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January 10, 2007

To: Chairs of the Board
CSAC Board of Directors
County Administrative Officers

From: James Keene, CSAC Executive Director
Steve Keil, CSAC Director of Legislative Services
Jean Kinney Hurst, CSAC Legislative Representative

Re: **Highlights of the 2007-08 State Budget**

This afternoon Governor Arnold Schwarzenegger released his ambitious 2007-08 Proposed Budget with a major focus on reducing the state's operating deficit and continuing the investment in California's infrastructure.

The key component of the Governor's plan is the elimination of the state's ongoing structural operating deficit projected at more than \$16 billion in 2004. Counties will recall that, after the passage of the 2006-07 budget, the estimated operating deficit was about \$5 billion. The Governor's 2007-08 plan limits growth in General Fund spending to 1 percent, the lowest rate of growth in five years, according to the Department of Finance. It also establishes a reserve of \$2.1 billion and directs \$1.6 billion in pre-payments to the Economic Recovery Bonds (ERBs). The Department of Finance estimates that, as a result of this proposed pre-payment and the previous pre-payments of \$7.4 billion, the ERBs will essentially be repaid in full by August of 2009, 14 years ahead of schedule.

The Governor also proposed the second phase of his Strategic Growth Plan, outlined in further detail below. The second phase focuses on the critical infrastructure needs the 2006 infrastructure bond plan left unaddressed. This component of the Strategic Growth Plan fulfills the comprehensive ten-year infrastructure financing plan to rebuild California begun last year.

To review the Governor's plan, please visit the Department of Finance website: www.ebudget.ca.gov/. Please note that printed, bound copies of the Budget Summary and Governor's Budget are no longer available.

Budget Aggregates

The Governor's 2007-08 proposed budget provides a General Fund spending plan of \$103.141 billion, representing an increase of \$1.004 billion, or a 0.97 percent increase over the prior fiscal year. Nearly 90 percent of the proposed budget is confined to only three program areas: K-12 and higher education (51.0 percent); health and human services (29.0 percent); and corrections and rehabilitation (9.7 percent). State General Fund expenditures have grown by a total of \$32.1 billion, or a cumulative 29.4 percent, since 2000-01.

The proposed budget anticipates \$101.278 billion in General Fund revenues, representing an increase of \$6.759 billion, or a 7.2 percent increase over last year. (This is a historic revenue level; 2007-08 marks the first time projected state revenues will top \$100 billion.) Three primary revenue sources constitute nearly 95 percent of General Fund revenues: personal income tax (54.9 percent); sales tax (29.0 percent); and bank and corporation tax (10.7 percent). State General Fund revenues have grown by a total of \$23.4 billion, or a cumulative 29.4 percent since fiscal year 2000-01.

The budget proposes to deposit \$2.046 billion into the Budget Stabilization Account, established by Proposition 58, and use half of those revenues (\$1.023 billion) to pay a portion of the Economic Recovery Bond debt. A final reserve amount of \$2.085 billion is included to guard against unforeseen expenditure increases and revenue shortfalls, representing 2.1 percent of estimated 2007-08 revenues.

Recent General Fund Revenues and Expenditures

(\$ in billions)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenues	76.9	77.1	79.3	77.6	81.7	87.7	94.5	101.3
Expenditures	79.7	78.4	78.8	78.0	82.3	90.3	102.1	103.1

Figures do not include one-time carry-over balances in the revenue data or reserves in the expenditure data.

2007-08 General Fund Expenditure Estimates by Category

(\$ in millions)

Expenditure Category	\$	%
K-12 & Higher Education	\$52,614	51.0
Health & Human Services	29,875	29.0
Corrections and Rehabilitation	10,043	9.7
Other	10,609	10.3
TOTAL	\$103,141	100.0

2007-08 General Fund Revenues Estimates by Category

(\$ in millions)

Revenue Category	\$	%
Personal Income Tax	\$55,598	54.9
Sales Tax	29,347	28.9
Bank and Corporation Tax	10,816	10.7
Other	5,517	5.5
TOTAL	\$101,278	100.0

2007-08 General Fund Budget Summary

(\$ in millions)

Carry-Over Fund Balance	\$3,198
Revenues and Transfers	\$101,278
TOTAL REVENUES	\$104,476
TOTAL EXPENDITURES	\$103,141
Fund Balance	\$1,335
Liquidation of Encumbrances	\$745
Special Fund for Economic Uncertainties	\$590
Budget Stabilization Account	\$1,495
Total Available Reserve	\$2,085

California Strategic Growth Plan

Phase two of the Governor's Strategic Growth Plan (SGP) includes additional funding for infrastructure improvements through 2016, including \$29.4 billion of new general obligation bonds and \$13.9 billion of additional lease-revenue bonds and self-liquidating revenue bonds. The SGP proposes that the new general obligation bonds be placed on the ballot in the 2008 and 2010 elections as shown below:

Strategic Growth Plan Election Year Proposals General Obligation Bonds (\$ in billions)

	2008	2010	Totals
Program			
Education: K-12	\$6.5	\$5.1	\$11.6
Education: Higher Ed	7.2	4.3	11.5
Water Supply	4.0		4.0
Judiciary	2.0		2.0
Other Public Service	0.3		0.3
Infrastructure			
Total	\$20.0	\$9.4	\$29.4

The proposed new funding sources are allocated as follows:

Strategic Growth Plan 2006-2016 (\$ in billions)

Program	Proposed New Bonds			Other Funding Sources		
	General Obligation	Lease Revenue*	Self-Liquidating Revenue**	Existing***	New****	Total
Corrections		9.5		0.3	1.1	10.9
Education: K-12	11.6			17.4		29.0
Education: Higher Ed	11.5	0.1		10.1		21.7
Flood Control/Water Supply	4.0		2.0	25.0		31.0
Transportation				87.3	17.0	104.3
Court Facilities	2.0				2.0	4.0
Other Natural Resources				3.1		3.1
Housing				2.9		2.9
Other Public Service	0.3	2.3		2.2		4.8
Infrastructure						
Totals	\$29.4	\$11.9	\$2.0	\$148.2	\$20.1	\$211.6

*Lease-revenue bonds are supported by rental payments that result from leasing the financed asset.

**Self-liquidating revenue bonds are supported from a new revenue stream generated by the financed asset.

***Existing Funding Sources column includes already authorized bonds, special funds, General Fund, and estimated federal and local matching dollars from existing shared funding programs.

****New Fund Sources column includes estimated additional funding from public-private partnerships and new state-local shared programs.

Corrections Reform. A major component of the second phase of the SGP is a comprehensive corrections reform package. Elements of the proposal contemplate policy shifts that would have a significant impact on county operations. For further details on the broad scope of the corrections reform plan, please refer to the Administration of Justice section of this document.

K-12 Education. The SGP proposes \$11.6 billion of additional general obligation bonds to provide funding for schools through 2012-13. These bonds are proposed to fund new school construction (\$2.931 billion in 2008, \$2.13 billion in 2010), school modernization (\$1.539 billion in 2008, \$1 billion in 2010), charter schools (\$1 billion each in 2008 and 2010), and career technical education facilities (\$1 billion each in 2008 and 2010).

