CSAC BUDGET ACTION BULLETIN
CALIFORNIA STATE ASSOCIATION OF COUNTIES

Highlights of the Governor's Proposed 2012-13 State Budget
Week of January 2, 2012

January 5, 2012

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

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

RE: **Summary of the Governor's 2012-13 Budget Proposal**

In an unanticipated turn of events, Governor Jerry Brown released his proposed 2012-13 state budget a few days early. (Apparently, the budget document was inadvertently posted on the Internet, requiring an early announcement from the Governor.) The budget is an austere one, proposing significant program reductions in addition to the new revenues proposed by the Governor in his sponsored November 2012 ballot measure. The Governor continues to focus on moving government closer to the people, improving government efficiency, and paying down the state's "wall of debt."
The slow economic recovery continues to plague the state and hamper the ability to fund core services. Baseline General Fund revenues are projected to total $89 billion in 2012-13, and are not expected to return to their 2007-08 levels until 2014-15. Further, there remain significant risks and uncertainty to the state's fiscal health, including ongoing debt obligations, pension liabilities, and uncertainties associated with the continuing debate on addressing the federal budget deficit.

The budget deficit for 2012-13 is estimated to be $9.2 billion, including a current year deficit of $4.1 billion. The current year fiscal problem was exacerbated by court challenges, delays in federal approvals, and lower-than-anticipated economic performance. To address the deficit, the Governor is proposing a combination of spending reductions and temporary taxes (via ballot initiative) totaling $10.3 billion to both balance the budget and establish a $1.1 billion reserve. The Governor also proposes a new round of trigger cuts slated to take effect if his ballot initiative fails; these cuts are detailed in the sections that follow.

The Governor also proposes a reorganization of state government, including the elimination and consolidation of 48 boards, commissions, programs, and departments. For more details on the Governor's reorganization plans, please see the "Making Government More Efficient" chapter of the Governor's budget summary, starting on page 23.

With an entire chapter devoted to 2011 realignment, the Governor also reiterated his commitment to constitutional protections and ongoing dialogue with counties during implementation of realignment.

This *Budget Action Bulletin* summarizes the components of the Governor's proposed 2012-13 budget as we understand them at this late hour. Please note that additional details and information will be forthcoming from CSAC as they become available. Do not hesitate to contact CSAC staff with your questions and we will do our best to assist you.

BUDGET SUMMARY CHARTS

2012-13 Governor's Budget
General Fund Budget Summary
($ in millions)

	Defining the Problem		With Solutions	
	2011-12	**2012-13**	**2011-12**	**2012-13**
Prior Year Balance	-$3,079	-$3,416	-$3,079	-$985
Revenues and Transfers	$86,309	$89,221	$88,606	$95,389
Total Resources Available	**$83,230**	**$85,805**	**$85,527**	**$94,404**
Non Proposition 98 Expenditures	$53,846	$58,905	$53,883	$55,035
Proposition 98 Expenditures	$32,800	$35,348	$32,629	$37,518
Total Expenditures	**$86,646**	**$94,253**	**$86,512**	**$92,553**
Fund Balance	**-$3,416**	**-$8,448**	**-$985**	**$1,851**
Reserve for Liquidation of Encumbrances	$719	$719	$719	$719
Special Fund for Economic Uncertainties	-$4,135	-$9,167	-$1,704	$1,132
Budget Stabilization Account	**-**	**-**	**-**	**-**
Total Available Reserve	**-$4,135**	**-$9,167**	**-$1,704**	**$1,132**

General Fund Revenue Sources
($ in millions)

	2011-12	2012-13	Change from 2011-12 $ Change	% Change
Personal Income Tax	$54,186	$59,552	$5,366	9.9%
Sales and Use Tax	18,777	20,769	1,992	10.6%
Corporation Tax	9,479	9,342	-137	-1.4%
Motor Vehicle Fees	103	30	-73	-70.9%
Insurance Tax	2,042	2,179	137	6.7%
Estate Taxes	-	45	45	-
Liquor Tax	323	329	6	1.9%
Tobacco Taxes	93	90	-3	-3.2%
Other	3,603	3,053	-550	-15.3%
Total	**$88,606**	**$95,389**	**$6,783**	**7.7%**

General Fund Expenditures by Agency
($ in millions)

	2011-12	2012-13	Change from 2011-12 $ Change	% Change
Legislative, Judicial, Executive	$2,540	$2,600	$60	2.4%
State and Consumer Services	619	689	70	11.3%
Business, Transportation & Housing	679	558	-121	-17.8%
Natural Resources	1,935	1,896	-39	-2.0%
Environmental Protection	51	47	-4	-7.8%
Health and Human Services	26,668	26,414	-254	-1.0%
Corrections and Rehabilitation	7,849	8,744	895	11.4%
K-12 Education	34,162	38,179	4,017	11.8%
Higher Education	9,821	9,377	-444	-4.5%
Labor and Workforce Development	354	448	94	26.6%
General Government:				
Non-Agency Departments	450	514	64	14.2%
Tax Relief/Local Government	544	2,534	1,990	365.8%
Statewide Expenditures	840	553	-287	-34.2
Total	**$88,606**	**$95,389**	**$6,783**	**7.7%**

