



**Highlights of the Governor's Proposed 2010-11 State Budget
Week of January 4, 2010**

January 8, 2010

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

FROM: Paul McIntosh, CSAC Executive Director
Jim Wiltshire, CSAC Deputy Executive Director
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RE: **Budget Action Bulletin #1**

This morning, Governor Arnold Schwarzenegger released his proposed 2010-11 state budget, outlining a strategy to eliminate a combined \$19.9 billion deficit: \$6.6 billion in 2009-10 and \$12.3 billion in 2010-11. The \$19.9 billion deficit includes a \$1 billion reserve. The Governor again reiterated his focus on seeking additional federal funds to assist the state in weathering the economic downturn. In particular, the Governor has proposed a number of severe program cuts if the state does not receive \$6.9 billion in additional federal funds from Washington. This proposal is outlined in detail in the summary that follows.

Counties will be interested in the Governor's concern about the dysfunctional relationship between the state and federal governments. To quote the Governor's budget summary, reform is necessary to "address federal constraints on California's ability to effectively manage program costs within available resources..." and that California should "be reimbursed for money owed to the state." One wonders how the Governor views the similar relationship shared by the state and local governments.

The Governor declared a fiscal emergency today and called the Legislature into special session to address the state's fiscal crisis. The Legislature then has 45 days to "address the fiscal emergency." We understand that the Administration has submitted legislative language to the Legislature to address \$8.9 billion of the budget gap. The Department of Finance has indicated that delay in adoption of these proposals until the enactment of the 2010-11 budget would result in the loss of up to \$2.4 billion in budgetary solutions, thus requiring additional cuts in 2010-11. In particular, enactment of adjustments to Proposition 98 must take place prior to June 30, 2010.

This summary below outlines the various proposals contained in the Governor's budget. For a full summary of the Governor's proposal, visit the Department of Finance [website](#). Counties

should expect regular updates from CSAC on upcoming budget activities. Please don't hesitate to contact CSAC staff with your additional questions or concerns.

CLOSING THE BUDGET GAP

Shortfall in 2010-11 Governor's Budget

(dollars in billions)

Projected 2010-11 Deficit	-\$6.9
Revenue Decline	-\$3.4
Federal & State Court Litigation	-\$4.9
Erosions of Previous Solutions	-\$2.3
Population/Caseload Growth	-\$1.4
Rebuild Reserve	-\$1.0
Total Shortfall	-\$19.9

FEDERAL FUNDS TRIGGER: REDUCTIONS AND REVENUES

As mentioned previously, Governor Schwarzenegger has identified a number of areas in which the federal government has mandated or failed to fully fund programs for which the state must provide funding. According to the Governor's budget, federal mandates, including spending requirements, constraints on program reductions, and federal court decisions delaying reductions of services have contributed more than \$1.4 billion toward the current budget gap.

The state is demanding additional flexibility in managing certain program costs and additional federal reimbursement for certain programs. Details on these components are included in the relative subject matter areas later in this summary. These requests total \$6.9 million in new federal funding assumed in the Governor's budget proposal.

If the state fails to secure these additional funds by July 15, 2010, the Administration has developed a list of permanent reductions that will occur, totaling \$4.6 billion General Fund:

- Eliminate the California Work Opportunity and Responsibility to Kids (CalWORKs) Program (\$1.044 billion).
- Fund existing mental health services with Proposition 63 fund (\$847 million).
- Reduce Medi-Cal eligibility to the minimum allowed under current federal law and eliminate most remaining optional benefits (\$532 million).
- Reduce state employee salaries by an additional 5 percent (\$508 million).
- Eliminate the IHSS Program (\$495 million).
- Redirect additional county savings associated with CalWORKs and IHSS reductions (\$325 million).
- Eliminate non-court required inmate rehabilitation programs, implement banked parole for low-risk serious and violent offenders, expand crimes where convicted felons will serve time in local jails, and increase the number of parolees each agent will supervise (\$280 million).
- Eliminate the Healthy Families Program (\$126 million).
- Eliminate funding for enrollment growth at the University of California and the California State University (\$111.9 million).

- Eliminate various health services programs funded by Proposition 99 (\$115 million)
- Make an unallocated reduction to trial courts (\$100 million)
- Freeze the level of awards and income eligibility for Cal Grants (\$79 million)
- Eliminate funding for the Transitional Housing Placement for Foster Youth-Plus Program (\$36 million)

In addition to these reductions, the Governor proposes one-year revenue proposals totaling \$2.4 billion General Fund:

- Extend suspension of a business's ability to reduce taxable income by applying net operating losses (NOL) from prior years to reduce current income (\$1.2 billion).
- Extend reduction in the credit for each dependent on the personal income tax from \$319 to \$102 (\$504 million).
- Delay use of business credits by unitary groups of corporations and instead retain current law which requires subsidiaries to have their own tax liability to use research and development and other credits (\$315 million).
- Delay the change to the single sales factor allocation method for multi-state corporate income and instead retain the double weighted sales, property, and payroll formula (\$300 million).
- Lower to 30 percent the first year phase-in of the ability of corporations to carry back losses two years to offset prior tax profits (\$20 million).

