

Budget Action Bulletin No. 1

2008-09 Proposed State Budget

Week of June 9, 2008

Via Electronic Mail

DATE: June 9, 2008

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

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

RE: **Budget Action Bulletin #1**

Well, here we go. Our first Budget Action Bulletin of the 2008-09 regular session. We will issue Bulletins on an as-needed basis as the Legislature plows through hundreds of budget items in the coming weeks and works to close a gaping, multi-billion dollar budget gap.

TWO HOUSES WRAP UP BUDGET HEARINGS (FINALLY) ... CONFERENCE COMMITTEE TO BEGIN

The Assembly and Senate Budget Committees finished their deliberations on outstanding budget issues and May Revision items late last week. With both houses concluding their respective budget processes, the two-house Conference Committee will begin its deliberations to reconcile the differences between their versions of the budget. While we initially heard that they would meet on Thursday, June 12, that is now in doubt. To date, the conferees have not been announced.

The Conference Committee will have an extremely long list of items to discuss. Generally, differences in appropriations, fund sources, and/or trailer bill language will cause an item to be discussed by the Conference Committee.

CSAC will inform counties once the Conference Committee agenda becomes available and, as discussions move forward, will report on actions taken by the conferees. CSAC will be addressing issue-specific letters to the conferees as they undertake deliberations. Do not hesitate to contact CSAC staff for more information on the process or content of the budget Conference Committee.

ASSEMBLY DEMOCRATS REVEAL BUDGET PLAN

Assembly Speaker Karen Bass unveiled the Assembly Democrats' budget plan last Thursday. The plan includes adopting a modified version of the Governor's lottery proposal, rejection of the Governor's budget stabilization constitutional amendment, and closing tax loopholes. The Assembly Democratic plan would generate \$6 billion in revenues.

Funds from the lottery securitization will be placed in a new "Debt Retirement Fund," much of which will be used to pay down the debt. These debt payments include economic recovery bonds, transportation loans, education loans, local government mandates, and general obligation debt. Under this proposal, the caucus believes most of these debts would be paid off anywhere from 3 to 10 years faster than they would under the Governor's budget.

As other budget plans surface, we will communicate pertinent details to counties.

WHAT YOU SHOULD DO:

For an initial list of specific items that will be discussed in Conference Committee, please see the pertinent policy areas below. It will be important for counties to communicate to the Conference Committee on significant issues. Although we all acknowledge the difficult budget situation facing the state, it is important that the conferees understand local impacts of proposed actions. Check out the details below and visit our [website](#) for CSAC’s letters on various budget issues.

WHAT’S BEEN HAPPENING:

ADMINISTRATION OF JUSTICE

Local Public Safety Subventions. Disparate actions of the Assembly and Senate budget subcommittees in recent weeks will send nearly all justice-related items to the Budget Conference Committee for further deliberation and reconciliation. The following table enumerates key public safety local assistance programs as set forth in the Governor’s January budget and details subcommittee actions on funding taken to date. Further narrative is offered on other corrections- and justice-related items as well.

Program/Expenditure	Governor’s January Budget Proposal (2008-09)	Senate Subcommittee Action	Assembly Subcommittee Action
Citizens’ Option of Public Safety (COPS)	\$107 million	\$0	\$107 million
Juvenile Justice Crime Prevention Act (JJCPA)	\$107 million	\$0	\$107 million
Small/Rural Sheriffs Local Assistance Program	\$17 million	\$0	\$1,000
Local detention facility subventions (booking fee “replacement” revenue)	\$32 million	\$0	\$1,000
Juvenile Probation and Camps Funding (JPCF)	\$181 million	\$0	\$181 million
Mentally Ill Offender Crime Reduction Grant (MIOCR)	\$41 million	\$0	\$5 million
California Methamphetamine Enforcement Teams (CAL-MMET)	\$26.5 million	\$9.5 million	\$9.6 million