Higher Education. The Governor's SGP proposal for higher education includes \$2.8 billion (\$2.7 billion general obligation and \$70 million lease-revenue bonds) for University of California to help deal with increased enrollment, as well as additional funding for facilities and research; \$2.7 billion (general obligation bonds) for California State University to help deal with increased enrollment; and \$6 billion (general obligation bonds) for funding assistance to California Community Colleges.

Flood Control and Water Supply. The Governor's Strategic Growth Plan proposes an additional \$5.95 billion in bonds for water storage and conveyance, including:

- Water Storage: \$4.5 billion, of which \$500 million in general obligation bonds will be dedicated for grants to augment local investment in groundwater storage projects, providing an additional 500,000 acre-feet of annual yield.
- Delta Sustainability: \$1.0 billion.
- Water Resources Stewardship: \$250 million to implement of a court settlement on the Klamath River and provide for elements of Salton Sea restoration, contribute to restoration efforts on the San Joaquin River, and supplement restoration projects on the Sacramento River and its tributaries as well as the Delta.
- Water Conservation: \$200 million to augment \$1 billion in Proposition 84 funding supporting the Integrated Regional Water Management Program. The proposed funding will provide water conservation grants to local communities that coordinate the planning of their shared water resources.

Transportation. The significant transportation component of the SGP's second phase is proposed legislation that would (1) authorize public-private partnerships to bring substantial private capital and savings to transportation projects and (2) authorize the use of design-build.

Court Facilities. The Governor's budget proposes \$2 billion in general obligation bonds to fund court facility infrastructure. Additional details regarding this proposal are included in the Administration of Justice section.

Other Natural Resources. Investment in other natural resources programs is provided from Proposition 84 allocations, of which \$1.1 billion is allocated in 2007-08. See the Agriculture and Natural Resources section of this document for more information.

Housing. Investments reflect the approval of Proposition 1C, which provides \$2.85 billion for housing-related programs and the final allocations from Proposition 46, estimated at \$344.4 million during 2006-07 and 2007-08. Please see the Housing, Land Use and Transportation section of this Bulletin for more information.

Other Public Service. The SGP proposes \$2.3 billion (lease-revenue bonds) and \$300 million (general obligation bonds) in addition to \$2.2 billion in special funds to address a number of the state's critical facility needs:

- Department of Forestry and Fire Protection: \$600 million to replace or renovate 75 emergency response facilities, including fire stations, air attack bases, and conservation camps.
- Department of Mental Health: \$500 million for additional capacity to met the requirements of Jessica's Law.
- Department of Justice: \$400 million for a new DNA laboratory.
- Seismic Retrofit of Existing State Buildings: \$300 million to complete the renovation of 29 facilities.
- State Special Schools: \$100 million to replace or renovate classrooms and dormitories at the School for the Blind and the School for the Deaf.

Statewide Issues

Economic Recovery Bond Pre-Payment. Voters authorized the sale of \$15 billion in Economic Recovery Bonds (ERBs) when they approved Proposition 57 in March 2004, of which the state has issued about \$11 billion. At the same time, the electorate also passed Proposition 58, which created a reserve in the General Fund called the Budget Stabilization Account (BSA). Up to \$5 billion of the BSA would be used to repay the ERBs.

Prop. 57 and its implementing statutes also rejiggered the way sales and property taxes are allocated among local governments and schools. Under the rearrangement, called the Triple Flip, 1/4 cent of the local sales tax was replaced with an identical amount of statewide sales tax, which is now dedicated to the repayment of the ERBs. Also, under the terms of the deal, a portion of schools' property taxes were transferred to cities and counties to backfill the loss of sales tax and the General Fund then backfills schools for their reallocated property taxes.

Due to early pre-payment of the ERBs in previous budget years and the fact that \$3.7 billion of the ERBs have not been issued, the originally rescheduled ERB retirement date of July 2023 was moved up to January 2010 as of last year's state budget. This year, the Governor's budget proposes to further accelerate the payment of the ERBs with an additional \$595 million of General Fund money. Under this plan, the ERBs would now be effectively paid off by August 1, 2009, saving the state interest money and freeing funds in future years that otherwise would have to be used for repayment. When the bonds are repaid, the 1/4 cent sales tax will be returned to cities and counties, and the property tax backfill will be returned to schools via ERAF.

Unspecified Budget Reform. Worried that the budget's structural deficit could re-emerge next budget year, the Governor's proposal includes a notice that the state must find ways to keep spending in check in the long run and reduce the volatility of state revenues.

Permanently Closed Tax Loophole. The Governor's budget proposal anticipates \$35 million in revenues by making permanent the use tax on boats, vehicles, and planes brought into the state less than one year after their purchase.

State General Fund Unallocated Reductions. As in past years, the Administration plans to achieve \$100 million in unallocated General Fund reductions. These cuts will be made throughout the year as the Department of Finance works with Agency Secretaries and other cabinet members. Details of the reductions will be reported to the Legislature, as they have been in the past.

Administration of Justice

Corrections Reform. As previewed in late December, the Governor's 2007–08 spending plan contains a bold reform proposal that seeks to address overcrowding and recidivism in both the state and local corrections systems. Given the breadth of the proposed changes and the significance of the policy implications behind those changes, counties will need to engage quickly

and seriously in these discussions as the budget moves forward. Key provisions of the reform package include:

- **Local Adult and Juvenile Detention Facilities:** \$5.5 billion (\$4.4 billion in lease-revenue bonds or state-funded local debt service payments plus \$1.1 billion in local matching funds) to expand detention facility capacity statewide. This investment is expected to yield 45,000 new jail beds and 5,000 new beds for juvenile offenders.

Of the new adult beds, approximately half would be dedicated to expanding local jail capacity and, subject to changes in sentencing statutes, the other half to accommodate low-level inmates who would serve sentences of up to three years in county facilities. The Governor's budget document recognizes that out-year operating costs in these facilities are not addressed, but commits to ongoing discussion with the Legislature and local officials to resolve this very significant issue.

On the juvenile side, the reform proposal contemplates shifting a population of juvenile offenders to county control and supervision beginning July 1, 2007. This realignment would allow the Department of Juvenile Justice (DJJ, formerly the California Youth Authority) to focus its resources and services on the most serious male juvenile offenders in the state. Under the Governor's plan, DJJ would no longer house female offenders in its institutions and would stop intake of certain low-level, non-violent male offenders. To fund the new local programming and housing responsibilities, the budget plans to allocate \$53 million to counties on a block-grant basis for 2007–08. In addition, the budget proposes to eliminate of the Juvenile Justice Community Reentry Challenge Grant, a program that was funded primarily to serve DJJ parolees at \$10 million in the 2006–07 budget.

- **Re-entry facilities:** \$1.6 billion in lease-revenue bonds and/or contracting authority to provide beds for transitional programming and services for inmates nearing parole. The reentry facilities represent a key component in addressing recidivism, with services focused on ensuring parolees' successful reintegration into the community.
- **Expanded state prison capacity:** \$2.7 billion (\$0.3 billion in state general funds, \$2.4 billion in lease-revenue bonds) to add over 16,000 in new prison beds and address infrastructure issues at existing prison facilities.