We understand that if only a portion of the assumed federal assistance is secured, there exists a priority list for the trigger reductions and revenues. We have not seen that list, but assume that this proposal does not represent an "all or nothing" proposal.

More detailed information on the various proposed reductions can be found in the subject matter areas later in this summary.

AN EDUCATION FOCUS

K-14 Education Funding. The Governor's budget reflects his focus on education in that Proposition 98 funding guarantee is fully funded. However, total Proposition 98 expenditures for 2009-10 are projected to be lower than the budgeted amount by \$567.5 million or 1.2 percent lower. The 2010-11 proposed budget includes a Proposition 98 funding guarantee of \$50 billion.

The Administration has identified a significantly lower Proposition 98 funding level for 2008-09, resulting in the minimum funding level shifting to a "Test 1," which does not create a maintenance factor, and drops the minimum guarantee to \$46.8 billion.

Recall that a significant component of the 2009-10 budget agreement was a "deal" on the amount of the maintenance factor for Proposition 98. The budget compromise indicates that even if no maintenance factor is determined for 2008-09, the state owes \$11.2 billion to Proposition 98 to be paid via a repayment schedule starting in 2010-11. The Administration is

proposing a means to ensure that the overappropriation for 2008-09, and the required repayment does not increase the 2009-10 and 2010-11 Proposition 98 guarantee. The Governor proposes a reduction to the Proposition 98 appropriation for 2008-09 and proposes a delay in the repayment of the maintenance factor to 2012-13.

Constitutional Amendment: Prioritizing Books over Bars. The Governor unveiled plans during his State of the State address to introduce a constitutional amendment to ensure that California reverses its practice of spending more on prisons than it does on higher education. To achieve this turnaround, the Governor proposes a constitutional requirement that no less than 10 percent of the state General Fund be allocated to fund higher education and no more than 7 percent of state funds will be allocated to support the prison system. Further, the state would begin redirecting state revenue from the prison system to higher education beginning in 2011-12, reaching the desired funding levels by 2014-15. To assist the state in reducing prison expenditures, the constitutional amendment would expand the authority for the California Department of Corrections and Rehabilitation (CDCR) to contract with private prison operations and service providers. The Governor's proposed amendment would also prohibit the early release of state prison inmates. CSAC will continue to keep counties updated as work on the constitutional amendments develops.

STATE'S CASH SITUATION

The Governor's budget does not include a great deal of information regarding the state's proposed cash plan. However, the summary does indicate that the Governor's budget anticipates that the state will have sufficient funds to repay the entire \$8.8 billion of RANs in May and June 2010, as scheduled. Still, the General Fund will have significant cash needs in March 2010.

Absent legislative action, the Administration does expect a cash shortfall in July 2010, which the Governor proposes to address through external financing mechanisms and additional payment deferrals. The Department of Finance will work with the State Controller's Office and the State Treasurer's Office to develop additional cash solutions that will be submitted to the Legislature for consideration in the special session.

BUDGET AGGREGATES

Proposed Budget Solutions
(dollars in billions)

	2009-10	2010-11	Total	%
Expenditure Reductions	\$1,034	\$7,475	\$8,509	43%
Federal Funds	\$8	\$6,905	\$6,913	35%
Alternative Funding	\$150	\$3,736	\$3,886	20%
Fund Shifts & Other Revenues	\$0	\$572	\$572	3%
Total	\$1,192	\$18,688	\$19,880	100%

**2010-11 Governor's Budget
General Fund Budget Summary
With All Proposed Budget Solutions**
(dollars in millions)

	2009-10	2010-11
Prior Year Balance	-\$5,855	-\$3,863
Revenues and Transfers	\$88,084	\$89,322
Total Resources Available	\$82,229	\$85,459
Non-Proposition 98 Expenditures	\$51,432	\$46,811
Proposition 98 Expenditures	\$34,660	\$36,090
Total Expenditures	\$86,092	\$82,901
Fund Balance	-3,863	2,558
Reserve for Liquidation of Encumbrances	\$1,537	\$1,537
Special Fund for Economic Uncertainties	-\$5,400	\$1,021
Budget Stabilization Account	0	0
Total Available Reserve	-\$5,400	\$1,021

General Fund Revenue Sources
(dollars in millions)