A number of other items of interest requiring conferee action include:

Court Security - The Senate and Assembly budget subcommittees both took action to address court security funding. Slight differences in the approach and details mean that this item will go before the Budget Conference Committee for reconciliation and resolution. In short, the Senate budget subcommittee approved \$20 million to address a current shortfall in court security funding and authorized trailer bill language to do all of the following:

- Establish statewide standards for court security, including staffing standards;
- Establish court security costs based on average staffing costs rather than a mid-step salary;
- Establish greater uniformity across jurisdictions by standardizing costs and responsibilities, including clarification that retiree health for court security officers is not a state funding responsibility; and

- Create a separate court security budget item to permit easier tracking and accounting of court security funding.

The Assembly subcommittee took nearly identical action on the trailer bill language regarding court security issues, but it did not approve funding for the ongoing court security shortfall.

Department of Justice Forensic Lab Fees – The Senate Budget Subcommittee No. 4 took action on the Legislative Analyst’s Office proposal to charge state and local agencies for the costs of forensic testing at Department of Justice (DOJ) crime labs. The subcommittee took action supporting the LAO proposal, which would result in a \$32 million General Fund savings expected to be offset by fees charged to other governmental entities. The subcommittee also adopted budget bill language to, among other provisions: (1) ensure fee payments are made by local governments by giving the State Controller’s Office the authority to transfer revenues from local Proposition 172 funds and (2) direct the DOJ to develop a fee schedule that addresses high costs in extremely complex investigations. The Assembly did not take parallel action, so this item will go before the Budget Conference Committee for further consideration and resolution.

Corrections Reform Measures. Several correction reform measures — most seeking to reduce either the state prison or parole population — have emerged and been discussed over the last several months. Counties will recall that the Governor’s January budget contained two key proposals in this policy area: summary parole and early inmate release. While the Governor withdrew his January early release proposal in the May Revision, the Administration is standing behind its summary parole option. In February, the Legislative Analyst’s Office (LAO) advanced parole realignment as one of the key elements of its alternative approach to the budget. The proposal was discussed in budget hearings earlier this Spring, but it was not part of May Revise hearings and appears not to be moving forward as a viable option.

Last week, the Senate Budget and Fiscal Review Committee adopted on an 8-4 vote a series of corrections reforms measures – summarized in the table below – that set the stage for ongoing discussions in this area. At this time, the proposals are conceptually described (see the Senate Budget Committee’s June 5 agenda, [Attachment A](#), pages 6-8), but no specific language has yet been developed. The proposals, taken together, would generate an estimated state savings of \$514 million.

<p>PAROLE REFORM</p> <p>(\$248.7 million in estimated savings)</p>	<ul style="list-style-type: none"> ▪ Authorize direct discharge — the functional equivalent of summary parole, in that the offender receives no supervision — for non-serious, non-violent offenders. (Sex offenders would be ineligible.); ▪ Authorize earned discharge from parole; non-serious, non-violent offenders would be discharged after 5 months of clean time. Serious, violent offenders would be discharged after 16 months of clean time. (Sex offenders and inmates serving indeterminate life in prison sentences would be ineligible.); ▪ Increase funding to parole to reduce caseloads from 70:1 to 50:1. ▪ Assume savings (\$38.3 million) given the reduced need for contract jail beds; ▪ Assume savings associated with various parole administrative functions – e.g., Board of Parole hearings, case records, and parole academy; ▪ Establish a 10-court pilot program to divert parolees to alternative community sanctions, modeled on the Parole Violation Intermediate Sanctions Program (SB 391, Ducheny, 2007).
<p>DISCHARGE OF INFIRMED INMATES</p> <p>(\$15 million in estimated savings)</p>	<ul style="list-style-type: none"> ▪ Implement current law permitting early release of infirmed inmates; discharge could be accompanied by parole conditions or GPS monitoring. (Sex offenders would be excluded.)
<p>CREDIT REFORM</p>	<ul style="list-style-type: none"> ▪ Implement a comprehensive day-for-day credit earning status for

