CSAC BUDGET ACTION BULLETIN
CALIFORNIA STATE ASSOCIATION OF COUNTIES

Highlights of the Governor's Proposed 2011-12 State Budget
Week of January 10, 2011

January 10, 2011

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 2011-12 Budget Proposal**

This morning, Governor Jerry Brown released his proposed 2011-12 state budget, outlining a strategy to eliminate a combined $25.4 billion deficit: $8.2 billion in 2010-11 and $17.2 billion in 2011-12. The most striking elements of the proposal include a major state-local realignment proposal, an extension of the temporary tax hikes, and the elimination of redevelopment agencies.

Governor Brown repeatedly emphasized throughout his presentation that the borrowing, gimmicks, and one-time solutions that have bridged budget gaps in previous years have only delayed the reckoning that the state now faces, and that this budget proposal both avoids those pitfalls and balances into the future. Upon initial review of his proposal, those claims appears to be mostly true. There is some borrowing from special funds, and a few of the cuts would require federal approval. The plan to eliminate redevelopment agencies would no doubt face legal challenges.

The Governor would have the Legislature implement the cuts sometime in March and call a special election to be held by June for voters to decide whether to extend the temporary taxes that otherwise expire this year. (The budget proposal does not include a reimbursement to counties for the proposed June election.) When asked what would happen should voters reject the taxes, Governor Brown said to "go through those [cuts] and multiply by two." He elaborated, saying that, of the services the state provides, the ones unfettered by federal regulatory strictures are universities, prisons, and K-12 education.

The summary below outlines the various proposals contained in the Governor's budget, as they relate to counties. A brief interview about the budget with CSAC Executive Director Paul McIntosh is available here. For a full summary of the Governor's proposal, visit the Department of Finance website. Expect regular updates from CSAC as budget activities in the Capitol continue, both through these *Budget Action Bulletins* and on our blog, The County Voice. Please don't hesitate to contact CSAC staff with your additional questions or concerns.

DEFINING THE GAP

Shortfall in 2011-12 Governor's Budget
(dollars in billions)

June 30, 2011, Reserve Projected as of 2010 Budget Act		$1.3
Workload Adjustments:		-26.7
Additional Federal Funds Assumed in 2010-11 Did Not Materialize	-3.6	
Erosions of Other Enacted Solutions in 2010-11	-1.7	
Revenue Decline in 2010-11	-3.1	
Proposition 22 impact in 2010-11 and 2011-12	-1.6	
Other Workload Adjustments	-2.1	
Sunset of Temporary Increases in Tax Rates and Other Revenue Changes in 2011-12	-7.2	
Federal Stimulus Funds Previously Approved by the Federal Government are Expiring	-4.0	
Other One-Time Value of Enacted Solutions in 2010-11	-3.4	
Rebuild Reserve		-1.0
Solutions Proposed		-26.4

BUDGET OVERVIEW

Proposed Budget Solutions
(dollars in millions)

	2010-11	2011-12	Total	
Expenditure Reductions	$422	$12,075	$12,497	47%
Revenues	3,163	8,864	12,027	46%
Other	506	1,379	1,885	7%
Total	$4,091	$22,318	$26,409	

General Fund Revenue Sources
(dollars in millions)

	2010-11 at Budget Act	Revised 2010-11	Proposed 2011-12	Dollar Change	Percent Change
Personal Income Tax	$47,127	$47,784	$49,741	$1,957	4.1
Sales Tax	27,044	26,709	24,050	-2,659	-10.0%
Corporation Tax	10,897	11,509	10,966	-543	-4.7%
Motor Vehicle Fees	1,490	1,506	185	-1,321	-87.7%
Insurance Tax	2,072	1,838	1,974	136	7.4%
Estate Taxes	782	0	0	0	0.0%
Liquor Tax	331	318	326	8	2.5%
Tobacco Taxes	94	93	90	-3	-3.2%
Other	4,393	4,437	2,364	-2,073	-46.7%
Total	**$94,230**	**$94,194**	**$89,696**	**$(4,498)**	**-4.8%**

General Fund Expenditures by Agency
(*dollars in millions)*

	2010-11 at Budget Act	Revised 2010-11	Proposed 2011-12	Dollar Change	Percent Change
Legislative, Judicial, Executive	$3,149	$3,167	$2,507	$(600)	-20.8%
State and Consumer Services	598	586	597	11	1.9%
Business, Transportation & Housing	905	507	691	184	36.3%
Natural Resources	2,108	2,032	2,066	34	1.7%
Environmental Protection	77	75	63	-12	-16.0%
Health and Human Services	26,346	26,961	21,175	-5,786	-21.5%
Corrections and Rehabilitation	8,931	9,257	9,165	-92	-1.0%
K-12 Education	36,079	36,353	36,211	-142	-0.4%
Higher Education	11,490	11,651	9,814	-1,837	-15.8%
Labor and Workforce Development	58	42	414	372	885.7%
General Government:					
Non-Agency Departments	586	547	541	-6	-1.1%
Tax Relief/Local Government	534	977	1,003	26	2.7%
Statewide Expenditures	-4,309	54	367	313	579.6%
Total	**$86,552**	**$92,209**	**$84,614**	**$(7,595)**	**-8.2%**

