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January 10, 2008

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

From: Paul McIntosh, CSAC Executive Director
Jim Wiltshire, CSAC Deputy Director
Jean Kinney Hurst, CSAC Legislative Representative

Re: **Highlights of the 2008-09 State Budget**

Governor Arnold Schwarzenegger released his 2008-09 Proposed Budget this morning with a major focus on reforming the state budget process to avoid the perennial budget “roller coaster” of surpluses and deficits. To that end, the Governor has proposed a constitutional amendment that would provide budget reforms he believes are necessary to avoid “Sacramento’s culture of overspending.”

Termed the “Budget Stabilization Act,” the Governor’s proposal includes two significant provisions. The first component would require that revenues in excess of a long-term average rate of growth be deposited in a Revenue Stabilization Fund. In years of below-average rates of revenue growth, funds would be transferred from the Revenue Stabilization Fund to the General Fund in an amount not to exceed the shortfall. If the Revenue Stabilization Fund exceeds an amount equal to 10 percent of General Fund revenues in a given year, the excess will be available for one-time spending for schools and providing one-time tax rebates, investing in one-time infrastructure projects, or paying off debt.

The second component is modeled after an Arkansas budget provision that would allow for automatic reductions in state spending when a deficit has been determined. The Governor would be required to estimate the year-end balance in the General Fund three times annually: November, January, and May. When the estimate shows a likely General Fund deficit of one percent or less, the Governor will reduce annual appropriation levels by 2 percent, and when it shows a deficit of greater than one percent, annual appropriations will be reduced by 5 percent. The Act would require the Legislature and the Governor to enact statutory changes in all state entitlement programs that allow for reductions in service levels or rates of payment sufficient to achieve the targeted reductions of 2 or 5 percent. These reductions would remain until the Legislature acts, either in the next Budget Act or separate legislation to restore service levels. If the Legislature fails to enact a schedule of program reductions in a given program, or if the reductions authorized by the Legislature are insufficient to achieve the savings goals, the Governor will be authorized to waive any state law or regulation necessary to achieve the full reduction amounts.

The Governor today also called a fiscal emergency (see proclamation linked [here](#)) and ordered a special session (see proclamation linked [here](#)) to consider mid-year budget corrections. The Legislature now has 45 days (until February 23) to consider the Governor’s proposed reductions,

which include permanent current year reductions to close the budget gap. Details on specific reductions are outlined in this Bulletin. According to staff at the Department of Finance, it is unclear what the Legislature must deliver to the Governor to fulfill the obligations of Proposition 58. The Legislature and Administration continue to discuss the process involved in budget subcommittee and committee hearings, the appropriate means for introducing legislation in the special session, and how the Legislature must respond in order to comply with the provisions of Proposition 58. Regardless, the Governor's budget plan assumes enactment of the special session measures by March 1, 2008. Note that the proposed "Budget Stabilization Act" is not a component of the special session package.

Assuming the Governor's budget plan, including mid-year reductions, is enacted, the Department of Finance has estimated that in 2009-10 the operating deficit would be \$2.8 billion, in 2010-11 it would be \$2.0 billion, and in 2011-12 it would be \$1.2 billion.

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.

The \$14.5 Billion Budget Deficit

The Governor's Budget projects a \$14.5 billion budget deficit, as outlined below.

\$14.5 Billion General Fund Deficit Workload Budget* (\$ in billions)

	2007-08	2008-09
2007 Budget Act Reserve	\$4.1	
Changes in Beginning Balance/Carryover from 2007-08	-0.5	-\$3.3
2007-08 Operating Deficit		-6.7**
Major Revenues Decrease/Increase	-4.2	4.6
Other Revenues	-0.7	-1.4
Expenditure Increases		
Proposition 98	-0.6	-2.3
All Others	-1.4	-5.4
2008-09 Operating Deficit		-11.2
2008-09 Governor's Budget Workload Budget Deficit	-\$3.3	-\$14.5
Operating Deficit**	-\$6.7	

* Workload budget reflects the projected costs of state government if no corrective actions are taken.

** The operating deficit for 2007-08 reflects spending more in that year than the revenues collected that year. This operating deficit carries forward into 2008-09 and is increased by projected spending increases partially offset by revenue increases.

The Governor outlines a plan to close the budget deficit that includes more than 500 proposals to achieve 10 percent across-the-board reductions, more than half of which are in the area of health and human services. These reductions are outlined in detail below. In addition to the 10 percent reductions, the budget also proposes to sell the remaining \$3.3 billion of authorized Economic Recovery Bonds (ERBs) and to suspend the prepayment of ERBs scheduled for 2008-09. Of importance to counties, this results in a few more years of the Triple Flip funding mechanism to repay those bonds.

How the Administration Closes the Budget Gap (\$ in millions)

	2007-08	2008-09
Workload Reserve	-\$3,318	-\$14,479
Impact of 2007-08 Solutions on 2008-09 Beginning Reserve		4,190

10 Percent Reductions	217	9,132
Sell Economic Recovery Bonds	3,313	
Proposition 58 Suspension		1,509
Reduce Proposition 98 Overappropriation	400	
Other Special Session Reductions	200	96
Accrual of June Personal Income Tax and Corporate Tax		2,001
Franchise Tax Board and Board of Equalization collection and enforcement enhancements	60	329
Reserve at Governor's Budget	\$872	\$2,778

Of particular interest to counties is the Administration's proposal to ensure a prudent cash reserve. There are potential cash flow issues facing the state in March, July, and August. To address this issue, the Governor's Budget proposes cash management solutions totaling \$8.7 billion. Except where noted, Department of Finance staff indicated that statutory authority is required to make these payment delays. The major cash management solutions include:

- \$3.313 billion – Sell Economic Recovery Bonds by the end of February 2008. No legislative action is needed to achieve this cash flow solution in time to avoid a problem in March.
- \$1.300 billion – A two-month delay in disbursement of deferred apportionments for K-12 schools and community colleges.
- \$814 million – A two-month delay in disbursements for programs in the Department of Social Services.
- \$584 million – Split the STRS Supplemental Benefit Maintenance Account payment and delay the payment from July to November and April.
- \$500 million – A one-to-five-month delay in gas tax disbursements for local streets and roads, increasing borrowable resources.
- \$454 million – A delay of the four weekly checkwrites for Medi-Cal fee-for-service institutional providers in August until September.
- \$400 million – A delay of \$400 million in advances to regional centers.
- \$400 million – Reduction in 2007-08 Proposition 98 overappropriation.
- \$232 million – A one-month delay in the Medi-Cal Managed Care Plan payment and Delta Dental Plan payment.
- \$200 million – A two-month delay of the mental health managed care program advance.
- \$165 million – A delay in disbursement for Medi-Cal fee-for-service checkwrite from June to July.
- \$164 million – A one-to-two month delay in making first quarterly payment to counties for Medi-Cal administration.
- \$92 million – A two-month delay in the quarterly advance to counties for the Early and Periodic Screening, Diagnosis, and Treatment Program.
- \$113 million – Other issues.

