

**GOVERNOR'S 2009-10 MAY REVISE STATE BUDGET PROPOSAL
STATE BUDGET IMPACTS FY 2009-10**

Governor Arnold Schwarzenegger released a plan for the revision of the 2009-10 State Budget on May 14, 2009. The 2009-10 May Revision addresses an emerging budget shortfall in the existing budget plan. It should be noted that the existing state budget plan is already in place.

- The May Revision proposal outlines a \$21.3 billion shortfall since the ballot measures on May 19th failed. The five ballot initiatives failed – which increased the State's Budget gap by \$6 billion.
- The State has exhausted its ability to borrow internally.
- Revenues continue to fall.
- External borrowing is unlikely; if it occurs, it will be incredibly expensive – more than a 10% interest rate was predicted by the Treasurer, even though the interest paid is double tax-free.

The Department of Finance prepared both a May Revision and a number of contingency proposals as part of the May Revision if the ballot measures did not pass. It is unclear how the Legislature will address the May Revision process, given the unprecedented times but legislature is currently in session and has stated they may possibly release a third May Revision on May 28, 2009 or sooner. The following information shows the impacts to Mendocino County as they relate to the May Revision including the Governor's Proposed Contingency Plan:

Law/Justice/Public Safety

- At this time, the Governor's May Revision proposes no specific local public safety program reductions. The new local public safety funding construct is not affected by either the May Revision or the Governor's contingency plan. You may recall that the Governor carved out a piece of the adopted Vehicle License Fees (VLF) increase to protect local public safety programs. It is unclear whether legislature could revisit this decision.

Governor's Proposed Contingency Plan

- **Shifting Populations to County Jails.** The Governor's contingency plan also would change sentencing options for low-level offenders, eliminating "wobbler" provisions whereby an offense can be charged as either a misdemeanor or a felony and making those crimes punishable only by a term in county jail. **Impact to Mendocino County unknown at this time.**

Agriculture and Natural Resources

- **Williamson Act.** The Governor's May Revision proposes to eliminate all state Williamson Act subvention payments to local government. **The impact to Mendocino County is \$565,000 and has been removed from the Auditor's revenue projection for FY 2009-10 in BU 1000 and on the NCC worksheet. However, the FY 2008-09 payment to counties is slated for payment on May 28, 2009 and is included in the revenue projections for 2008-09.**

Health and Human Services

- **In-Home Supportive Services.** The Governor's May Revision resurrects a number of budget cut proposals from prior years. The cuts would be effective October 1, 2009. The cut proposals include the following:
 - **Wages and Benefits.** The Administration proposes to roll back state participation in IHSS wages to the current state minimum wage of \$8 per hour for a savings of \$114.1 million General Fund. Currently, the state participates in wages up to \$11.50. Effective July 1, 2009, state participation will decrease to \$9.50. Under the proposal, the state would maintain participation in benefits at \$0.60 per hour. **The impact to Mendocino County represents an approx. \$675,000 cut in State GF to Mendocino County and has been budgeted in 09/10 budget as an increase in county general fund contribution.**
 - **Limit Services.** The Administration is also proposing to eliminate domestic and related services for all consumers with a functional index below 4, for a savings of \$40.8 million General Fund. **The impact to Mendocino County is approx. \$2 million loss of services to the community by community partners.**
 - **Increase Cost Sharing for Consumers.** As proposed last year, consumers with a functional index below 4 would not be eligible for a state-funded share of cost buyout, giving these consumers a share of cost for services. The proposal would save \$38.2 million. **This represents decreased funding from the State that will be offset by the consumer taking on that share of cost. Effects are undetermined at this time.**
- **CalWORKs.** The May Revision includes \$156.7 million in savings associated with enacting the following cuts effective October 1, 2009:
 - **Modified Safety Net program.** This proposal would provide benefits only for Safety Net cases that meet federal work participation requirements. **This reduces the number of clients and their associated assistance levels and has little direct effect on the Agency.**
 - **60-month time-limit for child-only cases.** The May Revision also assumes that grants for children of unaided adults will be subject to a 60-month time limit. **This reduces the number of clients and their associated assistance levels and has little direct effect on the Agency.**
 - **Self-Sufficiency Reviews.** The Administration is also proposing to require face-to-face interviews, which they are calling Self-Sufficiency Reviews, with all recipients who are not meeting work requirements. The interviews would occur every six months. **This proposal would reduce the number of clients and their associated assistance levels, but will require additional staff hours to comply. Effects unknown at this time, but this will increase labor costs.**
 - **Grants.** The Administration is proposing to reduce the CalWORKs maximum aid payment standard by six percent. The 2009 Budget Act includes a 4 percent grant reduction effective July 1, 2009. **This proposal reduces the State's client assistance costs, but would have little direct effect on the Agency.**
- **Medi-Cal Federal Medi-Cal Flexibility & Stabilization.** The May Revision document includes a placeholder to pursue \$750 million in savings to the Medi-Cal program by