Proposed budget cuts total $12.5 billion; the major ones are:

- $1.7 billion to Medi-Cal
- $1.5 billion to CalWORKs
- $0.75 billion to the Department of Developmental Services
- $0.58 billion to state operations and employee compensation
- $0.5 billion to the University of California
- $0.5 billion to the California State University

Other major non-tax solutions include:

- $1.8 billion of borrowing from special funds
- $1.7 billion of property tax shifts (related to the redevelopment proposal)
- $1.0 billion from Proposition 10 funds
- $0.9 billion from Proposition 63 funds

The Governor notes that $8.2 billion of the budget gap is one-time in nature, making some of these one-time solutions reasonable.

The major revenue proposals include:

- Maintaining the personal income tax surcharge of 0.25 percent ($1.2 billion in 2010-11, $2.1 billion in 2011-12).
- Maintaining lower level of dependent exemption credit ($725 million in 2010-11, $1.2 billion in 2011-12).
- Maintaining the Vehicle License Fee at 1.15 percent ($1.4 billion in 2011-12 related to extension of 0.5% of VLF).
- Maintaining the state's Sales and Use Tax rate at six percent ($4.5 billion in 2011-12 related to the extension of 1% sales tax).
- Returning to mandatory single sales factor apportionment for multi-state corporations.
- Eliminating Enterprise Zones and similar tax benefits.
- Implementing tax shelter amnesty.
- Implementing a financial institution record match program at the Franchise Tax Board.

STATE'S CASH SITUATION

The Governor's budget does not include a great deal of information regarding the state's proposed cash plan. However, the summary does indicate that the Governor's budget anticipates that the state will have sufficient funds to repay the entire $8.8 billion of Revenue Anticipation Notes in May and June 2011, as scheduled. Still, the GF will have significant cash challenges in July 2011. Budget solutions will limit those challenges, but the state will still need to obtain external financing early in the budget year.

Most importantly for counties, the Governor's proposal states that it is "highly likely" that all payments the state deferred in the current year, the state will also defer in the budget year.

GOVERNOR'S PROPOSED REALIGNMENT

The cornerstone of the Governor's budget plan is a "vast and historic" realignment of government services in California, returning authority and responsibility to cities, counties, special districts, and school boards. The Governor proposes to eliminate duplicative administration of services, limit overhead costs, and allow for locally determined priorities while maintaining statewide goals and objectives.

Please note that what follows is a summary of the Governor's Realignment Proposal. There remain numerous questions about process, structure, and other details, and we will continue to keep counties apprised of the latest information.

The Governor's budget proposal outlines the historical context for such a discussion, noting two major events that began the shift of government responsibility in California from local governments to the state: the *Serrano v. Priest* decision that wealth disparities in local school districts violated the equal protection clause of the California Constitution and therefore required equalization of school funding; and Proposition 13, which cut local property taxes by limiting rates, and the subsequent "bail out" of local cities, counties, and special districts. Subsequent events that counties are undoubtedly familiar with shifted responsibilities back and forth between state and local governments, leaving us with the governance system we have today.

The 2011-12 realignment proposal, when fully implemented, would restructure how and where more than $10 billion in a wide range of public services are delivered. While the plan would have to be phased in over a number of years, the development of a framework will begin immediately.

Phase One Realignment Funding

(dollars in millions)

Program	2011-12	2014-15
Fire and Emergency Response Activities	$250.0	$250.0
Court Security	530.0	530.0
Public Safety Programs (previously funded with VLF increment)	506.4	506.4

Program	2011-12	2014-15
Local Jurisdiction for Lower-level Offenders and Parole Violators		
Local Costs	298.4	908.1*
Reimbursement of State Costs	1,503.6**	-
Realign Adult Parole to the Counties		
Local Costs	113.4	409.9*
Reimbursement of State Costs	627.7**	-
Realign Remaining Juvenile Justice Programs		
Local Costs	78.0	242.0*
Reimbursement of State Costs	179.6**	-
Mental Health Services		
EPSDT	-	579.0
Mental Health Managed Care	-	183.6
AB 3632 Services	-	104.0
Existing Community Mental Health Services	-	1,077.0
Substance Abuse Treatment	184.0	184.0
Foster Care and Child Welfare Services	1,604.9	1,604.9
Adult Protective Services	55.0	55.0
Unallocated Revenue Growth	-	621.1
Total	**$5,931.0**	**$7,255.0**
1% Sales Tax	4,549.0	5,567.0
0.5% VLF	1,382.0	1,688.0
Total Revenues	**$5,931.0**	**$7,255.0**

*The allocation in 2014-15 is difference than the amount allocated in 2011-12 due to a phased-in implementation.
**During the transition, estimated state costs will be reimbursed from realignment revenues.