Budget Aggregates

The Governor's 2008-09 proposed budget provides a General Fund spending plan of \$100.998 billion, representing a decrease of \$2.375 billion, or a 2.3 percent decrease over the prior fiscal year. Nearly 90 percent of the proposed budget is confined to only three program areas: K-12 and higher education (50.6 percent); health and human services (29.0 percent); and corrections and rehabilitation (10.2 percent). State General Fund expenditures have grown by a total of \$22.6 billion, or a cumulative 28.8 percent, since 2001-02.

The proposed budget anticipates \$102.904 billion in General Fund revenues, representing an increase of \$1.674 billion, or a 1.7 percent increase over last year. Three primary revenue sources constitute nearly 95 percent of General Fund revenues: personal income tax (54.9 percent); sales tax (28.4 percent); and bank and corporation tax (11.6 percent). State General Fund revenues have grown by a total of \$25.8 billion, or a cumulative 33.5 percent since fiscal year 2001-02.

Recent General Fund Revenues and Expenditures

(\$ in billions)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Revenues	77.1	79.3	77.6	81.7	87.7	94.5	101.2	102.9
Expenditures	78.4	78.8	78.0	82.3	90.3	102.1	103.4	101.0

Figures do not include one-time carry-over balances in the revenue data or reserves in the expenditure data. 2007-08 and 2008-09 include budget-balancing reductions.

2008-09 General Fund Expenditure Estimates by Category (includes budget-balancing reductions)

(\$ in millions)

Expenditure Category	\$	%
K-12 & Higher Education	\$51,110	50.6
Health & Human Services	29,298	29.0
Corrections and Rehabilitation	10,268	10.2
Other	10,322	10.2
TOTAL	\$100,998	100.0

2008-09 General Fund Revenues Estimates by Category

(\$ in millions)

Revenue Category	\$	%
Personal Income Tax	\$56,458	54.9
Sales Tax	29,215	28.4
Bank and Corporation Tax	11,937	11.6
Other	5,294	5.1
TOTAL	\$102,904	100.0

2008-09 General Fund Budget Summary (includes budget-balancing reductions)

(\$ in millions)

Carry-Over Fund Balance	\$1,757
Revenues and Transfers	\$102,904
TOTAL REVENUES	\$104,661

Non-Proposition 98 Expenditures	\$61,405
Proposition 98 Expenditures	\$39,593
TOTAL EXPENDITURES	\$100,998
Fund Balance	\$3,663
Liquidation of Encumbrances	\$885
Special Fund for Economic Uncertainties	\$2,778
Budget Stabilization Account*	-
Total Available Reserve	\$2,778

* Reflects the suspension of Proposition 58 transfer to the Budget Stabilization Account.

California Strategic Growth Plan

The Governor proposes legislation to put bonds before the voters. One bond would be for water storage and conveyance (\$11.9 billion), a pair of bonds would provide further K-12 funding for enrollment growth, overcrowding, and repair (\$6.4 billion in 2008 and \$5.2 billion in 2010), another pair would be for higher education systems (\$7.7 billion in 2008 and \$4.6 billion in 2010), and finally one that would expand and repair California's court system (\$2 billion). These proposals, together with the previously approved bonds for high-speed rail (\$10 billion) and other public service infrastructure (\$300 million) provide for \$48.1 billion in new GO bonds, and would be placed on the 2008 (\$38.3 billion) and 2010 (\$9.8 billion) ballots for sale over the next ten years "in a manner that maintains a prudent debt ratio."

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

Program	2008	2010	Totals
K-12 Education	\$6.4	\$5.2	\$11.6
Higher Education	7.7	4.6	12.3
Water	11.9	-	11.9
High Speed Rail	10.0	-	10.0
Judiciary	2.0	-	2.0
Other Infrastructure	0.3	-	0.3
Total	\$38.3	\$9.8	\$48.1

Strategic Growth Council. Recognizing the need for state agency collaboration for the implementation of the Strategic Growth Plan, the Governor announced a proposal in the January Budget to create the Strategic Growth Council (SGC). The SGC would be charged with coordinating the activities of various state agencies to promote environmental sustainability, economic prosperity, and quality of life for all Californians. Specifically, it would:

- Coordinate the activities of state agencies to best improve air and water quality, improve natural resource protection, increase the availability of affordable housing, improve transportation, meet the goals set forth in AB 32, the California Global Warming Solutions Act of 2006, and encourage sustainable land use practices.
- Recommend policies to state agencies and the Legislature that will encourage the development of sustainable communities consistent with the intent of Proposition 84 (2006). The Council would also oversee the award of grants and loans of funds provided in Proposition 84 to support planning and sustainable communities.
- Collect, manage, and provide data and information to local government that will assist

local government in developing and planning sustainable communities.

Performance Based Infrastructure. Also in support of the Strategic Growth Plan, the 2008-09 state budget proposal included a plan to create Performance Based Infrastructure California (PBI) – a program to assist in the effort to achieve the best financing, procurement, risk allocation, delivery, operation, and maintenance of private partnerships in a performance based approach. Broad authorization will also be proposed for state and local governments to use public-private partnerships for critical infrastructure needs.

Flood Control and Water Supply. The Governor is proposing an \$11.9 billion bond for water storage and conveyance. As part of his Strategic Growth Plan for California, the proposed bond would contain money for:

- Water Storage – \$3.5 billion. This funding would be dedicated to the development of additional water storage projects.
- Delta Sustainability – \$2.4 billion. This funding would be dedicated to improving water conveyance, water quality, the Delta ecosystem and Delta levees
- Water Resources Stewardship – \$1.1 billion for implementation of a 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 – \$3.1 billion to augment the \$1 billion in Proposition 84 funding to support 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.
- Water Quality Improvement – \$1.1 billion would support the reduction of groundwater contamination, grants for stormwater management projects, and funding for the Ocean Protection Council to improve water quality in areas of biological significance.
- Other Critical Water Projects – \$700 million, \$250 million of which will be dedicated to grants and loans for water recycling projects.