	2009-10	Proposed 2010-11	Percent Change
Personal Income Tax	\$46,640	\$46,862	0.5%
Sales Tax	26,036	25,851	-0.7%
Corporation Tax	9,407	10,052	6.9%
Other Taxes	6,001	6,557	8.5%
Total	\$88,084	\$89,322	1.4%

General Fund Expenditures by Agency
(dollars in millions)

	2009-10	2010-11	Percent Change
K-12 Education & Higher Education	45,120	47,840	5.7%
Health and Human Services	25,045	21,000	-16.2%
Corrections	8,161	7,983	-2.2%
Other	7,766	6,078	-27.8%
Total	\$86,092	\$82,901	-3.7%

ADMINISTRATION OF JUSTICE

Trigger Cuts. As mentioned earlier in this summary, the Governor's proposed 2010-11 budget relies on the receipt of \$6.9 billion in federal reimbursements. Should the state not reach this level of reimbursement, a number of "trigger" cuts would go into effect. Among the assumed federal reimbursements is \$879.7 million in funds from the State Criminal Alien Assistance Program (SCAAP). Counties are well aware that the SCAAP programs consistently falls short in

ACTION

reimbursing the actual costs of detaining undocumented criminals. In 2009, California received \$159 million in federal SCAPP reimbursement: \$46.6 million to local entities and \$112.5 million to the state. It is important to note that the Obama Administration reduced SCAAP funding in its most recent budget by 18 percent over the previous year.

In the area of criminal justice, trigger cuts totaling \$280 million would go into effect if the state does hit its target of \$6.9 billion in federal reimbursements. These cuts include the following:

- **Corrections (\$280 million):**
 - Revise sentencing laws to expand the number of crimes where convicted felons will be allowed to serve time in local jails, diverting a portion of would-be state prisoners to local county jails.
 - Eliminate non-court required inmate rehabilitation programs.
 - Implement banked parole for low-risk serious and violent offenders.
 - Increase parole agent caseloads.
- **Courts (\$100 million):**
 - Impose an unallocated reduction to the trial courts.

Local Public Safety Funds. Counties will recall that the Legislature dedicated a portion of the 0.5 percent Vehicle License Fee (VLF) increase approved in February 2009 and directed those revenues into a newly created Local Safety and Protection Account (LSPA) that supports local public safety programs previously funded through the state's General Fund. (Please see the [information sheet and FAQs](#) on the local public safety funding structure, published jointly by CSAC, the sheriffs' association, and the chief probation officers' association.)

The Governor's proposed 2010-11 budget leaves the LSPA intact. However, the Administration adjusted downward its estimate for local public safety funding expected to be apportioned into the LSPA in the current year. August 2009 estimates pegged the annual LSPA funding for 2009-10 at \$497 million; the Governor's proposed budget now puts that figure at \$416 million for the current year and \$442 million in 2010-11.

Counties may wish to refer to a chart published in the Administration of Justice section of CSAC's [Legislative Bulletin](#) published earlier today; that chart details Quarter 1 and Quarter 2 apportionments into public safety programs from the LSPA.

California Department of Corrections and Rehabilitation (CDCR). The Governor is proposing to reduce CDCR's budget by 12.7 percent or \$1.19 billion. The most significant cut is in the area of medical care, where the Governor proposes to reduce funding to the Federal Receiver's program by \$811 million. That savings would be achieved by bringing California's per-inmate medical costs (\$11,627) in line with that of inmates housed by the state of New York (\$5,757). The Governor outlines a number of measures that the Receiver can implement to achieve a reduction in per-inmate medical costs. Further, the Governor is proposing other reforms — through the passage of a constitutional amendment outlined more fully in the introductory section of this bulletin — to increase privatization of the state's prisons.

ACTION

Other cuts to CDCR's budget would result from two reform efforts proposed by the Governor:

- **Modify sentencing practices.** By allowing offenders convicted of specified non-serious, nonviolent, non-sex felonies including drug possession to be incarcerated for up to one year in local jails, the state would achieve savings of \$291.6 million.
- **Reduce the age jurisdiction for juvenile offenders at the Division of Juvenile Justice (DJJ).** By reducing the age jurisdiction of DJJ from 25 to 21, the state would achieve \$41.3 million in savings in addition to \$6.7 million in Proposition 98 savings attributable to the population reduction that would result. Eligible juveniles who "age out" would be transferred from DJJ detention facilities to adult institutions. The state also proposes to reduce the use of time-adds to juvenile offenders sentences.

It is also notable that the budget proposal recognizes the extent to which the cuts to CDCR's budget in 2009-10 will far short of projections. Recall that the policy changes enacted last fall in SBX3 18, which were intended to produce \$1.2 billion in savings in the current year; actual savings have been well short of that mark.

