



**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

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**RE: State Budget Update #6 – Budget Conference Committee Completes Action**

The Budget Conference Committee completed taking actions to craft a comprehensive 2010-11 budget plan that reconciles the differences that existed between the Senate and Assembly versions of the budget. The final actions taken by the Budget Conference Committee reflect the Legislative Democrats budget plan that was announced last week and take a more balanced approach to addressing the deficit than the Governor's largely "cuts-only" approach.

Overall Budget

The Conference Committee budget includes \$18.5 billion in budget solutions to cover the projected \$17.9 billion deficit and provide a \$535 million reserve. The budget solutions fall into the following major categories:

Expenditure Reductions:	\$8.3 billion
Federal Funds:	\$4.1 billion
Revenues (corporate tax delays, oil severance tax, and tax reform):	\$4.5 billion
Revenue Adjustments (Proposition 98 savings, LAO revenues, public safety restructuring):	-\$2.3 billion
Alternative Funding:	\$1.0 billion
Fund Shifts and Other:	<u>\$2.7 billion</u>
<i>Total Solutions:</i>	<i>\$18.5 billion</i>

The major revenue and revenue adjustment components of the Conference Committee budget include the following:

- Tax Reform – The Conference Committee budget includes a tax "reform" proposal that raises the State Personal Income Tax and Vehicle License Fee, which are deductible from federal personal income taxes, and reduces the state sales tax, which is not deductible from federal personal income taxes. The Conference Committee analysis states that after deductibility, all income groups would experience a net tax deduction. This tax swap is estimated to generate an additional \$1.8 billion GF in 2010-11, growing to about \$3.3 billion GF in future fiscal years. The reduction in the sales tax pursuant to this proposal would NOT affect realignment revenues because it applies only to the state portion of the sales tax. The portion of the sales tax dedicated to realignment funding remains unchanged.

- Delays Corporate Tax Breaks – The Conference Committee budget delays for two years the start of the new corporate tax breaks scheduled to take effect in 2010-11, providing about \$2.2 billion in GF revenues for 2010-11.
- Oil Severance Tax – The Conference Committee budget imposes an oil severance tax to generate about \$600 million in GF revenue in 2010-11, growing to \$1.2 billion in 2011-12 and annually thereafter.
- Proposition 98 – The Conference Committee budget suspends for one year the Proposition 98 funding guarantee to K-14 schools to free up \$1.8 billion GF in 2010-11 to be used for other purposes. Pursuant to the Constitutional provisions of Proposition 98, the \$1.8 billion will be repaid to schools over future fiscal years.

### Health and Human Services

Regarding Conference Committee actions taken on specific items in health and human services, attached is the updated version of the budget tracking matrix, showing the actions taken by each house of the Legislature and the Budget Conference Committee for those issues in conference. The major Conference Committee actions include the following:

- CalWORKs – The CalWORKs budget remains status quo. There are no grant cuts or further cuts to the Single Allocation beyond the existing \$375 million cut that was enacted in the 2009-10 Budget Act for the 2009-10 and 2010-11 fiscal years. The Conference Committee rejected the proposed \$300 million augmentation to the Single Allocation proposed by the Assembly Democrats in their previous budget proposal. The Conference Committee Budget also restores all funding for child care programs that the Governor proposed to cut in the May Revision.
- IHSS – The Conference Committee budget includes a number of actions on IHSS:
  - Adopted \$250 million in GF savings to be achieved through enactment of a provider fee, which is estimated to generate between \$150 million and \$200 million in savings, with the remainder of the savings to be developed in consultation with stakeholders.
  - Adopted placeholder trailer bill language enacting the provider fee and establishing a stakeholder process for 2010-11 and 2011-12 to examine other potential policy options to achieve savings, particularly in the context of federal health care reform. This trailer bill language has not been drafted yet, so we do not know any details about the stakeholder process at this time.
  - Repealed the service reductions based on FI scores and ranks and the reduction in state participation in provider wages to the minimum wage that were enacted as part of last year's budget.
- Realignment – The Conference Committee budget does not include the realignment of any portion of CalWORKs, Child Care, or APS (or any other health or human services program). The only remnant of the Senate Democrats' realignment plan is a public safety component.

### Next Steps

We have not heard yet when the Conference Committee budget will be brought up for a vote in the full Legislature. Neither Legislative Republicans nor the Governor has been especially receptive to the Conference Committee budget, particularly the revenue proposals. Therefore, obtaining a two-

thirds vote to pass this version of the budget is does not appear likely at this time. We expect that discussions among the Legislative leaders in both houses and the Governor will continue, as well as Big 5 negotiations beginning soon. Even though the status of CalWORKs, CWS, and even IHSS funding (at least relative to the Governor's proposal to cut \$750 million GF) is good in the latest version of the budget, we also expect that those programs will be the subject of ongoing budget negotiations and likely targets for further cuts.

If you have any questions on any actions taken by the Budget Conference Committee, don't hesitate to contact CWDA staff.