Sentencing Commission. Also contemplated under the Governor's corrections reform plan is the creation of a California Sentencing Commission. The proposed budget includes \$457,000 to fund the permanent commission, which would be composed of the Attorney General, the Secretary of the Department of Corrections, and 15 other members appointed by the Governor. The gubernatorial appointees would include representatives from the Legislature and various interest groups, including law enforcement and victims' advocates.

New Resources for County Probation. In a very promising new initiative, the Governor's budget dedicates \$50 million in local assistance grants to support adult supervision services for the 18-to-25 cohort. Funding for this initiative, which will be modeled after the successful Juvenile Justice Crime Prevention Act, is expected to grow to \$100 million in 2008–09.

The Governor's budget also includes \$2 million in Child Welfare Services funding, which will be targeted to County Probation Department System Improvement Plan activities for juvenile justice children placed in out-of-home care. (For more details on this item, please refer to the Health and Human Services section of this document.)

Other Public Safety Assistance Programs. Although the Governor's budget documents do not provide this level of detail, it is our understanding that the proposed 2007–08 spending plan maintains current-year levels of funding for the following programs:

- Citizens' Option for Public Safety (COPS)
- Juvenile Justice Crime Prevention Act (JJCPA)
- Juvenile Probation Core Services
- Rural and Small County Sheriffs' Program
- Mentally Ill Crime Reduction Grants
- Local Detention Facility Funding (new booking fee paradigm)
- Methamphetamine Abatement Efforts
- Standards for Training and Corrections
- Vertical Prosecution Programs

Court Facilities. The Governor's spending plan recognizes the capital outlay needs of the judicial branch and therefore proposes \$2 billion of new general obligation bonds to improve existing and construct new court facilities across the state.

The Governor's budget proposal anticipates leveraging private funding with the bond proceeds through private-public partnerships, including such arrangements as property exchanges (i.e., using land assets to permit construction of new facilities in less prominent locations); co-locating revenue-generating commercial space in court facilities; and design-build-operate projects.

Judicial Branch. The Governor's budget includes \$3.7 billion (\$2.3 billion of which is state general fund) for overall judicial branch functions. Proposed court funding augmentations of note include:

- \$27.8 million in 2007–08 and \$74.3 million in 2008–09 to provide 100 new judgeships over a two-year period beginning in April 2008. These judgeships, which would be in addition to the 50 new judgeships approved and created in 2006, are conditioned upon the enactment of legislation authorizing the new positions.
- \$17.4 million to support court-related workload increases associated with the Conservatorship and Guardianship Reform Act of 2006 (AB 1363, Jones).

Comprehensive Sex Offender Management Plan. The Governor's budget proposal contains several elements to: (1) address placement and housing needs of sex offenders; (2) advance the recommendations of the Governor's HRSO/SVP Task Force; and (3) implement Jessica's Law (Proposition 83 of 2006) and other legislative measures that enacted new mandates regarding the containment and management of sex offenders. Those elements include:

- Significant resources to implement an overall Comprehensive Sex Offender Management Plan (\$30.4 million in 2006-07 and \$122.8 million in 2007–08);
- \$6 million to be administered through the Office of Emergency Services for Sexual Assault Felony Enforcement Teams.

It should be noted that the vast majority of the resources provided for the Comprehensive Sex Offender Management Plan are directed to support state-level activities within the Department of Corrections and Rehabilitation and the State Department of Mental Health.

State Criminal Alien Assistance Program. The Governor's budget assumes another year of underfunding of the federal State Criminal Alien Assistance Program (SCAAP), which provides reimbursement of state and local governments' costs related to detaining undocumented criminals. The Administration reiterates its intention to aggressively pursue maximum funding for this program.

Department of Justice. Of interest to counties, the Governor's budget includes proposed augmentations to allow the Department of Justice to address workload demands imposed by Proposition 69, the DNA Fingerprint, Unsolved Crime and Innocence Protection Act. In addition, the budget contains \$2 million in funding for the DNA Identification Fund to provide automated fingerprint verification systems to law enforcement agencies across the state. Funding also is proposed to establish a satellite office in southern California to provide training to state and local crime laboratory personnel. Also notable is the Governor's inclusion of funding in his Strategic Growth Plan to expand and relocate the state's DNA lab — currently sited in Richmond — to ensure greater capacity and functionality.

Agriculture and Natural Resources

Climate Change. The Governor reiterated his commitment to addressing the effects of climate change and greenhouse gases by proposing a variety of appropriations within different agencies in his 2007-08 budget. Most of his climate change proposals spring from the mandate set forth in the California Global Warming Solutions Act (AB 32, Statutes of 2006), which requires the state to reduce greenhouse emissions to 1990 levels. The Governor's climate change strategy encompasses not only the California Environmental Protection Agency, but also the Department of Forestry and Fire Protection, the Department of Water Resources, the Energy Commission, and the Public Utilities Commission, to name a few.

To begin, he proposes spending \$35.8 million from various funds and dedicating 126 positions to implementing AB 32. Other mechanisms to address climate change in the proposed budget include applying one-time funding of \$31.5 million in incentives for alternative fuels and vehicles, appropriating \$90 million in ongoing grant funding to reduce emissions from heavy-duty, diesel-powered vehicles and equipment (Carl Moyer Program), and utilizing \$12 million to implement the Green Building Action Plan and create a market-based compliance program to reduce emissions.

Flood Control and Water Supply. The Governor's budget has several sources of funding for levee repair and flood management, most of which are derived from Proposition 1E and 84 bond proceeds. In fact, the state's commitment of General Fund money to flood control efforts will decrease in 2007-08, with the Strategic Growth Plan bond funds filling in the gaps. Some of these general fund cuts include a decrease of \$325 million for AB 142 levee repair, a \$200 million reimbursement to the state for previously expedited levee repair, and the expiration of \$100 million in one-time funding for flood control subventions in the Department of Water Resources.

The Governor proposes to spend \$629.9 million in combined funding from Proposition 1E, Proposition 84, and Proposition 13 bond funds and from AB 142, and add 75 new positions to allow the continued identification and repair of critical levee sites, provide subventions to help local governments protect their communities from flooding, and continue development of the state's strategic flood management capability. Also, \$37 million in funding from Propositions 1E and 84 will be dedicated to five flood control capital projects: Mid-Valley Area Levee Reconstruction, South Sacramento County Streams, American River Watershed (Folsom Dam Raise), American River Watershed (Bridge Element of Folsom Dam Raise), and American River Flood Control (Natomas Features and additional feasibility studies).

Water Quality. The Governor has proposed using \$8.5 million (\$4.5 million in ongoing federal funds and a \$4 million, one-time appropriation from the Waste Discharge Permit Fund) to enhance existing water quality efforts. These funds will be used to expand the Water Board's own monitoring activities and integrate existing monitoring data collected by state and local agencies into the Water Board's Surface Water Ambient Monitoring Program.