requesting a federal waiver. According to the Administration's document, the state can no longer afford its Medi-Cal program as currently structured and governed by federal rules. Under the new federal requirements of the American Recovery and Reinvestment Act of 2009 (ARRA), California cannot reduce eligibility to create savings. California has been unable to implement Medi-Cal rate reductions. The Governor will be petitioning the Obama Administration to secure program flexibilities to slow the rate of program growth and manage Medi-Cal within available resources. They will also work with Congress to resolve longstanding, unreimbursed Medicaid claims owed to states regarding classification of certain permanent disability cases. The document provides no detail on the types of "flexibility" that the Administration will be pursuing.

The impact to Mendocino County effects doctors, clinics, etc. and is to be determined.

- **California Food Assistance Program (CFAP).** The Administration also proposes to eliminate the CFAP, which provides benefits to 22,000 low-income legal non-citizens. **This proposal reduces the State's client assistance costs, but would have little direct effect on the Agency.**
- **Child Welfare Services.** The May Revision proposes to request that the federal government allow the federal Fostering Connections to Success and Increasing Adoptions Act funds to be used to offset General Fund spending on the Kinship-Guardianship Agreement Payment (KinGAP) program. If federal support is obtained, \$31 million General Fund would be saved. **This is a cost shift from State to Federal with minor impact to Counties and clients.**
- **Supplemental Security Income/State Supplemental Payment (SSI/SSP).** The May Revision proposes reducing the maximum monthly grants to the minimum allowed under federal law. This grant cut would be effective September 1, 2009 and would save \$248.5 million. Grants would be reduced to \$830 per month for an individual and \$1,407 per month for a couple. The 2009 Budget Act includes a 2.3 percent grant reduction effective July 1, 2009. **This proposal saves the State GF funds at the expense of the aged, blind and disabled individuals and couples. This proposal would also roll back MediCal reimbursement rates to pre-2008 levels. The local impact to the Family Planning program is \$200,500 for FPACT and \$32,000 for MediCal. This impact has been budgeted in 09/10.**

Governor's Proposed Contingency Plan

- **In-Home Supportive Services (IHSS).** Effective October 1, 2009, individuals who require minimal physical assistance from another person to perform an activity would no longer receive domestic and related services; individuals needing supervision from another person to perform an activity would no longer be eligible for IHSS services. This proposal is estimated to save \$301.5 million. **This proposal represents a loss of services to the community.**
- **Child Welfare County Allocation.** The Administration proposed to reduce child welfare allocations to counties by \$70 million General Fund. Counties will lose the associated federal funds. **The impact to Mendocino County is approx. \$250,000 in State funding.**

- **Rate Reductions.** The Administration is proposing to reduce the Group Home, Foster Family Agency, and specialized care and clothing allowance rates by 10 percent. **This would be a temporary savings the County undetermined at this time because the above listed facilities will pass on the costs to the Counties via patches.**
- **Proposition 36.** The Governor's contingency plan would eliminate \$108 million in Proposition 36 funding (\$90 million in Substance Abuse and Crime Prevention Act funding and \$18 million in Substance Abuse Offender Treatment Program funding). **The impact to Mendocino County is \$469,300 SACPA and \$40,102 OTP.**
- **Medi-Cal.** May Contingency proposals include the following:
 - **Drug Medi-Cal.** Reduce Drug Medi-Cal rates by 10 percent, for \$8.8 million in savings. **This proposal affects substance abuse treatment providers. The local impact is \$9,000.**
- **Children's Health Healthy Families Program.** The Administration proposes to roll back eligibility to 200 percent of the Federal Poverty Level for a savings of \$54.5 million. Approximately 225,000 children would lose health coverage through the program. **The impact to Mendocino County is unknown at this time.**
- **Proposition 99.** The Administration proposes to redirect \$60 million in Proposition 99 funds to offset Medi-Cal costs. The following Proposition 99 funded items would be affected: county health, clinics, Breast Cancer Early Detection, Asthma, Major Risk Medical Insurance, and Access for Infants and Mothers program. **The impact to the Breast Cancer Early Detection Program in Mendocino County is \$17,500.**
- **Public Health HIV Education and Prevention.** The Governor's contingency plan would eliminate \$24.6 million in funding that supports local efforts to prevent transmission of HIV, address attitudes and behaviors related to HIV, and promote risk reduction skills. **The local impact is \$24,170, which is currently budgeted as revenue in the 09/10 budget.**
- **Maternal, Child and Adolescent Health Grants.** The contingency plan would eliminate \$10 million that supports local health services seeking to improve the health of mothers, infants, children, adolescents, and families. **The total local impact is not known at this time. The potential loss to this program is approximately \$312,000, which would eliminate the program.**