Judicial Branch Issues. The Governor proposes to restore a one-time \$100 million reduction to the judicial branch, increase funding for employee retirement and health benefit costs (\$17.9 million), and delays for another year (resulting in a savings of \$17.4 million) the implementation of the Guardianship and Conservatorship Reform Act (AB 1363, Jones, 2006). Other budget items of note include:

- **Redirection of Redevelopment Revenues.** Redirects \$350 million in redevelopment agency revenues to the General Fund and offsets the state's obligation to the trial courts by a like amount.
- **Trial Court Facilities.** Increases funding by \$35 million to advance court construction/renovation efforts authorized in SB 1407 (Perata, Chapter 311, Statutes of 2008);
- **Automated Speed Enforcement Revenue.** Using red light violation systems, creates a new speed violation with expected revenues dedicated to the trial courts. Of the \$337.9 million in anticipated new revenue, the majority (\$296.9 million) would be dedicated to trial court operations. The remaining funds (\$41 million) would augment trial court security funding.

Department of Justice (DOJ) Forensic Laboratories. The 2010-11 proposed budget seeks to reduce support of DOJ forensic labs by \$45.1 million. That reduction would be offset by an increase to the existing penalty assessments for criminal offenses from \$1 to \$3. The proposal also would broaden the expenditure authority of the DNA Identification Fund to include DOJ crime lab operations.

AIDS Drug Assistance Program (ADAP). The Governor's budget proposes to eliminate funding (\$9.5 million) for ADAP services to inmates in county jails.

Offender Treatment Program. The Governor proposes to zero out funding (\$18 million) for the Substance Abuse Offender Treatment Program. No support for Proposition 36 is provided for in the Governor's proposed budget.

AGRICULTURE AND NATURAL RESOURCES

Williamson Act. The Governor's proposed 2010-11 budget includes \$1,000 for Williamson Act subventions. This is consistent with the Governor's previous reduction, which eliminated \$34.7 million for the program in the 2009-10 budget. CSAC will be having a meeting of the Agriculture & Natural Resources Policy Committee on January 27, 2010 in Sacramento to discuss, among other things, Williamson Act reform efforts, funding updates, and compatible use issues.

Emergency Response Initiative. The Governor's 2010-11 budget proposes an Emergency Response Initiative (ERI), as proposed in the 2009-10 budget. The Initiative would place a 4.8 percent surcharge on all residential and commercial property insurance statewide. The "fee" would fund a portion of the Department of Forestry and Fire Protection operations. Beginning in 2011-12, the ERI would provide funding for the state's emergency response efforts, including CAL Fire, CAL EMA, and assistance to local first response agencies in support of the state's mutual aid program.

CAL FIRE. The Governor's proposed 2010-11 budget for the California Department of Forestry and Fire Protection would reduce the amount of funding for emergency fire suppression expenditures by \$32.8 million to include a total of \$223 million. This reduction is based on the historical average of emergency firefighting costs over the past five years and additional federal reimbursements.

State Parks. The Governor's proposed budget includes a \$140 million shift from California State Parks budget. The proposed budget would backfill this amount with revenues generated from the proposed Tranquillon Ridge oil lease. This proposal, which was also included in last year's proposed budget and faced fierce opposition and would have to be approved by the California State Lands Commission or by the Legislature.

Beverage Container Recycling Program. The Governor's proposed budget includes funds for the repayment of loans to the General Fund from the Beverage Container Recycling Program (Bottle Bill). The proposed budget would increase the fund by \$54.8 million in 2009-10 and \$98.2 million in 2010-11. These loan repayments are part of a more comprehensive proposal to implement market-based programmatic and budgetary reforms to the program. These reforms would seek to incorporate the cost of recycling into the price paid by consumers and eliminate certain programs and subsidies.

FloodSAFE Program. The Governor's proposed budget includes \$210.8 million in Proposition 84 and 1E bond funds for critical levees in the Central Valley and Delta, as well as grants and subventions to help local governments and continue the development of the Central Valley Flood Protection Plan.

ACTION

2009 Delta Water Legislation. The Governor's proposed budget includes \$49 million in Proposition 84 and 50 bond funds to implement various requirements of the 2009 Delta Water Legislation package, including re-activation of the California Water Commission, groundwater monitoring, and new water conservation activities.

GOVERNMENT FINANCE AND OPERATIONS

May Election Reimbursement. We are pleased to report that the Governor included in his budget a reimbursement for county costs associated with last May's special election, which was called to let the voters decide various budget measures. The state's share of the cost for that election was \$68.2 million and attempts to have that amount reimbursed last year were unsuccessful.

Mandates. Perhaps no surprise here, but the Governor's budget proposal continues to suspend all mandates suspended in the current fiscal year, which is most of them. When the state suspends mandates, counties have the option of funding the services at their own cost or not providing the service at all. The mandates that remain in effect deal with either elections, public safety, or property tax administration. These mandates receive a proposed funding increase of \$4 million over 2009-10 levels.