Williamson Act. The Governor's 2007-08 budget proposal includes \$39.1 million for Williamson Act contracts, a \$500,000 decrease from last year. At press time, the Department of Finance indicated to CSAC that the reduction merely reflected a reduction in the number of active Williamson Act contracts and did not represent a cut to the program.

Sierra Nevada Conservancy. The Governor proposes the expenditure of \$17.5 million in 2007-08 for the ongoing operation and activities of the Sierra Nevada Conservancy.

Fire Protection. The Governor's proposed 2007-08 budget proposes to issue \$600 million in new bond funding for the Department of Forestry and Fire Protection to replace or renovate 75 emergency response facilities, including fire stations, air attack bases, and conservation camps.

Elections

The Governor's proposed 2007-08 budget includes \$10.4 million in federal funds to continue implementing the federal Help America Vote Act (HAVA). Of these funds, \$6.5 million will be used to implement the new federally required VoteCal voter database system, \$1.1 million in new federal funds for election assistance to disabled individuals to be allocated to counties on a competitive basis, \$500,000 for ongoing voter education materials, \$462,000 to continue activities to comply with changing federal voting standards, \$180,000 to continue funds to counties for interim information technology solutions, and continuation of \$1.7 million for HAVA administration.

Emergency Management/Disaster Preparedness

The Governor's 2007-08 budget proposal includes a section on preparing for natural and intentional disasters, and indicates that the Office of Emergency Services has begun contract negotiations for the creation of a gap analysis to assess the strengths and vulnerabilities of California's emergency preparedness system. This project is expected to result in budget proposals within the 2008-09 budget.

Energy

The governor's proposed 2007-08 budget includes an appropriation of \$2.46 million to the Public Utilities Commission for the implementation of the California Solar Initiative, a program to provide 3,000 megawatts of solar energy at full build out.

The proposed budget also appropriates \$5.1 million to advance the use of biomass energy resources pursuant to the Governor's Executive Order setting targets for increased production and use of bioenergy. The funds will provide grants through the California Department of Forestry to biomass energy generation facilities and enhance an existing biomass removal program operated by the California Tahoe Conservancy.

The Governor's proposed 2007-08 budget also includes recommendations to eliminate two energy-related boards and commissions: the California Consumer Power and Conservation Financing Authority and the California Electricity Oversight Board.

Government Finance and Operations

State Mandates. Several changes would be made to state mandate reimbursements under the budget proposal. Pursuant to Proposition 1A, the state must repay local agencies within 15 years for all of the pre-2004 mandates that went unreimbursed, the vast majority of which (about 70%) is for counties. Last year's state budget made two years' worth of these payments, putting the state ahead by one year, and this year's proposal calls for no payment on these old mandates, putting the state back on schedule. In addition, the budget proposes to delay the funding of

budget year mandates until next year, when actual cost data will be available. These maneuvers save the General Fund \$402.4 million this year.

The 2006 state budget funded prior-year claims for the AB 3632 mandate, plus \$52 million for fiscal year 2006-07. The \$52 million was half of the estimated costs for 2006-07 and anticipated that additional future funding would be provided when actual claims were received. The Governor's proposed budget for 2007 provides an additional \$52 million for the remaining half of claims for fiscal year 2006-07. Unlike last year's budget, however, no funds are proposed for fiscal year 2007-08, presumably under the premise that the state's constitutional obligation only requires it to fund mandates one year in arrears, when actual cost data is supposedly available. Until now, the state has always reimbursed for estimated costs and "trued up" later.

A recent decision by the Commission on State Mandates found that portions of SB 739 (2000) constitute a reimbursable state mandate. The Governor's proposed budget calls for its repeal. SB 739 extended the authority of the Public Employee Relations Board (PERB) over agency unfair labor practice and unit determination, but the expected cost savings to create have not materialized, and, in fact, costs have increased. It is not clear whether the proposed repeal also extends to provisions of the bill that also expands agency shop agreements.

Lastly, the Governor's budget proposes significant changes to the current mandate determination process. Currently, the Commission determines whether activities are reimbursable, and at what level, after they are performed and local governments have already incurred costs. The Commission has not kept up and continues to fall further behind, delaying reimbursements even more. Ideally the Commission would make determinations within a year. The Administration proposes that local governments work directly with the Department of Finance as a way to streamline and simplify the process. This approach mirrors statements of previous years, and counties continue to welcome such a change.

Property Tax Administration Assistance. On a briefing call held just prior to the budget release, Administration officials noted that the Governor's spending plan would not include funding for counties' property tax administration programs. The state's fiscal analysis showed that their marginal benefit from this program had been decreased due to the Triple Flip, the VLF swap, the end of ERAF III, and other effects of Proposition 1A. Under the new structure, the state only collects 35-37% of increased property tax revenues, so property tax administration assistance is not in the state's economic interest.

AB 2987 – The Digital Infrastructure and Video Competition Act of 2006. The bill authored by Assembly Speaker Núñez and Assembly Member Levine named the California Public Utilities Commission (CPUC) as the sole video franchising authority in the state in order to speed the deployment of television services provided by telecommunications companies. The Governor's proposed budget allocates \$950,000 and 10.3 positions for the CPUC to implement the Act. The CPUC will use this money to review applications, make annual reports to the Legislature, and to promote service and quality standards on behalf of ratepayers.

Public Employee Post-Employment Benefits Commission. The budget proposal notes that, while the prospects are good for local government revenues, growth in pension obligations and other post-employment benefits such as health care "continues to be an area of concern." The Governor's budget proposal references his recently created Public Employee Post-Employment Benefits Commission created to examine what is owed in unfunded retirement benefits – both pension benefits and other post-employment benefits such as health care – and to recommend how to best meet those obligations as they become due.

The scope of the Commission includes both state and local governments. It will be comprised of 12 members, six appointed by the Governor, including the chair, and three each appointed by the Speaker of the Assembly and the Senate President Pro Tempore. The task of the Commission is, by the end of 2007, to provide guidance to state and local governments regarding development of

individual strategies to deal with these costs. Staff and resources have to be provided by the Department of Finance; no Commission appointments have been announced yet.

Health and Human Services

The following is a description of the spending proposals – both reductions and augmentations – for health and human services programs.

Please note that the Governor's Health Care Reform proposal is not reflected in the 2007-08 budget projections and assumptions. The Health Care Reform package is not proposed to be implemented as part of the 2007-08 state budget. CSAC is still working to obtain additional details about the fiscal impacts to counties of the proposal. Please recall that there is a \$2 billion "redirection" of county funds. As more information becomes available, CSAC will be providing an analysis. In the meantime, please refer to the January 9 memo (attached) to the CSAC Health and Human Services Policy Committee, which contains the key policy highlights of the proposal.

HUMAN SERVICES

CalWORKs. The Governor's Budget includes a number of changes to the CalWORKs program, including:

- Full family sanctions for noncompliance;
- The elimination of safety net grants for timed-out families not currently meeting federal participation;
- The elimination of safety net grants for child-only cases whose parents disqualified due to immigration status or fleeing felon or drug felon status (please note that children residing with non-needy caretakers or relatives are NOT impacted by the proposal);
- A proposed suspension of the July 1, 2007 CalWORKs Maximum Aid Payment COLA which reflects \$140.3 million in savings.