Community Resources/Infrastructure

- **Proposition 42/Prop 1B.** The Governor's proposed May Revision to the 2009-10 state budget does not include a proposal to borrow Proposition 42. The Governor has also been successful in selling \$6 billion in bonds which will enable the state to make payments to counties for 2008-09 (Mendocino County has already received payment for approximately \$400,000). The state is also able to disburse the remaining funds in 2009-10.

General Government/Finance

Governor's Proposed Contingency Plan

- **Suspension of Proposition 1A (2004).** Governor Schwarzenegger included the suspension of Proposition 1A (2004) in the contingency plan for resolution of the state budget deficit if the May 19 ballot measures fail. The state is anticipating borrowing \$1.982 billion in property tax revenues from counties, cities, and special districts for the 2009-10 fiscal year. The summary assumes repayment within three years, as required by the Constitution, and specifically notes that the Administration will propose legislation to create a joint powers authority to allow local agencies to borrow against the state repayment as a group. Article XIII, Section 25.5 of the California Constitution specifies that the allowed property tax reduction is “a total ad valorem property tax revenue loss to all local agencies within a county that exceeds 8 percent of the total amount of ad valorem property tax revenues that were allocated among all local agencies within that county for the fiscal year immediately preceding the fiscal year.” **The impact to Mendocino County would be approximately \$2,135,000 according to preliminary calculations by the Auditor Controller. Mendocino County could internally borrow from our cash reserves pending below cash flow borrowing and book this as a receivable from the state as this has to be paid back within 3 years unless the state legislature proposes legislation to revise the Constitution. Mendocino County would also need to consider all state programs additionally supported through cash flow deferral i.e. HHSAs programs and Transportation and any other actions the state implements.**
- **Mendocino County Cash Flow – TRANs borrowing FY 2009-10.** As previously reported to the Board on the Budget Officer report, Mendocino County along with other counties are facing the possibility of not being qualified for TRANs borrowing for FY 2009-10 due to increased restrictions on credit ratings and the global credit crisis. Unknown at this time, and per the Auditor and the Treasurer Tax Collector, if the TRANs borrowing is approved for FY 2009-10, the amount the county could potentially borrow due to our credit rating, may be less than approximately \$26 million as in prior years. The county would need to consider adjusting the cash operationally pending available TRANs borrowing capacity due to our current credit rating. We also may have to pay higher interest on the TRANs borrowing. The Executive Office will update the Board on this matter relative to the county's credit rating status as soon as the final outcome is known.

- **Emergency Response Initiative.** As part of the contingency plan, the Governor proposes to increase the insurance surcharge included in his budget from 2.8 percent to 4.8 percent on all residential and commercial property insurance statewide. The increase would fund a portion of the Department of Forestry and Fire Protection's baseline firefighting operations and provide assistance to local first response agencies in support of the state's mutual aid system. Proposed enhancement to the state's emergency response capabilities would be delayed until 2010-11. The Governor estimates that the surcharge would average approximately \$48 per insurance policy holder. **The impact is to taxpayers in Mendocino County for residential and commercial property insurance premiums.**

Elections

- Special Election – At this time, there is no language stated in the May Revise or the contingency plan to reimburse counties for the special election held on May 19th. The Legislative Analyst Office has stated that the reimbursement to counties was not addressed by the Governor pending the outcome of the May election ballot measures. It is unknown at this time if this previous commitment to counties in the Governor's January Proposal will be revised. **The impact to Mendocino County for FY 2008-09 is approximately \$200,000, and would have to be revised in the fund balance carryover deficit balance for 2008-09.**

The Executive Office will continue update the Board on any new local impacts or information from the Governor's office at a future Board meeting.

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