Budget Action Bulletin No. 2

2008-09 Proposed State Budget

W e e k o f J u n e 9 , 2 0 0 8

Via Electronic Mail

DATE: June 13, 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 #2**

Conference Committee officially started Thursday afternoon. The conferees are:

Senator Denise Moreno Ducheny (San Diego, Imperial, Riverside)
Senator Mike Machado (Sacramento, San Joaquin, Solano, Yolo)
Senator Bob Dutton (Riverside, San Bernardino)
Assembly Member John Laird (Santa Cruz, Santa Clara, Monterey)
Assembly Member Mark Leno (San Francisco)
Assembly Member Roger Niello (Sacramento, Placer)

With almost 500 issues before the Conference Committee, it is clear there is an enormous task before them. Senator Ducheny quipped, "This is the first day. Trust us, it won't be the last."

To view the full Conference Committee agenda, please see the link included in the email.

As in prior years, we expect the Conference Committee to make as much progress as possible as a group and that some issues will be resolved by the Big 5 (the Governor and the four legislative leaders). The Conference Committee is scheduled to meet every day, including weekends, over the next two weeks.

In an unusual start, the Conference Committee invited the Treasurer's Office to kick-off the 2008-09 budget deliberations with a presentation on the state's cash flow position, reserves, borrowing options, and risks. Paul Rosensteil, Deputy State Treasurer, provided detail to the committee on these issues.

Mr. Rosensteil said that the state expects to run out of cash by early September. To meet cash flow needs, the state will need to borrow before then. The May Revision anticipates $10 billion in borrowing ($3 billion more than last year). By early to mid-August, the state will need to commit to either a Revenue Anticipation Note (RAN) or Revenue Anticipation Warrant (RAW). Without a budget enacted, the state's only option would be a RAW, which allows borrowing into the next fiscal year.

Because of problems with the subprime market, the Treasurer's Office is anticipating difficultly borrowing in the capital markets. Wall Street will scrutinize California's borrowing. There are new lending standards in place and less capacity to lend than a year ago. Wall Street will be looking for: 1) a budget enacted well in advance of borrowing, 2) little to no uncertainty in the state budget to assure re-payment, and 3) a budget solution that addresses the state's problems and that does not shift problems to the out-years. Mr. Rosensteil explicitly mentioned Proposition 1A, stating that additional borrowing, like "borrowing under Proposition 1A would be viewed negatively" by Wall Street. Such borrowing would exacerbate future problems.

Uncertainties in the May Revision – such as the lottery securitization, the prison health care receiver, and the projected year-end balance – will affect California's ability to secure RANs. Lenders will want to see a $10 billion cash balance at year-end if the state is going to do a $10 billion RAN.

The Treasurer's Office is working with the State Controller's Office on plans to pursue both RANs and RAWs. As August begins, the status of the state budget will affect which option they are able to pursue. Bottom line: the state's cash flow issues are serious and a delayed budget will impact the state's ability to borrow in the short and long-term. California's credit rating is the 49th worst among the 50 states.

At a press conference earlier in the day, Senator Ducheny and Assembly Member Laird stated that they want a budget done by the end of July. With issues related to the state's cash flow, the state's credit rating, and the integrity of state programs, they are pushing for a budget as soon as possible – recognizing differences in approaches between the two houses will take time to work out.

Rejecting the Governor's proposal to use future lottery earnings to solve the massive deficit, Senate Democrats on Wednesday offered their version of a state budget, calling for $11.5 billion in new taxes. While not specifying the revenue source(s), Senate Democrats mentioned the following possibilities: sales tax, taxes on services, income taxes, corporate taxes, vehicle license fee and excise tax on alcohol.

WHAT YOU SHOULD DO:

Attached are the letters that CSAC has to sent the Conference Committee, including corrections reform and public safety issues, county administration of health and human services programs, elections, and Williamson Act.

Please contact your legislative delegation, budget conferees, and the Administration about budget items that are important to your county! The Legislature and Administration need to understand how the proposals will impact counties and our residents. And please share your letters with us!

WHAT'S GOING TO HAPPEN NEXT:

As the Conference Committee continues its work over the weekend and into next weekend, CSAC will provide updates on relevant budget issues. Initially, the committee has held a number of items open. As things kick into high gear, we will send out updates.

As always, feel free to contact CSAC staff with specific questions.

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!