The Administration estimates a General Fund saving of nearly \$450 million from the proposals listed above. The budget maintains funding for services and administration at current levels. The budget assumes an average monthly caseload of 412,574 and projects an 11.7 percent decrease due primarily to the changes outlined above.

Additionally the budget proposes some funding shifts:

- \$16 million reduction to counties' single allocation funding, potentially to be backfilled by fraud recovery incentive funds previously earned and allocated but not spent;
- The use of Proposition 98 funds to replace federal TANF funds for Stage 2 child care for CalWORKs families, with an estimated savings of \$268.9 million annually. By utilizing available Proposition 98 resources in lieu of federal TANF funds, a like amount of TANF funding can be redirected to offset non-Proposition 98 (General Fund) costs. This proposal does not require a reduction to the CalWORKs program, nor does it reduce child care benefits.

In the area of CalWORKs Child Care, the budget proposes total funding of \$501.2 million, an \$88.3 million increase over the current year, for Stage 1. This amount primarily reflects an assumed increase in caseload based on the proposed policy changes. Absent the policy changes, there is an estimated \$2.2 million reduction to services and a \$3.4 million increase to administration. The child care reserve for 2007-08 totals \$50.1 million.

The proposed funding source changes for Child Care are intended to reduce the probability of TANF related penalties associated with failure to meet federal work participation requirements.

Foster Care. Total funding for foster care payments in 2007-08 is expected to be \$1.5 billion, which is \$44 million less than the 2006-07 appropriation. Caseload is projected to grow slightly to 74,965, an increase of less than one percent.

Child Welfare Services. Total funding for child welfare services is \$2.4 billion (\$714 million General Fund) in 2007-08, a decrease of \$53 million total funds (\$52 million General Fund) over the 2006-07 appropriation.

The 2006-07 budget requires DSS to develop a new methodology for budgeting the child welfare services basic program. However, the January budget does not reflect the new methodology; funds will be reflected in the May Revise.

The budget includes \$16.1 million total funds (\$12.7 million General Fund) to continue funding for CWS Outcome Improvement Project County System Improvement activities. It also includes additional funds (\$2 million) for County Probation Department System Improvement Plan activities for children in the juvenile justice system placed in out-of-home care that are tied to the federal requirements.

The budget also includes an additional \$12 million General Fund for the Transitional Housing Program to increase the number of counties providing transitional housing services for current and former foster youth.

In-Home Supportive Services. The budget proposes to limit the state share in wages and benefits to the level in effect on January 10, 2007. According to the Administration, the proposal is effective immediately. The Administration believes that they have the authority under current law to proceed without statutory changes. This is proposed to be a permanent change in the state's wage participation policy. To the extent that counties have contracts in place with wage or benefit increases beyond this date, counties would be responsible for the full costs of that wage and/or benefit increase. The state believes this proposal will save \$14.1 million in 2007-08. Note that absent this proposed policy change, the statutory "trigger" would have been met to increase state participation in wages and benefits to \$12.10.

The budget includes \$4.4 billion (\$1.4 billion General Fund) for IHSS services and assumes that IHSS caseload will grow to 395,100 – an increase of 5.4 percent. The budget also assumes \$87 million in General Fund savings from the IHSS Plus Waiver from allowing the state to claim additional Medi-Cal funds for IHSS Residual cases.

Supplemental Security Income/State Supplementary Payment. The budget does include the January 2008 federal and state cost of living adjustments (COLA), for \$216.7 million General Fund.

Child Support. The Governor's Budget proposes \$194.9 million General Fund to fund local agency administrative costs. The Budget also continues to provide \$20 million in federal funds to be matched by \$10 million in voluntary county funding for the support of local child support agency staff and program services.

The Governor's budget proposes to backfill the loss of federal matching incentives to the Child Support program to avert a \$67.6 million reduction to the program. The Administration is proposing to spend \$23 million General Fund in order to draw an additional \$44.6 million of Federal Financial Participation (FFP) to keep the program whole. Included in the Department of Child Support Services (DCSS) budget documentation is a statement that in budget year plus one (2008-09) the department will request \$31 million General Fund to backfill the loss of performance incentive revenue.

The Governor's budget reflects California's request for federal certification of the statewide child support automated system. Please recall that since 1998 the State has paid \$220 million each year in federal penalties for failure to have a single statewide child support automation system. It is assumed that there will be NO PENALTY owed to the federal government for fiscal year 2007-08. If the federal government approves the certification, they will hold future penalties in abeyance. Once the system is certified, California is eligible to receive a refund of 90% of the Federal Fiscal Year (FFY) 2006 penalty of approximately \$198 million. Please note that the final certification is likely several years off.

Adult Protective Services. State funding for the Adult Protective Services program remains virtually the same. The budget provides \$35 million (\$10.9 million General Fund) in County Services Block Grant funds and \$88.3 million (\$50.1 million General Fund) for adult protective services. Note that some counties use CSBG funds for APS.

HEALTH

Effective July 1, 2007, the budget provides for the creation of two new state departments – the Department of Public Health and Department of Health Care Services – from the current Department of Health Services. This endeavor is budget neutral.

Medi-Cal. The Governor's Budget includes \$37.4 billion (\$14.6 billion General Fund), a net increase of \$2.3 billion from the Budget Act of 2006. The General Fund increase reflects growth in caseload and cost per eligible person. Average monthly caseload is forecast to be 6.7 million persons in 2007-08, an increase of approximately 107,400 people compared to 2006-07. According to data collected for the 2005-06 federal fiscal year (most recent information available), California served approximately 17.7 percent of state residents. However, California has one of the lowest average cost-per-recipient rates in the nation: \$5,626 per beneficiary, versus a national average of \$7,220 per beneficiary.

- **Enrollment.** The budget includes \$35.9 million (\$16.9 million state GF) for implementation of SB 437 Medi-Cal/Healthy Families enrollment streamlining activities and subsequent enrollment increases.
- **Medicaid Citizenship Requirements.** The budget includes \$600,000 and 4.7 positions at DHS to focus on implementing the new requirements. No funding is provided for county workload increases due to the new citizenship requirements; the budget notes that "due to pending federal guidance, the Governor's Budget does not include costs for county level activities nor for any Medi-Cal caseload changes." We anticipate that there will be discussion of the citizenship requirements during budget hearings and would expect to see a funding estimate in the May Revision, if not before.

Healthy Families Program. Healthy Families Program expenditures are projected to grow to \$1.1 billion (\$392 million General Fund) in 2007-08, an 8.9 percent increase. The increase is primarily the result of enrollment that is projected to grow to 915,600 in 2007-08 for a total increase of 73,9000 children.