(\$150 million in estimated savings)	offenders currently eligible for credit earning; <ul style="list-style-type: none"> ▪ Authorize enhanced credits (up to 4 months total) to offenders who complete rehabilitation, educational, or vocational programs in prison; ▪ Authorize the award of one-month credit for every four months of good behavior in state prison.
THRESHOLDS FOR PROPERTY CRIMES (\$100 million in estimate savings)	<ul style="list-style-type: none"> ▪ Adjust the value thresholds for certain property crimes — grand theft, forgery/fraud; receiving stolen property; other property crimes — by inflation; these levels have not been adjusted in 26 years.

Finally, we provide some additional details on two related items that were approved by the Assembly; in light of the Senate’s action detailed above, these items will be part of the overall mix of correction reform proposals to be considered by the conferees.

Summary Parole – The Assembly Budget Subcommittee No. 4 approved the Governor’s summary parole proposal. Counties will recall that this proposal would place certain non-serious, non-violent, non-sex offenders on parole with virtually no supervision. While these offenders could avail themselves of parolee treatment and other supportive services otherwise available through the Department of Corrections and Rehabilitation, a parole agent would not actively supervise them. However, those on summary parole would be subject to drug testing as well as search and seizure by any peace officer. The Senate budget subcommittee No. 4 outright rejected the summary parole proposal and offered its own reform measures as outlined in the above table.

Converting Wobblers to Misdemeanors – The Assembly Budget Subcommittee No. 4 also supported on a 4-2 vote the LAO proposal to convert certain wobblers to misdemeanors. The rationale behind the LAO’s proposal is that expressly defining certain wobblers as misdemeanors would eliminate costly prison time for incarceration. Many advocates spoke in strong opposition during the subcommittee deliberation, citing the inappropriate limitation on prosecutorial and judicial discretion, the expected impacts in local detention facilities, and general public safety concerns. In taking action to support the proposal, the Assembly subcommittee pared back the list of eligible crimes, specified that the proposal is prospective (for new convictions), and excluded violent and/or sex offenders. The Senate’s action on changing the thresholds for certain property crimes addresses this same general area in a different fashion.

AGRICULTURE AND NATURAL RESOURCES

Williamson Act Subvention. The Senate and Assembly budget subcommittees took actions on the Williamson Act Subvention funding that will send this item to the Budget Conference Committee. The Senate Budget Subcommittee voted to reduce funding to \$1,000 with the intended purpose of sending the item to conference, while the Assembly approved the Governor’s 10 percent funding reduction. CSAC continues to lobby for full funding of this program.

Emergency Services. The Assembly budget subcommittee took action to pass the Governor’s Emergency Response Initiative, which would place a surcharge on residential and commercial property insurance for the purposes of funding enhanced emergency response capabilities of California Department of Forestry and Fire Protection (CAL Fire), the Office of Emergency Services (OES) and the Military Department. The Assembly budget subcommittee also took action on the LAO’s alternative to the Governor’s surcharge voting to pass in concept with Budget Trailer Bill language to be written. The LAO proposal would shift a portion of General Fund support for wildland firefighting to a new fee assessed on property owners in state responsibility areas (SRA). However, the Senate budget subcommittee did not take action on these items, and both will be referred to Budget Conference Committee.

GOVERNMENT FINANCE AND OPERATIONS

Presidential Primary Reimbursement. The Governor included in his May Revision \$89.6 million for reimbursement to counties for the special February 2008 Presidential Primary Election. The reimbursement was included in a Department of Finance Letter to the Legislature, notifying them of the change. Senate budget subcommittee analysis raised questions about specific costs included in the reimbursement request. However, subsequent negotiations between CSAC, county elections officials and budget staff have resulted in an agreement that enables counties to submit more detailed cost information. In light of the agreement and additional cost information, the item has been sent to Budget Conference Committee.