The Governor also proposes to defer this year's payment (\$95 million) for pre-2004 (pre-Proposition 1A) mandate reimbursements. The state had deferred mandate payments for several years prior to the passage of Proposition 1A, and had accrued a debt of more than a billion dollars. The provisions of Proposition 1A and state statute allow the state to repay that debt over a period of fifteen years, but the state has deferred these amortized payments for the last few years.

BOE Revenue Collection. The Governor proposes to increase funding for two programs at the State Board of Equalization. \$9.9 million is proposed to restore resources for their revenue collection activities, which will result in an additional \$90 million of revenue for the state's General Fund and a commensurate increase for local agencies.

\$4.4 million is proposed to fund 55 positions to expand tax enforcement at agricultural inspection stations from one station to four. The BOE has an agreement with the California Department of Food and Agriculture whereby that agency tells the BOE about commercial trucks that enter the state laden with taxable property such as construction equipment or building materials. BOE can then follow up on whether the material's recipients pay the applicable sales and use taxes. This program is estimated to raise \$23 million of state General Fund revenue, and a commensurate amount for local agencies.

Proposition 1A Interest. While it will not have any effect on local revenues, it is worth noting that the budget proposal includes \$90.8 million for interest payments on the Proposition 1A bonds sold last year.

Trailer Fee Revenue Backfill. The Governor proposes to eliminate \$11.8 million of funding that backfills weight-based fees assessed on commercial truck trailers. The non-Realignment share of this backfill has been eliminated for quite some time. The Administration made this same proposal for the 2008-09 budget, but the proposal was rejected then due to concerns that the funds are part of Realignment.

Redevelopment Property Tax Shift. Recall that last year's budget shifted \$1.7 billion from redevelopment agencies to schools in the current fiscal year and \$350 million from them in the coming fiscal year. Last year's shift allowed the state to move school property taxes to county offices of education, which in turn funded certain state programs. The Governor proposes that the \$350 million shift in 2010-11 offset trial court costs instead of school funding "to provide a better program cost comparison."

Reductions in State Employee Compensation. The Governor proposes to suspend the current three-days-per-month furlough of state employees resulting in a restoration of \$1.1 billion to state department budgets. This restoration will, however, be offset with \$1.6 billion in reductions as outlined below. The result will be a net additional reduction in 2010-11 of \$489.9 million.

- A five percent workforce reduction implemented through a cap on the state workforce for a savings of \$449.6 million.
- An across-the-board five percent pay reduction for a savings of \$529.6 million.
- A five percent increase in the employee contribution to retirement costs for a \$405.8 million reduction in employer costs paid by the state.
- A reduction of \$152.8 million in health care costs achieved by contracting for lower cost health care coverage for state employees. (The California Public Employees' Retirement System (PERS) currently negotiates health care coverage for state employees. The Governor's proposed reduction assumes that PERS negotiates lower rates or that the state negotiates directly with insurers at a savings.)
- Savings of \$98.1 million result from delaying pre-funding costs for retiree health and dental benefits.

HEALTH AND HUMAN SERVICES

The Governor's 2010-11 proposed budget suggests cuts to the state's General Fund health and human services expenditures by \$2.4 billion, or an 8 percent decrease from the revised 2009-10 budget year. For context, last year's budget reductions totaled \$1.025 billion, or a three percent reduction. The Governor states in his introduction to the Health and Human Services portion of the budget that he must seek deep cuts in safety net programs because of three factors: the continuing fiscal crisis, inadequate federal funding ratios, and litigation. Indeed, many of last year's budget solutions have yet to be implemented due to legal action.

The budget proposal also includes a major proposal to "trigger" severe health and human service cuts – including the wholesale elimination of the CalWORKs, Healthy Families, and IHSS programs – if the state is unable to secure additional federal funding. Please see the end of this

ACTION

section for a full explanation of the proposed trigger cuts and a review of the state's federal funding assumptions.

The following items are proposed to take effect on July 1, 2010, unless otherwise stated.

MEDI-CAL

The Governor's proposed budget includes significant reductions in the Medi-Cal program.

Cost Containment Strategies. The Governor's proposed budget outlines a \$750 million General Fund reduction for the implementation of cost containment strategies. Such strategies would include limits on services and utilization controls, increase cost sharing through co-payment requirements and/or premiums, and other programmatic changes.

The Department of Health Care Services has not finalized the cost containment proposal and anticipates releasing additional details in the coming weeks.