Budget Balancing Proposals
($ in millions)

Expenditure Reductions	
Health and Human Services	
CalWORKs	$946.2
Medi-Cal	842.3
In-Home Supportive Services	163.8
Other HHS Programs	86.9
Education	
Proposition 98	544.4
Child Care	446.9
Cal Grant Program	301.7
Other Education	28.0
All Other Reductions	
State Mandates	828.3
Other Reductions	27.3
Total Expenditure Reductions	**$4,215.8**
Revenues	
General Fund Revenues	
Temporary Taxes	$4,400.8
Other General Fund Revenues	88.8
Special Fund Revenues	
Gross Premiums Insurance Tax on Medi-Cal Managed Care Plans	161.8
Total Revenues	**$4,651.4**
Other	
Loan Repayment Extensions	$630.5
Unemployment Insurance Interest Payment	417.0
Additional Weight Fee Revenues	349.5
Suspend County Share of Child Support Collections	34.5
Total Other	**$1,431.5**
Total Solutions	**$10,298.7**

Outstanding Budgetary Borrowing
($ in billions)

Deferred payments to schools and community colleges	$10.4
Economic Recovery Bonds	6.3
Loans from special funds	3.4
Unpaid costs to local governments, schools, and community colleges for state mandates	4.5
Underfunding of Proposition 98	3.4
Borrowing from local government (Proposition 1A)	2.1
Deferred Medi-Cal costs	1.3
Deferral of state payroll costs from June to July	0.8
Deferred payments to CalPERS	0.5
Borrowing from transportation funds (Proposition 42)	0.3
Total	**$33.0**

Trigger Cuts

The Governor's proposed budget assumes the passage of a November 2012 initiative that would protect counties' realignment revenues and also temporarily raise the sales tax rate and personal income tax rates on higher income earners. However, the state needs to borrow money at the beginning of the fiscal year to cover expenses until the bulk of the revenue comes later in the year.

Money lenders would not trust the state to repay this intra-year debt with such uncertainty, so the Governor proposes significant trigger cuts effective January 1, 2013 should the ballot measure fail.

These trigger cuts total $5.4 billion. $4.8 billion (89 percent) of those cuts are reductions to schools and community colleges. Half of that reduction results from the decrease to the Proposition 98 guarantee. The other half results from shifting K-14 bond debt service costs into Proposition 98, thereby reducing money going to schools. Cuts at this level equal about three weeks of instruction. Another $400 million in cuts target the UC and CSU systems.

The rest of the cuts are to the courts ($125 million, equivalent to three days of closures per month), Cal FIRE ($15 million, about 10 percent of its budget), and small cuts to various other state protection agencies. These small cuts would, among other things, eliminate lifeguards from state beaches and reduce the number of park rangers and game wardens by 20 percent.

Ballot Trigger Reductions
Effective January 1, 2013
($ in millions)

Proposition 98	$4,836.9
University of California [/1]	200.0
California State University [/1]	200.0
Courts	125.0
Department of Forestry and Fire Protection	15.0
Flood Control	6.6
Fish and Game: Non-Warden Programs	2.5
Fish and Game: Wardens	1.0
Park Rangers	1.0
Park Lifeguards	1.0
Department of Justice	1.0
Total Ballot Trigger Reductions	**$5,390.0**

[/1] This level of savings may be offset by Cal Grant increases if the universities raise tuition.

2011 Realignment
The Governor's proposed 2012-13 state budget includes discussion about moving forward with 2011 realignment in terms of constitutional protections, allocation of funds and funding structure, and other programmatic changes. As previously reported, the Governor is sponsoring a ballot measure that provides constitutional protections for the revenue dedicated to 2011 realignment, as well as protections against new costs associated with future changes to realigned programs.

Recall that two additional programs are slated for realignment in 2012 (and incorporated into the funding model for 2011 realignment): mental health managed care and the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program. These programs will be fully funded by 2011 realignment revenues on an ongoing basis.

