



**County Welfare Directors Association of California**

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**CWDA**

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To: All County Social Service Directors and Fiscal Officers  
From: CWDA Staff  
Pages: 4  
RE: State Budget Update #6 – State Budget and Federal Stimulus Details Emerge

Details have emerged on the budget framework tentatively agreed to by Legislative leaders and the Governor to resolve the state's \$40 billion-plus budget deficit. The deal calls for a combination of tax increases, spending cuts, at least one corporate tax break, and borrowing. The package would also require voters to weigh in on several issues that will factor into the final budget, including a proposed spending cap.

Over the weekend, the Senate and Assembly met in an attempt to pass the main budget bills for 2008-09 and 2009-10 as well as numerous trailer bills that enact tax increases, tax cuts, spending cuts, borrowing, and other parts of the deal. While the Assembly appears to have the necessary Republican votes for the two-thirds majority required to pass all of the bills, the Senate has stalled one vote short. Senate President Pro Tem Darrell Steinberg has now vowed to keep the Senate in session until the issue is resolved and they are expected to meet again at some point this morning.

In a surprise move late last night, Senate Minority Leader Dave Cogdill – who has repeatedly voted for the budget package that he negotiated along with other legislative leaders and the Governor – was ousted by his caucus and replaced with Sen. Dennis Hollingsworth, who has consistently vowed not to support tax increases. How this will play into the discussions remains to be seen.

**Revenue and Borrowing**

The deal includes more than \$14 billion in revenues over the two-year period. Some of the revenues are earmarked – such as a portion of the Vehicle License Fee increase that is slated to go toward law enforcement (an estimated \$580 million over two years of the below total). In general, these revenues would have a two-year sunset that would be extended to five years if the voters approve the spending-cap ballot measure.

Type of revenue	Estimated two-year totals
Sales tax: 1 cent increase	\$5.7 billion
Gasoline tax: 12 cents per gallon	\$2.0 billion
Vehicle license fee: from .65 percent to 1.15 percent	\$1.9 billion
Personal income tax: Reduce dependent credit	\$1.4 billion
Personal income tax: 5% surcharge	\$3.2 billion

The 5% personal income tax surcharge would be reduced to 2.5% if the federal economic stimulus package brings in sufficient revenues to the state. The criteria for this “trigger” are the same as for several of the spending cuts that also are dependent on new federal revenue, described below.

With respect to borrowing, over the two-year period, the package includes \$6 billion in revenue anticipation warrants, \$5 billion from the lottery, and about \$400 million in borrowing and transfers from special funds and court facilities, for a total of \$11.5 billion.

### **Spending Cap**

As previously reported, the deal includes a ballot initiative that would create a state spending cap. All revenues beyond a set spending limit would be placed into a rainy-day fund that could only be accessed under certain circumstances.

### **Tax Breaks**

The deal includes a sizeable tax break for corporations, an easing of the rules for reporting and paying taxes on income for companies that do a significant amount of business outside of the state. Under this break, only sales inside the state of California would be taxable and property and employees would no longer be considered in figuring a corporation’s tax bill. The provision is said to cost the state about \$700 million a year once fully implemented.

### **Spending Cuts**

The proposed budget would reduce funding to health and human services by implementing a series of cuts through the State Budget. Further cuts will occur unless California receives at least \$9.2 billion through the federal stimulus package (these are being referred to as “trigger cuts”). Following are the approved spending cuts, followed by a description of the trigger cuts:

#### **Spending Cuts:**

The package includes \$14.1 billion in cuts, deferred COLAs and delayed spending. The cuts affect most sectors of the government including Proposition 98 (K-12 education and community colleges), higher education, public transit, developmental services, corrections, local government, capital outlay, debt service, and the court system. The deal also assumes continuation of the twice-monthly furloughs for state staff, along with the elimination of two state holidays.

