of cost for the AIDS Drug Assistance Program (ADAP), but with a significant change: private insurance clients would be exempted from the share of cost because it would exceed their out-of-pocket costs for private insurance. The Governor also proposes a 90-day implementation delay to make billing system modifications. With these changes, the ADAP cost-sharing proposal is estimated to save the state \$10.7 million in 2012-13.

Further, the Governor anticipated a net increase in funding for ADAP due to a combination of factors, including a delay in ADAP clients enrolling in the county Low-Income Health Programs, increased federal Ryan White funding, a decrease in Safety Net Care Pool funds, and an increase in the projected drug rebate collection rate.

Mental Health

The May Revision includes an increase of \$15 million in the Mental Health Services Fund as part of a \$60 million commitment toward the California Reducing Disparities Project in 2012-13.

LEADER Replacement System

The May Revision includes \$36.5 million (\$15.3 General Fund) in 2012-13 to replace the existing Los Angeles Eligibility, Automated Determination, Evaluation and Reporting System (LEADER).

HOUSING, LAND USE AND TRANSPORTATION

The Governor's May Revision would appropriate \$708.5 million to counties and cities from new gasoline excise tax revenues, or the Highway User Tax Account (HUTA), pursuant to the Transportation Tax Swap (swap) and formerly Proposition 42 revenues. Counties are estimated to receive approximately \$354 million. This amount is consistent with estimates DOF has provided since January. State highways would receive \$901.7 million, specifically \$193.2 million for the State Highway Operation and Protection Program (SHOPP) and \$708.5 for the State Highway Improvement Program (STIP).

Also included in the Governor's May Revision is a proposal to take \$312 million in the new HUTA for General Fund relief, which corresponds to the amount of the new gas tax collected on gasoline used for off-highway vehicles (OHV) since the enactment of the swap. Specifically, the State will have collected and retained \$184 million through the

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end of 2011-12 in new HUTA taxes associated with OHVs. The proposal would also take \$128 million annually on a permanent basis beginning in 2012-13. According to the Governor's office, statute directs a portion of all HUTA to the Department of Parks and Recreation and the Department of Motor Vehicles for purposes of OHVs. Since the enactment of the swap, the State has retained these funds associated with the new HUTA and not made appropriations to these departments. The new HUTA that replaced the sales tax on gasoline under the swap was expected to be revenue neutral for transportation purposes. However, the Governor indicates that this portion of the new HUTA is not protected under the Constitution and therefore the State is taking this share of revenues for General Fund purposes. This money would otherwise be allocated as: 12 percent to SHOPP, 44 percent to STIP and 44 percent to local streets and roads.

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