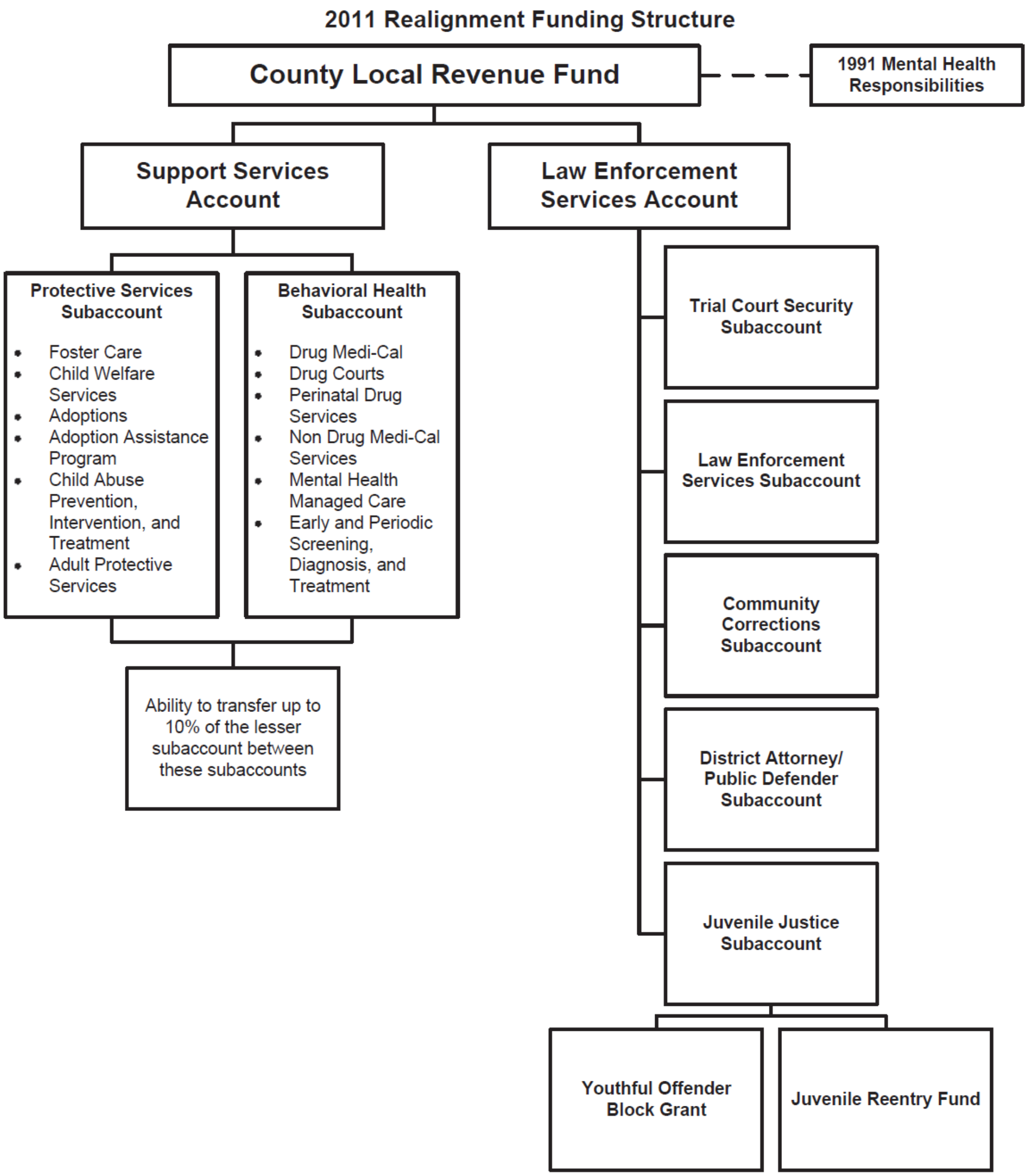
2011 Realignment Funding
The budget assumes funding for 2011 realignment from two state sources – a state special fund sales tax of 1.0625 percent totaling $5.1 billion and $462.1 million in Vehicle License Fees (VLF) for 2011-12. These two figures represent revised estimates by the Department of Finance (DOF) after the enactment of the final 2011-12 budget last June. These funds are deposited in the Local Revenue Fund 2011 and are continuously appropriated and allocated to counties for the purposes of 2011 realignment.

2011 Realignment Funding
($ in millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	$496.4	$496.4	$496.4	$496.4
Local 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	957.0	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Mental Health Services				
EPSDT	-	544.0	544.0	544.0
Mental Health Managed Care	-	188.8	188.8	188.8
Existing Community Mental Health Programs	1,104.8	1,164.4	1,164.4	1,164.4
Substance Abuse Treatment	179.7	179.7	179.7	179.7
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,562.1	1,562.1
Adult Protective Services	54.6	54.6	54.6	54.6
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Program Cost Growth	-	180.1	443.6	988.8
Total	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**
Vehicle License Fee Funds	462.1	496.3	491.9	491.9
1.0625% Sales Tax	5,107.0	5,320.1	5,748.0	6,228.0
Total Revenues	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**

Funding Structure for 2011 Realignment

Counties will recall discussions over the last months regarding a permanent funding structure for 2011 realignment. While we had originally anticipated requiring such a structure prior to the Legislature's adjournment, these efforts were postponed to allow for additional conversations with stakeholders. After ongoing conversations between CSAC, our county partners, and DOF, the Administration is proposing a permanent funding structure for realignment with the goal of providing a reliable and stable funding source that allows for local flexibility. That structure is depicted in the chart below.



Base Funding
Base funding in each subaccount should not experience a year-over-year decrease. A statutory mechanism should be in place to deal with the possibility of a year's base being short due to significantly reduced revenues.

The timing of the programs' inclusion in 2011 realignment and the implementation scheduled should affect base funding for each program. The base should be a rolling base for each subaccount, meaning that a year's base funding plus growth becomes the subsequent year's base.

The 1991 Mental Health programs should continue to receive revenue based on its 1991 formula.

Growth Funding
Funding for program growth should be distributed on a roughly proportional basis, first among accounts, then by subaccounts.

Within each subaccount, federally required programs should receive priority for funding if warranted by caseload and costs.

Growth funding for the Child Welfare Services (CWS) program is a priority once base programs have been established. Over time, CWS should receive an additional $200 million.