PHASE I REALIGNMENT

Public Safety. The first phase of the Governor's proposed realignment encompasses public safety broadly, including local law enforcement, detention, fire prevention and response, as well as safety of children in the child welfare system, adults in the Adult Protective Services program, and supportive services such as mental health and substance abuse treatment, as outlined below.

Fire and Emergency Response Activities. The Governor is proposing to realign fire protection services and medical emergency response in the most highly populated State Responsibility Areas (SRAs) to local government. The Department of Forestry and Fire Protection (CAL FIRE) currently provides wildland fire protection services in over 31 million acres of SRA. The Governor's budget summary notes an increase in state costs for providing such services and attributes these costs to population growth and urban development within SRAs. The proposed realignment aims to ensure that local governments that allow development within these areas are also responsible for providing corresponding emergency response services. The proposal would require a change in statute to revise the criteria and definitions of SRAs, and an extensive field review of existing state responsibilities will be required of the Board of Forestry. The proposal will result in the realignment of up to $250 million of CalFire's fire protection program to local governments.

Court Security. The Governor's spending plan proposes to give counties funding responsibility for court security. As counties are aware, under current law, court security is defined as a court operation, with costs covered out of the Trial Court Trust Fund. Under this proposal, funding ($530 million) and responsibility for court security would transfer to the counties, allowing courts and counties to negotiate service levels and agreements locally. Responsibility for the provision of court security would remain with county sheriffs departments.

Local Public Safety Funding. The Governor proposes ongoing support for local public safety by dedicating GF (backfilled dollar-for-dollar with realignment funds) to programs now funded out of the Local Safety and Protection Account (0.15 percent of the VLF). Under this proposal, funding levels would effectively be restored to the levels enacted in the 2008-09 budget (prior to February 2009 budget revision). Funding would be dedicated to specific programs – retaining historic allocation mechanisms – as follows:

- Citizens' Options for Public Safety (COPS): $107 million
- Juvenile Justice Crime Prevention Act (JJCPA): $107 million
- Booking Fee Subventions: $35 million
- Probation Funding: $181 million
- Small/Rural Sheriffs Program: $18.5 million
- Local Assistance Programs (CalEMA): $57 million

Shift of Low-Level Offenders. The budget would transfer to counties the responsibility to manage low-level offenders by requiring that non-violent, non-serious, non-sex offenders serve their terms locally either in jail and/or on probation. Eligible offenders remaining in local jurisdiction could have no previous any violent, serious or sex offenses. Resources from the realignment plan would be used to expand local capacity to address the needs of this population.

Realign Adult Parole. The realignment proposal shifts the entire responsibility for the adult parole program to county probation departments. Counties would assume supervisory responsibility for all parolees upon their release from state prison. As for expected implementation, it is our understanding that the state would identify a cut-over date at which time counties would assume prospective responsibility for supervision for those released to parole.

Realign Remaining Juvenile Justice Programs. The Administration is proposing to fully eliminate the Division of Juvenile Justice (DJJ) by June 30, 2014, requiring counties to house, treat, and supervise all juvenile offenders – including the 707(b) population now in DJJ's jurisdiction. Moving this final increment of responsibility to counties would mean that counties – beginning July 1, 2014 – would bear the entire responsibility for the juvenile justice continuum.

Mental Health Services. The Brown Administration is also proposing to give counties full responsibility for administration and funding of three mental health programs – the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, mental health managed care, and mental health services for special education students (AB 3632). The state would save $861 million General Fund.

Under the proposal, Mental Health Services Act (Proposition 63) funds would be used to reimburse counties for costs in 2011-12. Proposition 63 funds are proposed to be used in 2011-12 on a one-time basis. In 2012-13, the three programs identified, as well as existing community mental health services funded with 1991 realignment funds, would be funded through the proposed revenue source.

Substance Use Disorder Treatment. The realignment proposal also includes shifting substance use disorder treatment funds and services to counties. The budget narrative does not detail what programs this includes. By including mental health and substance use disorder treatment funds in the realignment proposal, the Administration is hoping to encourage creative models of integrated services for the new probation population as well as other persons currently receiving treatment services.

Foster Care and Child Welfare Services. The realignment proposal also includes transferring the primary program responsibility for child welfare services to the counties. Please note that counties would assume 100 percent of the costs for child welfare, foster care and adoptions. Additionally, the written material asserts that counties will be given as much flexibility as possible to operate the program.

Adult Protective Services (APS). The Administration also proposes realigning the entire APS program to counties. According to the budget document, counties would have complete flexibility in determining services levels and priorities for their community.

PHASE II REALIGNMENT

The second phase of the Governor's proposed realignment plan would focus on implementation of national health care reform. With most individuals served by county indigent programs becoming eligible for Medi-Cal in 2014, the Administration assumes there will be a natural shift of costs from counties to the state. The Administration wants to examine the Local Revenue Fund Indigent Health Care Account (1991 realignment) and determine which level of government is best suited to provide health-related programs. Phase Two assumes the state will become responsible for costs associated with health care programs, including California Children's Services and In-Home Supportive Services, while counties assume responsibility for CalWORKs, food stamps administration, child support, and child care. Under this proposal, public health programs would remain at the local level.

