



Updated July 27, 2009

## Budget Agreement Sent to the Governor

After a marathon session, the Legislature passed a set of measures aimed at closing the state's \$23.1 billion budget shortfall and adjourned for summer recess. Documents prepared on the morning of July 22, and thus not necessarily reflecting the final agreement, identify \$15.3 billion in spending cuts; \$4 billion in revenue accelerations, measures that change the timing of when taxes are paid, but not the actual amount collected; \$500 million in fund shifts; \$100 million from the proceeds of offshore oil drilling; \$3.1 billion in borrowing from local government, including the well-publicized shift of local property taxes and local Highway Users Tax Account (HUTA) funds; and \$1.2 billion in one-time savings from deferring the payment of the state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010. However, the Assembly failed to approve measures authorizing the sale of offshore oil leases and the diversion of the HUTA funds, reducing the total "solutions" by \$1.1 billion.

The following summary is based on the best available public information and is subject to change as more details become available. Links to analyses of, the text of, and votes on measures included in the packages are available at [www.aroundthecapitol.com/billtrack/budget.html](http://www.aroundthecapitol.com/billtrack/budget.html). The Assembly Floor analysis of the entire agreement is available through yesterday's CBP blog post at [www.californiabudgetbites.org](http://www.californiabudgetbites.org). The text of key measures included in the package remains unavailable as this analysis goes to print. Check the CBP's website ([www.cbp.org](http://www.cbp.org)) for updates as more information becomes available.

### California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The budget agreement makes several significant policy changes to the CalWORKs Program that are scheduled to take effect in 2011. Specifically, the budget agreement:

- Limits adults to 48 cumulative months of cash assistance in any 60-month period. Adults may return to aid one year after reaching the initial 48-month limit. This change does not appear to affect the children's portion of the grant during the period in which the adult loses aid.
- Requires counties to conduct a "self-sufficiency review" every six months with CalWORKs adults who do not participate in welfare-to-work activities for sufficient hours. Adults who fail to attend this meeting without good cause would have their cash assistance payment cut by 50 percent.
- Cuts, by up to 50 percent, grants for children in households in which:
  - An adult has been sanctioned, with the size of the cut dependent on how long the adult does not comply with CalWORKs rules.

- An adult has reached the 48th or 60th month of aid – unless the adult complies with CalWORKs work requirements. In other words, children would receive a full “safety-net” grant after an adult reaches the 48- or 60-month time limit only if the adult works sufficient hours to meet state requirements.
- The family has received “child-only” cash assistance for 60 months – unless the adult complies with CalWORKs work requirements. In other words, children would receive a full “child-only” grant after 60 months only if the adult works sufficient hours to meet state requirements. This change would apply to three categories of “child-only” cases, including families in which the parents are undocumented immigrants and therefore are not eligible to receive CalWORKs cash assistance or to work legally in the US.
- Counts any month that an adult is sanctioned for noncompliance with CalWORKs rules toward that individual’s 60-month lifetime limit on receipt of CalWORKs cash assistance.

In addition, the budget agreement:

- Eliminates the statutory COLA for CalWORKs grants starting in 2010-11.
- Cuts funding for county operation of the CalWORKs Program by \$375 million in 2009-10.
- Exempts parents and relative caregivers of young children from having to meet work participation requirements between July 1, 2009 and July 1, 2011.

### **In-Home Supportive Services (IHSS) Program**

The budget agreement:

- Eliminates, with some exceptions, domestic and related services for IHSS recipients with a “functional index” (FI) rank – measured by need for each individual service – below 4. The budget agreement also eliminates, with some exceptions, all IHSS services for individuals whose weighted-average FI score is below 2. These changes take effect on September 1, 2009, resulting in state savings of \$53.2 million in 2009-10.
- Eliminates the state subsidy for IHSS recipients who are required to pay a share of cost for services, effective October 1, 2009, for state savings of \$41 million in 2009-10.
- Requires both IHSS recipients and providers to be fingerprinted, and requires providers to undergo background checks.

### **Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program**

The budget agreement:

- Cuts SSI/SSP grants for a third time in 2009. The maximum grant for couples will be reduced to the minimum level required by federal law (\$1,407 per month) and the grant for individuals will be reduced by 0.6 percent, to \$845 per month. These cuts will take effect on October 1, 2009 for state savings of \$115.9 million in 2009-10.
- Eliminates the statutory COLA for SSI/SSP grants starting January 1, 2011. This change does not affect the “pass through” of any federal COLA for the SSI portion of the grant.

### **Other Human Services Programs**

The budget agreement:

- Reduces, by 10 percent, rates for various categories of foster care providers, including foster family agencies and group homes, for state savings of \$26.6 million.