HEALTH AND HUMAN SERVICES

The Assembly and Senate closed out discussion on the May Revision budget items related to health and human services programs on May 30. The two houses concurred on a number of items. The following is a summary of these issues where they reached agreement.

Medi-Cal

- **County Administration.** Both houses adopted the elimination of the cost of living adjustment for county eligibility administrative and support positions for \$64.6 million (\$32.3 million General Fund). Both houses rejected the 2.5 percent cut to base funding for county administration of the Medi-Cal program.
- **Optional Benefits.** Both houses rejected elimination of optional benefits. The Legislature also adopted placeholder trailer bill language to eliminate the sunset on the \$1,800 adult dental cap.
- **May Revision Eligibility Changes.** Both houses rejected the changes to 1931(b) parents, the eligibility determination changes for undocumented immigrants for emergency services, and the scope of services available for legal immigrants.
- **Safety Net Care Pool.** Both houses rejected the Administration's proposal to reduce the Safety Net Care Pool funds available to public hospitals by \$54.2 million.

California Children's Services (CCS). Both houses rejected the 10 percent unallocated reduction to the CCS program.

Child Health and Disability Prevention Program (CHDP). Both houses adopted the 10 percent reduction for outreach, education and case management for children receiving CHDP preventative health care.

State Pandemic Flu Funds. Both houses adopted the Legislative Analyst's Office (LAO) recommendation to reduce state pandemic flu funds to local health jurisdictions by \$6.9 million.

Emergency Medical Services(EMS). Both houses adopted the Governor's proposal to reduce funds to the seven regional EMS agencies by 10 percent (\$242,000).

Mental Health

- **Mental Health Managed Care.** Both houses rejected the 10 percent unallocated reduction and instead reduced funding by \$5.35 million (\$10.7 million all funds) to delete state support for implementation of federal regulations. Both houses rejected the 5 percent reduction to the State Maximum Allowance (SMA) rate.
- **Early and Periodic Screening, Diagnosis and Treatment (EPSDT).** The Legislature adopted an alternative EPSDT Statewide Performance Improvement Project, for a savings of \$29.1 million and accompanying trailer bill language. Both houses rejected the 5 percent reduction to the State Maximum Allowance (SMA) rate.
- **Community Treatment Facilities.** Both houses provided \$750,000 General Fund for the supplemental rate, which the Governor had proposed to eliminate.

- County Purchase of State Mental Hospital Beds. Both houses eliminated the \$9.8 million General Fund subsidy provided to counties to offset the cost of purchasing state mental hospital beds.

Proposition 36 & Offender Treatment Program. The Legislature rejected the Administration's proposal to reduce funding for these programs by 10 percent.

In-Home Supportive Services

- Wages and Benefits. Both houses rejected the May Revision proposal to roll back state participation to the state minimum wage (\$8/hr).
- Domestic and Related Services. Both houses rejected the May Revision proposal to eliminate domestic and related services for individuals with a functional index below 4.
- Consumer Share of Cost. Both houses rejected the May Revision proposal to impose a share of cost on consumers with a functional index below 4.
- January benefit proposal. The Administration rescinded its proposal to reduce domestic and related services by 18 percent to all consumers. The Legislature concurred.

Adult Protective Services. The Legislature rejected the Administration's 10 percent reduction.

Cash Assistance Program for Immigrants. Both houses rejected the may Revision proposal to eliminate CAPI.

Child Welfare Services. Both houses rejected the Administration's \$129.6 million unallocated reduction to the county CWS allocation.

Foster Care. Both houses rejected the Administration's proposed cuts to the foster care basic rate, specialized care and clothing allowance rates for foster family homes and group homes. They also rejected the 10 percent cut rate reduction to Adoptions and KinGAP and the 5 percent rate cut to foster family agencies.

