



BUDGET ACTION BULLETIN

CALIFORNIA STATE ASSOCIATION OF COUNTIES

2009-10 Proposed State Budget Week of February 9, 2009

February 13, 2009

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

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

RE: **Budget Action Bulletin #1**

Welcome to the new, improved CSAC Budget Action Bulletin. Although it seems as if we have been constantly reporting on the state budget for about six months now, this issue is our first "BAB" of 2009.

While it appeared that a budget deal was near completion earlier this week, hopes for a quick and successful vote appear to be dwindling. Assembly and Senate sessions previously scheduled for this morning have been moved to Saturday morning, with rumors that even those may be cancelled. Public pressure is ramping up, as this budget package seems to have a dose of bitter medicine for just about everyone.

However, the time for a budget is long past due. Today marks the first missed payment to counties of about \$270 million for programs operated on the state's behalf. The State Controller has indicated that these delays will continue until the state's cash shortfall is resolved, and the only means to resolution is an approved budget.

We have an outline of the budget package — described below — but the details remain sketchy at best. There are still many questions that remain, including the full implications of the federal economic stimulus package and the impact of the budget plan on the state's cashflow crisis.

We can tell you that, at this point, we understand that there are **no deferrals** of payment to counties in the current package. An earlier proposal to defer a number of social services and transportation payments to counties for a seven-month period has been eliminated in favor of cash management decisions by the State Controller. All

reports we have been given assume that the state's cash situation dramatically improves once a budget agreement is achieved. Still, we anticipate that funds will continue to be delayed by the State Controller for at least February and perhaps March even if a budget is approved, as it will take some time for savings and revenue to be evaluated.

We will endeavor to communicate the most current, accurate information on state budget activities over the holiday weekend. We anticipate additional materials and information to be released over the next few days. Please don't hesitate to contact us with your questions.

WHAT YOU SHOULD DO

Let your legislative delegation know that prolonged financial uncertainty and the resulting delays in payments are having devastating effects on our services and communities. Although we recognize elements of the state budget resolution — primarily in the form of mid- and budget-year reductions — likely will force counties to enact further steep reductions to local programs and services, this environment of financial freefall is untenable. Counties need a state budget now.

WHAT'S BEEN HAPPENING

Big Five discussions among the Governor and legislative leaders have continued in an effort to pick the best of some bad options to bring our state out of a fiscal tailspin. Behind the scenes, thousands of pages of budget and trailer bill language are being finalized in hopes of securing sufficient legislative support to enact a 17-month spending plan. It is our understanding that the following elements presently make up the budget framework, which consists of a mix of cuts, borrowing, and revenue increases:

- \$15.1 billion (\$6.8 billion in 2008-09 and \$8.3 billion in 2009-10) in additional spending reductions and shifts, including cuts totaling nearly \$950 million that are triggered "on" only if federal economic stimulus funds do not materialize;
- \$11.5 billion (\$6.3 billion in 2008-09 and \$5.2 in 2009-10) in additional borrowing; and
- \$14.2 billion (\$1.7 billion in 2008-09 and \$12.8 billion in 2009-10) in revenue enhancements.

As noted above, the prolonged cash deferral to counties that had earlier been floated does not appear to be among the elements of this framework. We have been advised, however, that the state will keep that option available for future use should its cash position deteriorate further or if another element of the budget solution cannot be achieved.

ACTION

We highlight certain other components of the budget framework that may be of particular interest to counties:

- While local public safety assistance programs appear to take a \$25 million mid-year reduction in 2008–09, a 0.15 percent increase in the Vehicle License Fee — expected to generate just over \$500 million annually — will be dedicated for these programs in out-years.
- The Williamson Act is rumored to be funded at the 90 percent level.
- Ballot measure will be necessary carry out two proposals: (1) to redirect approximately \$460 million in Mental Health Services Act (Proposition 63) to mental health Medi-Cal programs for two years and (2) to sweep First Five (Proposition 10) reserves and half of the state and local funds going forward. The five-year total of First Five funds is estimated to be \$1.4 billion.
- The state budget deal also reportedly includes a ballot measure to establish a spending cap that would require the state to place money into a rainy-day fund. If approved by the Legislature, the measure would likely be considered in a special election later this year.

Per media reports, the state budget deal includes the following tax changes, for an unspecified amount of additional annual revenue:

- State sales tax will rise by 1 cent on the dollar.
- State gasoline taxes will rise by 12 cents per gallon, which primarily will be dedicated to debt service.
- State vehicle license fees will increase from the current 0.65 percent of a vehicle's value to 1.15 percent, with 0.35 percent going to the General Fund and 0.15 percent directed to local law enforcement programs.
- Personal income taxes will be increased across the board by assessing a surcharge on tax liability.
- The dependent care tax credit will be reduced from \$309 to \$99.

An additional component of the deal includes cuts that would be triggered only if sufficient federal economic stimulus revenues do not materialize. The Administration has indicated that if the state does not receive at least \$9 billion in new federal funds, then cuts would be triggered to the following programs of interest to counties:

ACTION

- Medi-Cal: optional benefits and 10% cut to public hospitals
- CalWORKs: grant reduction
- SSI/SSP: grant reduction
- In-Home Supportive Services (IHSS): cap wages at \$9.50 per hour plus \$0.60 in benefits and share of cost for consumers

Early estimates on the federal stimulus package show California receiving at least \$17 billion in funds from FMAP (Medicaid), education funds and state block grant funds.

Counties File Suit Against State Controller

In related news, Sacramento and San Diego counties filed a lawsuit today against State Controller John Chiang to release appropriated funds for social services, mental health, and alcohol and drug programs.

The lawsuit, which was filed in Sacramento Superior Court, seeks to have the Controller pay the \$270 million he is withholding in February due to the state's cashflow crisis. The delay includes a payment of \$89 million to counties scheduled to go out today that will not be made.

In addition to Sacramento and San Diego counties, 26 other counties have been authorized by their respective Boards of Supervisors to join the lawsuit. To see CSAC's press release on this development, click [here](#).

WHAT'S GOING TO HAPPEN NEXT

As of this writing, the Assembly and Senate are scheduled to go into floor session on Saturday morning to take up the budget. It is not clear whether the requisite votes will be there for its approval. We will provide you with updates as soon as they become available.

Please keep in mind that, regardless of what action is or is not taken on the state budget this weekend, we continue to face significant fiscal problems in the months to come. We anticipate efforts to clean up issues in the current package and ongoing discussions regarding the fiscal crisis.

STAY TUNED FOR THE NEXT BUDGET ACTION BULLETIN!

If you would like to receive the Budget Action Bulletin electronically, please e-mail Amanda Yang, CSAC Legislative Assistant, at ayang@counties.org. We're happy to accommodate you!