State Operations. The Governor's budget proposal anticipates commensurate reductions to program administration at the state level. In the health and human services area, the state would continue to act as the single state agency for federal purposes, maintain data collection for oversight, serve as the fiscal and program reporting entity to the federal government, retain licensing and certification responsibility, and maintain minimum federal audit requirements. However, the Administration's goal is to reduce state operations for those affected programs by at least 25 percent, which would translate into hundreds of state positions being eliminated.

In the corrections area, the elimination of the Department of Juvenile Justice and the transfer of programs to the local level would mean the eventual elimination of over 4,000 line positions, in addition to reductions at CDCR headquarters.

The amount of reduction within CAL FIRE would depend on the final determination by the Board of Forestry of the SRA classification.

Funding. The first phase of realignment relies on two sources of funding for implementation.

First, it relies on voter approval of the continuation of the 1.15 percent Vehicle License Fee (VLF) rate, which generates about $1.4 billion annually (associated with the extension of 0.5% VLF), and continuation of the 1 percent sales tax rate, which generates about $4.5 billion annually. These revenues would be deposited in the Local Revenue Fund and dedicated to local governments for realigned programs. When these tax sources expire in five years (assuming the voters approve them), the state would provide counties with an amount equal to what these two revenue sources would generate.

The CAL FIRE, parole reform, and low-level offender proposals will be phased in over time. Thus, the state would use funds from realignment sources to cover state costs during the phase-in.

The second source of funding, for specified mental health programs, is the use of existing Mental Health Services Act (Proposition 63) funds for three existing mental health programs (EPSDT, AB 3632, and Mental Health Managed Care). These funds would be used on a one-time basis and would require an amendment to Proposition 63 by the Legislature. The Administration believes that the continuation of these services at the local level with dedicated funding is consistent with the requirements of Proposition 63, and thus does not require a vote of the people.

Timing. The timing for approval of this proposal assumes a June special election. The Administration assumes that the Legislature will approve the programs to be realigned and the underlying funding structure by March. The necessary statutory changes must be final no later than June to ensure a smooth transition of programs to the local level.

ADMINISTRATION OF JUSTICE

As referenced in the bulletin's overview section above, the Governor is proposing a vast shift in responsibility for public safety programs. The public safety components comprise a substantial portion of the first phase of the Governor's realignment plan. In addition to the various elements of the realignment construct outlined below, the Governor's budget also contains other proposals of interest to counties.

Judicial Branch. In addition to the proposed realignment of court security funding, the Governor's budget also seeks to make significant, ongoing cuts to court operations. The spending plan proposes a permanent reduction of $200 million for courts beginning in 2011-12 and indicates the Administration's interest in working with the judicial branch and stakeholders to identify ways to operationalize this cut over the long-term. Secondly, the budget proposes to permanently relieve the courts of the responsibilities enacted in the Omnibus Court Conservatorship and Guardianship Act of 2006 (AB 1363, Jones, 2006), a measure for which funding has been deferred since the bill became law.

AGRICULTURE AND NATURAL RESOURCES

Department of Forestry and Fire Protection. The Governor's budget proposes to reduce CAL FIRE staffing levels to three firefighters per engine, resulting in a $3.6 million current year decrease and a $30.7 million 2011-2012 decrease.

The budget also proposes to realign state and local fire fighting services. See the realignment discussion above for more information.

Department of Parks and Recreation (DPR). The Governor's budget proposes to reduce funding to state parks by $11 million in 2011-12, but does include a one-time increase of $7 million in current-year funding to account for a "General Fund workload adjustment." 2011-12 budget reductions would result in certain state park closures and reductions in state parks headquarters expenditures. The proposed budget states that DPR intends to work with stakeholders to explore partnership opportunities.

State Water Resources Control Board (SWRCB)**.** The Governor's budget proposal includes a $12.8 million budget reduction from the SWRCB and a corresponding increase of the Waste Discharge Permit Fund and Water Rights Fund. The increase comes from proposed statutory changes authorizing SWRCB to assess a fee for basin planning activities.

California Department of Food and Agriculture. The Governor's proposed budget identifies a $15 million 2011-12 budget reduction to the Department of Food and Agriculture and a $30 million on-going reduction in future budget years. The proposed budget states that the Secretary of Food and Agriculture will convene key agricultural and industry individuals to assess programs and identify solutions.

The proposed budget also permanently eliminates GF support for the Network of California Fairs, a $32 million reduction in 2011-12.

Williamson Act. The Governor's budget eliminates the $10 million appropriation that was included in SB 863 (Chapter No. 722, Statutes of 2010) for Williamson Act subvention payments in 2010-11, and provides no on-going funding. The budget states that the Williamson Act will "thus be a local program." The proposed budget also states that there might be opportunities from the redevelopment tax shift to help counties continue this program on their own.