PUBLIC HEALTH

The Governor's proposed budget includes \$2 million General Fund to provide additional local assistance funding to increase surveillance staff for HIV reports pursuant to Chapter 20, Statutes of 2006 (SB 699). Please recall that CSAC supported SB 699. The Budget also includes funding to enhance the state's response capabilities to food borne illnesses, Hospital Infectious Disease Control Program, Genetic Disease Testing, licensing and certification.

ALCOHOL AND DRUG PROGRAMS

Substance Abuse and Crime Prevention Act of 2000 (Proposition 36). As the budget relates to Proposition 36, the Budget Act of 2006 included \$25 million for the Substance Abuse Offender Treatment Program (OTP), which sought to enhance treatment services for Proposition 36

offenders. The Budget Act of 2006 also reauthorized funding for Proposition 36 on the condition that the program reforms advanced by the Administration were included. These reforms – in SB 1137, Statutes of 2006 – included flash incarceration, improved judicial oversight, and expanded options for offender management. However, a suit challenging the constitutionality of these reform was filed immediately after enactment of the bill, and the court has suspended these reforms by injunction. Resolution of the legal challenge remains unclear.

The Governor's Budget reduces 2007-08 Proposition 36 funding by \$60 million and utilizes this funding to provide an increase of \$35 million to the OTP. This action would yield a savings of \$25 million on a one-time basis. The additional funding provided to the OTP will be contingent upon the court decision that is pending. If the reforms to the initiative agreed to by the Legislature are not implemented, the Administration will revise its budget proposal in the May Revision to remove all remaining Proposition 36 funding and transfer it to the OTP.

MENTAL HEALTH

Mental Health Services to Special Education Students (AB 3632). The 2006 state budget funded prior-year claims for the AB 3632 mandate, plus \$52 million for fiscal year 2006-07. The \$52 million was half of the estimated costs for 2006-07 and anticipated that additional future funding would be provided when actual claims were received. The Governor's proposed budget for 2007 provides an additional \$52 million for the remaining half of claims for fiscal year 2006-07. Unlike last year's budget, however, no funds are proposed for fiscal year 2007-08, presumably under the premise that the state's constitutional obligation only requires it to fund mandates one year in arrears, when actual cost data is supposedly available. Until now, the state has always reimbursed for estimated costs and revised later.

Early and Periodic Screening, Diagnosis, and Treatment (ESDPT). Recall the 2006-07 budget made a permanent General Fund transfer for the Early and Periodic Screening, Diagnosis, and Treatment (ESDPT) Program from the Department of Health Services Budget to the Department of Mental Health. In 2006-07, there is a General Fund increase of \$302.7 million that includes a deficiency request of \$243 million for unpaid county claims from prior years.

In 2007-08, there is an increase of \$92.7 million (General Fund) and \$95.7 million (federal) for increases in the cost and volume of claims, including the effect of the Mental Health Services Act (Proposition 63) on EPSDT services provided.

The Department of Finance is reviewing EPSDT estimating methodology and will have a proposal to improve the methodology in the spring.

Integrated Services for Homeless Adults with Serious Mental Illness. The Governor's Budget proposes eliminating the Integrated Services for Homeless Adults with Serious Mental Illness Program, resulting in a \$54.9 million (General Fund) savings, because similar services are available through Proposition 63. The program provides funding to local mental health agencies and provides comprehensive services to individuals who are homeless or at risk of homelessness or incarceration and have serious mental illness. Increases in the EPSDT program in both current and budget year allow for the elimination of the program while still meeting the Proposition 63 maintenance-of-effort requirements.

It is unclear whether the use of Proposition 63 funds for this purpose is legal given the Act's language regarding supplantation of funds.

Mental Health Services Act (Proposition 63). It is projected that Mental Health Services Fund revenues will increase by \$312.1 million in 2006-07 and \$495.7 million in 2007-08, for a total estimate of \$1.6 billion in 2006-07 and \$1.8 billion in 2007-08. Funds are continuously appropriated to the Department of Mental Health for county implementation.

No changes in state implementation expenditures are proposed. Additional staff and contract funding will be addressed in the May revision of the budget.

Proposition 46. Proposition 46 is the Housing and Emergency Shelter Trust Fund Act passed by voters in November 2002. As part of the Initiative on Homelessness, the state Department of Housing and Community Development (HCD) had directed funds that together with California Housing Finance Agency funds and Proposition 63, would provide homes with supportive services for seriously mentally ill homeless individuals and families. The funds can be used for foster youth and veterans. Allocations are expected to decline in 2007-08 because HCD has accelerated the award of funds and most categories of funding are fully allocated.

REALIGNMENT

Realignment revenues in 2006-07 are estimated to total \$4.58 billion (\$2.8 billion in sales tax revenues and \$1.78 billion in Vehicle License Fees). Realignment revenues in 2007-08 are estimated to be \$4.8 billion (\$2.9 billion in sales tax revenues and \$1.9 billion in VLF).

Indian Gaming

In order to obtain a balanced budget, pre-pay debt, and maintain an ample rainy day reserve, the 2007-08 budget assumes revenues of \$506 million from pending Indian gaming compacts. The administration intends to seek legislative approval of the four Tribal-State Gaming Compacts ratified by the Governor in August 2006.

Housing, Land Use and Transportation

Transportation Funding: Proposition 42. The Governor supports fully funding Proposition 42 in the proposed budget for fiscal year 2007-08. These resources are projected to provide an annual total of \$1.558 billion allocated as follows: \$684 million to the Traffic Congestion Relief Projects (TCRP), \$699 million to the State Transportation Improvement Program (STIP), and \$175 million to the Public Transportation Account (PTA). Pursuant to current law, cities and counties do not receive any local streets and roads funds from Proposition 42 next fiscal year due to an obligation to pay back the STIP for funds received in earlier years. Cities and counties will begin receiving their Proposition 42 allocations again in 2008-09.

Transportation Funding: Proposition 1B. A major new fund source for transportation is Proposition 1B, the \$19.9 billion bond approved by the voters in November 2006. The Governor's budget proposes to appropriate \$8.2 billion over the next three years beginning in 2007-08 to begin implementation of the transportation bond. In addition, \$523 million is proposed for appropriation in 2006-07. The chart below outlines this multi-year plan.

More specifically, the budget proposes urgent action to appropriate \$523 million in 2006-07 for the following purposes: \$100 million for Corridor Mobility Projects, \$262 million for the STIP, \$15 million for Trade Infrastructure, \$141 million for the State Highway Operation and Protection Program (SHOPP), and \$5 million for the Local Bridge Seismic Account.

In 2007-08, \$2.789 billion is proposed for appropriation, including \$600 million for cities and counties for local streets and roads. The budget proposes \$300 million for cities and \$300 million for counties in the last "gap year" from Proposition 42 revenues, as explained under the Proposition 42 section of this article. There are a number of other appropriations for accounts slated for appropriation shown in the chart, including \$317 million for Corridor Mobility Projects, \$340 million for the STIP, \$170 million for the State/Local Partnership, and \$9 million for seismically retrofitting local bridges.

In 2008-09, \$2.385 billion is proposed for appropriation, including \$300 million for cities and counties for local streets and roads, which would mean \$150 million for cities and \$150 million for

counties. Again, there are a number of other accounts slated for appropriation of interest to counties found in the chart.