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June 11, 2008

TO: Members of the Senate Budget and Fiscal Review Committee
Members of the Assembly Budget Committee

FROM: Elizabeth Howard, Legislative Representative, CSAC
Casey Kaneko, Executive Director, UCC
Paul Smith, Director, Legislative Affairs, RCRC

RE: Budget Items 5225 and 9210 – Corrections Reform/Public Safety

The California State Association of Counties (CSAC), Urban Counties Caucus (UCC), and Regional Council of Rural Counties (RCRC) write jointly to offer comments on two key budget issues that remain under deliberation in the overall 2008-09 budget discussions. As the Budget Conference Committee process gets underway, we put forward the following perspectives on the intersecting issues of corrections reform and various local public safety programs.

Corrections Reform. How to identify and implement ongoing corrections reforms, including discussion of various models to reduce prison and parole populations, has occupied a significant amount of time during budget discussions. A great deal of effort has gone into examining this complex set of issues from all angles, and the budget subcommittees are to be commended for their efforts. Counties have a strong interest in the ultimate resolution of these issues and offer our thoughts on the Senate package of correction reforms unveiled last week. Many of the concepts addressed in that package reflect previous options identified in the Expert Panel Report, which draws from recommendations that have emerged in 15 previous studies of the California corrections system. CSAC has previously endorsed that list of 10 options. We point out in particular Recommendation #8, which highlights the need to create viable partnerships between state and local corrections agencies to expand sentencing options, enhance rehabilitation services, and strengthen local reentry systems.

As the Budget Conferees and both houses move forward in their deliberations of various methods to address prison overcrowding, improved outcomes for offenders, and sustained protection of public safety, it is imperative that you consider the role that counties are expected to play and ways in which our mutual success can be assured. We understand that the Senate's corrections package is conceptual at this point, and many of these details may not yet be finalized. However, we hope you will consider the following county perspectives.

Regarding the 10-court pilot program to divert parolees to alternative community sanctions and sentencing changes, there must be sufficient support to ensure that anticipated county functions — particularly related to the provision of mental health and substance abuse treatment as well as supervision services — can adequately meet the needs of this population. To the extent that the corrections reform package adopted contains a component to discharge infirmed inmates, care must be taken to assure that access to services, especially given recent cuts to MediCal rates, is guaranteed. This population is likely to have significant health issues and many will require services of medical specialists who, for all practical purposes, are very hard to come by in the MediCal system. Furthermore, while changes to property crime thresholds will reduce overcrowding at state prison facilities, they will likely exacerbate already overcrowded conditions in our local jail systems.

We appreciate the fact that during the full Senate Budget Committee deliberations on these proposed reforms, there was clear acknowledgement that services contemplated for delivery at the local level must be appropriately funded. However, it is not clear at this point whether costs and/or savings assumptions used when developing the package of reforms accounted for the redirection of resources to the local level to support critical local functions and services contemplated by the various reform measures. We hope to be invited to participate in corrections reform discussions as partners with the State so we can help identify ways in which programs and reforms can be structured to assure that measures are designed for maximum mutual success.

Public Safety. The members of our respective associations are extremely concerned about the sustainability of various local public safety assistance programs funded primarily through Budget Item 9210 (Citizens' Option for Public Safety (COPS), (Juvenile Justice Crime Prevention Act (JJCPA), and Small and Rural County Sheriffs' Local Assistance Program) and Budget Item 5225 Juvenile Probation and Camps Funding (JPCF) and the Mentally Ill Offender Crime Reduction Grant (MIOCRG) program. Proposed reductions, eliminations and consolidations come at a time when counties also are being asked to take on a greater role in diverting offenders from state prisons to local programs. Taken together, these vital funding sources provide counties with resources to provide front-line enforcement services and to enhance our ability to meet local public safety needs.

On the juvenile side, we greatly appreciate efforts to maintain full funding for the Youthful Offender Block Grant, which supports counties' assumption of responsibility for treatment and supervision of certain juvenile offenders in local communities. This realignment resulted from very productive and positive discussions during the 2007-08 budget, which concluded that counties could likely show improved offender outcomes if a narrow set of juveniles remain in their home communities for programming and supervision. However, reductions to supportive companion programs that help counties build a continuum of services and graduated sanctions that intercept juvenile offenders and seek to prevent further criminal behavior would greatly challenge counties' ability to meet the needs of this realigned population. New responsibilities associated with retaining non-707(b) juveniles in the counties makes the JJCPA and JCPF funding more critical. Reductions in this area threaten vital prevention and intervention programs that are the building blocks to establishing successful local placement and service alternatives for our at-risk youth.