As counties may recall, SB 863 included an optional alternative funding mechanism for counties. The alternative allows counties, if they receive less than one-half of their forgone general fund property tax revenue from subventions, to make a 10 percent reduction in Williamson Act contract length (10 to 9 years, or 20 to 18), and recapture 10 percent of their participating landowners property tax savings. CSAC conducted a survey in December 2010 to determine which counties will be implementing SB 863. Of those responding to the survey, six counties indicated that they will be implementing the SB 863 alternative, while 25 counties responded that they will not.

GOVERNMENT FINANCE AND OPERATIONS

ELIMINATION OF REDEVELOPMENT AND ENTERPRISE ZONES

The Governor's proposed budget outlines an alternative approach to local economic development that removes the state's financial commitment and provides new local authority to dedicate resources to local projects.

Redevelopment. In a lengthy description, the Governor's budget proposal contemplates prohibiting existing redevelopment agencies from creating new contracts or obligations effective upon the enactment of emergency legislation. By July 1, existing agencies would be dissolved and successor local agencies set up to collect tax increment to retire existing RDA debts and contractual obligations. The Department of Finance estimates this cost at $2.2 billion in 2011-12, leaving about $3 billion in tax increment remaining. From this amount, the proposal shifts $1.1 billion to those agencies that would have otherwise received statutory pass-through payments. The remainder would be directed to offset state General Fund costs for Medi-Cal ($840 million) and to trial courts ($860 million); $210 million would be distributed to cities, counties, and special districts proportionate to their current property tax shares.

In 2012-13 and for the future, the Governor's Budget proposes that amounts remaining after the payment of pre-existing redevelopment association (RDA) debts and contractual obligations will be distributed proportionally to cities, counties, non-enterprise special districts, and K-14 schools. $50 million that would otherwise be distributed to enterprise special districts (those that are fee-supported, like water and waste disposal districts) will instead be directed to counties. The Department of Finance indicates that, in 2012-13, local agencies would realize an increase in annual local revenues (above the amounts anticipated to be received in pass-throughs) of approximately $1 billion for schools, $290 million for counties, $490 million for cities, and $100 million for non-enterprise special districts. Funds received by K-14 schools would not count toward the Proposition 98 guarantee.

Amounts in RDAs low- and moderate-income housing funds would be shifted to local housing authorities for use.

Successor agencies would continue the process of retiring RDA debt, which is expected to take at least 20 years. As RDA debt is retired, the property taxes formerly used for debt service payments will flow to local agencies as prescribed. Funds that flow to local agencies would be available for general purpose use.

Local Taxing Authority for Economic Development. The Governor's proposed budget proposes a new financing mechanism for local economic development that would authorize local agencies to place before the voters a revenue option for economic development projects. This proposal includes a reduced voter approval threshold of 55 percent for such projects. The potential revenue sources available for such purposes are not outlined in the Governor's budget summary.

Enterprise Zones. The Governor's budget proposal also anticipates eliminating all enterprise zone tax incentives and similar tax incentives for specific areas for tax years beginning on or after January 1, 2011. The proposal would eliminate these tax benefits, both for newly earned credits and deductions and for credits that had been earned in prior years, but had not yet been used. This proposal is expected to generate additional revenues of $343 million in 2010-11 and $581 million in 2011-12.

Local Library Subventions. The Governor's plan would eliminate $30.4 million of funding for local libraries, which represents the great majority of local library assistance from the state. The cut would eliminate General Fund support for the Public Library Foundation, the California Library Literacy and English Acquisition Services, and the California Library Services Act. The remaining local assistance is dedicated to library development and civil liberties programs.

STATE MANDATES

The Governor proposes to suspend most mandates not related to elections or law enforcement, as has been done for years. The proposal also states that the Administration is developing a process by which the Legislature would determine which reimbursable mandates should be modified or repealed.

The budget proposal would fund the AB 3632 mandate on counties using Proposition 63 funds, for a General Fund savings of $98.6 million.

The Governor's proposal would defer the annual payment to counties for pre-2004 mandate obligations, as has been done for the past several years. The payment this year, for the debt the state is required to pay by 2020-21, would be $94 million.

EMPLOYEE RELATIONS

Unemployment Insurance (UI) Fund. A $13.4 billion deficit in the UI Fund is expected by the end of 2011 due to an imbalance between annual employer contributions and benefit payouts. To continue paying benefits out of the UI Fund without interruption, the California Employee Development Department borrowed funds from the Federal Unemployment Account starting in January 2009. A $362.3 million interest payment on this loan is due in September 2011.

To make the interest payment, the Governor's budget proposes a loan to the GF for $362.3 million from the Unemployment Compensation Disability Fund, which will be repaid by the GF over the next four fiscal years.

Employee Health Costs. The Governor proposes legislation directing the California Public Employees' Retirement System to add a core health plan option to the existing portfolio of health plans. The core health plan would provide fundamental coverage at a lower premium. It is unclear whether the additional plan would be available only to state employees or extended to local agencies that contract with CalPERS, including counties.