K-12 Education Bonds. The General Obligation bonds proposed for the 2008 and 2010 ballots would fund about 39,000 new classrooms for about 1 million students, and nearly 60,000 renovated classrooms for over 1.5 million students. This is in addition to the \$7.3 billion K-12 education bond passed by voters in 2006. All three of these bonds together are projected to provide for funding needs into 2012-13, at which time other statewide infrastructure needs preclude further General Obligation bonds being used for these purposes.

The 2008 bond would go toward new construction (\$4.430 billion) for high-growth school districts, and assumes changing the traditional 50/50 state/local match to 40/60; charter schools (\$1 billion), which would remain at 50/50 state/local match, since charter schools cannot levy local bonds, so the state would advance the local share and be paid back over time; and career technical education facilities (\$1 billion), which would also remain at 50/50 state/local match.

The 2010 bond would be divided similarly but with the reintroduction of money for modernization, which was left out of the 2008 bond due to less-than-anticipated modernization apportionments over the past year. The money would be divided thusly: \$2.335 billion for new construction, \$835 million for modernization, \$1 billion for charter schools, and \$1 billion for career technical education.

Higher Education Bonds. The General Obligation bonds proposed for the 2008 and 2010 ballots would provide \$3.2 billion for the University of California to accommodate about 50,000 additional students, \$3.2 billion for the California State University to accommodate about 80,000 additional students, and \$6 billion for the California Community Colleges to maintain their current enrollment of about 2.5 million students.

Court Facilities. Under the broad discussion of the statewide Strategic Growth Plan, the Governor addresses court infrastructure needs. As noted in the budget narrative, court facility transfers concluded prior to the June 30, 2007 deadline numbered near 120. The Judicial Council, along with CSAC, are now working to secure a re-authorization measure during the 2008 legislative session. The Governor's budget proposes \$2 billion in new general obligation bonds to help the judicial branch address its facility needs and accommodate growth. Although it is acknowledged that this amount will fall short of the estimated \$9.6 billion in overall court infrastructure needs, it is hoped that this funding can address the most critical facility issues in the next 10 years. It is also anticipated that the bond funding can be leveraged to expand public-private partnerships to address court facility needs; many of these concepts are similar to those presented by the Governor in his 2007–08 budget.

Statewide Issues

Other Post-Employment Benefits (OPEBs). The state's OPEB liability is estimated at \$47.88 billion. The state's budget allocates \$1.4 billion in pay-as-you-go funding for retirees' health and dental benefits (\$834 million General Fund). This is projected to increase to \$1.6 billion (\$935 million General Fund) in 2009-10. To fully fund the actuarially required contribution (ARC) in 2009-10 would require an additional \$1 billion (\$600 million General Fund), or paying enough to eliminate any new liability would require an additional \$650 million (\$375 million General Fund).

K-12 Education. The final 2007-08 budget over-funded Proposition 98 by \$1.4 billion; his 2008 Budget proposes to reduce that over-funding by \$400 million in the current year, and then to suspend Proposition 98 in the budget year and underfund it by \$4 billion. The Governor proposes to initiate two data tracking systems, one to track individual student performance and enrollment history (CalPADS; \$8.1 million [\$2.2 million General Fund and \$5.9 million special and federal funds]) and one to track teachers (\$2.2 million in federal and other funds).

Higher Education. The Governor proposes to cut the University of California's budget by \$331.9 million, the vast portion of which is unallocated "to allow the Regents the flexibility to meet the reduction in a way that minimizes impacts to core instructional programs." He proposes to cut the California State University by \$312.9 million, also largely unallocated. In both cases, the portion of the cuts that are allocated are reductions to the administration costs. The Governor's Budget proposes to cut \$483.58 million for Community College local assistance, over half of which is realized by eliminating the 4.94-percent workload COLA.

Sale of EdFund. The Governor's Proposed Budget still assumes the sale of EdFund, the state's student loan guarantee program. The estimate in last year's budget was that this sale would bring the state \$1 billion; the current budget proposal still foresees that sale occurring this year (2007-08), but now values it at \$500 million.

General Government. The Governor's Proposed Budget proposes to cut \$124,000 and 1 position from the California Arts Council, \$510,000 and 3 positions for the Public Employment Relations Board, \$825,000 from the FPPC, and \$275,000 from the Political Reform Act.

Board of Equalization and Franchise Tax Board. Some revenue-generating agencies were spared from the 10 percent across-the-board cuts, since doing so would decrease the revenue realized by the state. In lieu of the cut, these agencies – the Board of Equalization (BOE) and the Franchise Tax Board (FTB) – submitted proposals to increase revenues by that amount.

Therefore, the Governor's 2008 Budget proposes \$7.5 million and 79 positions for the BOE's Statewide Compliance and Outreach Program (SCOP), which are projected to generate \$38 million General Fund in 2008-09 and \$51 million in 2009-10, which surpasses the BOE's 10 percent reduction of \$22 million and allows the program to expand statewide. The SCOP identifies and registers businesses that sell goods without a seller's permit, evading payment of sales and use tax. Counties will note that this proposal should also increase local revenues.

The BOE is also allocated \$9 million and 129 positions to address tax compliance issues, projected to generate \$20 million in General Fund revenues in 2008-09 and \$38.4 million in 2009-10. The positions will concentrate on audit and collection program improvements, businesses that do not pay use taxes on some items, and expedited filing of tax liens for out-of-state debtors who file for bankruptcy.

Administration of Justice

Juvenile Justice. While the Governor's budget proposed, for the most part, a 10 percent cut to all programs, there were some programs deemed exempt from such cuts, either because of constitutional restrictions or because the application was programmatically impractical. Cuts to state programs under the Division of Juvenile Justice were considered impractical to implement.

Further, it is notable that the Governor's budget leaves untouched the Youthful Offender Block Grant, which is intended to support counties' new responsibilities to provide local programming and supervision to a new population of youthful offenders, pursuant to [SB 81 \(2007\)](#). Counties received \$24 million in 2007-08 to provide rehabilitative services to these youth. Under the Governor's proposed budget, counties would receive \$66 million in 2008-09; the block grant amount is expected to increase to \$92 million in 2009-10, the year in which counties will experience the full impact of the realignment.

Local Assistance Programs for Public Safety. Mid-year cuts to local assistance programs for public safety have been proposed, including a number of criminal justice programs administered through the Office of Emergency Services (e.g., vertical prosecution grants, Cal-MMET, and gang violence suppression). For further details on these proposed funding changes, we refer you to a [chart](#) summarizing the mid-year budget-balancing reductions detailed by agency and department. Also notable among these mid-year cuts is a \$1 million reduction to drug courts. Details on how the reductions would be carried out in these areas are not available at this time.

