



COMMITTEE ON BUDGET & FISCAL REVIEW
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Quick Summary

Special Session Actions

February 14, 2008

The purpose of this Quick Summary is to provide members and staff of the Legislature with a review of the Special Session actions taken by the Senate Budget Committee on February 13. If you have questions, please contact the committee at (916) 651-4103.

Summary of Special Session

On January 10, the Governor released his proposed 2008-09 budget and declared a “fiscal emergency” to address a projected current year shortfall of \$3.3 billion and a projected budget year shortfall of \$11.2 billion.

The Governor proclaimed a fiscal emergency utilizing the authority provided within the State Constitution (passed as Proposition 58 by the electorate in early

2004). Under the Constitution, the Governor can call the Legislature into a special session to deal with substantial revenue declines or expenditure increases, and provides proposed legislation to address the fiscal emergency. If the Legislature fails to pass and send to the Governor, a bill or bills addressing the fiscal emergency by the 45th day following this type of proclamation, the Legislature may not act on any other bill.

In order to begin closing the estimated two-year budget shortfall, the Administration proposed more than \$17 billion in solutions that would allow for a final General Fund (GF) reserve of \$2.8 billion. The Governor, under the call of the special session, proposed numerous items for action by the Legislature – taking an “across the board” approach to many of his solutions.

The Senate Budget Committee held 8 full-committee hearings to discuss and understand the various issues presented by the Administration to address the fiscal emergency. The Committee, on January 17, indicated that it would focus its immediate attention on cash flow issues and special session issues that provide immediate General Fund solutions. Budget year issues that were folded into the special session would be put over and dealt with during the regular budget deliberations in the Spring. Exceptions to this would be issues that needed appropriate lead time for implementation, such as notifying recipients, providers, or in some instances the federal government.

On February 13, the Committee took various actions, as outlined throughout this document, to address the immediate current year and cash flow problems. As a result of the actions taken by the Committee, the current year shortfall of \$3.3 billion converts to a little over \$1 billion GF reserve. In addition, the resulting budget year problem goes down by approximately \$7 billion. Finally, actions taken in Committee also provide \$8.6 billion in cash management solutions to enable the state to maintain its ability to pay its bills.

In the following pages are brief summaries, by major program area, of actions taken.

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Education

Proposition 98 – K-14 Education

Adjustment to Minimum Guarantee. Reduces overall Proposition 98 funding by \$506.8 million in 2007-08 -- in order to achieve current year savings and reduce the minimum funding guarantee – and appropriates \$506.8 million in one-time funds to maintain K-14 expenditures at budgeted levels. Due to the falloff of state revenues, the Governor estimates that the K-14 Proposition 98 budget is over-appropriated by \$1.5 billion in 2007-08. This action reduces the over-appropriation to approximately \$1.0 billion, as currently estimated.

Budget Balancing Savings. Captures \$506.8 million in savings for K-12 schools and community college programs in order to achieve a reduction in Proposition 98 funding in 2007-08. These savings reflect excess funds appropriated for the current budget year and several prior years and do not affect the level of ongoing funding for local programs. The \$506.8 million in savings provide an alternative to the \$400 million cut in K-12 and community college apportionments proposed by the Governor.

Payment Deferrals to Address Cash Shortage. Moves \$1.1 billion in advance apportionment payments for K-12 school districts from July to September in 2008-09 in order to meet the state's cash needs. School districts may be exempted from the July apportionment deferral -- subject to approval of the Director of Finance – if their county superintendent of education certifies that the deferral would qualify the school district for an emergency apportionment.

Additional Proposition 98 Reversion Funds for Emergency Repair Program. Appropriates an additional \$100 million in Proposition 98 Reversion Funds for the Emergency Repair Program (ERP) in 2007-08 pursuant to current law. This brings total funding for ERP to \$200 million in 2007-08 and makes conforming budget changes.

Clarifies Key Fiscal Definition in Proposition 49.

Provides a definition of "continuous appropriation" for purposes of Proposition 49 (The After School Education and Safety Program), specifying that funds are appropriated on a fiscal year basis and are available for encumbrance for one year. Government Code provides an additional two years for those encumbrances to be liquidated. This definition conforms to the use of "continuous appropriation" as it

applies to K-12 revenue limit appropriations. This change clarifies a statutory definition and does not alter the program as adopted by the voters.

Employee Compensation

Teachers Retirement. Deferred the payment to the State Teachers Retirement System (STRS) for the Supplemental Benefit Maintenance Account (SBMA) from July 2008 to November 2008 to provide the General Fund with an additional \$584 million during that period for cashflow purposes. Current statute continuously appropriates annual General Fund payments equal to 2.5 percent of teacher payroll, but does not specify in what month the transfer will occur. Typically, the State Controller has made this payment in July of each year. The SBMA supports supplemental payments to retired teachers to maintain their purchasing power at a level equivalent to 80 percent of what their benefit provided in the first year of retirement. Payments to retired teachers are *not* delayed or reduced with this proposal, because those payments are made out of the trust fund. Note, the Administration had also proposed changes to the STRS vested benefit – none of those changes are included in the bill.

Health & Human Services

The Senate took various actions as proposed by the Governor to reduce expenditures in the health and human services area. These actions are summarized below under each department.

Department of Health Care Services

10 Percent Reduction to Medi-Cal Rates and Related Health Care Programs.

The Governor proposed a ten percent reduction to the reimbursement rates paid to various providers participating in the Medi-Cal Program, including all Fee-for-Service providers (physicians, medical transportation, pharmacy, home health, dental, and other medical services), Managed Care plans, certain Long-Term Care facilities, and certain hospitals (i.e., non-contracting hospitals).