Transferability
To provide flexibility, counties should have the ability to transfer a maximum of 10 percent of the lesser subaccount between the subaccounts within the Support Services Account.

Beginning in 2015-16, there should be a local option to transfer a portion of the growth among subaccounts within the Law Enforcement Services Account.Transfers should be for one year only and not increase the base of any program.

Reserve Account
To provide some cushion for fluctuations in future revenue, a Reserve Account should be established when Sales and Use Tax revenues exceed a specified threshold.

Public Safety Realignment (AB 109)
The Governor's budget discusses counties' efforts at implementing public safety realignment. Given only three months of experience managing the new adult offender populations, the Governor notes that there is insufficient information available to assess whether the state's estimates of 2011 Realignment impacts are tracking counties' actual new workload. The budget also discusses the operational impacts to the state's corrections system associated with the implementation of public safety realignment, noting that:

- The state prison population is declining, as expected, which greatly aids the state in complying with the federal court's order to reduce prison population over the next two years. State prison population is expected to decline from just over 150,000 inmates in 2011-12 to approximately 132,000 in 2012-13 (a 12 percent drop).
- The state's facility needs will change as a result of population reductions. For example, the proportion of female inmates is decreasing more quickly than males, meaning the state now plans to convert the Valley State Prison for Women to a male facility in 2013. Other operational changes related to reception centers and other beds are also expected.

The Governor's budget narrative also discusses the AB 109 allocation formula, noting that the county-by-county distribution for the first nine months of operation applies only to 2011-12, given counties' expressed need to have programmatic experience before settling on a more permanent funding methodology.

As discussed previously, the Governor's budget makes an ongoing commitment of funding to support the transferred criminal justice responsibilities. (See 2011 Realignment Funding table above.) Ongoing and regular discussions continue among counties, public safety stakeholders, and the Administration to identify and monitor realignment implementation. The Governor's budget makes clear his ongoing commitment to address systemic issues that arise. The budget notes, for example, the Administration's intent to work with counties to explore and develop treatment and housing options for in-custody offenders who are in need of mental health treatment.

In recognition of the significance of the shift in new offender populations, the Governor's budget proposes a second year of training to support statewide AB 109 training efforts ($1 million) and grants to local Community Corrections Partnerships (CCP) ($7.9 million). The CCP planning funds are intended to support counties' efforts in reviewing and amending AB 109 implementation plans.

Ongoing Realignment Efforts
The Administration is committed to a continued partnership with county officials for the successful implementation of 2011 realignment, including:

- ***State Operations Reductions.*** The Administration is committed to a 25-percent reduction in the state operations of program areas that have been realigned. Both the Departments of Alcohol and Drug Programs and Mental Health have reduced their program components by that amount before transferring functions to the Department of Health Care Services (DHCS). The new Division of Mental Health and Substance Use Disorder Services within the DHCS will provide appropriate state oversight and assistance for programs realigned to the counties. The Department of Social Services will develop its 25-percent reduction plan upon county decisions regarding workload within realigned programs and based upon federal requirements.
- ***County Flexibility.*** The Administration continues to support efforts to increase the flexibility of counties in administering programs.

Juvenile Justice Reform
The Governor's budget outlines a revised juvenile justice reform proposal whereby the state would stop intake of juvenile offenders to the Division of Juvenile Justice (DJJ) facilities on January 1, 2013. After this date, all new commitments of youthful offenders to DJJ would cease. DJJ would continue to house those juvenile offenders who were placed with the state on or before January 1, 2013, but facilities would shut over time as the population phases out. In order to prepare counties for this shift in responsibility, the budget proposes to provide $10 million in planning funds to counties in the current year. The purpose of this funding is to give counties both the time and resources to develop appropriate placement and treatment options for this additional juvenile population. The funds would be distributed to counties under an as-yet undetermined methodology. The Administration will work with stakeholders to determine how to distribute the planning funds to the 58 counties. As the result of this proposal, the state plans to delay collection of the increased fees for DJJ placements that became effective on January 1, 2012 as a result of the 2011-12 trigger cuts.

Phase 2 Realignment
The Governor's budget discusses his continued intention to pursue Phase 2 Realignment in the future. These efforts would be linked to ongoing conversations regarding California's implementation of federal healthcare reform. Structuring Phase 2 will take into account the movement of a significant number of people now served by county indigent programs (about 2 million) to the Medi-Cal program and the Administration's desire to rebalance county responsibility for additional programs in the future. More

information and further exploration of potential changes in state/local program responsibility in Phase 2 are needed.

Administration of Justice

In addition to the Governor's ongoing commitment to the success of realignment as stated in the introduction, the Governor's proposed budget contains other public safety elements that may be of interest to counties. These elements are briefly described below.

California Department of Corrections and Rehabilitation (CDCR). The budget proposes various operational changes for CDCR, including the following:

- *Expanding the Alternative Custody for Female Offenders Program* – This program was created in 2010, pursuant to SB 1266 by Senator Carol Liu. It allows non-violent and non-serious female offenders to participate in an alternative custody program in the community, which includes substance abuse counseling and vocational education. The Governor's budget proposes to expand eligibility of this program to include female offenders who have a prior offense that is serious and/or violent, as many of these offenders have been deemed low-risk.