Further, investment in diversion programs for the mentally ill is a proven and effective way to provide much needed treatment to adults and juveniles who end up in the criminal justice system primarily because of untreated mental health issues. Programs funded through MIOCRG demonstrate better outcomes, help reduce the overall population pressures in our local and state detention facilities, and offer more humane and appropriate care options for individuals with mental illness in our justice system. The MIOCR program deserves to be sustained; its elimination would run counter to our shared goal — and the clear public benefit — of diverting offenders away from detention and into treatment.

Please feel free to contact CSAC (916/650-8131), UCC (916/327-7531) or RCRC (916/447-4806) staff for any further information on our position. Thank you for considering the county perspective.

cc: Michael C. Genest, Director of Finance
Ana Matosantos, Chief Deputy, Department of Finance
Elizabeth Hill, Legislative Analyst
Diane Cummins, Office of Senate President pro Tem Don Perata
Danny Alvarez, Senate Budget and Fiscal Review Committee
Kelly Martin Bosler, Senate Budget and Fiscal Review Committee
Bryan Ehlers, Senate Budget and Fiscal Review Committee
Seren Taylor, Senate Republican Fiscal Office
Craig Cornett, Office of Assembly Speaker Karen Bass
Pedro Reyes, Office of Assembly Speaker Karen Bass
Chris Woods, Assembly Budget Committee
Joe Stephenshaw. Assembly Budget Committee
Les Spahnn, Office of Assembly Member Juan Arambula
Peter Schaafsma, Assembly Republican Fiscal Office
Allan Cooper, Assembly Republican Fiscal Office

California State Association of Counties

Urban Counties Caucus

Regional Council of Rural Counties

June 12, 2008

TO: Members of the Budget Conference Committee
Senator Denise Moreno Ducheny
Senator Mike Machado
Senator Bob Dutton
Assembly Member John Laird
Assembly Member Mark Leno
Assembly Member Roger Niello

FROM: Kelly Brooks, CSAC Legislative Representative
Casey Kaneko, Executive Director, Urban Counties Caucus
Paul A. Smith, Director of Legislative Affairs, RCRC

Re: County Administration of Health and Human Services Budget Items (Medi-Cal, In-Home Supportive Services, Food Stamps, and CalWORKs)

Honorable Members:

The California State Association of Counties (CSAC), the Urban Counties Caucus (UCC) and the Regional Council of Rural Counties (RCRC) are writing regarding county administration of health and human services issues in the 2008-09 state budget.

First, counties would like to thank the members of the budget subcommittees and the budget staff for their hard work this year. The health and human services budget continues to be challenging at both the state and local levels. We are mindful of the difficult choices before all of you this year and how the neediest and most vulnerable Californians will be impacted.

Background
Counties are deeply concerned about the funding available for the administration of health and human services programs. These programs include Child Welfare Services, Adoptions, Food Stamps administration, CalWORKs, In-Home Supportive Services, and Foster Care eligibility.

Human services programs start this budget with more significant funding problems than other sectors of the budget, due to seven years of frozen administration funding. As part of the May Revision, the state Department of Social Services estimates that counties are underfunded by $1.063 billion ($633 million General Fund) for the administration of human services programs – which is $183 million General Fund above their 2007 estimate.

This problem is huge and growing. This $1 billion underfunding *excludes* the deep cuts proposed in the January Budget and the May Revision. This situation is untenable. Counties must be clear: the state's expectations about human services program delivery is completely out of touch with the funding provided for this year and the last seven years. Counties have the financial and legal liability for failure to meet these outdated expectations. In fact, many counties are choosing to backfill a portion of the lost state funds. Since 2001, counties have backfilled these programs by over $595 million – $205 million last year alone. However, as counties face their own budget deficits, our ability to continue to backfill is diminishing.

The size of the problem is now so large that many counties are not fulfilling all state and federal expectations about service delivery. Furthermore, mandate relief for some of these program requirements will not come anywhere close to generating enough savings to align expectations and what counties can actually deliver.

Given that background, counties would like to urge your support of the following items that will be before you in Conference Committee:

County Administration of Medi-Cal, Item 4260-101-0001, Trailer Bill Language and Issues 320 and 321 – Support Senate Version on funding and language.
The Governor's budget included three proposals to reduce funding for county administration of Medi-Cal. Both houses adopted the proposal to reduce funds historically provided to counties for cost-of-doing business increases in the Medi-Cal program, for a savings of $64.6 million ($32.3 million General Fund). However, the Senate adopted trailer bill language to suspend the state's penalty on counties for not meeting certain performance standards when this cost adjustment is not provided. The Senate rejected the Governor's proposal to eliminate funding for new caseload growth. The Assembly adopted the reduction of $41.3 million ($20.6 million General Fund).