In health and human services, the major cuts include:

- **CalWORKs COLA:** Suspends the 2.94 percent cost of living adjustment (COLA) for CalWORKs clients scheduled to take place July 1, 2009, for a cost avoidance of \$79.1 million.
- **CalWORKs Pay for Performance:** Adopts the Governor’s proposal to suspend the Pay for Performance program for a savings of \$40 million. The Pay for Performance program was established in 2005-06 to create incentives to counties to achieve program outcomes; however, counties have never received funding for meeting or achieving those outcomes.
- **Child Care Regional Market Rates:** Delays implementation of the new Regional Market Rates (RMR) for child care providers, which were previously slated to go into effect on March 1, 2009, to achieve savings of \$15 million. The package does not specify when the new RMR would go into effect.
- **SSI/SSP Grants:** Suspends the June 2010 State COLA for a cost avoidance of \$27.0 million, and withholds pass through of the federal January 2009 SSI COLA for savings of \$79.8 million GF in the current year and \$487.3 million GF in the budget year.

- **Medi-Cal County Administration:** Suspends the 2009-10 cost-of-doing business adjustment for county eligibility operations, which will result in a loss of \$49.4 million (\$24.7 million GF) to counties.
- **LEADER Replacement:** Adopts the Governor's proposal to delay scheduled replacement of the Los Angeles LEADER Replacement System (LRS) by six months for a savings of \$14.6 million GF.
- **Proposition 10 (First Five):** Sweeps funds from the state commission and assumes a redirection of 50 percent of state and local funds to children's programs (which we believe includes child welfare services) through 2013-14, for savings of \$608 million over the two-year period and \$1.4 billion over five years. This will have to be approved by voters.
- **Proposition 63 (Mental Health Services Act):** Temporarily funds EPSDT services for children using Proposition 63 funds, for savings of \$226.7 million over the two-year period and \$461 million over five years. This will have to be approved by voters.

**Trigger Cuts:**

The below cuts would be enacted in statute and could only be "turned off" if expected revenues from the federal economic stimulus package are certified by the Department of Finance to equal or exceed \$9.1 billion (this includes revenue anticipated to be received by June 30, 2010). If the cuts do go into effect because revenues are not sufficient to meet the target amount, they would be permanent (i.e., requiring a future statutory change to undo). If the cuts are turned off, this is also permanent and future statute would be necessary to enact cuts of this nature in the future should they become necessary.

The Department of Finance would be required to make its certification by April 1, 2009. We are not 100 percent sure of the effective dates for the below, but believe that the effective date is July 1, 2009 for all of the cuts, as no savings are assumed from these cuts in the current fiscal year.

**CalWORKs Grants:** Cuts CalWORKs grants by 4 percent in the current year for savings of \$146.9 million General Fund in 2009-10.

**Medi-Cal benefits and reimbursements:** Eliminates certain optional benefits for adults and reduces reimbursement rates for public hospitals by 10 percent, for total savings of \$183.6 million General Fund in 2009-10. The optional benefits that would be eliminated are the same as proposed by the Governor in January and include acupuncture, audiology, chiropractic, dental, .

**SSI/SSP Grants:** Reduces grants by 2.3% for both individuals and couples, resulting in a loss of \$20 per month for individuals and \$35 per month for couples. This reduction would result in savings of \$267.8 million in 2009-10.

**IHSS:** Would cap state participation in wages to \$9.50 per hour plus \$0.60 for health benefits, which would impact 18 counties that currently pay over this amount. The deal also would freeze the share-of-cost (SOC) buy-out for individuals who enter the program after this date. Individuals currently receiving the buy-out would continue to do so; new entrants to the program would no longer have their SOC bought out by the state. These two changes would result in total savings of \$78.0 million GF in 2009-10, with increasing annual savings thereafter.

In addition to the cuts in health and human services, cuts tied to the same trigger are proposed for the judicial branch and higher education totaling \$271.4 million in 2009-10, along with the 5% personal income tax surcharge described in the revenue section above.

**Federal Economic Stimulus Package**

President Obama signed the stimulus package into law yesterday. People are still poring through hundreds of pages to determine the details. Estimates vary, but it appears that the state is likely to receive approximately \$11 billion from the increased federal matching rate for Medicaid services (including IHSS services) and that the state and counties will see about \$175 million from the increased matching rate for Foster Care and Adoption Assistance payments to caregivers. Both of these figures represent the total increased funds anticipated during the period October 1, 2008 to December 31, 2010, the start and end dates for the increased federal match.

We will provide further details of the stimulus package at CWDA meetings this week and in future updates.