- Reduces, by 10 percent, rates for substance abuse treatment services for individuals who are eligible for Medi-Cal for savings of \$8.8 million in 2009-10.
- Increases, by 10 percent, the application and annual fees paid by community care centers, for additional revenues of \$2.1 million to offset General Fund spending.
- Requires certain families for whom the state collects at least \$500 in child support to pay a \$25 fee, effective October 1, 2010. Only families that have never received CalWORKs cash assistance would be required to pay the fee, which is mandated by the federal government and is currently being paid by the state.

## **Medi-Cal**

AB 6xxx requires the Department of Health Care Services (DHCS) to submit a Medi-Cal waiver to the federal government that includes “restructuring proposals” designed to improve coordination of care for several groups, including seniors and people with disabilities; improve health outcomes; and slow the rate of growth of the Medi-Cal Program. The waiver could result in more Medi-Cal beneficiaries being required to enroll in managed care. AB 6xxx requires the waiver to include processes and criteria by which DHCS will evaluate and grant exemptions from any mandatory enrollment into managed care. In addition, DHCS must convene and consult with a stakeholder advisory group and develop an implementation plan that addresses, among other things, “the multiple and complex needs of vulnerable populations.” The bill aims to have the waiver approved either by September 1, 2010 or when the state’s current Medi-Cal hospital waiver expires.

In addition, the budget agreement:

- Assumes receipt of \$1.0 billion in federal funds in 2009-10 to reimburse California for prior state expenditures that the state indicates should have been funded by the federal government. State funding for Medi-Cal would be reduced by up to \$1.0 billion in 2009-10 depending on the amount of federal funds received.
- Cuts state funding for Medi-Cal by \$323.3 million in 2009-10 without specifying how those savings would be achieved.
- Freezes rates paid to certain nursing homes and other long-term care facilities for state savings of \$75.5 million in 2009-10.
- Makes several changes to Adult Day Health Care (ADHC), including temporarily limiting participation for enrollees to three days per week, for state savings of \$18.3 million in 2009-10.
- Freezes rates paid to ADHC centers at the 2008 level for state savings of \$3.7 million.
- Adopts several Medi-Cal prescription-drug reforms for state savings of approximately \$109 million in 2009-10.
- Cuts payments by 10 percent for private safety-net hospitals for state savings of \$18.4 million in 2009-10.
- Cuts the fee-for-service inpatient rate for certain small and rural hospitals, except those designated as “critical access” hospitals and referral centers, for state savings of approximately \$7.2 million in 2009-10.
- Reduces the Distressed Hospital Fund by \$23.9 million to generate an equivalent amount of state savings.

## **Healthy Families Program**

The budget agreement reduces state funding for the Healthy Families Program by \$124 million in 2009-10 and assumes that the First 5 California Children and Families Commission will backfill this cut with tobacco tax revenues. Healthy Families stopped enrolling eligible children on July 17, 2009 and will soon have to begin dropping eligible children from the program – jeopardizing health coverage for hundreds of thousands of children – unless an alternative source of funding is found. On July 15, the state First 5 Commission committed “to join with like-minded public and private partners” to provide an unspecified level of financial assistance to Healthy Families, “contingent upon the availability of funds.”

## **Other Health Programs**

The budget agreement:

- Shifts Proposition 99 funds from several programs to generate General Fund savings in 2009-10. The budget agreement shifts \$25.6 million in Proposition 99 funds from County Health Services, \$6.6 million from the Major Risk Medical Insurance Program, \$4.9 million from the Access for Infants and Mothers (AIM) Program, \$3.9 million from the Expanded Access to Primary Care Program, and \$438,000 from the Asthma Program.
- Reduces state funding for the AIDS Drug Assistance Program and other Office of AIDS programs by \$35 million in 2009-10.
- Eliminates state funding for the Immunization Program for savings of \$18 million in 2009-10.
- Cuts state funding for several community clinic programs in 2009-10. The budget agreement reduces General Fund support for the Expanded Access to Primary Care Program by \$4.5 million, for Rural Health Services by \$2.2 million, for the Seasonal Migratory Worker Program by \$1.9 million, and for the Indian Health Program by \$1.5 million.
- Cuts state funding for Maternal, Child, and Adolescent Health (MCAH) programs in 2009-10. The budget agreement reduces General Fund support for Local County Maternal and Child Health Grants by \$2.1 million, for the Adolescent Family Life Program by \$1.75 million, for the Black Infant Health Program by \$900,000, and for MCAH state operations by \$3.5 million.
- Cuts state funding for the Domestic Violence Shelter Program by \$4.1 million in 2009-10, a 20 percent reduction.
- Cuts state funding for Alzheimer's research centers by \$3.1 million in 2009-10, a 50 percent reduction.
- Suspends state funding for the Children's Dental Disease Prevention Program for savings of \$2.9 million in 2009-10.
- Eliminates state funding for certified application assistance for savings of \$2.7 million in 2009-10.
- Makes several changes to the Genetically Handicapped Persons Program (GHPP), including increasing the enrollment fee for families with incomes of at least twice the federal poverty line, for combined state savings of approximately \$2 million.
- Delays implementation of the California Prescription Drug Program until July 1, 2010.