Reductions to county administration of Medi-Cal will impact current Medi-Cal recipients and new applicants. The county administrative funds proposed to be cut by the Governor would fund more than 1,000 eligibility workers statewide. Staff will juggle higher caseloads – which will adversely affect the time it takes to determine initial and ongoing eligibility, and access to health care will be delayed. Additionally, eligibility staff will likely focus on processing new applications in a timely manner, while annual redeterminations may be delayed – which could increase the state's costs as ineligible individuals remain on Medi-Cal.

Counties are concerned that the administrative cuts will hamper our ability to meet state performance measure for processing Medi-Cal applications. Counties received full funding in 2003-04 for Medi-Cal administration as part of an agreement that included performance standards for processing applications and annual renewals. Counties have worked in good faith to meet these measures in the intervening years. If the funding for Medi-Cal eligibility operations is cut, counties must be relieved of state penalties linked to the performance standards.

For these reasons, counties support the Senate version for caseload funding and trailer bill language.

County Administration of In-Home Supportive Services, Item 5180-111-0001, Issues 030 and 430 – Support Senate Version.
The Governor's budget proposes to reduce county administrative funding for the In-Home Supportive Services (IHSS) program by $24.4 million ($10.2 million General Fund). The Senate rejected the reduction.

This 10 percent cut to county administration of IHSS would come on top of the state's failure to adequately fund actual county administration costs since 2001. This funding reduction would eliminate 146 social workers in the IHSS program. The state's multi-years-long failure to fund county administration of the IHSS program, estimated by the Administration at $78.2 million ($32.6 million General Fund), has negatively impacted counties' ability to administer the program. On top of that, caseloads in the IHSS program have been rising steadily. With already razor-thin budgets and rising caseloads, counties are concerned about any further cuts to the IHSS county administration funding and the possible degradation of services to clients.

Counties acknowledge and thank the Assembly for the inclusion of trailer bill language to suspend focused eligibility reviews of county IHSS while the administrative funding is cut. However, counties urge you to support the Senate level of funding.

County Administration of Food Stamps, Item 5180-141-0001, Issues 025 and 425 – Support Senate Version.
The Governor's budget proposes to reduce county administrative funding for the Food Stamps program by $34.9 million ($14.4 million General Fund). The Senate rejected the reduction.

Counties are concerned that the funding reduction will exacerbate the difficulties we are currently experiencing due to the historical practice of underfunding the administration of Food Stamps. The Administration's proposed cut translates to the loss of an estimated 253 Food Stamp eligibility workers statewide. Counties believe the proposed cut will result in delayed eligibility for an estimated 100,000 parents and children. Previous underfunding, combined with increasing caseload, is already causing longer waits for families to get benefits.

To date, counties have struggled to operate this critical program, not only because of the $84 million annual funding shortfall, but also as a result of recent quarterly reporting requirements, a lack of outreach funding, difficulties in retaining staff, and rising caseloads. Counties are also concerned about increased errors due to inadequate staffing, the loss of federal funds, and possible federal penalties due to rising error rates. Counties would have to pay 90 percent of any penalties the federal government levies against California due to Food Stamp performance. Counties again thank the Assembly for adopting language to suspend the county share of penalties when funding is inadequate to meet program requirements.

However, counties urge your support for the Senate level of funding.

CalWORKs Single Allocation Reductions, Items 5180-101-0001 and 5180-141-0001 County CalWORKs Single Allocation Funding, Issue 838; Pay for Performance Incentive Funding, Issues 503 and 836 – Support Senate Version.
Counties support the Senate version of funding for both county incentive funding and the Pay for Performance program. The Senate reduced the single allocation by $10.3 million (the Assembly reduced it by $20.6 million) and specified that the cut would be backfilled with unspent performance incentive and fraud funding. The Senate version will fund 75 eligibility workers.

The Senate adopted the elimination of the Pay for Performance funding but provided $10 million to counties for employment services. The Assembly eliminated all funding. The enhanced Senate funding is equivalent to 73 workers.

Counties urge your support of the Senate version of CalWORKs single allocation funding.

The chronic underfunding of human services programs puts counties in the untenable position of backfilling the gap with their own diminishing resources or reducing services that the state and our constituents expect us to deliver. Needy constituents are not going away. We will all suffer the consequences if counties can no longer deliver these services. Thank you for your consideration of these issues.