Furthermore, the Governor's budget proposes an across-the-board 10 percent reduction in funding for several key public safety programs in 2008-09. The proposed reductions are as follows:

- Citizens' Option for Public Safety (COPS) – \$11.9 million reduction for a proposed 2008-09 appropriation of \$107.1 million, down from \$119 million statewide in the current year.
- Juvenile Justice Crime Prevention Act (JJCPA) – \$11.9 million reduction for a proposed 2008-09 appropriation of \$107.1 million, down from \$119 million statewide in the current year.
- Rural and Small County Sheriffs' Program – \$1.9 million reduction with a proposed 2008-09 appropriation of \$16.6 million. Individual grant amounts for the sheriffs' department in the 37 smallest counties for discretionary law enforcement purposes would be reduced under this proposal from \$500,000 to \$450,000.
- Juvenile Probation Camp Funding – \$20.1 million reduction with a proposed 2008-09 appropriation of \$181.3 million, down from the current-year level of \$201.4 million.

- Booking Fees – \$3.5 million reduction with a proposed 2008-09 appropriation of \$31.5 million. Current year funding to provide counties with revenue to offset funds that otherwise would have been collected through application of the booking fee is \$35 million. Counties should recall that, pursuant to the provisions of [AB 1805 \(2006\)](#), counties would have the ability to charge a pro-rated booking fee, with cost escalators, to make up for the under-appropriation. (For further details on how this mechanism would work, please refer to the AB 1805 [implementation guidelines](#) developed by the California State Association of County Auditors.)
- California Multijurisdictional Methamphetamine Enforcement Team (Cal-MMET) Program – The 2008-09 budget proposes to continue funding on a permanent basis for this program at a slightly reduced level of \$20.1 million.

Adult Corrections. The Governor’s spending plan proposes a number of significant reductions to the Department of Corrections and Rehabilitation (CDCR), which could result in personnel cuts totaling 6,000. However, the Administration reiterated its intent to further the reforms enacted under [AB 900](#) (Solorio), the Public Safety and Offender Rehabilitation Services Act of 2007, in face of these setbacks. Among the key budget proposals are the following:

- Early Release of Inmates. The Governor’s budget proposes to provide early release to just over 22,000 state prison inmates who are within 20 months of their original release date and meet specific criteria. Only those offenders who have a history of non-violent, non-serious and non-sexual offenses would be eligible for early release. In addition, these inmates would be released only after they have undergone an assessment to determine their risk to reoffend.
- Parole Reform. Under the Governor’s proposed plan, CDCR would place non-violent, non-serious and non-sexual offenders on “summary parole.” Summary parole would offer no active supervision by the CDCR Division of Adult Parole Operations and would subject parolees to minimal parole conditions. It is anticipated that the summary parole proposal would reduce the average daily parole population by 18,522 in 2008-09, resulting in savings that would grow to \$231.5 million in 2009-10. This reform measure assumes necessary statutory changes would be enacted by March 1, 2008.
- Reentry Facilities. The Governor’s Budget includes \$727,000 million for the current year and \$1.1 million for 2008-09 to establish a pre-activation team for the new reentry facility in Stockton authorized by [SB 943](#) (Machado, 2007). Furthermore, there is \$2.5 million proposed in the budget year to contract with the San Francisco County Sheriff’s Office to provide 12 months of intensive, in-custody reentry programming, followed by 12 months of accountability-based, out-of-custody reentry programming.
- Mental Health Services to Parolees. The 2008-09 budget proposes a \$6 million augmentation to enhance mental health and rehabilitative services to parolees. CDCR will work with county providers to ensure that parolees receive the necessary services when in mental health crisis and transition them to appropriate services.

Other Judicial Branch Items. In addition to the court facility discussion addressed in the Strategic Growth Plan, the Governor’s budget proposes an overall increase of \$126.2 million to support statewide trial court operations as a result of the application of the State Appropriations Limit to the judicial branch. In addition, \$6 million and just over 35 positions are proposed to support the Phoenix Information Technology Project, the automated human resources and financial system for the trial court system statewide, which is currently under development. Further, the budget proposes a \$245.9 million unallocated reduction for the judicial branch in 2008–09.

Cost for Homicide Trials. The Governor's budget proposes a 10 percent or \$250,000 reduction from the Payment to Counties for Homicide Trials Program (budget item 8180). As counties recall, this fund reimburses costs of homicide trials when the financial burden of an extraordinary murder trial is, according to statutorily defined parameters, an extreme financial burden to the county.

Gang Initiatives. Contained in the Governor's 2008-09 budget is support for several gang initiatives, including the following:

- Gang Suppression Enforcement Teams – The Department of Justice would receive, under the Governor's budget proposal, \$5.3 million and 32.9 positions to make permanent the four existing Gang Suppression Enforcement Teams. The Department of Justice also would take a 2008-09 unallocated reduction of \$41.6 million under the Governor's spending plan.
- Office of Gang and Youth Violence Policy – The 2008-09 proposed budget also includes \$1.3 million to implement [AB 1381](#) (Núñez, 2007), which established the Office of Gang and Youth Violence Policy. The office will evaluate federal, state and local gang suppression, intervention and prevention programs as well as identify strategies and funding sources.

Incarceration of Undocumented Felons. The State of California expects to receive \$102.4 million in federal State Criminal Alien Assistance Program (SCAAP) funding in 2008-09. The state estimates that this reimbursement will cover only 10 percent of state costs associated with detaining undocumented felons in the prison system. The budget document also indicates that the Administration intends to advocate aggressively for maximum federal funding to support the SCAAP program.

Agriculture and Natural Resources

Flood Control and Water Supply. The 2007 legislative session concluded with the passage of a comprehensive package of bills aimed at strengthening flood protections in California. Pursuant to this package, the Governor's budget provides \$2 million General Fund to establish a new Central Valley Flood Protection Board within DWR. The newly established Board will assume the responsibilities of the former State Reclamation Board.

The Governor's budget allocates funding from Proposition 84 and Proposition 1E for flood control purposes. The budget includes \$598.3 million from Proposition 1E and Proposition 84 bond funds and 14.2 new positions for the following activities:

- \$461.1 million and 14.2 positions for the Flood SAFE California Program. This program will provide subventions to help local governments protect their communities from flooding, enhance emergency preparedness and flood response, and provide grants to local governments for urgent repairs and improvements of levees in the Central Valley and the Delta.
- \$126.5 million for levee evaluations and the repair of critical levee erosion sites.
- \$10.7 million for five flood control capital projects: Mid-Valley Area Levee Reconstruction, South Sacramento County Streams, West Sacramento Project, Merced County Streams, Sutter Bypass, and for feasibility studies on additional projects.