In 2009-10, \$2.614 billion is proposed for appropriation, including \$150 million for cities and counties for local streets and roads, which would again be shared equally. It is our understanding that the Administration intends to appropriate \$150 million annually each year thereafter to reach the total of \$2 billion slated for cities and counties from Proposition 1B.

The Governor's support for local streets and roads is evident in this proposal and throughout the narrative of the budget presented. The proposed 2007-08 budget accelerates funds for the \$2 billion for cities and counties for local streets and roads, appropriating nearly half (\$900 million) in the first two years. This proposal is very consistent with CSAC's request to provide a significant portion of funds in the next fiscal year when we will not receive Proposition 42 funds. The \$900 million in funds ensure that cities and counties do not have a lost year of construction and will assist to equalize funds available for budgeting purposes as Proposition 42 funds begin to flow again in 2008-09.

SB 1266 (Perata, Chapter 25, Statutes of 2006), which placed Proposition 1B on the ballot, includes the formula for allocating the local streets and roads funding to cities and counties and outlines categories for eligible projects. However, from numerous meetings with Administration officials and key legislative staff involved in implementation of Proposition 1B, we understand that further implementation legislation may be required. It has been made very clear that accountability and transparency in the use of these bond funds remain critical. We are currently responding to requests to define types of projects that it would be appropriate to fund with bond proceeds. In addition, we have been requested to work on a process for triggering release of the funds, as well as tasked with identifying potential performance measures to justify the benefits from the projects funded.

Tribal Gaming Funds. While tribal gaming bonds earmarked to fund various transportation purposes have not materialized due to continued litigation, \$100 million in Tribal Gaming Funds paid on a cash basis will be transferred to the State Highway Account in 2007-08.

Planned Proposition 1B Implementation

(\$ in millions)

	Allocation				Appropriation
	2006-07*	2007-08	2008-09	2009-10	2007-08
Corridor Mobility	\$100	\$317	\$712	\$1,090	\$2,119
Transit	--	600	350	350	1,300
STIP	262	340	287	408	1,035
Local Streets & Roads	--	600	300	150	1,050
Trade Infrastructure	15	170	255	255	680
SHOPP	141	403	102	13	518
State/Local Partnership	--	170	166	166	502
Grade Separations	--	55	60	59	174
Highway 99	--	28	44	99	171
School Bus Retrofit**	--	97	96	7	97
Local Seismic	5	9	13	17	39
TOTAL	\$523	\$2,789	\$2,385	\$2,614	\$7,685

Please note that the data in this chart comes directly from the Governor's Budget Summary 2007-08. There is a discrepancy in the School Bus Retrofit numbers, which cannot be reconciled at this time. 2006-07 expenditures to be proposed in separate legislation.

Proposition 1B 2007-08 Local Streets & Roads Proposed Allocation

County	Registered Vehicles (1/06)	Maintained Mileage (1/06)	Projected Revenue
Alameda	1,148,565	476.23	\$ 9,375,117
Alpine	2,142	134.96	169,253.00
Amador	51,565	410.84	861,775.00
Butte	213,457	1,355.93	3,177,089.00
Calaveras	68,056	689.03	1,303,561.00
Colusa	26,148	716.75	1,012,540.00
Contra Costa	860,855	661.16	7,371,083.00
Del Norte	26,392	300.29	542,971.00
El Dorado	210,235	1,069.06	2,827,562.00
Fresno	661,952	3,599.51	9,167,193.00
Glenn	33,361	863.19	1,233,800.00
Humboldt	138,185	1,205.10	2,427,275.00
Imperial	136,742	2,555.13	3,944,438.00
Inyo	26,480	1,133.10	1,486,411.00
Kern	610,970	3,299.78	8,435,682.00
Kings	96,339	955.83	1,823,166.00
Lake	81,237	612.95	1,318,839.00
Lassen	36,428	905.25	1,305,012.00
Los Angeles	7,124,506	3,103.55	58,322,759.00
Madera	118,554	1,548.50	2,664,986.00
Marin	226,069	419.91	2,214,518.00
Mariposa	26,698	560.41	839,786.00
Mendocino	105,324	1,018.95	1,962,741.00
Merced	192,141	1,726.96	3,433,122.00
Modoc	13,164	987.40	1,219,031.00
Mono	16,909	684.42	904,863.00
Monterey	329,233	1,239.26	3,935,690.00
Napa	129,323	445.73	1,499,473.00
Nevada	123,614	564.53	1,590,039.00
Orange	2,359,332	306.98	18,498,061.00
Placer	339,201	1,044.20	3,791,565.00
Plumas	34,068	687.96	1,040,876.00
Riverside	1,532,067	2,686.14	14,827,105.00
Sacramento	1,175,643	2,188.47	11,521,730.00
San Benito	53,060	384.84	843,847.00
San Bernardino	1,554,213	2,822.13	15,151,425.00
San Diego	2,456,726	1,907.10	21,058,699.00

County	Registered Vehicles (1/06)	Maintained Mileage (1/06)	Projected Revenue
San Francisco	446,319	850.90	4,396,810.00
San Joaquin	541,429	1,653.70	6,037,289.00
San Luis Obispo	268,119	1,313.14	3,549,170.00
San Mateo	673,858	316.08	5,541,864.00
Santa Barbara	351,810	895.33	3,720,042.00
Santa Clara	1,382,980	684.63	11,414,406.00
Santa Cruz	229,301	599.64	2,442,839.00
Shasta	208,135	1,191.19	2,949,656.00
Sierra	5,460	390.25	483,778.00
Siskiyou	63,100	1,360.85	2,025,948.00
Solano	356,003	595.41	3,412,781.00
Sonoma	455,825	1,386.88	5,076,686.00
Stanislaus	429,197	1,545.37	5,051,248.00
Sutter	86,851	790.08	1,562,545.00
Tehama	64,549	1,089.38	1,729,786.00
Trinity	19,563	699.16	941,966.00
Tulare	317,801	3,057.28	5,905,789.00
Tuolumne	73,841	604.09	1,251,910.00
Ventura	705,761	544.81	6,046,224.00
Yolo	166,557	804.15	2,191,657.00
Yuba	61,615	609.09	1,163,512.00
TOTAL	29,247,028	66252.94	\$300,000,000.00

Housing: Proposition 1C. Also passed by the voters in November 2006, Proposition 1C provides \$2.85 billion for housing and emergency shelter projects. The budget authorizes the Housing and Community Development Department (HCD) to award funds totaling \$373 million to the following programs in 2007-08: \$88 million for affordable homeownership programs (this figure includes \$30 million for California Housing Finance Agency (CalHFA) programs and \$15 million each to the California Downpayment Assistance Program and the Residential Development Loan Program); \$140 million for affordable rental housing construction programs; \$40 million for farmworker housing; \$95 million for homeless permanent housing construction; and finally \$10 million for homeless shelter housing construction. These are accounts reflecting continuous appropriations, thus do not require further implementing legislation.