Eliminate Full-Scope Medi-Cal for Certain Immigrants. The Governor's proposal would eliminate full-scope Medi-Cal benefits for adult Newly Qualified Immigrants, except for pregnant women. It would also eliminate full-scope benefits for Immigrants Permanently Residing Under Color of Law (PRUCOL), and some Amnesty Immigrants, for a total of about 250,000 people affected. Remaining services would include emergency services, pregnancy, long-term care and breast and cervical cancer treatment. These cuts are estimated to total \$118 million in 2010-11. The budget assumes that the proposal would take effect March 1 but savings would not be realized until June 2010 because of implementation timeframes.

Anti-Fraud Initiative. The Governor anticipates a \$26.4 million savings by implementing aggressive fraud enforcement in pharmacy, physician services, transportation, and medical equipment. This would be undertaken by the Department of Health Care Services.

Delay Provider Checkwrite. The Governor hopes to save \$55 million in the current year by deferring one weekly payment to institutional Medi-Cal providers, which include hospitals, clinics, and nursing homes.

Eliminate Optional Adult Day Health Care Benefits. The Governor proposes to eliminate the optional adult day health care benefit, effective March 1. This would save the state an estimated \$104 million, with the savings being realized by June of this year.

HEALTHY FAMILIES PROGRAM (HFP)

Reduce Eligibility. The Governor proposes to reduce HFP eligibility from 250 percent of the federal poverty level (FPL) to 200 percent. This will save an estimated \$10.5 million in the current budget year and \$63.9 million in 2010-11. The Governor wants this change to take effect on May 1 in order to achieve current year savings. Furthermore, the state scores a conforming \$3.9 million decrease in the California Children's Services (CCS) program for beneficiaries who were previously eligible under the Healthy Families Program.

ACTION

Reduce Benefits. The Governor proposes to eliminate vision coverage under the HFP.

Increase Premiums. The Governor also proposes to increase premiums for families with incomes from 151 percent to 200 percent of the FPL. The premium increase include \$30 per child or \$90 maximum increase per family with three or more children (currently, these families pay \$16 per child or \$48 maximum). This proposal would not affect families with an income under 150 percent of the FPL.

The Governor scores a \$21.7 million savings from both the premium increase and the elimination of the HFP vision benefit (above). Both proposals would take effect on July 1.

ADDITIONAL HEALTH PROPOSALS

Substance Abuse Offender Treatment Program

The Governor proposes to zero out funding (\$18 million) for the Substance Abuse Offender Treatment Program. No support for Proposition 36 is provided for in the Governor's proposed budget.

Proposition 99

The budget includes a proposal to use one-time Proposition 99 reserves to offset \$36 million in Medi-Cal costs.

IN-HOME SUPPORTIVE SERVICES (IHSS)

Elimination of Services Based on Functional Index. The Governor is again attempting to limit the provision of services to current and prospective IHSS recipients by eliminating all services for recipients with a Functional Index (FI) score of 4 or less, or 87 percent of the current recipient population. The 2009-10 budget includes IHSS service eliminations for those with a FI under 2 and is currently being litigated. There is currently an injunction in place preventing the state from implementing the service cuts.

Reduce State Participation in Wages. The Governor wants to reduce the state's participation in wages for IHSS workers down to the state minimum wage of \$8.00 per hour. The state's share of 60 cents per hour for benefits would be unchanged.

Together, the reduction of the state's wage participation and the elimination of services for those below a functional index of 4 would save the state an estimated \$77.9 million in 2009-10 and \$872.6 million in 2010-11. These estimates assume a current year implementation.

CALWORKS

The Governor proposes three reductions in the CalWORKs program:

- Reducing CalWORKs grants by 15.7 percent.
- Reducing child care provider reimbursements (no other detail was provided).
- Eliminating the Recent Noncitizen Entrants program, which provides benefits to legal immigrants who have been in the U.S. less than five years (24,000 people).

The Governor scores \$146.1 million in savings in the 2010-11 year if these cuts become effective in June. The Governor also notes that these cuts, if enacted, would also create a \$42.7 million savings in the Department of Developmental Services and \$18.3 million in the California Student Aid Commission.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT (SSI/SSP)

Grant Reductions. The Governor wants to reduce SSI/SSP grants to individuals by \$15 per month (from \$845 to \$830), which would bring them down to the federal minimum. Individual grants were reduced down to the federal minimum last year.

Eliminate Immigrant Assistance. As proposed in previous years, the Governor wants to eliminate the Cash Assistance Program for Immigrants (CAPI).

These two proposals combined will save the state \$21.8 million in 2009-10 and \$285.1 million in 2010-11 if enacted by June 1.

ADDITIONAL HUMAN SERVICES PROPOSALS

California Food Assistance Program. The Governor, as he did in the 2009, proposes to eliminate the California Food Assistance Program (CFAP) effective June 1, for a savings of \$3.8 million in the current year and \$56.2 million in 2010-11.