Food Stamps. Both houses adopted the May Revision proposal to waive face-to-face interviews.

CalWORKs

- Graduated Full-Family Sanctions. Both houses rejected the Administration's proposal.
- Safety Net. Both houses rejected the Administration's proposal to restrict benefits only for Safety Net cases meeting federal work participation rates.
- Child Only Cases. The Legislature also rejected the Administration's proposal to limit grants to 60-months for children of unaided adults.
- COLA. Both houses eliminated the CalWORKs COLA.
- Grants. Both houses rejected the proposal to reduce CalWORKs grants by 5 percent.

CONFERENCE ITEMS

The following issues will be discussed in Conference Committee because the Assembly and Senate took different actions.

Medi-Cal

- Status Reporting. The Assembly rejected the Administration's proposal to reinstate quarterly status reporting for children and adults. The Senate adopted semi-annual status reporting for children and rejected the proposal for adults. Under current law, adults are required to report semi-annually.
- Provider Rates. The Assembly took action to restore the 10 percent provider rate reduction enacted during the Special Session. The Senate restored the provider rates by 5 percent.
- County Administration. The Assembly adopted the Administration's proposal to eliminate caseload growth funding (\$43.1 million). The Senate rejected the caseload growth funding proposal and adopted placeholder trailer bill language to suspend the county performance penalty.

California Children's Services (CCS). The Assembly adopted the 10 percent reduction in payments to county medical therapy units. The Senate adopted a 5 percent reduction.

County Administration of IHSS. The Assembly adopted the 10 percent reduction to county administration and adopted trailer bill language to suspend focused eligibility reviews of counties. The Senate rejected the cut.

County Administration of Food Stamps. The Assembly adopted the \$35 million reduction to county administration of food stamps. The Assembly also adopted trailer bill language to suspend the county share of federal penalties when program funding is inadequate to meet program requirements. The Senate rejected the cut.

CalWORKs. A number of CalWORKs budget items will be discussed in Conference Committee, including the following:

- Work Incentive Nutritional Supplement (WINS). This proposal would allow working families who are receiving Food Stamps but not on CalWORKs to be eligible for an additional \$40 per month in food stamps if they work sufficient hours to meet federal TANF work participation requirements.
- Pre-Assistance Employment Readiness System (PAERS). Under the pre-assistance program, each family entering aid would be placed in PAERS for up to 120 days. In order for the family to continue receiving aid after PAERS, they must become employed for sufficient hours to meet federal work participation requirements or sign the welfare-to-work plan, unless they can establish that they are exempt or have good cause under current law for nonparticipation.
- Self-Sufficiency Reviews. The Administration proposed requiring face-to-face interviews, which they are calling Self-Sufficiency Reviews, with all recipients who are not meeting work requirements. The Assembly rejected the proposal and the Senate modified it. The Senate adopted a modified proposal that would require reviews only for sanctioned cases and allow the 5-year clock to tick during sanction status.
- County Pay for Performance incentive funding.
- Reduction of the single allocation to counties by the amount of unspent performance incentives and fraud funds.
- the TANF reserve.

SSI/SSP COLA. The Assembly adopted the proposal to suspend the 2008 and 2009 COLAs. The Senate adopted the proposal to suspend the 2008 COLA and rejected the suspension of the 2009 COLA.

For more detailed information about any of these issues, please visit our website at <http://www.csac.counties.org/images/users/1/May%20Revise%20actions%20chart.pdf>.

HOUSING, LAND USE AND TRANSPORTATION

Spillover. With the spillover account from the gas tax now estimated to be \$1.18 billion, the May Revision proposes to off set General Fund expenditures by a total of \$828 million with spillover revenues as well as additional revenues from increased diesel fuel tax receipts. This is in part achieved by the Governor reducing the State Transit Assistance (STA) Program to a total of \$306 million.