In addition, the budget also proposes to provide \$40 million to the Building Equity and Growth in Neighborhoods (BEGIN) program and \$95 million to the Transit-Oriented Development program. These two programs require annual appropriation by the Legislature.

The budget also includes \$145 million for three Proposition 1C programs, all of which require further legislative implementation and all of which are competitive grant programs. The budget contains \$100 million for the Regional Planning, Housing and Infill Incentive Account from the \$850 million total included in Proposition 1C. The proposal explains that this is a competitive performance-based grant program for critical infrastructure projects that will (1) measurably increase the supply of infill housing produced as a direct result of the state's investment, (2)

encourage efficient land use and development patterns, and (3) ensure a reasonable geographic distribution of infrastructure resources throughout the state.

There is also a new grant program, which is slated to receive a \$15 million award for Affordable Housing Innovation Grants to be administered by HCD. This program will require a trailer bill for implementation as well.

Lastly, there is \$30 million for Housing and Urban-Suburban and Rural Parks. The proposal indicates that, "This new program would create incentives to increase housing production by rewarding local governments with grant funds to create or improve well-designed parks." This program would be administered by HCD in conjunction with the Department of Parks and Recreation. The Administration plans to introduce the appropriate trailer bills to implement this program.

In total, the budget would authorize or appropriate \$653 million of the \$2.85 billion bond for housing and housing related purposes.

Contact: Steve Keil, CSAC Director of Legislative Services, 916/327-7500 ext. 521

California Counties React to Proposed State Budget

Local Government Leaders Pledge to Work with the Governor and Legislators to Provide the Best Services for Californians

SACRAMENTO – With the release of the Governor's proposed 2007-08 budget today, and the health care reform proposal Monday, California's counties conveyed appreciation for Governor Schwarzenegger's ongoing commitment to local government, but also expressed some concerns about cuts and cost shifts to counties that may result.

"We are pleased to see such an ambitious budget proposal from the Governor, which includes a comprehensive plan for strategic growth," said CSAC Executive Director James Keene. "This year's budget proposal affects a number of county programs in a positive way, though details may prove problematic for others, and we look forward to working closely with the Administration on those issues."

Counties strongly supported the 2006 infrastructure bonds that voters approved in November, and are eager to start building. The Governor's proposal makes significant steps to ensure investment in California's infrastructure begins immediately targeting resources to transportation, housing and critical flood protection.

In addition, California's counties are pleased to see that the Governor and the Legislature have made health care reform a priority. We look forward to discussions about expanding access and moving toward universal health care. Counties are the principal providers for California's health care safety net and are anxious to ensure continuation of critical health services to the state's most vulnerable populations, while avoiding a disproportionate shift of costs.

Areas of concern for counties include the identification of funding sources for some key health and human services programs, including mental health. Additionally, counties will be active in discussions on the corrections reform package, which contemplates a number of significant policy changes in both the adult and juvenile corrections systems.

California counties look forward to being active participants in budget discussions with the Legislature and Administration in the coming months, and will continue to advocate for adequate funding for the services provided by the state's 58 counties.

"Counties understand that the Governor faces some difficult decisions as he works to ensure our state's fiscal future," stated CSAC President Frank Bigelow, a Madera County supervisor. "We are eager to work with the Administration and the Legislature to ensure that we create viable solutions for all California residents who depend on the essential services provided by counties."

January 9, 2007

TO: Helen Thomson, Chair, CSAC Health and Human Services Policy Committee
Members, CSAC Health and Human Services Policy Committee

FROM: Kelly Brooks, CSAC Legislative Representative
Qiana Charles, CSAC Legislative Analyst
Fran Burton, Legislative Consultant

Re: **Governor's Health Care Reform Proposal**

On Monday, the Governor released his health care reform proposal. The proposal outlined three "building blocks" for the Governor's vision of an accessible, efficient, and affordable health care system. The plan calls for the elimination of the hidden tax that every insured Californian pays to subsidize the uninsured. The plan also calls for individuals, government (including counties), doctors and hospitals, insurers and employers to equally share in the responsibility for health care reform.

Please note that a number of elements of the proposal remain unclear. Staff is trying to get additional detail. As more information becomes available, we will share with counties immediately.

The following is a summary of the major elements in the Governor's plan.

PREVENTION, HEALTH PROMOTION, AND WELLNESS

The Governor proposes to implement a "Healthy Action Incentives/Rewards" programs to encourage and promote healthy behaviors. The action plan would reward Californians for participating in healthy behaviors and lifestyles that are shown to both reduce the burden of disease and are cost-effective. All health plans and insurers will be required to offer a health benefit package(s) that includes incentives/rewards programs including premium reduction, gym memberships or weight management programs. The Governor's plan also addresses the need to reduce medical errors and health care acquired infections, smoking cessation, and diabetes and obesity prevention.

COVERAGE FOR ALL CALIFORNIANS

The Governor's proposal requires that every Californian secure health coverage for themselves and their dependents and contribute to paying for their coverage (known as an individual mandate). In turn, the proposal will expand Health Families and Medi-Cal for all children in families earning under \$60,000 and adults. Subsidies to families will be provided through a new purchasing pool managed by the Managed Risk Medical Insurance Board. The proposal assumes that counties will be responsible for providing health care for undocumented persons since the proposal will not extend coverage for the state's undocumented population. Finally, employers with more than 10 employees that are not providing health care to their employees would be required to contribute 4% of payroll. Employee and employer contributions will be deposited into the new purchasing pool.

AFFORDABILITY AND COST CONTAINMENT

The proposal also identified short and long term cost containment measures. The Governor's plan would enhance insurer and hospital efficiency and enhance tax breaks for individuals and employers for purchasing insurance. The plan also calls for the state to leverage the its purchasing power through Medi-Cal. The plan proposes to reduce regulatory barriers. By 2010 the Governor plans to improve patient safety through universal e-prescribing.

FISCAL IMPACTS

The proposal includes a \$4 billion increase in Medi-Cal reimbursement rates for providers.

The Administration is proposing that providers contribute 2% of their gross revenues to the state to assist with paying for the proposal. Hospitals would contribute 4% of their gross revenue for the same purpose. Please note that to the extent counties are providers or operate hospitals, they would be impacted by these contributions. This new contribution is based on all revenue – not just Medicaid revenue.

The Governor's documents indicate that counties would be required to "redirect" \$2 billion for the health care expansion. It is not clear what funds are being redirected and what they would be used for under this proposal. At this point we have been unable to get a clear answer from the Governor's staff. It sounds like it may be realignment funds; however this has not been confirmed. Obviously, any redirection of realignment funds would dismantle the entire realignment scheme – affecting indigent care, public health, public hospitals, social services, and mental health.

Please also note that yesterday the Governor released his CalWORKs package, which calls for a number of changes to the program. The proposal eliminates post-60 month safety net grants for child-only cases (children of undocumented parents, children of barred felons and children who are cared for by grandparents and other family members). This proposal impacts health care for this group of children. When children are taken off of CalWORKS they can lose their Medi-Cal eligibility unless they are found eligible for another Medi-Cal aid category. As such, some children will lose their health care coverage.