Veterans' Affairs. General Fund support ($9.9 million) for County Veterans Services Offices and the Operation Welcome Home Program is eliminated in the Governor's Proposed Budget.

HEALTH AND HUMAN SERVICES

CalWORKs

The budget includes a number of proposals that will reduce General Fund spending on CalWORKs by $1.5 billion, including:

- **Establish Time Limit of 48 Months.** The current time limit of 60 months would be reduced to 48 months for a savings of $698.1 million in 2011-12. Child-only benefits would continue beyond the 48-month time limit for families fully meeting work participation requirements. Additionally, child-only benefits would continue beyond the 48-month limit for families with unaided adult recipients of SSI/SSP and non-needy caretaker relatives.
- **Reduce CalWORKs Grants.** Reduce the maximum monthly grant for a family of three from $694 to $604 (13 percent reduction) effective June 1, 2011 for a savings of $13.9 million in 2010-11 and $405 million in 2011-12. The proposal assumes enacting state legislation by March 1 and implementation of June 1, 2011.
- **Maintain the 2010-11 County Single Allocation Reduction.** The Administration proposes to maintain the reduction to the CalWORKs single allocation funding levels included in the 2009 and 2010 Budget Acts, for savings of $376.9 million in 2011-12. The proposal assumes an implementation date of July 1, 2011. Counties will continue to have flexibility in how to allocate the reduction within the single allocation.
- **Limit Child Care Eligibility.** The budget assumes an additional $34 million savings in CalWORKs from reducing the age eligibility for subsidized child care services. Eleven- and twelve-year-old children would no longer be eligible for subsidized child care services.

Child Care

The Administration proposes $716 million in reductions to state child care (except preschool) as follows:

- Eliminate services for 11- and 12-year-olds
- Reduce eligibility to 60 percent of the State Median Income (form 75 percent of the State Median Income)

- Reduce the level of subsidies across the board. The budget provides greater flexibility at the local level to administer remaining child care funding. Families receiving subsidies would pay the difference between the subsidy and the regular day care charge as a co-payment directly to the provider. Alternative Payment agencies and Title 5 contractors would have flexibility to determine wait list structure, to structure subsidy reductions and co-payments.

Supplemental Security Income/State Supplemental Payment (SSI/SSP)
The Governor proposes to reduce monthly SSP grants for individuals to the federally required minimum payments standard. Grants would be reduced for individuals by $15 per month (from $845 to $830) beginning June 1, 2011. SSP grants for couples were reduced to the federal minimum in November 2009. The proposal would save $14.7 million in 2010-11 and $177.3 million in 2011-12.

In-Home Supportive Services
The budget includes additional reductions to the IHSS program. The budget assumes enacting legislation by March 1 and implementation of each proposal by July 1, 2011.

- **Service Hour Reductions**. The budget includes an 8.4 percent reduction to assessed hours for all IHSS recipients, for a $127.5 million General Fund savings in 2011-12. Qualified recipients at risk for out-of-home care placement because of the reduction could apply for supplemental hours. The Administration estimates 21,000 recipients will receive full restoration of their assessed hours.
- **Eliminate Domestic and Related Services for Certain Recipients**. The budget also includes eliminating domestic and related services for consumers living with their provider. In addition, the proposal would eliminate domestic and related service hours for recipients under 18 years of age who live with a parent who is able and available to provide these services. Such services include housework, shopping for food, meal preparation and clean up, and laundry. The proposal will impact approximately 300,000 recipients and provide savings of $236.6 million General Fund in 2011-12.
- **Eliminate IHSS Services For Recipients without Physician Certification**. The proposal would require the provision of IHSS services to be conditioned upon a physician's written certification that personal care services are necessary to prevent out-of-home care. The Administration estimates approximately 43,000 recipients will lose services, resulting in $120.5 million General Fund savings.
- **Eliminate State Funding for IHSS Advisory Committee**. The Administration is proposing to eliminate the mandate for counties to establish advisory committees, for General Fund savings of $1.6 million in 2011-12. Counties would have the option to continue the advisory committees at their own expense.

Counties that choose to continue the committees would be eligible for federal matching funds.

Aging
The Governor proposes to eliminate the local Multipurpose Senior Service Program (MSSP) for a savings of $19.9 million in 2011-12. This program serves 11,798 clients a month at 41 sites across the state.

Child Welfare Services
In addition to the realignment proposals, the budget includes a reduction of $19 million General Fund in 2011-12 for the Transitional Housing Program-Plus (THP-Plus). The reduction reflects the cost of providing services to 18- and 19-year olds. The reduction is proposed in light of the passage of AB 12 (Chapter 559, Statutes of 2010) that expands foster care to age 19 in 2011-12 and allows for the placement of non-minor foster youth in transitional housing program similar THP-Plus. The AB 12-funded transitional housing draws down federal Title IV-E reimbursement for the cost of providing services. The proposal assumes a July 1, 2011 implementation date.