The Assembly Budget Subcommittee No. 5 on Transportation and Information Technology restored \$317 million to the STA for a total of \$623.7 million (equal to the FY 2006-07 funding level). Assembly Member Mike Feuer, chair of the Assembly budget subcommittee, noted that this action would restore funding to the STA to the level of support provided before the massive cuts in the current year budget and that this should be a minimum funding level for this account on an on-going basis. Furthermore, this funding level would still provide \$262.2 million for General Fund relief.

The Senate Budget Fiscal Review Subcommittee No. 4 met on Wednesday, June 4 and also took action on funding levels for the Public Transportation Account. On a 2-0 vote, the Senate approved the staff

recommendation to concur with the Assembly's action of restoring \$317 million back to the Public Transportation Account (PTA).

The Senate however chose a different course in allocating the restored funds. Unlike the Assembly, that approved action to fund the STA at \$623.7 million, the Senate restored the STA Program to \$494 million (\$188 million more than the Governor's May Revise) and dedicated \$129 million to Caltrans for transit capital projects in the State Transportation Improvement Program (STIP) among other things. Neither the Governor nor the Assembly proposed any funds for transit capital STIP projects in this year's budget.

The Senate's argument for funding the STA program at \$494 million is that this is the aggregate amount of the base funding for the program minus spillover. Therefore, these items will be headed to the Budget Conference Committee where conferees from both houses will choose allocation amounts for the STA (\$623.7 million or \$494 million) and additional Caltrans funding (\$129 million or \$0).

Transportation Account Loan. The May Revision on the Governor's FY 2008-09 budget included a proposal to borrow \$238.1 million from various transportation funds, including:

- State Highway Account (SHA) - \$200 million;
- Local Airport Loan Account - \$14.9 million;
- Motor Vehicle Fuel Account - \$8 million;
- Bicycle Transportation Account - \$6 million;
- Environmental Enhancement and Mitigation Program Fund - \$4 million;
- Historic Property Maintenance Fund - \$3 million; and
- Pedestrian Safety Account - \$1.8 million.

The May Revision documents stated, "The loans are proposed only from those funds in which the loss of revenue will not result in any impact to the programs supported by the fund." The loans are to be repaid by June 30, 2011. In addition, the Administration requests Trailer Bill Language to enable the SHA to borrow from the Pooled Money Investment Account, which will allow the SHA to meet its cash needs throughout the year without carrying a high cash balance.

The Assembly Budget Subcommittee No. 5 approved the special fund loans as proposed, with the exception of reducing the SHA loan from \$200 million to \$110 million. However, Assembly Member Mike Feuer did note during the hearing that borrowing from various special funds is a short-term solution that has been used during past budget shortfalls and that it is only an appropriate solution when it conforms to the following two conditions: the borrowing of the special funds does not harm the programs and activities supported by the funds and the borrowing must be part of an overall budget solution that brings the budget into balance over the long-term. Otherwise, the borrowing would really not be a solution, but only a temporary band-aid that just pushes the need for real solution back a year or two.

Proposition 42. Neither the Assembly or Senate took any action to jeopardize the funding of Proposition 42 valued at \$1.4 billion for FY 2008-09 and slated for investment in state highway improvements, local streets and roads maintenance, and transit.

The Senate Budget Committee rejected the proposed transportation loans, sending this item to conference.

WHAT'S GOING TO HAPPEN NEXT:

The Conference Committee will publish a document – usually hundreds of pages – that enumerates all of the budget differences between the two houses. Once the document is published, CSAC will send issue-specific letters to the conferees and make them available on our web site. The Conference Committee will begin meeting some time in the next week.

Again, please contact your legislative delegation, budget conferees, and the Administration about budget items that are important to your county! Share your letters with us!

Stay tuned for the next Budget Action Bulletin!

If you would like to receive the Budget Action Bulletin electronically, please e-mail Faith Conley, CSAC Legislative Analyst, at fconley@counties.org. We're happy to accommodate you!