First 5 (Proposition 10). The Governor proposes to place another ballot measure before voters in June 2010 to redirect \$550 million in First 5 funds to programs serving children. The proposal would shift 50 percent of the First 5 revenues directed to state and local accounts for programs (\$242 million in 2010-11) *and* a one-time sweep of state and local reserves (\$308 million). These funds would be redirected to programs administered by the Department of Developmental Services and Department of Social Services. Please note that a similar ballot measure failed in the May 2009 special election.

New County Share of Cost for Children's Programs. The Administration proposes redirecting the county "savings" created by reductions to the CalWORKs and IHSS programs. The state estimates the program reductions will create \$505.5 million in county savings. The state would decrease state General Fund expenditures for children's programs and impose an increased county share of cost for Foster Care, Adoptions Assistance, and Child Welfare Services.

Mental Health Services Act (Proposition 63). The Governor also proposes to place another ballot measure before voters in June 2010 to redirect \$452.3 million in Mental Health Services Act funds to mental health programs currently supported with General Fund resources. Specifically the Mental Health Services Act funds would be used to replace General Fund spending on portions of the EPSDT program and Mental Health Managed Care. Both the non-supplantation and the maintenance-of-effort provisions of Proposition 63 would be amended. Please note that a ballot measure to redirect Mental Health Services Act funds failed in the May 2009 special election.

HHS TRIGGER CUTS

The Governor's proposal to trigger a series of cuts and revenues if \$6.9 billion in new federal funds do not materialize by July 15, 2010 would impact a number of health and human services programs. The trigger cuts, which would be permanent, include the following proposals (for a complete list of the trigger cuts and revenues please see the opening summary of this document):

- **CalWORKs.** Eliminate the CalWORKs program for \$1.044 billion in savings.
- **Mental Health.** Replace \$847 million in existing General Fund spending on mental health services with Proposition 63 (Mental Health Services Act of 2004) funds.
- **Medi-Cal.** Reduce Medi-Cal eligibility to the minimum allowed under current federal law and eliminate most remaining optional benefits for adults for a savings of \$532 million. The eligibility cuts include: (1) rolling back the 1931(b) program to March 2000 levels, (2) reducing services for children and pregnant women to 133 percent of FPL, (3) reducing the Aged, Blind and Disabled program to SSI/SSP levels, (4) eliminating the Medically Needy Program, (5) eliminating the Breast and Cervical Cancer Treatment Program, (6) eliminating the Child Health Disability Program (CHDP) Gateway, (7) eliminating the Medically Indigent long term care program, and (8) eliminating the Family Planning program. Very few optional benefits would be available for adults with the exception of pharmacy services.
- **In-Home Supportive Services.** Eliminate the IHSS program for \$495 million in savings.
- **Healthy Families Program.** Eliminate the Healthy Families Program for \$126 million in savings.
- **Transitional Housing Placement for Foster Youth-Plus Program.** Eliminate state funding for the Transitional Housing Placement for Foster Youth-Plus Program for \$36 million in savings.
- **Health Programs.** Eliminate Proposition 99 funding for a number of health programs, for \$115 million in savings. Programs that will lose Proposition 99 funding include Access to Mothers and Infants, Major Risk Medical Insurance Program, Every Woman Counts, Expanded Access to Primary Care, and Asthma Control programs. The Health Education Account is not affected.
- **New County Share of Cost.** Because the various program eliminations will reduce county match obligations, the state is proposing to redirect \$325 million of this "savings" and to create a new county share of cost for Food Stamps Administration.

Please note that these cuts would go into effect if California is unable to secure \$6.9 billion in federal funds and are in addition to the cuts proposed for the current year and 2010-11 outlined above.

NEW FEDERAL FUND ASSUMPTIONS

The Governor's budget assumes that California will be able to secure more than \$5 billion in new federal funds for a number of health and human services programs, many of which received American Recovery and Reinvestment Act (ARRA) of 2009 federal stimulus funding. If these federal funds are not secured by July 15, 2010, the trigger cuts outlined above (along with other cuts and revenues detailed in this document) would go into effect. The new federal fund assumptions include:

- **Federal Health Costs.** The budget assumes \$1 billion in federal reimbursement for: (1) health costs for disabled individuals who were actually eligible for Medicare (\$700 million one-time), (2) recalculation the rate at which California pays for Medicare Part D drug coverage (\$75 million ongoing), and (3) applying the enhanced ARRA FMAP ratio to the Medicare Part D drug coverage payments (\$250 million). An additional \$43 million in ARRA enhanced Safety Net Care Pool funds are also available in 2010-11.
- **Federal Medical Assistance Percentage (FMAP).** The budget assumes \$1.8 billion in new federal funds as a result of the federal government increasing California's FMAP to 57 percent (currently it is at 50 percent). Fifty-seven percent would be consistent with the federal funding ratios provided to the 10 most populous states as well as the national average.