- *Review of Prison Facilities Plans* – CDCR has reduced its use of non-traditional prison beds by over 4,000 beds. The State is reevaluating its need for infill and reentry construction projects proposed to be funded through the state's portion of AB 900 (2007) given that it has significantly reduced its use of gymnasiums and dayrooms to detain prison inmates.

Board of State and Community Corrections. The budget contains $109.1 million in funding to support the creation of the Board of State and Community Corrections (BSCC) beginning July 1, 2012, as enacted in the 2011-12 state budget. Under the structure, the BSCC will assume the duties of the existing Corrections Standards Authority and certain public safety grant-related responsibilities of the California Emergency Management Agency (CalEMA). Further, the BSCC is designed as an independent entity that will provide statewide leadership and coordination on statewide public safety policies – including realignment.

Judicial Branch. The Governor's budget contemplates a $50 million augmentation to the Trial Court Trust Fund based on a proposed civil court fee increase. The augmentation is intended to offset the ongoing impacts of permanent budget reductions the courts have experienced in past years.

2012-13 Trigger Cuts in Courts/Public Safety. The Governor is proposing trigger cuts should his November 2012 ballot initiative fail. These trigger cuts total $5.3 billion, of which $126 million will be to the courts and the Department of Justice. Please see below for a brief explanation of these cuts:

- Judicial Branch – The courts would be reduced an additional $125 million, an amount equal to three court closures a month.
- Department of Justice (DOJ) – The trigger cuts would apply a $1 million unallocated reduction.

AGRICULTURE AND NATURAL RESOURCES

Reorganization of State Government. The Governor's proposed budget eliminates, consolidates and restructures a number of agencies and departments under the Agriculture & Natural Resources area. Specifically, the budget proposes to eliminate CalEMA and would make it an office reporting directly to the Governor. The proposed budget would transfer the Department of Resources, Recycling and Recovery (Cal Recycle) to the California Environmental Protection Agency (CalEPA). The budget summary indicates that hazardous waste, electronic waste and landfill permits are more appropriately regulated by CalEPA and not the Natural Resources Agency. The proposed budget also eliminates the State Geology and Mining Board, transferring its responsibilities to the Office of Administrative Hearings for regulatory appeals functions, with the balance of the Board's responsibilities going to the Office of Mine Reclamation within the Department of Conservation. Finally, the Governor's budget would reduce the number of Regional Water Quality Control Boards from nine to eight, consolidating the Colorado River Basin Water Board into neighboring regions, and reduce the number of members on the boards from nine to seven.

Department of Forestry and Fire Protection. The proposed budget assumes $9.3 million in revenues for 2012-13 to be generated by the proposed State Responsibility Area (SRA) fee, currently under consideration by the Board of Forestry. As you may recall, ABX1 29 (2011) established an (up to) $150 fee on each structure on a parcel located within the SRA. The budget also indicates that the Board of Equalization will assess the fee, including an increase of $6.4 million to their budget and an addition of 57 positions to do so, and that the Administration is continuing to evaluate the long-term structure of the fee, leaving the door open for supplementing the fee with an additional per-acre charge.

State Water Resources Control Board. The budget proposes to increase water quality grants by $11 million through the State Water Pollution Control Revolving Small Community Fund. These grants are for small and severely disadvantaged communities to address wastewater system needs.

Delta. The proposed budget includes an increase of $25.4 million and 135 positions to DWR for preliminary engineering work to support the Delta Habitat Conservation and Conveyance Program (DHCCP). This funding will support the Bay Delta Conservation Plan's Environmental Impact Report, to be conducted by DHCCP.

Climate Change. The California Air Resources Board (CARB) will begin to auction greenhouse gas (GHG) emissions allowances through the AB 32 Cap and Trade Program in 2012-13. Revenue estimates for the program are expected to be approximately $1 billion in the first year. The proposed budget includes a framework for how to expend the proceeds of the Cap and Trade Program, noting that only activities that further the purposes of AB 32 are eligible for funding. The framework lists clean and efficient energy, low-carbon transportation, natural resource protection and sustainable infrastructure development as priority areas for funding. Of particular note, under the heading of natural resource protection, the Governor lists natural resource conservation and management and sustainable agriculture as areas eligible for funding.

GOVERNMENT FINANCE AND OPERATIONS

Mandates

The Governor's budget plan proposes to reduce state spending on local government and school mandates, saving the General Fund $828 million.

The bulk of this savings results from his proposal to dramatically change the state's mandate relationship with schools. Under the plan, the state would eliminate almost half of all current K-14 mandates, and replacing the rest with incentives to comply with those that remain. Instead of funding actual costs, the Governor proposes a school mandates block grant.

Furthermore, the Governor proposes to repeal dozens of the roughly 50 mandates that have been suspended at least two years.

The Governor also proposes that the Commission on State Mandates redetermine mandates related to sexually violent predators. The state originally mandates certain activities in 1995 and reimburses local agencies for their related costs, but voters approved Proposition 83 (Jessica's Law) in 2006, and the state is not required to reimburse locals for mandates passed by voters.