Water Quality. The Governor's budget proposes \$100.5 million from Proposition 84 to the State Water Resources Control Board for local assistance funding to continue funding a number of programs, including the Urban Stormwater Grant Program and the Agricultural Water Quality Grant Program.

Climate Change. Under the Governor's proposed budget, funding for implementation of AB 32, the Global Warming Solutions Act of 2006, would not suffer the same cuts that are affecting other programs. The Governor's proposed budget stipulates that funding for climate change activities will be provided by loans for the first three years of AB 32 implementation. These loans will eventually be repaid with revenues that will be designed by the Air Resources Board to be consistent with its AB 32 scoping plan. The plan is scheduled to be considered by the Board in November 2008.

Williamson Act. The Governor's 2008-09 budget proposal includes \$35.2 million for Williamson Act contracts, a 10 percent decrease from last year.

Sierra Nevada Conservancy. The Governor proposes the expenditure of \$21 million in 2008-09 for the ongoing operation and activities of the Sierra Nevada Conservancy, \$17 million of which is Proposition 84 funds for the Conservancy's Proposition 84 grant programs.

Elections

County reimbursement costs for the February Presidential Primary election are not included in the Governor's 2008-09 Budget proposal, but staff members from his office and from the Department of Finance report that they will be included once they are known, whether that is in time to make it into the May Revision or at some point after that.

Emergency Management/Disaster Preparedness

Wildland Firefighting Initiative. Despite the call for across the board cuts, the Governor has proposed a major plan enhancement to fund fire protection. Borne out of recommendations from the Governor's Blue Ribbon Fire Commission, which was established after the 2003 Southern California fires, the plan proposes the establishment of a secure funding source to enhance the state's firefighting capabilities. Specifically, the Governor's budget proposes a 1.25 percent surcharge on all residential and commercial property insurance statewide. The surcharge is expected to yield approximately \$104.9 million Insurance Fund in 2008-09 to fund programs for CalFIRE, the Office of Emergency Services and the National Guard.

The Governor's budget proposes \$33.1 million Insurance Fund and 387.6 positions for CalFIRE. The budget calls for four member crews on fire engines during peak and transition fire periods (\$28.9 million, 383.8 positions), GPS tracking units on engines and aircraft (\$4.2 million, 3.8 positions), and a multi-year expenditure plan to enable CalFIRE to purchase eleven new, all-weather, 24-hour firefighting helicopters over the next six years. Additionally, the Governor's Wildland Firefighting Initiative would backfill budget reductions to the tune of \$44.7 million in 2008-09.

The surcharge is expected to yield \$12.1 million for the Office of Emergency Services and \$9.2 million for the National Guard.

Office of Emergency Services (OES). The Governor's proposed budget cuts \$400,000 in 2007-08 and \$824,000 in 2008-09 from OES' Plans and Preparedness Program, which has the potential to impact OES' ability to serve as a conduit for information to local and regional areas to provide efficient support to local disaster response.

Government Finance and Operations

Statewide Local Revenue Projections. The VLF "swap" has resulted in \$2.7 billion in property tax revenues flowing to local agencies instead of K-14 schools. This is due to property tax revenues growing faster than VLF revenues have.

Statewide property tax revenue is projected to grow by 9.3% in 2007-08 and 7.1% (\$3.4 billion) in 2008-09. 2009-10 should be lower yet due to reduced sales volume in 2008-09.

VLF revenues were up 2% in 2006-07, and are projected at 2.7% and 2.6% over the next two years.

Mandates. The Commission on State Mandates is proposed to lose one staff person in 2007-08, and another in 2008-09, which will “slow down the analysis of test claims, litigation of cases, and other tasks before the Commission.”

Mandate reimbursements were not subject to the standard 10 percent reductions due to the mandate suspensions that would result. However, \$75 million in *estimated* reimbursement claims are eliminated from the 2008-09 budget, delaying this reimbursement until *actual* reimbursement claims are submitted in the next year. Counties will recall that this same tactic was used last year (2007-08) to delay reimbursements.

The 2008-09 budget includes \$139 million to reimburse claims for costs incurred before July 1, 2007, of which \$75 million is for the third payment for costs incurred before July 1, 2004.

2008-09 Funded Mandates

AB 3632: Services to Handicapped Students I and II*	Medi-Cal Beneficiary Death Notices
AB 3632: Seriously Emotionally Disturbed Pupils*	Mentally Disordered Offenders' Extended Commitments Proceedings
Absentee Ballots	Mentally Disordered Sex Offenders' Recommitments
Absentee Ballots-Tabulation by Precinct	Mentally Retarded Defendants Representation
Administrative license Suspension, Per Se	Not Guilty by Reason of Insanity
AIDS/Search Warrant	Pacific Beach Safety
Allocation of Property Tax Revenues	Peace Officer Personnel Records: Unfounded Complaints and Discovery
Animal Adoption	Peace Officers' Procedural Bill of Rights
Brendon Maguire Act	Perinatal Services
Conservatorship: Developmentally Disabled Adults	Permanent Absent Voters
Coroners Costs	Pesticide Use Reports
Crime Victim Rights	Photographic Record of Evidence
Crime Victim's Domestic Violence Incident Reports	Police Officer's Cancer Presumption**
Custody of Minors-Child Abduction and Recovery	Postmortem Examinations
Developmentally Disabled Attorneys' Services	Rape Victim Counseling
Domestic Violence Arrests and Victims' Assistance	Senior Citizens Property Tax Deferral
Domestic Violence Treatment Services	Sexually Violent Predators
False Reports of Police Misconduct	Stolen Vehicle Notification
Firefighter's Cancer Presumption**	Threats Against Peace Officers
Health Benefits for Survivors of Peace Officers and Firefighters	Unitary Countywide Tax Rates
Judicial Proceedings	Voter Registration Procedures

* The Governor's 2008 Budget proposes to fully fund AB 3632.

** These mandates expire June 30, 2008.

Libraries. The 2008-09 budget proposal would cut \$5.1 million from the State Library, reducing support to local libraries and reimbursements for inter- and intra-library book loan programs.

Other Local Government Finance Issues. The Governor's Proposed Budget includes reductions of \$100,000 from Redevelopment Agency Special Supplemental Subventions in Local Government Financing (which backfills revenue lost by redevelopment agencies when the business property tax was eliminated in the 1980s) and \$1.2 million from the trailer fees backfill in Shared Revenues (to backfill VLF revenues lost when the method of assessing the VLF for commercial trailers was changed).