## **Budget Agreement Establishes a Process to Privatize Eligibility Processing**

Currently, Californians' eligibility for the CalWORKs Program, the Medi-Cal Program, and the Supplemental Nutrition Assistance Program (formerly the Food Stamp Program) is determined by public employees in each of the state's 58 counties. AB 7xxx establishes a process to shift this responsibility from the counties to a single entity by developing a "statewide eligibility and enrollment determination process." If implemented, this change would likely result in a private contractor taking over eligibility processing in California, despite the fact that other states' privatized systems have failed. The bill requires the DHCS and the Department of Social Services to jointly develop a plan for a new system in consultation with a stakeholder steering committee. According to the bill analysis, AB 7xxx permits the state "to proceed with procurement activities... upon legislative approval of the comprehensive plan and an appropriation for this purpose."

## **Child Care and Development Programs**

The budget agreement:

- Eliminates the School Age Community Child Care (Latchkey) program, effective August 31, 2009.
- Continues to reimburse child care providers up to the 85<sup>th</sup> percentile of the 2005 Regional Market Rate survey.

- Maintains the current family fee schedule for child care assistance.
- States that families receiving CalWORKs cash assistance cannot be charged a fee for child care assistance.

## **Proposition 98**

The budget agreement:

- Reduces 2008-09 funding by \$1.6 billion for K-14 programs covered by the Proposition 98 guarantee compared to the level in the February budget agreement. The budget agreement reflects total 2008-09 Proposition 98 spending of \$49.1 billion – the minimum level guaranteed by Proposition 98 – which is \$9.0 billion (15.5 percent) lower than the level assumed in the 2008-09 Budget as enacted in September 2008.
- Reflects a 2009-10 funding level of \$50.4 billion for K-14 programs covered by the Proposition 98 guarantee – \$4.5 billion (8.2 percent) lower than the level assumed in the 2009-10 Budget enacted in February.
- Provides a statutory mechanism and continuing appropriation to restore Proposition 98 funding to the level where it would have been absent 2008-09 reductions.

## **K-12 Education**

The budget agreement:

- Reduces 2008-09 revenue limit payments to school districts and county offices of education by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$2.3 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education. Revenue limits provide general-purpose funding for schools.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$450 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year to 175 instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund purposes for three years.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

## **Community Colleges**

The budget agreement:

- Reduces 2009-10 funding by \$696.1 million. A portion of this reduction would be backfilled with federal economic recovery funds and revenues from higher student fees.
- Increases student fees from \$20 to \$26 per unit beginning with the fall 2009-10 academic term.

- Allows community colleges to use categorical funds for 12 programs to support any other categorical program between 2009-10 and 2012-13.

## Higher Education

The budget agreement:

- Makes \$717.5 million in unallocated reductions in 2008-09 funding for both the University of California (UC) and the California State University (CSU), for a total of \$1.4 billion in General Fund savings.
- Makes \$266.7 million in unallocated 2009-10 reductions to funding for the UC.
- Makes \$266.1 million in unallocated 2009-10 reductions to funding for the CSU.
- Rejects the Governor's proposal to eliminate funding for UC and CSU academic preparation and education programs.
- Transfers \$32 million from the Student Loan Operating Fund to the state's General Fund to pay for a portion of Cal Grants in 2009-10.
- Reduces 2009-10 funding by \$1.0 million – 10 percent – for the Hastings College of the Law.

## Local Government

Portions of the budget agreement related to the diversion and/or shift of local government revenues proved to be among the most controversial provisions of the budget agreement. Measures passed by the Legislature:

- Divert \$1.935 billion of local government property tax revenues in 2009-10 to schools and/or counties to generate an equivalent amount of state savings. Pursuant to Proposition 1A of 2004, the maximum diversion from any one jurisdiction would be 8 percent of an entity's property tax collections and the state must repay the amount shifted, with interest, no later than June 30, 2013.
- Provides a mechanism for local governments to borrow against the state's repayment obligation for shifted property tax dollars through a new state-sponsored pool. The state would pay principal and interest costs for local governments that borrow through the pool.
- Allows the state to divert up to \$2.05 billion in redevelopment agency property tax revenues in 2009-10 and 2010-11.