Lastly, the Governor proposes to again defer the state's payment for pre-2004 state mandates, saving the General Fund (and costing local agencies) $99.5 million.

Counties with 100 Percent Basic Aid Education Entities

The Governor's proposed budget provides $4.4 million to the counties of Amador and Mono and the cities therein for shortfalls in 2010-11 associated with their Sales and Use Tax and Vehicle License Fee Adjustment Amounts. In these counties, all education entities are considered "basic aid" and, as a result, there is no statutory mechanism by which the counties and cities can receive reimbursement for revenues losses associated with the Triple Flip and VLF Swap of 2004. CSAC is joining these counties and the Regional Council of Rural Counties (RCRC) in sponsoring AB 1191 (Huber) to provide a permanent mechanism to achieve this reimbursement.

EMPLOYEE RELATIONS

The Governor's proposed budget includes the elimination or consolidation of several employment-related boards and commissions. Specifically, it:

- Creates the **Government Operations Agency**, which will include duties of the departments of General Services, Human Resources, Technology, Office of Administrative Law, the Public Employees' Retirement System, the State Teachers Retirement System and the State Personnel Board.
- Eliminates the Occupational Safety and Health Administration Board and gives its functions to the Employee Development Department.
- Consolidates EDD's tax collection functions with the Franchise Tax Board into a new department called the **Department of Revenue**.

Additionally, the Governor's budget proposes to eliminate 15,000 state positions and have DOF conduct a department-by-department review to identify other positions for elimination.

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 was $9.8 billion at the end of 2011, and is projected to be $11.7 billion at the end of 2012. Required annual interest payments were waived under the American Recovery and Reinvestment Act for 2010. 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 budget proposes to continue to borrow from the Disability Fund to pay the 2012-13 interest expense of $417 million.

The budget also proposes a surcharge on employers to generate $472.6 million to fund future interest payments and repay borrowed funds, and increases the minimum monetary eligibility requirements to qualify for UI benefits to account for increases in employee wages that have occurred since the requirements were last adjusted in 1992.

Workforce Investment Act (WIA) Funding. The budget reflects a decrease of $39.5 million in federal funds for the Governor's discretionary WIA funding, a reduction from 15 percent to 5 percent in the discretionary funds provided by the federal government.

HEALTH AND HUMAN SERVICES

Governor Brown has proposed significant cuts and changes to the CalWORKs, Medi-Cal, In Home Support Services (IHSS), and Child Care programs in his 2012-13 budget proposal. Please note that each of the reductions and proposals outlined below are permanent and ongoing, and would take effect regardless of whether the Governor's proposed tax initiative passes in November.

CalWORKs. The Governor is proposing to restructure the existing CalWORKs program by creating a two-tier system that supposedly focuses on work participation for adult recipients. All proposals below will affect both current and future CalWORKs recipients, and are estimated to save the state up to $1.1 billion in the current year.

The Governor would create two tracks for CalWORKs recipients:

- ***CalWORKs Basic*** 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.
- If a CalWORKs Basic participant maintains unsubsidized employment at specified levels (30 hours for adults and 20 hours for those with children under age six), they would move to the ***CalWORKs Plus*** program. This program would become operational in April of 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.

The income support program of child only grants will continue under the name of Child Maintenance Program, but grants will be cut by 27 percent, or about $70 a month, beginning in October of this year. Also, families on the Child Maintenance Program will

be subject to annual eligibility determinations and required to have children in the program seen annually by a doctor.
Furthermore, under the 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.

Child Care. The Governor proposes shifting eligibility determinations and payment functions for approximately 142,000 children in subsidized child care programs to counties in 2013-14. Once fully implemented, the new structure would replace the three-stage CalWORKs child care system for current and former CalWORKs recipients and programs already serving low-income parents with a "work-based" subsidized child care system administered by county welfare departments.

In this model, counties would apply federal income eligibility rules and welfare-to-work participation requirements to those seeking subsidized child care support. Recipients would also be subject to welfare-to-work employment requirements, and the Administration estimates that this change in eligibility will eliminate about 46,300 child care slots statewide.

Additionally, the state seeks to save $43.9 million by switching eligibility determinations from a measure of state median income to 200 percent of the Federal Poverty Level. The state estimates this will remove 15,700 child care slots.

The proposal also removes the statutory Cost of Living Increase Adjustment for capped non-CalWORKs child care programs to save $29.9 million..

Governor Brown also proposes to reduce the child care reimbursement rate ceiling for voucher-based programs from the 85th percentile of the private pay market to the 50th percentile (based on the 2009 Market Rate Survey). This would save the state $11.8 million. Please note that rates for license-exempt providers will be unaffected, but they will have to meet certain health and safety standards in order to continue to receive reimbursement. Also, direct-contracted Title 5 centers will see a 10 percent reimbursement rate reduction.

Furthermore, beginning in 2013-14, families who meet federal work requirements under the new structure will receive a $50 monthly work bonus to be issued by county welfare departments.

Priority for voucher-based programs will be given to families who participate in the Child Welfare System or are at risk for being abused, neglected, or exploited. Cash-aid families would continue to receive subsidized child care services.

The Governor will also introduce legislation to require counties to identify and collect subsidized child care overpayments, and would levy sanctions on agencies that do not reduce the incidence of overpayments.