Please do not hesitate to contact any one of us if we can provide you with additional information. Thank you.

cc: Eileen Cubanski, Consultant, Senate Budget and Fiscal Review
Diane Van Maren, Consultant, Senate Budget and Fiscal Review
Diane Cummins, Chief Fiscal Advisor, Senate President Pro Tempore Don Perata
Chantele Denny, Consultant, Senate Republican Fiscal
Anissa Nochman, Consultant, Senate Republican Fiscal
Nicole Vasquez, Consultant, Assembly Budget
Dan Rabovsky, Consultant, Assembly Budget
Gail Gronert, Office of the Honorable Karen Bass
Julianne Huerta, Consultant, Assembly Republican Fiscal
Lisa Mangat, Consultant, Assembly Republican Fiscal
Ana Matosantos, Chief Deputy, Department of Finance

CALIFORNIA STATE ASSOCIATION OF COUNTIES

URBAN COUNTIES CAUCUS

REGIONAL COUNCIL OF RURAL COUNTIES

June 11, 2008

TO: Members of the Budget Conference Committee
Senator Denise Moreno Ducheny
Senator Mike Machado
Senator Bob Dutton
Assembly Member John Laird
Assembly Member Mark Leno
Assembly Member Roger Niello

FROM: Karen Keene, Legislative Representative, CSAC
Casey Kaneko, Executive Director, UCC
Paul Smith, Director of Legislative Affairs, RCRC

RE: Item 0890-108-0001, Issue 108 – Page 64

The California State Association of Counties (CSAC), the Urban Counties Caucus (UCC) and the Regional Council of Rural Counties (RCRC) support the Senate version of Item 0890-108-0001, which would provide full reimbursement for eligible costs incurred by counties for conducting the Presidential Primary election last February.

Generally most of the costs of conducting statewide elections are a "county charge," meaning that counties pay them out of their General Funds. However, the Legislature has recognized that requiring counties to conduct additional special elections beyond the regular primary and general places financial strain on county budgets and impacts other programs and services provided by counties. Therefore, the Legislature has historically reimbursed counties for operating special elections.

Last year the Legislature approved SB 113, creating a separate Presidential Primary in February. The bill contained language expressing the intent of the Legislature "to fully reimburse counties for costs resulting from the presidential elections added by this act in an expeditious manner upon certification of those costs." Counties have aggregated their costs and submitted additional detailed information requested by the Budget Subcommittees. Counties believe that these estimates will hold up to the scrutiny of audits by the State Controller, as prescribed in the proposed budget bill language. Therefore, counties respectfully request that the Budget Conference Committee adopt the Senate version, which would schedule reimbursement to each county in an amount that reflects its actual eligible reported costs.

Thank you for your consideration of this matter.

cc: Brian Ehlers, Senate Budget Committee
Adam Dondro, Assembly Budget Committee
Joe Shinstock, Senate Republican Caucus
Daryl Thomas, Assembly Republican Caucus

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June 12, 2008

TO: Members of the Budget Conference Committee
Senator Denise Moreno Ducheny
Senator Mike Machado
Senator Bob Dutton
Assembly Member John Laird
Assembly Member Mark Leno
Assembly Member Roger Niello

FROM: Karen Keene, CSAC Legislative Representative
Kathy Mannion, Director of Water and Power, RCRC

RE: Tax Relief – Subventions for Open Space/Williamson Act Grants
Item 9100-101-0001, Issue 203 - Page 424

The California State Association of Counties (CSAC) and the Regional Council of Rural Counties (RCRC) are strongly concerned with the proposals by the Governor and the Legislature to reduce the Williamson Act subventions. In addition, we oppose the recommendation by the Legislative Analyst Office (LAO) for a phased-out elimination of the subventions program.

The Williamson Act is a voluntary program that provides lower property taxes to agricultural landowners in exchange for their contractual commitments with participating cities or counties to keep their land in agricultural or open space uses for 10 – 20 years. The act includes a formula for allocating payments to local governments based on acreage enrolled in the program. This financial support from the state has provided a tangible incentive for local governments to stay in the program and initiate more contracts by partially replacing property tax revenues lost on enrolled land.

CSAC and RCRC truly believe that the Williamson Act has proven to be an effective tool for encouraging the preservation of existing farmland and preventing leapfrog development. For years, cities and counties have relied on the Williamson Act to support general plan and zoning objectives, and promote orderly growth. We are concerned that any reduction in Williamson Act subventions will eventually lead to a total unraveling of the program. We further believe that the Governor's proposal to reduce subvention payments by ten percent, and the LAO phase out recommendation, are absolutely contrary to the State's desire to be recognized as a leader on climate change, "smart growth" and other environmentally progressive initiatives.

For these reasons, CSAC and RCRC respectfully urge you to avoid any reductions to the Williamson Act Subventions in the State Budget.