Child Support
The Governor's budget proposes to suspend the county share of child support collections in 2011-12. The county share of collections is estimated to be $24.4 million in 2011-12. The proposal allows the entire non-federal portion of child support collections to benefit of the state General Fund.

Medi-Cal
Each Medi-Cal proposal assumes enacting state legislation by March 1 (unless noted), although some of the proposals require federal approval. For background, the state's Medi-Cal program covers 19.7 percent of Californians, or 7.7 million people. Medi-Cal is the second-largest state General Fund program, and economic stimulus funding to offset some Medi-Cal costs expires in June of this year.

Governor Brown proposes the following savings in the Medi-Cal program:

- **Limit Prescriptions and Doctor Visits.** Governor Brown proposes to limit the number of prescriptions and doctor visits to control costs. Specifically, he wants to limit prescriptions – except life-saving drugs – to six per month to save the state $11.1 million in 2011-12. Doctor visits would be limited to ten per year to save the state an estimated $196.5 million. This would decrease the number of Medi-Cal funded physician visits from 3.3 million to 2.0 million annually. Both of these changes are slated for an October 2011 start, due to the need to gain federal approval.

- **Increase Co-Pays.** The Governor proposes to change state law and obtain a federal waiver to impose co-payments on Medi-Cal beneficiaries by October 1, 2011. Specifically, this would mean a new $5 co-payment for physician, clinic, dental, and pharmacy services, with a $3 co-payment for lower-cost preferred drugs. This is estimated to save the state $294 million in 2011-12. Please note that the dental co-payment would go into effect earlier than the others, on May 1, 2011. Federal law allows providers to deny service if the beneficiary does not provide required co-payments, as long as individuals are given a referral to a county indigent health program.

  The Governor would also institute $50 co-payments for emergency room services and $100 a day copayment for hospital stays, with a $200 maximum on the latter. This is estimated to save the state $112 million and $151 million in 2010-11, respectively.
- **Caps on Supplies and Equipment.** He would also cap annual benefit levels for certain services and equipment, such as hearing aids - $1,510; durable medical equipment - $1,604; incontinence supplies - $1,659; urological supplies - $6,435; and wound care - $391. The Governor estimates that these measures will save the state $9.8 million in 2011-12 and affect about 20,000 beneficiaries.
- **Eliminate reimbursement for OTC Drugs.** Governor Brown wants to eliminate over-the-counter (OTC) cough and cold medications and nutritional supplements as Medi-Cal benefits, which is consistent with federal law. The state estimates this will preserve $556,000 in 2010-11 and $16.6 million in 2011-12.
- **Adult Day Health Care.** The Governor would eliminate the Adult Day Health Care program for a savings of $1.5 million in 2010-11 and $176.6 million in 2011-12. Currently, the Adult Day Health Care program serves about 27,000 seniors each month in 330 centers throughout the state.
- **Reduce Provider Payments.** Governor Brown also proposes to reduce the payments the state provides to physicians, pharmacies, clinics, medical transport companies, home health providers, Adult Day Health Care, certain hospitals, and nursing facilities for serving Medi-Cal beneficiaries by 10 percent. The Administration also proposes a 10 percent reduction in state payments to long-term care facilities, including nursing homes, but this would first require federal approval. If all parts of the rate reductions were implemented, the state would save an estimated $9.5 million in the current year and $709 million in 2011-12. Please note that previous budgets have included provider payment reductions, many of which are currently being litigated. The state assumes that it will prevail in these cases, one of which it has appealed to the U.S. Supreme Court. The Supreme Court will decide whether to hear the case later this month.
- **Shift Proposition 10 Funding for Medi-Cal.** The Governor also proposes to shift $1 billion in Proposition 10 funding from the state and local commissions in order to fund Medi-Cal services for children up to age five. It is not clear for how

long the shift would be in place, but any such move requires voter approval. If enacted by the voters, it would be implemented on July 1, 2011.

- **Hospital Fee**. The Governor proposes to preserve $160 million for Medi-Cal by extending the existing Hospital Fee through June 30, 2011. There are also several pieces of legislation that would achieve the same goal (with differing timelines): AB 62 by Assembly Member Bill Monning and SB 7 by Senate Pro tem Darrell Steinberg. The Hospital Fee allows the state to draw down additional federal funding and provide supplemental Medi-Cal payments to certain hospitals and to offset some General Fund costs.
- **Managed Care Tax**. The Governor proposes to permanently extend the tax on Medi-Cal Managed Care organizations. The revenues would be used for rate increases in Medi-Cal and funding the Healthy Families Program, for state General Fund savings of $97.2 million. The budget proposal does not name the rates, and instead estimates a 3.9 percent increase because an actuarially approved managed care rate assessment has not yet been completed. It is due in early spring.

Health Care Reform

The Governor has also requested an increase of $2.1 million for 17 two-year, limited-term positions to help the state implement provisions of federal health care reform.