The budget also assumes that the federal government will extend the ARRA-enhanced FMAP through June 30, 2011. This would result in \$1.5 billion in additional federal funds.

- **Foster Care.** The budget assumes \$86.9 million in federal funds associated with extending federal financial participation to all state-only foster care cases.
- **CalWORKs.** The budget assumes that the federal government will extend the TANF Emergency Contingency Funding to California through 2010-11 and that California will receive \$538 million as a result.
- **Title IV-E.** The budget assumes that the federal government will extend the enhanced FMAP rate for California's Foster Care and Adoptions Assistance programs through 2010-11. This would result in \$26.8 million.
- **Child Support.** The budget assumes \$20.8 million in federal funding from federal permission for California to use incentive funds to match federal funds through June 30, 2011.
- **Early Start.** The budget assumes \$32.9 million in federal funding from ARRA-related augmentation of the federal Individuals with Disabilities Education Act, Part C grant.

California Health and Human Services Agency Secretary S. Kimberly Belshé will be convening meetings with stakeholders to discuss how to work together to secure these new federal funds.

ACTION

HOUSING, LAND USE AND TRANSPORTATION

Eliminate Sales Tax and Increase Excise Tax on Gasoline. The Governor proposes to eliminate the sales tax on gasoline, proceeds of which fund Proposition 42, currently valued for 2010-11 at \$1.57 billion for Proposition 42 and \$879 million for the spillover account.

As a replacement for the sales tax elimination, the Governor proposes to institute a 10.8-cent excise tax on gasoline (Highway User Tax Account or HUTA) increase that falls short of being revenue neutral by approximately \$976 million, or the equivalent of a five-cent per gallon tax cut. Under the proposal, the total excise tax would increase to 28.8-cents per gallon, whereas the existing combined Proposition 42 and HUTA taxes currently equal 34-cents. The proposal does not affect the current distribution of the 18-cent HUTA.

The 10.8-cent excise tax increase would be allocated as follows:

- \$629 million for the State Transportation Improvement Program (STIP)
- \$629 million for local streets and roads
- \$603 million for the General Fund for transportation bond debt service

The summary of the Governor's budget proposal indicates that the excise tax distribution will be adjusted in the future to account for the growing debt service on the transportation bonds. It is unclear whether this would mean an annual increase in the gas tax equivalent to the growth in bond debt service as reported by Transportation California, or if the State would simply change the distribution formula and take the funds from either cities and counties and/or the STIP.

Considering that the existing HUTA formula is left intact combined with this replacement revenue, local streets and roads are estimated to receive \$1.72 billion in 2010-11 or \$858 million for counties.

There are several problems with this proposal. First, in a good economy, Proposition 42 has a growth potential of approximately five percent annually. Regardless of the economic condition of the State, the excise tax on gasoline is a declining revenue source due to increased vehicle efficiency and overall reduced consumption. The Governor's proposed swap of excise tax revenue for sales tax revenues associated with gasoline therefore reduces the growth potential for transportation funding in the state resulting in the reduction of job growth into the future.

Second, substantial constitutional protections afforded to Proposition 42 do not apply to the excise tax or HUTA. Proposition 42 revenues can only be borrowed twice in ten years and requires payback before borrowing again. Further, payback must occur within three years and with interest. Currently, the constitution allows the state to borrow HUTA with required payback within three fiscal years, but with no interest requirements and no restriction on consecutive or limited year borrowing.

The proposal also reduces the spillover for transit and eliminates the Proposition 42 share for transit without a replacement revenue source.

ACTION

In addition to reducing the tax burden on Californians by nearly \$1 billion, the state also reduces the Proposition 98 guarantee for education as the excise tax revenues do not flow through the General Fund.

High-Speed Rail. The Governor's January proposal includes \$581.4 million in Safe, Reliable High-Speed Passenger Train Bond Act bond funding for project development and oversight. An additional \$375 million in American Recovery and Reinvestment Act funding will be appropriated for the same purpose.

Project Initiation Document (PIDs) Reimbursement. The proposed budget would shift the cost of developing PIDs for local projects to local agencies and save the State an estimated \$12.5 million in 2010-11.

Proposition 1C: Housing Bond of 2006. The Governor's proposed budget would appropriate \$131 million in Proposition 1C Housing Bond funds but does not specify to which programs.

Emergency Housing Assistance Fund. The budget proposes to transfer \$4.2 million to the General Fund from the Emergency Housing Assistance Fund in 2010-11.

STAY TUNED FOR THE NEXT BUDGET ACTION BULLETIN!

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ACTION

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