Health and Human Services

HEALTH

Medi-Cal. The Governor's proposed budget includes a number of reductions in the Medi-Cal program:

Benefit Reductions. The budget proposes to eliminate adult dental care and certain Medi-Cal optional benefits for adults, including incontinence creams and washes, acupuncture, audiology, optometry, optical, chiropractic, podiatry, psychology and speech therapy, for an estimated savings of \$10 million General Fund in the current year and \$134 million General Fund in 2008-09.

Eligibility Changes. Proposes to reduce the 12-month Medi-Cal eligibility period for children and restore quarterly status reports for children and parents for an estimated savings of \$92.2 million General Fund in 2008-09. Parents are currently required to do semi-annual eligibility reporting; under the proposal parents would be required to report income every three months so they and/or their children can be disenrolled if their income or assets are above the maximum.

Rate Reductions. Effective June 1, 2008, the Administration proposes reducing Medi-Cal provider rates and managed care rates by 10 percent for a current year savings of \$66.8 million (\$33.4 million General Fund) and \$1.2 billion (\$602.4 million General Fund) for 2008-09. This reduction effects all providers except hospital inpatient, long term care facilities, Adult Day Health Care centers, Federally Qualified Health Clinics, and Rural Health Clinics. According to the Administration's document, the rate reductions will not be for specific services but will be applied at the end of the payment cycle.

Medi-Cal Payments to Counties. The budget includes \$75.8 million in savings in 2008-09 from changes to county administration of the Medi-Cal program. The Administration is proposing: 1) to eliminate the cost of living adjustment that is provided to county eligibility, administrative and support positions; 2) to eliminate caseload growth funding that is used to hire additional county staff to address increased workload due to increases in Medi-Cal eligibles; 3) to reduce the county administration base; and 4) to reduce funding for administration of the CCS and CHDP programs.

Public Hospital Funding. Proposes to shift federal Safety Net Care Pool payments from public hospitals to California Children's Services (CCS), Genetically Handicapped Persons, the Medically Indigent Adult Long-term Care, and the Breast and Cervical Cancer Treatment programs. This move will save the state an estimated \$34.4 million in 2008-09, with a corresponding reduction in General Fund for these programs. Please note that the Safety Net Care Pool funds provide funds to 22 county and University of California hospitals and are part of the federal Medicaid Hospital Financing Waiver of 2005.

Non-Contract Rates. Proposes to reduce the reimbursement rates for hospitals that do not contract with Medi-Cal for a savings of \$30 million General Fund in 2008-09.

Medi-Cal Disproportionate Share Hospital (DSH) Payments. Proposes to reduce the Medi-Cal Disproportionate Share Hospital replacement payments for private hospitals for a 2008-09 savings of \$24 million.

Managed Risk Medical Insurance Board (MRMIB). The Governor's Budget proposes cutting \$20.4 million from the Managed Risk Medical Insurance Board (MRMIB) budget as part of budget balancing reductions.

Healthy Families Program. The Governor proposes to reduce rates for Healthy Families Program (HFP) plans by 5 percent and increase premiums and co-pays for subscribers above 150 percent of the Federal Poverty Level. The budget also would institute a \$1,000 annual cap on dental benefits. The estimated savings for the state from these measures is \$41.9 million in 2008-09.

Major Risk Medical Insurance Program (MRMIP). The Major Risk Medical Insurance Program (MRMIP) would see a \$4 million cut in funding in 2008-09, dropping the total funding to \$36 million.

Access for Infants and Mothers (AIM). Expenditures for the Access for Infants and Mothers program are expected to increase, from \$134.6 million in 2007-08 to \$153.7 million in 2008-09, primarily due to increased enrollment.

ALCOHOL AND DRUG PROGRAMS

Drug Medi-Cal. Drug Medi-Cal provider rates would be reduced under the Governor's proposed budget, resulting in an estimated savings of \$16.1 million in 2008-09.

Proposition 36/Substance Abuse Offender Treatment Program. The Governor's proposed budget includes reductions of \$3.3 million in 2007-08 and \$10 million in 2008-09 to Proposition 36 funding, but does not propose changes to the sentencing law requirements under the proposition. The funding level for Proposition 36 in the 2007-08 budget was \$60 million. For the Substance Abuse Offender Treatment Program, commonly referred to as OTP, the Governor proposes a \$667,000 current year reduction and a \$2 million cut in 2008-09. OTP funding in 2007-08 was also \$60 million. In total, \$108 million would be available for Proposition 36 and OTP in 2008-09.

MENTAL HEALTH

Early and Periodic Screening, Diagnosis, and Treatment (EPDST). In the Early and Periodic Screening, Diagnosis, and Treatment (EPDST) program, the Governor's budget would cut \$13.4 million in 2007-08 and \$92.6 million in 2008-09 as part of the budget balancing reductions. This would include the elimination of the annual COLA, a reduction of the non-inpatient State Maximum Allowance (SMA), and new requirements for prior authorization by mental health providers for EPDST day treatment that exceeds six months.

Mental Health Managed Care. The Administration is proposing a 10 percent reduction to the mental health managed care program. This reduction – \$8.2 million General Fund in the current year and \$46.7 million (\$23.8 million General Fund) in 2008-09 – will decrease the amount paid to county mental health plans.

Mental Health Services Act (Proposition 63). According to the Governor's proposed budget, revenues to the Mental Health Services Fund are projected to decrease over previous estimates by \$177.2 million in 2007-08 and \$105.2 million in 2008-09, for total estimates of \$1.6 billion in 2007-08 and \$1.7 billion in 2008-09.

PUBLIC HEALTH

The Governor's Budget proposes to cut \$11 million from AIDS programs, \$5.4 from family health programs, and \$3.3 million from local chronic disease programs.

SOCIAL SERVICES

CalWORKs. The budget document contains a number of policy changes to the CalWORKs program. These changes include the following:

Graduated Full-Family Sanction. The document assumes a new sanction policy effective March 1, 2008 and fully implemented by June 1, 2008. The policy would place adults in sanction status for an accumulated total of six months of non-compliance. The family's grant would be reduced to 50 percent of the child-only grant. Families with an adult who is sanctioned for a second accumulated six months would receive a full family sanction. The State estimates this proposal will result in grant savings of \$61.4 million.

Modified Safety Net program. This proposal would provide benefits only for Safety Net cases that meet federal work participation requirements. This proposal is estimated to save \$234.4 million in grants. The state Department of Social Services will be providing additional information about how such a proposal would be implemented. Currently, counties do not collect work participation information from Safety Net cases.

60-month time-limit for child-only cases. The Governor's Budget also assumes that grants for children of unaided adults who are undocumented non-citizens, drug felons, or a fleeing felon will be subject to a 60-month time limit. The discontinuance of these child-only cases will result in savings of \$226.7 million in grants in 2008-09. This was proposed by the Administration and rejected by the Legislature in 2007.