Overall, the child care cuts would save over $500 million.

In-Home Support Services. The budget includes a number of reductions to the In Home Support Services (IHSS) program as well as significant restructuring for those who are dually eligible for Medi-Cal and Medicare. Please see the Medi-Cal section for more information on that specific proposal.

The Governor proposes to eliminate domestic 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.

The budget assumes that the 20-percent across-the-board trigger cut to IHSS would be implemented April 1, 2012. However, a court injunction has precluded implementation.

The budget also includes a set-aside to fully fund the IHSS program in the event the court permanently upholds the injunction.

Medi-Cal.
Care Coordination for Dual Eligible Individuals. The Administration proposes to improve care coordination for seniors and persons with disabilities. The term "dual eligible beneficiary" refers to persons eligible for both Medi-Cal and Medicare. Current law authorizes a dual eligible beneficiary pilot in four counties to begin January 1, 2013. The budget proposes a three-year phase-in of the pilots and an expansion of the number of pilots to 10 counties. In the first year, dual eligible beneficiaries will transition to managed care for Medi-Cal benefits. The benefits will become a more integrated plan responsibility over the subsequent two years. Under a separate proposal, the Administration is also proposing to expand Medi-Cal managed care statewide starting in June 2013. Currently, 30 counties have Medi-Cal managed care plans.

The pilots will provide managed care plans with a blended payment consisting of federal, state and county funds and responsibility for the full array of health and social services to dual eligible beneficiaries. Making long-term care services a managed care benefit is intended to increase access to home and community-based medical and social services. The larger goal is to allow beneficiaries to remain in their homes and out of institutions. Behavioral health services will generally be provided by counties. In year one, IHSS, other home and community-based services and nursing home care funded by Medi-Cal will become managed care benefits. The IHSS program will essentially operate as it does today, except all authorized IHSS benefits will be included in the managed care plan rates. Over time, managed care plans would take on more responsibility for home and community-based services, including IHSS.

The Governor's budget document acknowledges a number of issues that will need to be worked on, including consumer protections, development of a uniform assessment tool, and consumer choice and protection.

The Administration views the dual eligible beneficiary pilots as part of its effort to implement health reform and establish the state as the level of government primarily responsible for delivering health care services. The Administration identifies the state-county relationship in financing and delivering services – including collective bargaining structure for IHSS providers and the long-term county financial responsibility and other health programs.

The Administration will be working with counties, consumers and other stakeholders to address these outstanding issues through development of legislation necessary to implement the proposal.

The Administration is projecting savings from the pilots related to a reduction in hospital and nursing home costs. To accelerate savings into 2012-13, the Administration is proposing a payment deferral (one payment for all providers) and alignment of payment policies for all managed care counties. This proposal will save $678.8 million in 2012-13 and $1 billion in 2013-14.

Managed Care Expansion. The Governor proposes expanding Medi-Cal Managed Care into all counties statewide and enrolling all current Medi-Cal beneficiaries, including IHSS recipients and those in the Institutional Long-Term Care program, in the managed care model. The state would begin this transition in the 28 fee-for-service counties in June of this year, and estimates savings of $2.7 million in 2012-13 and $8.8 million in 2013-14.

The Governor also proposes an annual open enrollment period for Medi-Cal beneficiaries to save up to $3.6 million in 2012-13 and $6 million in 2013-14. Currently, beneficiaries may change plans up to 12 times a year.

Operational Flexibilities. The Governor introduces his desire to streamline the regulatory process to allow the Medi-Cal program to change more quickly. Examples include reducing laboratory rates, eliminating funding for avoidable hospital admissions, and no longer paying for services of "limited value." He proposes a stakeholder process to examine changes in benefit design and estimates that the state can save approximately $75 million in 2012-13.

Medical Therapy Program. The Governor proposes to impose an income test for the Medical Therapy Program that mirrors the California Children's Services (CCS) program. Only families with annual incomes of less than $40,000 or with annual CCS-related medical expenses exceeding 20 percent of their annual income would qualify for the Medical Therapy Program.

Revenue for the Medi-Cal Program. The Governor proposes a one-time redirection of private and non-designated hospital stabilization funds for fiscal years 2005-06 through 2009-10 to the state General Fund for a savings of $42.9 million. He also wants to continue indefinitely the Gross Premium Tax on Medi-Cal Managed Care Plans to save up to $161.8 million in 2012-13 and $259.1 million in 2013-14.

Healthy Families Program. The Administration is proposing to reduce Healthy Families managed care rates by 25.7 percent effective October 1, 2012 for a savings of $64.4 million in 2012-13 and $91.5 million in 2013-14. The budget again proposes to shift the 875,000 children in the Healthy Families Program to the Medi-Cal program with a nine-month phase in starting October 2012.

The budget also proposes to eliminate the Managed Risk Medical Insurance Board by July 1, 2013.

Child Support. Governor Brown proposes to suspend the county share of child support collections ($34.5 million in 2012-13) and redirect it to the state's General Fund.

