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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 #3 – Governor and Legislative Democrats Agree on 2011-12 Budget

The Governor and Democrat leaders of both houses announced yesterday that they had reached agreement on a 2011-12 budget package. Because there was no bipartisan deal reached to garner a two-thirds vote, the final budget will not include the sales, VLF, and personal income tax extensions proposed by the Governor. It also does not include some of the more controversial revenue and accounting assumptions included in the budget that was passed by the Legislature on June 15 and vetoed by the Governor the next day. The Senate and the Assembly will convene floor sessions beginning later today to vote on the final budget deal.

CHANGES MADE IN THE FINAL BUDGET

The final budget agreement does not include any additional cuts to health and human services programs beyond those already adopted as part of the “unified” budget plan adopted by the Budget Committees of both houses on June 8, 2011. Although many details are still forthcoming, following is a high-level summary of the main changes made in the final budget agreement.

Expenditure Reductions:

- Continues deferrals of \$2.85 billion to K-14 schools.
- Reduces higher education spending by an additional \$300 million GF (\$150 million each to the University of California and the California State University systems).
- Reduces the trial court system by an additional \$150 million GF.

Majority Vote Revenues:

- Increases vehicle registration fees by approximately \$12 to generate an additional \$300 million.
- Imposes a fee on rural homeowners to cover some costs of state fire suppression on privately-owned lands resulting in \$50 million GF savings.

- Requires on-line retailers to collect California sales tax, which is estimated to generate an additional \$200 million GF in currently-owed taxes.

Updated Revenue Assumptions:

- Assumes an additional \$4 billion in GF revenue growth over the May Revision projections based on higher than anticipated revenue receipts for the months of May and June.
- Includes higher tax receipts of \$1.2 billion GF for the months of May and June.

Trigger Cuts

The final budget agreement includes two “triggers” that would be pulled if state Department of Finance determines in January 2012 that the additional \$4 billion in new revenues is actually not coming in as budgeted. If it is not, one or two triggers would be pulled that would automatically implement mid-year cuts of more than \$2.5 billion GF. The bulk of that, about \$1.9 billion, would come from K-12 education, reportedly by shortening the school year by seven days. Also included in the trigger cuts would be cuts to IHSS and higher education.

Realignment

The final budget agreement permanently shifts 1.06 percentage points of existing state sales taxes from the GF to a special local revenue fund for counties to fund the Governor’s “public safety” realignment proposal, which includes CWS, Foster Care, adoptions, APS, community mental health, EPSDT and alcohol and drug programs, in addition to the “traditional” public safety activities in the original proposal. The only program that’s been removed from the final realignment deal is the Department of Juvenile Justice. Also included in the realignment revenues is \$453.4 million in VLF funds, which includes the \$300 million resulting from the \$12 VLF increase, \$100 million redirected from cities, and \$50 million redirected from one county.

Based on a briefing from the Administration, there will be a realignment trailer bill, which will delineate the allocation of revenues for the first year of realignment, 2011-12. Each program will essentially have its own subaccount, with funding of a specified amount being allocated to each subaccount. The funding amounts for each program generally reflect the estimates that have already been provided, although as of this writing the final program numbers have not been made public. We will send that detail out as soon as it becomes available. In addition, the realignment trailer bill will establish a reserve account should sales tax revenues come in higher than anticipated. Funds will be allocated from that reserve account first to entitlement programs and if any funds remain available after that, then to other realigned programs (except court security and VLF public safety programs, which would have hard funding cap in the first year). The realignment trailer bill is silent on what happens if sales tax estimates come in lower than expected. The Administration indicates that will need to be addressed in further implementation language to be developed over the summer.

Also included in the realignment trailer bill is the swap of 1991 realignment funding for community mental health for a higher share of CalWORKs grants. The increased share of grants is not yet known, but it will be a statewide amount (i.e., one share that is the same statewide vs. different county-by-county shares). The Administration is expecting this portion of the realignment trailer bill in particular is going to need clean-up over the summer because of its technical complexity. While the Administration is still saying that counties will take on a higher share of CalWORKs grants, they are willing to consider services costs as part of the mix instead of grants in any clean-up legislation.

As mentioned, the realignment trailer bill mostly deals with first year of realignment only. All of the on-going critical details are still to be worked out in implementing legislation that will be negotiated over the summer, including whether or not there remain separate accounts or firewalls with transferability among them, on-going allocation of the base funding and allocation of the growth funding.

While the Governor has expressed interest in placing a ballot initiative on the November 2012 ballot to increase sales, VLF and personal income taxes consistent with his original tax extension proposal, it is not known yet whether that initiative (or a separate one) would include the State Constitutional Amendment for realignment, which included a number of fiscal protections for counties. The Administration indicates that the Governor does remain supportive of the protections provided in the Constitutional Amendment

The shift of state sales tax revenues from the GF to counties will impact the level of the Proposition 98 K-14 funding guarantee (i.e., it will lower it resulting in less GF needed to fully fund K-14 schools). It does not impact the GF for any other programs.

Other Notable Provisions

- IHSS Anti-Fraud Funding – The final budget agreement restores the \$10 million GF for IHSS anti-fraud activities pursuant to approved county plans.
- Health Families Shift to Medi-Cal – The final budget continues to assume savings from the Governor's proposal to shift all children in the Healthy Families Program to the Medi-Cal Program, but assumes a slower phase-in of the transition. However, there was no budget trailer bill for the implementation of the shift included or acted upon as part of the final budget. We will keep you posted as we learn more about details.
- CalWORKs – The final budget agreement continues to include the elimination of the child-only grant cut that was adopted in March and restoration of \$50 million to the Single Allocation.

NEXT STEPS

The Senate is scheduled to convene at 4:00 pm and the Assembly is scheduled to convene at 5:00 pm today to vote on the budget. Barring some unforeseen development, the budget package is expected to pass on a majority vote out of both houses and be sent to the Governor tonight. The Governor could take action as early as tonight or tomorrow on the main budget bill and trailer bills.

Following is a list of the bills and associated bill numbers to be acted upon by the Legislature tonight:

Subject	Bill numbers
Budget bill (consolidated)	SB 87/AB 110
Public safety realignment (Motor Vehicle Account/VLF)	SB 89/AB 108
Education	SB 91/AB 114
Public Safety	SB 92/AB 116
Public Safety Realignment	SB 93/AB 118*
Public Safety (AB 109 Clean Up)	SB 95/AB 117*
Trigger	SB 96/AB 121*
HHS Trigger	SB 73/AB 101*

**These bills have not been recently amended at the time of this writing. We anticipate revisions to these bills today.*

In addition, the following health and human services budget trailer bills were already been enacted by the Legislature on June 15 and will be sent to the Governor with the remaining bills to be enacted for signature:

Subject	Bill number
Keeping Adults Free From Institutions Program	AB 96
Health	AB 102
Human Services	AB 106