



BUDGET ACTION BULLETIN

CALIFORNIA STATE ASSOCIATION OF COUNTIES

2010-11 State Budget Week of December 6, 2010

December 6, 2010

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: **Budget Action Bulletin #8**

This afternoon, after the swearing in of new Senators and Assembly Members, Governor Arnold Schwarzenegger called the Legislature into a special session on the budget under Proposition 58. The Governor has declared a fiscal emergency as a result of the estimated current year budget deficit of \$6 billion and has sent the Legislature a [package of proposed solutions](#) totaling \$9.9 billion.

Of the total solutions proposed, \$7.4 billion represent reductions in program costs over the current and budget years. About \$1.6 billion represent fund shifts and other revenues. The remainder, \$0.9 billion, represents alternative funding sources. The proposals significant to counties are outlined in this *Budget Action Bulletin*.

It is widely believed that the Legislature will not attempt to address these proposals until after Governor-elect Jerry Brown is sworn in and his first budget is released in January. However, because the special session was called under Proposition 58, the Legislature must act to address the shortfall within 45 days (about the first week of February).

December 2010 Special Session Solutions (Dollars in millions)

Solutions by Category	2010-11	2011-12	2-year Total	
Expenditure Reductions	\$866.3	\$6,464.9	\$7,351.2	74%
Alternative Funding	166.6	770.1	936.7	10%
Fund Shifts and Other Revenues	855.8	726.7	1,582.5	16%
Total Solutions	\$1,908.7	\$7,961.7	\$9,870.4	100%

ADMINISTRATION OF JUSTICE

In the justice arena, the Governor's Special Session plan offers several proposals that have been previously considered by the Legislature:

- **Transfer of Prison Inmate Population.** The Governor proposes to authorize certain non-serious, non-violent, non-sex offenders to serve their felony sentences of three years or less in county jails. The state also will share a portion of the state prison detention savings with local jurisdictions for investment in evidence-based treatment for inmates and probationers, alternatives to incarceration, and other activities intended to reduce recidivism and relieve jail overcrowding. This proposal is expected to save \$111.5 million in 2010-11 and \$650 million in 2011-12.
- **Automated Speed Enforcement.** The Governor is reintroducing a proposal to allow the use of automated speed enforcement (i.e., using red light camera technology to capture speed violators). Funding generated from this program – estimated to be \$412.2 million beginning in 2011-12 – would be dedicated to support the trial courts.

AGRICULTURE AND NATURAL RESOURCES

Emergency Response Initiative. The Governor's Special Session budget solutions include a General Fund (GF) reduction of \$350 million in the 2011-12 fiscal year to the Department of Forestry and Fire Protection to be replaced by the Emergency Response Initiative (ERI).

The ERI, a proposal that has gone through several iterations in multiple different budgets over the past several years, would place a 4.8 percent surcharge on all residential and commercial property insurance statewide. The "fee" would fund a portion of the Department of Forestry and Fire Protection operations. Beginning in 2012-13, the ERI would provide funding for the state's emergency response efforts, including CAL Fire, CAL EMA and assistance to local first response agencies in support of the state's mutual aid program.

Department of Fish and Game. The Governor's proposed budget solutions also include a decrease of \$1.5 million in 2010-11 and 2011-12 from the Biodiversity Conservation Program. This reduction represents an unallocated cut to the Department of Fish and Game's programs related to the protection and management of fish and wildlife habitat.

HEALTH AND HUMAN SERVICES

In the health and human services area, the Governor's Special Session budget proposals are essentially retreads of his earlier 2010 budget proposals, up to and including the outright elimination of many core health and social services programs and services.

CalWORKs

The Governor is once again proposing draconian cuts to CalWORKs, the state's welfare to work program, including the outright elimination of the program, as follows:

- **Grant Reductions.** Reducing grants by 15.7 percent effective April 1, 2011 and eliminating the Recent Noncitizen Entrants program for a savings of \$110.1 million in 2010-11 and \$646.3 million in 2011-12.
- **Child Care.** Reducing reimbursement to CalWORKs child care providers effective March 1, 2011 for a savings of \$49.4 million in 2011-12. The Governor proposes to eliminate Stage 2 CalWORKs child care effective July 1, 2011 to coincide with elimination of the CalWORKs program.
- **Program Elimination.** Eliminating the CalWORKs program entirely effective July 1, 2011. This would save \$1.4 billion General Fund.