The Senate passed, but the Assembly failed to approve a measure that would have authorized the state to borrow \$1 billion in HUTA funds from local governments. The Senate measure provided that the loan would be repaid over a 10-year period. This measure differed from the agreement announced earlier in the week, which would have shifted the funds to the state with no repayment obligation.

## Revenue Accelerations and Collections

The budget agreement:

- Adjusts personal income tax withholding tables so that taxpayers pay a larger share of their payments during the first half of the calendar year, increasing 2009-10 collections by \$1.7 billion. This provision changes when taxes are collected, but not the amount that is actually owed.
- Changes the payment schedule for personal and corporate income tax estimated payments to increase the amount due in the first half of the year, boosting 2009-10 collections by \$610 million. This provision changes when taxes are collected, but not the amount that is actually owed.

- Requires non-retail businesses with gross receipts of more than \$100,000 to register with the Board of Equalization and file annual use tax returns. This provision is designed to improve tax compliance, but would not change the actual amount of taxes owed, and is expected to increase revenue collections by an estimated \$26 million in 2009-10.
- Requires businesses to withhold 7 percent of specified non-wage payments. This proposal does not change the actual amount of taxes owed, but would increase revenue collections through increased compliance by an estimated \$32 million.

## **Corrections**

The budget agreement:

- Assumes \$1.2 billion in unallocated savings from the California Department of Corrections and Rehabilitation (CDCR).
- Caps payments for contracted medical services for savings of \$50 million.

## **State Employees**

The budget agreement:

- Assumes \$850 million in savings from state worker furloughs.
- Shifts state employees' final paycheck from June 30, 2010 to July 1, 2011 for savings of \$1.2 billion in 2009-10.
- Adopts CalPERS' plan to use excess reserves to pay for two months of health premiums and costs for savings of \$100 million.
- Assumes \$50 million in savings from lower-than-anticipated health coverage premium rates for state employees.

## **Transportation**

The budget agreement:

- Cuts \$315 from home-to-school transportation and uses \$561 million in higher-than-anticipated transportation tax revenues to cover \$876 million in transportation-related bond debt service costs that otherwise would be paid by the General Fund.
- Shifts \$134 million from the State Highway Account to the General Fund. This amount must be repaid within three years.

## **Other**

The budget agreement:

- Assumes \$100 million in proceeds from the sale of leases allowing oil drilling off the Santa Barbara coast. However, legislation authorizing the sale of leases was defeated in the Assembly.
- Assumes \$1 billion in proceeds from the sale of a portion of the State Compensation Insurance Fund (SCIF) to a private entity.
- Eliminates automatic COLAs for the judicial branch and state operations, including the UC and CSU.
- Cuts court funding by \$169 million. This reduction would be managed, in part, by closing courts one day per month and increasing certain fees.

- Reduces funding for state parks by \$8 million and uses special fund loans and unexpended funds to generate a total of \$70 million in General Fund savings. This reduction would result in the closure of approximately 50 state parks.
- Suspends 31 local government mandates for savings of \$83 million and defers \$65.6 million of payments for current claims.
- Reduces state payments to local governments for revenues lost as a result of Williamson Act contracts by 20 percent for savings of \$8 million. The Williamson Act lowers property taxes paid by agricultural landowners that agree not to develop their land.



## Legislation Included in the Budget Agreement

AB 1xxx:	Changes to 2009-10 Budget Bill
AB 2xxx:	Education
AB 3xxx:	Proposition 98 Guarantee
AB 4xxx:	Human Services
AB 5xxx:	Health
AB 6xxx:	Medi-Cal Managed Care Waiver
AB 7xxx:	Privatization of Medi-Cal and Human Services Program Eligibility Determination
AB 8xxx:	CalWORKs and SSI/SSP Policy Changes
AB 9xxx:	Developmental Services
AB 10xxx:	Transportation
AB 11xxx:	Resources and Environmental Protection
AB 12xxx:	General Government, Including State Compensation Insurance Fund
AB 13xxx:	Public Safety and Judiciary
AB 14xxx:	Suspension of Proposition 1A of 2004
AB 15xxx:	Proposition 1A Borrowing and Repayment
AB 16xxx:	Cash Deferrals
AB 17xxx:	Revenue Accelerations
AB 18xxx:	Revenue Compliance
AB 19xxx:	IHSS Policy Changes
AB 20xxx:	Board Consolidation and Elimination
AB 21xxx:	Procurement Policy Changes
AB 22xxx:	Surplus Property Sale and Lease
AB 25xxx:	Cash Management
AB 26xxx:	Redevelopment Agency Property Tax Shift
SB 63:	Integrated Waste Management Board
SB 90:	Supplemental Funding for the Department of Corrections and Rehabilitation