Work Incentive Nutritional Supplement. This proposal would allow working families who are receiving Food Stamps but not on CalWORKs to be eligible for an additional \$40 per month in food stamps if they work sufficient hours to meet federal TANF work participation requirements.

Other CalWORKs Budget Proposals. The Governor's Budget proposes to maintain funding provided to counties in 2006-07 and 2007-08 – \$90 million for counties to implement program improvements that lead to better outcomes and increased work participation rates and \$140 million to restore county administration.

In addition, the Administration is proposing to provide a 4.25 percent CalWORKs cost of living adjustment (COLA) for recipients for a cost of \$134.4 million.

The Administration is proposing to eliminate the Pay for Performance incentive funding for 2007-08 but makes \$40 million available for 2008-09 for those counties that achieve improved performance in 2007-08.

The budget includes \$9.9 million for additional county CalWORKs administration activities associated with increased documentation and verification requirements resulting from the Deficit Reduction Act.

In-Home Supportive Services (IHSS). The Governor's budget includes the following reductions:

Service Hour Reductions. The Administration is proposing that domestic services and other related services such as meal preparation, laundry, food shopping and errands be eliminated as IHSS services. This proposal affects approximately 90 percent of the IHSS cases and is estimated to reduce hours by slightly less than 7 hours per week. It is unclear how this service reduction would be implemented – all at once or as cases come up for re-assessment.

Other IHSS services not affected include personal care services, assistance while traveling to medical appointments or to other sources of supportive services, protective supervision, teaching and demonstration directed at reducing the need for supportive services, and certain paramedical services ordered by a physician.

County Administration. The Administration is proposing to reduce county administration for IHSS for a savings of \$10.2 million General Fund. As part of this proposal, the state is proposing to allow re-assessments every 18 months rather than every 12 months. This would require a Medicaid state plan amendment and federal approval.

Adult Protective Services (APS). The Administration is proposing a 10 percent cut to APS funding, which is a \$6.1 million General Fund reduction.

Child Welfare Services (CWS). The budget includes a number of budget-balancing reductions, totaling \$264.5 million (\$168.1 million General Fund), including:

County Allocation. The Administration is proposing to reduce the CWS allocation to counties by \$83.7 million General Fund. Please note that this will also result in reduced federal funds.

Rate Reductions. The Administration is proposing to reduce the basic care, specialized care, and clothing allowance rates for Foster Care, Kin-GAP, and Adoptions Assistance. The Administration is proposing to reduce rates to foster homes and group homes by 10 percent, for a savings of \$30.5 million General Fund. The 10 percent reduction to the Adoption Assistance Program would save \$29.2 million General Fund. They are proposing to reduce rates to Foster Family Agencies by 5 percent, since this is the only category of placement to not receive a 5 percent rate increase in the 2007-08 budget.

Privatize Independent Adoptions. The Administration is proposing to eliminate state operations and funding for three counties that provide independent adoptions, for a savings of \$0.8 million General Fund.

Sibling Contact. The budget would eliminate the provisions of AB 2488 (Statutes of 2006), which would have required sibling contact for children in the CWS system. This proposal requires trailer bill language to implement and would save \$1.1 million.

Food Stamps. The budget includes a 10 percent cut to the California Food Assistance Program benefits (\$2.5 million) and 4 percent cut for Food Stamp administration (\$14.9 million).

Supplemental Security Income/State Supplemental Payment (SSI/SSP). The budget proposes eliminating the June 2008 and June 2009 COLA for savings of \$23.3 million and \$300.3 million, respectively.

Social Services Automation. The Budget proposes to eliminate the Interim Statewide Automated Welfare System (ISAWS) migration project for a savings of \$3.4 million in the current year and \$44 million in 2008-09. Thirty-five counties use ISAWS to administer public assistance. Elimination of the migration projects leaves these counties with a less-than-fully functional system and no plan to replace or enhance an obsolete system

Affected counties include Alpine, Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Glenn, Humboldt, Imperial, Inyo, Kern, Kings, Lake, Lassen, Madera, Marin, Mariposa, Mendocino, Modoc, Mono, Monterey, Napa, Nevada, Plumas, San Benito, San Joaquin, Shasta, Sierra, Siskiyou, Sutter, Tehama, Trinity, Tuolumne, Yuba.

CHILD SUPPORT

County Administration. The 2008-09 budget includes the same level of funding for local programs as it did in the current year (\$196.9 million). 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.

Child Support Pass-Through. The budget is proposing to take advantage of a recent federal law change to establish federal participation at 50 percent for the current \$50 disregard provided to CalWORKs families. This will result in additional General Fund revenues of \$3.9 million for the period from October 1, 2008 to January 1, 2009. Additionally, the budget proposed to increase the amount of child support passed through to CalWORKs families from \$50 to \$100 per month effective January 1, 2009. Because of the federal match, this proposal is revenue neutral.

DELAYED PAYMENTS

In addition to the proposals outlined above, the Administration is proposing a number of actions intended to address the state budget and cash shortfalls. The state is primarily proposing to delay payments until September or the first quarter of the year. The intention is to pay counties for the full 12 months. The following chart details these proposals.

Program	Description	Dollar Impact
Social Services Payments, except SSI/SSP and IHSS	Delays the July and August payments and advances to counties for social services programs until September.	\$814.2 million
Mental Health Managed Care	Delays the program advance from July until September.	\$199.7 million
County Administration of Medi-Cal	Delays the first quarter payment from August to September	\$164.3 million
Early and Periodic Screening, Diagnosis and Treatment (EPSDT)	Delays the quarterly advance to counties from July to September	\$92 million
Total delayed payments to counties		\$1.27 billion

In addition, the Administration is proposing to delay payments to Medi-Cal providers as follows.