Child Care

In addition to the CalWORKs child care changes proposed, the Governor proposes eliminating all state GF remaining in subsidized child care, which is \$200.2 million. State Preschool Program and CalWORKs Stage 2 would be exempt from the funding cut. This proposal would effectively end all Proposition 98 funding for child care. Additionally, the Governor proposes a number of cost containment measures effective March 1, 2011, including:

- Reducing current income eligibility from 75 percent of the State Median Income to 60 percent.
- Reductions to voucher-based provider reimbursement limits from the 85th to the 75th percentile of the 2005 regional market rate survey data AND from 80 percent of the respective licensed limits to 70 percent for license-exempt providers.

Immigrant Programs

- **California Food Assistance Program.** The Governor once again proposes to eliminate the California Food Assistance Program for a savings of \$15 million in 2010-11 and \$69.4 million in 2011-12. The elimination would be effective April 1, 2011.
- **Cash Assistance Program for Immigrants.** The Governor proposes eliminating this program entirely on April 1, 2011. The elimination would generate savings of \$29.3 million in 2010-11 and \$123.8 million in 2011-12.

Realignment Swap

The Governor is proposing to eliminate the majority of realignment funding for local mental health programs. The state would redirect realignment funding from the Mental Health subaccount that is generated by sales tax to the Social Services subaccount to pay for increased county shares of Food Stamps and Child Welfare Services. The proposal allows the state to decrease GF contributions to Food Stamps and Child Welfare Services by \$301 million in 2010-11 and \$602 million in 2011-12.

Under this proposal, counties would be required to continue providing federally mandated mental health services. The Department of Mental Health indentified these mandated services as inpatient services, physician services, crisis services, medication services, and Early Periodic Screening, Diagnosis, and Treatment (EPSDT) services. In the past, the Administration considered county funding of Institutes for Mental Disease and state hospitals to be optional. Remaining mental health realignment funds would be used to provide these mandated mental health services.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

The Governor proposes to reduce monthly SSI/SSP grants for individuals to the federal minimum beginning April 1, 2011. The net savings would be \$43.9 million in 2010-11 and \$177.1 million in 2011-12.

Healthy Families Program

Eliminate Vision Coverage. Governor Schwarzenegger proposes to eliminate vision coverage for the Healthy Families Program (HFP) on April 1, 2011 for a state savings of \$2.3 million in the current fiscal year and \$11.3 million in 2011-12.

Increase Premiums. The Governor proposes raising the monthly HFP premiums for families with incomes from 150 to 250 percent of the Federal Poverty Level (FPL) in order to save \$6.2 million in the current year and \$25 million in 2011-12. No changes are proposed for families under 149 percent FPL, and all changes are calculated based on an April 1, 2011 implementation date. The proposals include:

- For families earning 150 to 200 percent FPL, monthly HFP premiums would increase by \$14 per child (from \$16 to \$30) and the family maximum for three or more children would increase by \$42 (from \$48 to \$90).
- For families earning 201 to 250 percent FPL, monthly HFP premiums would increase by \$18 per child (from \$24 to \$42) and the family maximum for three or more children would increase by \$54 (from \$72 to \$126).

Increase Co-Payments for Emergency Services. The Governor also proposes to increase HFP co-payments for emergency room visits by \$35 (from \$15 to \$50 per visit) and adding co-payments for hospital stays of \$100 per day with a \$200 maximum. These proposals would also take effect on April 1, 2011, with an estimated savings of \$6.8 million combined (\$5.3 million for the emergency room co-pay increase and \$1.5 million for hospital inpatient co-pays).

