



COUNTY WELFARE DIRECTORS ASSOCIATION OF CALIFORNIA
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CWDA

January 21, 2009

To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

Pages: 3

RE: State Budget Update #2 – Cash Deferrals

Due to the state's deteriorating cash position, the State Controller and the Governor have proposed the deferral of billions of dollars of payments beginning February 1. The Governor's proposal requires approval of the Legislature; however, the Controller's proposal will be implemented effective February 1 unless the Legislature and Governor approve a mid-year budget agreement which is needed to enable further borrowing by the state.

Below is our current understanding of the deferrals. The details of the Controller's proposal remain in flux and we will send additional information as it becomes available.

State Controller's Cash Deferrals

As announced last Friday, the state will be \$346 million short of paying its bills in February, growing to \$3.55 billion in March and \$5.2 billion in April. The amounts assume no agreement between the Legislature and Governor on a mid-year package of cuts and revenues. In response, the Controller has proposed to defer \$3.37 billion in General Fund payments in February and re-evaluate the need to continue the deferrals thereafter. In contrast to last year's deferrals, counties with populations below 40,000 would be impacted. The deferral would impact the following programs (note that Federal funds would continue to flow for human services programs with the possible exception of Medi-Cal eligibility as discussed below):

- \$114 million to support CalWORKs Grants, Stage One Child Care, Employment and Eligibility Services. This includes the total General Fund payment to support CalWORKs costs in February. We are working with CDSS to determine if the impact could be reduced by replacing the General Fund portion with TANF funds. We believe that this amount may also represent the General Fund portion of Foster Care and Adoptions grant payments.
- \$122 million to support County Administration which includes the General Fund portion for county Eligibility for Foster Care, Adoptions, and Food Stamps. We believe this amount would also impact the following children's and adult's programs:
 - Child Welfare Services
 - Title IV-E Waiver
 - Child Abuse Prevention, Intervention, and Treatment (CAPIT)
 - Community Care Licensing

- Group Home Monthly Visits
 - Child Welfare Services Outcomes Improvement Program (OIP and 11-county pilot)
 - Supportive and Therapeutic Options Program
 - Emancipated Youth Stipends
 - Foster Parent Training and Recruitment
 - State Family Preservation
 - Kinship Support Services Program (KSSP)
 - Kinship/Foster Care Emergency Funds
 - Substance Abuse/HIV Infant Program (Options for Recovery)
 - Adult Protective Services
- \$22 million to support Medi-Cal County Administration which would not impact county eligibility in February as no payment is due. This amount represents other payments in this item such as California Childrens Services Case Management, Medicaid Administrative Activities funds, and payments to vendors. If there is a deferral in March, it would likely include all of the Medi-Cal eligibility third quarter payment to counties. In the 2008-09 July and August deferral, in addition to the General Fund withheld to counties, the Federal funds were also withheld. We are working with the Department of Health Care Services to ensure that Federal funds continue to flow to counties.
 - \$188 million for SSI/SSP which represents the SSP portion of the payment in February. SSI/SSP checks are actually sent by the Federal government and the intent of the state is to withhold the General Fund portion sent to the Federal government and take a five percent (\$9.4 million) penalty for late payment. For February, it appears that recipients will receive the full amount of their checks. However, at any point, the Federal government could refuse to front the funds on behalf of the state, thereby resulting in a reduced payment to recipients and/or the loss of federal funds.
 - \$77 million to support county mental health activities such as AB 3632 (mental health services to special education students) and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT).
 - \$19 million to support county alcohol and drug abuse prevention and treatment such as Perinatal Services, Proposition 36 substance abuse treatment, Drug Medi-Cal, and Drug Courts.
 - \$280 million to support Developmental Disability Services in Regional Centers.
 - \$515 million to support state operations, lease and maintenance payments.
 - \$1.99 billion for income tax refunds to individuals, banks, and corporations.

We have been in near constant discussions with the Controller's Office and the Department of Social Services to estimate the impacts of the deferrals by program and month and will send additional information as it becomes available.

Governor's Proposed Cash Deferrals

The Governor has proposed to delay payments to counties for all human services programs (except In-Home Supportive Services provider payments and social workers, and SSI/SSP) from February through August. Delayed payments would be made by September 30, 2009. This proposal would impact the same human services programs as above (with the exception of SSI/SSP). Counties with populations below 40,000 would be exempt.

County Borrowing Concerns

In any deferral situation, counties have limited options to cover the state share of funding. Options include internal borrowing based on available county cash reserves, borrowing from the county treasury (includes a number of limitations), short term external borrowing through a Tax Revenue Anticipation Note (TRAN) or reducing services or passing on the deferrals to program recipients and contractors. In nearly all counties, the 2008 deferrals were covered through internal borrowing based on available county cash reserves. Unfortunately, due to 2008-09 state budget reductions and sharp declines in local revenues due to declining sales and property taxes, few, in any, counties have available reserves. In addition, TRANs are a very limited option as the funds must be paid back within the fiscal year they were issued, there is minimal demand in the market for borrowing, and neither the Controller's nor the Governor's approach would guarantee funding prior to June 30, 2009. It is unclear what happens if counties run out of funds to cover the state and are forced to make program changes.

What about a mid-year budget package?

Legislative leaders have been meeting near daily with the Governor to craft a mid-year package of cuts and revenues that would make a large dent in the \$39.6 billion deficit. Significant progress has been made with the goal to reach final agreement by the end of the month to stave off the deferrals. The package would likely include the assumption of billions of dollars in additional federal funding in a number of areas such as Medi-Cal, Food Stamps, TANF, and Child Care based on the Economic Recovery Act being finalized in Congress. However, it is not clear how much time would be needed for the state to garner sufficient funds to meet February payment obligations once an agreement has been reached.