Provider	Description	Dollar Impact
Institutional Fee-For-Service Providers	Delays the weekly August payments to September	\$454 million
Managed Care Plans and Delta Dental	Delays the August payments to September	\$232 million
Fee-For-Service Providers	Delays the June 2008 and 2009 payment into July	\$165 million
Total delayed payments to Medi-Cal providers		\$851 million

Housing, Land Use and Transportation

TRANSPORTATION

Transportation Infrastructure. In addition to the new programs proposed under the Strategic Growth Plan, there was significant recognition of the lack of investment in transportation infrastructure over the last few decades and reinforced of the fact that Proposition 1B was merely a down payment on California’s long-term transportation needs. The budget proposal noted that the major sources of transportation funding (per-gallon taxes on gasoline and diesel fuel and trucks weight fees) are no longer sufficient to maintain California’s transportation system, let alone modernize it. Increasing vehicle efficiency has resulted in fewer tax dollars for transportation while at the same time skyrocketing construction costs and inflation has reduced

substantially the purchasing power of these diminishing revenues. This has resulting in the following statistics:

- Between 1994, when gas taxes were last adjusted, and 2005-06, travel on the State Highway System increased by 27 percent, from 144.2 billion to 183.4 billion vehicle miles traveled (VMT).
- VMT on the local system also increased 12 percent over the same period resulting in a combined increase in VMT of 20 percent in just twelve years.
- During this same time frame, while state gas tax revenues have increased 21 percent, transportation system construction costs have far exceed inflation – about a 200 percent increase over twelve years.

Proposition 42. The Governor proposes to fully fund Proposition 42 in fiscal year 2008-09, estimated at \$1.485 billion. This would allocate \$594.2 million for the State Transportation Improvement Program (STIP), \$297.1 million to counties, \$297.1 million to cities, and \$297.1 million to the Public Transportation Account. In addition, the proposed budget would fund the Proposition 42 loan repayment of \$82.7 million owed to the Traffic Congestion Relief Fund. While many other programs are facing reductions, the Governor’s rationale for funding Proposition 42 was that Proposition 1A (2006; Proposition 42 protection) requires repayment within three years, thus the state could not achieve budgetary savings from Proposition 42. If this funding remains in the adopted budget it would represent the first year that counties and cities receive their full Proposition 42 payments.

Proposition 1B: Transportation Bond – Local Streets and Roads. The Governor proposes an additional \$4.7 billion in appropriations for various Prop 1B accounts to continue implementation of the transportation bond programs. The chart below outlines those appropriation levels.

However, there is no proposed allocation for the local streets and roads account in 2008-09. Counties are expected to be able to access the \$400 million from the 2007-08 appropriation early in 2008. Release of the funds by the State Controller is dependent upon a template being developed by the Department of Finance (DOF), which will allow counties to submit project lists and meet their first obligation to access the funds. DOF has indicated that the template will be made available to counties and cities on January 15, 2008.

Proposition 1B (Transportation Bond) Appropriations
(\$ in millions)

Program	2007-08	Proposed Mid-Year Reductions	2008-09
Corridor Mobility	\$608	-	\$1,547
Local Transit (Public Transportation Account)	\$600	-	\$350
Intercity Rail (Public Transportation Account)	\$188	-	\$73
State Transportation Improvement Program	\$727	-	\$1,186
Local Streets and Roads	\$950	-	-
State Highway and Operation Protection Program	\$403	-	\$216
Trade Corridors	-	-	\$500
State-Local Partnership Program	-	-	\$200
Grade Separations	\$123	-	\$65
Highway 99	\$14	-	\$108
Local Seismic	\$14	-	\$21
School Bus Retrofit	\$193	\$192.2	\$0.4
Air Quality	\$250	-	\$250
Transit Security	\$101	-	\$101

Port Security	\$41	-	\$58
Total Appropriation	\$4,212	\$192.2	\$4,675

Sources: 2007-08 State Budget, Governor's 2008-09 Proposed Budget

Local Gas Tax Subventions. The most surprising proposal in the Governor's budget in the transportation arena is to postpone until September 2008 the monthly transfer of the local gas tax subventions to counties and cities for local streets and roads for the months of April through August of 2008. This provision is very problematic as virtually all counties depend upon gas tax subventions for operations and salaries. While some counties may have access to other transportation revenue sources in the short-term, those funds are not available for operations and salaries.

High Speed Rail. The Governor's Budget continues funding the High Speed Rail Authority at the current level of funding - \$1.2 million for basic staff support.

HOUSING

Proposition 1C: Housing Bond. The Governor's January Budget proposal includes an additional \$771 million in bond appropriations from Proposition 1C, the Housing Bond. The chart below outlines those appropriation levels. Potentially beneficial to counties is the appropriation of \$200 million to the Infill Incentives Grant Program.

Proposition 1C Allocations

(\$ in millions)

Program	2008-09
Affordable Homeownership	\$188
Multifamily Rental Housing	194
Joe Serna, Jr. Farmworker Housing	40
Emergency Housing Assistance	24
Infill Incentives Grant Program	200
Transit-Oriented Development	95
Housing Urban-Suburban-Rural Parks	30
TOTAL	\$771

Proposition 84: Resource Bond. The Governor does not make any further appropriations in the proposed 2008-09 state budget with respect to the \$580 million included in Proposition 84 for sustainable communities and climate change reduction.

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CALIFORNIA COUNTIES EXPRESS CONCERN ABOUT PROPOSED BUDGET CUTS

*Counties understand the need for funding cuts, but remain troubled
about some of the proposed reductions*

SACRAMENTO – Following the release today of the Governor’s proposed 2008-09 budget, California’s counties expressed an understanding of the need for cuts, but remain concerned about many of the proposed spending reductions and their impacts on counties.

“Counties recognize – and, can certainly empathize with – the extremely difficult fiscal situation that the state is in, and we understand that reductions in program funding will occur,” said CSAC Executive Director Paul McIntosh. “However, our counties are already being impacted by long-standing state reductions to critical programs and services, including those delivered on behalf of the state. Counties also continue to contribute significantly to the state’s bottom line via the property tax shift of the 1990’s. Additional cutbacks would be detrimental to county programs and services, and to the residents who rely upon them every day.”

California’s counties remain particularly concerned about widespread and significant delays in payments, totaling \$1.27 billion, to counties for the administration of numerous human services and mental health programs. These payment delays will certainly cause counties fiscal hardship and force many to incur debt in order to continue operating state-mandated programs. Counties are also troubled by additional cuts to programs such as child welfare services and mental health services for children and low-income adults, which will impact some of California’s most vulnerable residents.

However, counties wish to thank the Governor for his continued commitment to local government by not suspending Proposition 1A. Counties are also intrigued by the proposed surcharge to homeowner insurance policies to finance additional state fire suppression equipment.

“California counties have always been proponents of creating stable, reliable and sustainable funding for the programs and services that we provide to all residents,” stated Frank Bigelow, CSAC Immediate Past President and a Madera County supervisor. “We look forward to working with the Administration and the Legislature over the next 45 days – and beyond – to forge a budget solution that creates such a fiscal environment for our state.”

CSAC is a nonprofit corporation that promotes the interests of California’s 58 counties at the state and federal level. One of the association’s primary goals is to educate the public about the value and necessity for county programs and services. Founded in 1895, CSAC is based in Sacramento.