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Governor and Legislative Leaders Reach Budget Deal

On July 20, Governor Schwarzenegger and legislative leaders announced agreement on a plan for closing the budget gap that has emerged since changes to the 2008-09 budget and the 2009-10 spending plan were signed into law in February. The Legislature is expected to vote on the plan on Thursday or Friday. Currently, no publicly available document outlines the details of the agreement. The following “quick and dirty” summary of key components of the agreement is based on the best available rumors and press reports. Check the CBP website (www.cbp.org) for updates as more details emerge.

The plan agreed to by the Governor and legislative leaders includes \$26.5 billion in “solutions” – \$15.5 billion in program reductions and \$11 billion in other “solutions” – and would leave the state ending 2009-10 with an \$875 million reserve. Program reductions include \$4.3 billion in cuts to K-12 education and community colleges; \$3 billion in cuts to higher education; more than \$2 billion in cuts to various health and human services programs; a \$1.3 billion reduction in state worker salaries attributable to three furlough days per month; a \$1.2 billion reduction in corrections spending; and an \$8 million reduction in funding for state parks.

Other “solutions” include a suspension of Proposition 1A of 2004, which would allow the state to borrow \$2.0 billion from local property tax revenues, which would have to be repaid with interest within three years; redirecting \$1.7 billion of local transportation funds known as Highway Users Tax Account (HUTA); redirecting as much as \$1.7 billion in property taxes from local redevelopment agencies to schools; adjusting personal income tax withholding tables to boost 2009-10 collections by \$1.7 billion; changing the payment schedule for personal and corporate income tax estimated payments to increase 2009-10 collections by \$610 million; privatizing a portion of the State Compensation Insurance Fund; and \$100 million from permitting the sale of leases that would allow offshore oil drilling.

Reports suggest that legislation that will accompany the budget agreement would allow the state to borrow against a portion of future redevelopment property tax dollars and extend the life of redevelopment areas for 20 to 30 years. This provision, details of which have yet to be made public, would use a validation lawsuit – a legal process designed to establish the legality of a set of transactions – that must be decided by a date certain. If the validation suit is decided in the state’s favor and the state is able to borrow against future redevelopment property tax dollars, the proposed borrowing of local government property tax dollars pursuant to the provisions of Proposition 1A and shift of HUTA funds would not occur.

Health and Human Services

The budget agreement reportedly includes several reductions to health and human services programs that are deeper than the cuts in the Budget Conference Committee's version of the budget. The most significant policy changes would affect the CalWORKs Program. According to sources, grants for children whose parents have timed off aid would be cut by 25 percent unless their parents work enough hours to meet federal work participation requirements, and grants for children whose parents have been sanctioned could be reduced by up to 50 percent, depending on how long the parent does not comply with CalWORKs rules. Parents would be limited to 48 consecutive months of cash assistance, although they could later come back on aid for up to an additional 12 months (the children's portion of the grant apparently would not be affected by this change). Funding for CalWORKs employment services and child care would be cut by \$375 million in each of 2009-10 and 2010-11. However, families with young children would be exempt from work requirements and counties could exempt additional recipients, which would reduce counties' cost of providing CalWORKs services.

In the In-Home Supportive Services (IHSS) Program, the budget deal reportedly reduces or eliminates services for some seniors and people with disabilities – as proposed by the Conference Committee – and includes the Governor's proposal to fingerprint IHSS recipients and providers, as well as require providers to undergo background checks.

The budget deal reportedly reduces state funding for the Healthy Families Program by an additional \$54 million beyond the \$70 million cut included in the Conference Committee's version of the budget. Anticipating that the final budget deal would include substantial cuts to Healthy Families, the Managed Risk Medical Insurance Board imposed an enrollment freeze on July 17 and may have to drop eligible children from the program to achieve additional savings. These changes would result in hundreds of thousands of children losing or being denied affordable health coverage in 2009-10.

The budget deal also appears to adopt the major Medi-Cal cuts and program savings that were included in the Conference Committee's budget proposal, including the assumed receipt of \$1.0 billion in federal funds in 2009-10 to reimburse California for prior state expenditures. The budget deal reportedly reduces state funding for Medi-Cal by an additional \$24 million beyond the cuts and savings assumed in the Conference Committee's version of the budget, although it was not immediately clear how those savings would be achieved. In addition, news reports indicate that the budget deal authorizes the state to at least begin the process of privatizing eligibility processing for Medi-Cal and human services programs by shifting this responsibility from the counties to a private firm.

K-12 Education, Community Colleges, and Higher Education

The proposed budget agreement reduces 2008-09 funding for programs covered by the Proposition 98 guarantee by \$1.6 billion. As proposed, the 2009-10 Proposition 98 minimum funding guarantee would be \$1.6 billion lower than the Governor proposed in his July 1 letter if the Legislature approves the proposed 2008-09 Proposition 98 funding level. The budget deal would also defer \$1.7 billion in school district revenue limit payments from 2009-10 to 2010-11. The amount of this deferral would be based on the Governor's May Revision proposal, which was adopted by the Budget Conference Committee. The agreement would also statutorily authorize \$9.8 billion in future payments to schools to compensate for reductions made to programs covered by the Proposition 98 guarantee in 2008-09. These payments would be made after the economy recovers and are in addition to maintenance factor payments not yet made to schools. To compensate for the reductions, school districts would be allowed to reduce the school year by up to five days, according to media reports.

The budget agreement also cuts funding for higher education by \$3 billion, according to media reports. However, it appears some media reports may have counted reductions in funding for community colleges as part of the reductions

to higher education, in effect double counting reductions to community colleges as part of both K-14 and higher education.