Healthy Families Program

The Governor proposes several cuts in the Healthy Families Program (HFP).

- **HFP Premium Increase**. Governor Brown would increase HFP premiums based on several brackets that are defined by the Federal Poverty Level (FPL). All proposed changes would take effect on June 1, 2011 and would supposedly save the state $1.9 million in the current year and $22.2 million in 2011-12:
  - *Under 150 percent FPL*: No change.
  - *150-200 percent FPL*: Premiums would increase by $14 per child (from $16 currently to $30) and the maximum limit for a family with three or more children would increase by $42 for a family maximum of $90.
  - *201-250 percent FPL*: Premiums would increase by $18 per child (from $24 currently to $42) and the maximum limit for a family with three or more children would increase by $54 for a family maximum of $126.
- **Increase HFP Co-Payments**. The Governor wants to increase HFP co-payments for emergency room visits from $15 to $50 and institute inpatient co-pays of $100 a day with a $200 maximum. These proposals would take effect on October 1, 2011 and result in an estimated savings of $5.5 million.
- **Eliminating Vision Benefit**. The Governor proposes eliminating the HFP vision benefit, meaning that participants will not be reimbursed for eyeglasses and other specialized services. Participants may still receive eye testing and care for

injuries under HFP. This is estimated to save the state $11 million in 2011-12 if implemented on June 1, 2011.

Mental Health
The Governor has a sweeping proposal to redirect Proposition 63 (Mental Health Services Act of 2004) funding for one year to fund the realignment of Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program, mental health managed care, and AB 3632 services in 2011-12. After 2011-12, the Governor would use tax extension monies to fund these programs. For a more in-depth look at this proposal, please refer to the Realignment section at the beginning of this document.

AIDS Drug Assistance Program (ADAP)
The Governor proposes to increase the client share of cost in ADAP to save the state $16.8 million.

Health Care Emergency Preparedness
The Governor wants to cut the $5.8 million the state spends annually toward maintaining California's health care surge capacity, which includes field hospitals and stockpiles of medical supplies to be used in the event of a disaster. The Administration wants to re-think how it supports health care surge capacity.

HOUSING, LAND USE AND TRANSPORTATION

Fixing the Transportation Tax Swap. The Governor's budget proposal includes a plan advocated by CSAC and a broad coalition of transportation stakeholders to reenact the 17.3-cent excise tax increase (which replaced the sales tax on gasoline) and the 1.75 percent sales tax rate increase on diesel fuel adopted as a part of the historic transportation tax swap in March 2010, accomplished with a 2/3 vote of the Legislature. This action was made necessary by the passage of Proposition 26 in November 2010 that invalidates the replacement taxes within 12 months of its passage and is self-executing in November 2011.

Governor Brown's proposal also includes the transfer of weight fee revenues from the State Highway Account (SHA) to pay for transportation related bond debt service as Proposition 22, also passed by the voters in November 2010, prohibits the use of excise tax (HUTA or Highway User Tax Account) funds for the purposes of bond debt service. Specifically the Governor proposes to:

- Use $262.4 million in weight fees in the remainder of fiscal year (FY) 2010-11 and $700 million in FY 2011-12 to reimburse the GF for transportation bond debt service; and,

- Borrow $494 million in FY 2010-11 and $166.3 in FY 2011-12 in weight fees for GF relief.

While not explicitly stated in the budget proposal, we assume the transfer of weight fees from the SHA would be backfilled with revenue from the 17.3-cent excise tax, funds which would have otherwise been used directly for bond debt service prior to Proposition 22.

CSAC and the transportation coalition have been working since the November 2010 election to develop a comprehensive solution to fix the issues with the transportation tax swap resulting from the passage of Propositions 22 and 26. Our solution would fund local streets and roads, the state highway system, and transit at the same level anticipated in March 2010, while also supporting GF relief and bond debt service – another critical element of the transportation tax swap. We are pleased that the Governor appears to support our comprehensive approach and look forward to working with the Administration and Legislature on the specific details of the proposal.

Planning Program Project Initiation Document (PID). The Governor proposes to make changes to the Planning Program Project Initiation Document (PIDs) workload by increasing by $2.4 million and 18 positions resources available for PID completion for state and local projects on the state highway system. The budget proposal notes that this includes a decrease of $4.9 million in State Highway Account resources and an increase of $7.2 million in reimbursements from locals to complete PIDs for locally funded projects.

Proposition 1B Appropriations. The Governor's budget proposal would appropriate Proposition 1B (Transportation Bond, 2006) funds from the following accounts:

- $631.2 million for corridor mobility.
- $972.3 million for trade corridors.
- $117 million for public transit modernization.
- $200 million for state-local partnership projects.
- $22 million for local bridge seismic safety.
- $391.9 million for State Route 99.

Load Rating for Local Bridges. Also included in the 2011-12 state budget proposal is a redirection of $1.4 million in local federal subvention funds and nine positions for a six-year program to complete federally mandated load ratings on local bridges.

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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!