ACTION

Medi-Cal

The Governor is proposing a series of familiar cost-containment proposals in Medi-Cal in order to save the state \$3.2 million in 2010-11 and \$980.3 million in 2011-12. Most of the proposed changes are slated to take effect on April 1, 2011 unless noted, and all require a state plan amendment or federal waiver to implement. Cost containment proposals include:

Limiting Medi-Cal Services and Establishing Utilization Controls, including:

- Eliminating reimbursements for over-the-counter drugs and nutritional supplements for a savings of \$2.9 million in the current year and \$16.8 million in 2011-12.
- Capping annual benefits, starting July 1, 2011, for hearing aids at \$1,510, durable medical equipment at \$1,604, incontinence supplies at \$1,659, urological supplies at \$6,435, and wound care supplies at \$391 for a savings of \$12.4 million in 2011-12.
- Limiting prescriptions (except life-saving drugs) to six per month, starting on July 1, 2011 for a savings of \$13.6 million in 2011-12.
- Limiting the number of physician or clinic visits to 10 per year for a state savings of \$238.9 million in 2011-12, if implemented by June 1, 2011.

Increasing Medi-Cal Cost Sharing, including:

- Imposing \$5 co-payments for physician, clinic, and dental visits and \$3 for relatively lower cost preferred drugs and \$5 for others. If implemented by July 1, 2011, this would save the state \$.03 million in the current year and \$360 million in 2011-12.
- Imposing \$50 co-pays on emergency room visits. If this is implemented by July 1, 2011, it would save the state \$142.1 million in 2011-12.
- Imposing \$100 per day co-payments for hospital stays with a \$200 maximum. If this is implemented by April 1, 2011, it would save the state \$196.5 million.

Eliminating Medi-Cal Benefits for certain groups, including:

- Eliminating full-scope benefits for Newly Qualified Immigrants, immigrants Permanently Residing Under the Color of Law (PRUCOL), and Amnesty immigrants who are not defined as eligible under federal law. This would take effect June 1, 2011, and pregnant women would still be eligible under these circumstances. The state hopes to save \$14.8 million in 2010-11 and \$120.1 million in 2011-12 with this proposal.
- Eliminating Optional Adult Day Health Care Benefits on June 1, 2011 to save an estimated \$20.5 million in the current year and \$188.9 million in 2011-12.
- Rolling back the rate for Family Planning Services by rescinding the discretionary rate increase implemented in 2007. This proposal would take effect on May 1, 2011, and save the state about \$2.3 million in 2010-11 and \$16.1 million in 2011-12.

Drug Medi-Cal

The Governor proposes once again to eliminate the Drug Medi-Cal program with the exception of the Perinatal; Early and Periodic Screening, Diagnosis, and Treatment (EPSDT);, and Minor Consent programs. This proposal would be effective April 1, 2011, for an estimated state savings of \$18.1 million in the current year and \$93.1 million in 2011-12.

Hospital Fee

The Governor also proposes to extend the hospital quality assurance fee that was enacted in 2009 (AB 1383, Jones) in order to save the state \$160 million. The six-month proposed extension would allow the state to continue receiving enhanced federal matching funds for the life of the last federal American Recovery and Reinvestment Act extension. The quality assurance fee provides up to \$80 million per quarter for providing health coverage for children and additional reimbursements for Medi-Cal hospital services.

HOUSING, LAND USE AND TRANSPORTATION

Another Transportation Fund Shift

The Governor is proposing to use transportation weight fees that currently go into the State Highway Account (SHA) in order to achieve the GF relief provided in the October budget and no longer available due to the passage of Proposition 22. The transportation tax swap, adopted in March 2010, and subsequent budget action authorized a \$761 million loan and additional GF relief by paying the debt service for transportation-related bonds from a portion of the new replacement Highway User Tax Account (HUTA) funds. However, Proposition 22 prohibits the diversion, whether an outright taking or loan, of HUTA for any non-transportation related purpose. While Proposition 22 does allow the use of HUTA for transportation-related debt service under certain circumstances into the future, the \$761 million HUTA loan and the debt service payments as provided in the transportation tax swap are no longer a legal option.

Thus, this proposal would now rely on weight fees to provide the GF relief, transferring \$850 million in 2010-11 and \$726.7 million in 2011-12 in weight fee revenues from the SHA to the GF for transportation-related debt service and loans. This action would effectively return the budget to what was enacted in October.

While further details are not available, these amounts do not necessarily impact the expected state highway and local streets and roads funding in those fiscal years. However, without specific language, it is difficult to know the full implications of this shift of weight fees from the SHA to GF relief and subsequent backfill of the new replacement HUTA to the SHA.

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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!