Public Health

AIDS Drug Assistance Program. The Governor proposes to increase the client share of cost for the AIDS Drug Assistance Program (ADAP) for $14.5 million in state savings in 2012-13. This proposal would implement the federal share of cost maximum amounts, resulting in average monthly copayments of between $28 and $385, depending on the client's income. The state estimates that this proposal will generate administrative costs of $2 million due to the amount of paperwork involved, and that cost is included in the $14.5 million savings estimate.

New Office of Health Equity. The proposed budget creates a new **Office of Health Equity** in the Department of Public Health and transfers the Office of Women's Health, Office of Multicultural Health, Health in All Policies Task Force, the Health Places Team, and the Office of Multicultural Services to the new structure.

Department of State Hospitals. The budget establishes a new **Department of State Hospitals** that will oversee the state's mental hospitals. In addition to the new department, the Administration is proposing a number of changes to the mental hospitals to address a $180 million shortfall. Of interest to counties, the Administration is proposing to increase the bed rate charges to counties for civil commitments by $20 million.

Departments of Mental Health and Alcohol and Drug Programs. The Administration is proposing to eliminate the Departments of Mental Health and Alcohol and Drug Programs. The Department of Health Care Services will assume responsibility for the administration of Mental Health Services Act programs and financial oversight of funds, administration of federal Substance Abuse and Mental Health Services Administration discretionary and block grants, Projects for Assistance in Transition from Homelessness grants, Substance Abuse Prevention and Treatment block grants, the Parolee Services Network, veterans mental health programs, and the mental health components of the California Health Interview Survey.

The Department of Public Health will assume the duties of the Office of Multicultural Services, the administration of counselor certification, narcotic treatment, driving under the influence, and problem gambling functions.

The Department of Social Services will be responsible for licensing and quality improvement functions.

The California Department of Education will administer the Early Mental Health Initiative grants.

The Office of Statewide Health Planning and Development will now include the Mental Health Workforce Education and Training program.

The Mental Health Services Oversight and Accountability Commission will be responsible for Mental Health Services Act training, technical assistance and program evaluation.

HOUSING, LAND USE AND TRANSPORTATION

Transportation Funding. The Governor's proposed budget reports that gasoline consumption was down 0.5-percent in 2010-11 from the prior fiscal year. While it is anticipated to decrease another 0.6-percent in 2011-12, the proposed budget projects that consumption will rise 1.9 percent in 2012-13. Under the 2010 transportation tax swap, whereby the state eliminated the sales tax on gasoline and replaced it with an equivalent amount of new gasoline excise tax which is adjusted annually to reflect what the sales tax would have otherwise generated in a given year, DOF is projecting that the new 2012-13 excise tax rate will be reduced from the current 35.7-cents to 35-cents.

The proposed budget fully funds transportation as agreed to in the transportation tax swap of 2010. Recall that after the state backfills the State Highway Account for truck weight fee revenues dedicated to transportation bond debt service, the remaining revenues are divided among the state and local streets and roads in the following manner:

- 44 percent for the State Transportation Improvement Program
- 44 percent for Local Streets and Roads
- 12 percent for the State Highway Operation and Protection Program

CSAC is waiting for more information, specifically for the Board of Equalization to adjust the new excise tax rate as required by statute, before we provide counties with estimated revenues for 2012-13.

It is also important to note that the Governor borrows $349.5 million in truck weight fees over and above what is necessary to pay budget year bond debt service payments. However, this was anticipated given that bond debt service fluctuates from year to year. In order to maximize the transportation tax swap and truck weight fee agreements from 2010 and 2011, the Governor will take all eligible weight fee revenues each year and bank the funds to use to offset the bond debt costs in the future.

Transportation Bond Sales. The Governor does not propose new transportation bond appropriations in his proposed budget and is putting this off until spring 2012 when more information on project cash flow needs is available.

High-Speed Rail. The Governor's proposed budget includes funding for the basic functions for the High-Speed Rail Authority. However, the document is silent on funding the initial train segment. The High-Speed Rail Authority's Business Plan is currently under review with DOF and the Governor will await its analysis before proposing a plan for funding the first segment. Additionally, the Legislature has indicated that they, too, will be holding hearings on the project and could potentially take action in the 2012 legislative year that will affect the project, for good or bad.

Consolidation/Elimination of State Agencies. Continuing his mission to "reorganize state government", the Governor proposes to reduce the number of state agencies from 12 to 10 and eliminate another 39 state entities and 9 programs. Among this reorganization is:

- The consolidation of the California Department of Transportation (Caltrans) with the Department of Motor Vehicles, the High-Speed Rail Authority, the Highway Patrol, the California Transportation Commission, and the Board of Pilot Commissioners into the new **Transportation Agency.**
- Changes to the budget process including requiring some departments, such as Caltrans, to perform a detailed review and analysis of all of their programs to evaluate whether the functions need to exist and the level of resources needed to accomplish them.
- Transfer of the functions of the California Housing Finance Authority (CalHFA) to the Housing and Community Development Department (HCD). Since both CalHFA and HCD are concerned with the development and financing of affordable housing, the goal is to obtain administrative efficiencies by combining the efforts under one department. It should also be noted that the new HCD will be moved from the former Business, Transportation, and Housing Agency to a new agency – the **Business and Consumer Services Agency**.

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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!