The Senate adopted statutory changes to reduce the rates but exempted some Medi-Cal providers from the reduction, including the Family PACT Program, Breast and Cervical Cancer Treatment Program, Medi-Cal Managed Care plans providing assistance to consumers transitioning from Agnews Developmental Center to the community, freestanding nursing homes (Level B), certain clinic providers (FQHCs and Rural Health), and Intermediate Care Facilities for the Developmentally Disabled. The Senate action also delayed the rate reduction until July 1, 2008, the beginning of the 2008-09 fiscal year, in lieu of the Governor's proposed June 1, 2008 implementation date.

The Governor also proposed reducing by 10 percent the rates paid under the California Children Services (CCS) Program, the Child Health and Disability Prevention (CHDP) Program, and the Genetically Handicapped Persons Program (GHPP). The Senate adopted statutory changes to implement this proposal. This reduction provides parity between the rates paid for these program services inside and outside of the Medi-Cal Program, which has been the Legislature's policy and is currently the case.

These rate reductions will be effective as of July 1, 2008. Total 2008-09 savings from these actions are \$558.2 million (General Fund).

Permanently Defer Medi-Cal Checkwrite. As requested by the Governor, action was taken to permanently shift the June 19, 2008 Medi-Cal weekly checkwrite to

July 2008 (i.e., into the next fiscal year). This action saves the state \$165 million (General Fund) for 2007-08 and 2008-09. Funds for the current-year were reverted.

Delay Payments to Fee-for-Service Institutional Providers. As requested by the Governor, action was taken to delay \$454 million (General Fund) in Medi-Cal payments made to 40 categories of institutional providers. Specifically, payments which would have been made in August will now be deferred to September to assist the state with its cash situation. Providers affected by this action include hospitals, long-term care facilities, various types of clinics, Adult Day Health Care Centers, Home Health agencies, Mental Health inpatient services and several other categories. Statutory changes were made to reflect this action.

Delay Medi-Cal Managed Care Plan Payment and Delta Dental Plan Payment. As requested by the Governor, action was taken to delay a total of \$232 million (General Fund) in payments to Medi-Cal Managed Care plans and the Delta Dental plan. This equates to one month's worth of payment for these entities. Statutory changes were made to reflect this action.

Delay First Quarterly Payment to Counties for Administration of Medi-Cal. As requested by the Governor, action was taken to delay the first quarterly payment traditionally made to County Welfare Departments for Medi-Cal Program administration, primarily for eligibility processing. The \$164.3 million (General Fund) first quarter payment will instead be made in late September, versus August.

Department of Developmental Services

Community Services and Regional Centers

The Senate took the following actions as proposed by the Governor.

Cost Containment Measures for Purchase of Services. As requested by the Governor, reduces by \$329.7 million (\$228.8 million General Fund) for 2008-09 by permanently extending existing cost containment measures as enacted in previous Budget Acts (commencing in 2003). These cost containment measures include rate freezes for all programs, negotiated contract services rate freezes, elimination of the SSI/SSP pass-through to Community Care Facilities, and no new program start-ups. Statutory changes were made to reflect this action.

Reduces Regional Center Operations. As requested by the Governor, reduces by \$36.9 million (\$20.5 million General Fund) for 2008-09 the operations budget of the Regional Centers by permanently extending existing cost containment measures as enacted in previous Budget Acts (commencing in 2002). These measures include the change in assessments (from 60 to 120 days) and having a Service Coordinator caseload ratio of one staff for every 66 consumers. Statutory changes were made to reflect this action.

Expands the Family Cost Participation Program. As requested by the Governor, action was taken to expand the existing Family Cost Participation Program to include families with children less than 3 years of age, and to assess a higher share of cost on parents with incomes above 400 percent of poverty using a sliding fee scale based on income levels. This action assumes a July 1, 2008 implementation date for savings of \$773,000 (General Fund) in 2008-09. Statutory changes were made to reflect this action.

Delays Payment to the Regional Centers. As requested by the Governor, the Administration will be delaying the two-month advance of \$400 million (General Fund) traditionally provided to the Regional Centers. This is a one-time only adjustment and means that the advance will be received in late September instead of earlier in August.

Reduces Community Placement Plan Operations. As requested by the Governor, reduces by \$660,000 (General Fund) in the current-year and \$2 million (General Fund) for 2008-09 the amount made available to Regional Centers to administer their Community Placement Plans.

Reduces Regional Center Operations for HIPAA. As requested by the Governor, reduces by \$23,000 (General Fund) in the current-year and \$71,000 (General Fund) in 2008-09 by reducing the amount provided to the Regional Centers for implementation of the federal Health Insurance Portability and Accountability Act (HIPAA).

Developmental Centers

The Senate took the following actions that pertain to the state-operated Developmental Centers as proposed by the Governor.

Reduces State Staff in Regional Resource Development Projects. As requested by the Governor, a reduction of \$663,000 (General Fund) for 2008-09 was made to reflect the closure of two off-site facilities and a reduction of 12 state positions.

Administrative actions need to be taken in the current-year to obtain the budget year savings.

Reduces Client's Rights Advocacy at State Developmental Centers by 10 Percent.

As requested by the Governor, a reduction of \$39,000 (General Fund) was taken for the current-year and \$119,000 (General Fund) was reduced for this contracted service in 2008-09. Most of this reduction will be taken from administrative expenditures that pertain to travel and operating expenses.

Eliminates Vacant Peace Officer Positions at Porterville Developmental Center.

As requested by the Governor, a reduction of \$181,000 (General Fund) was made in the current-year and a reduction of \$547,000 was made for 2008-09 to reflect existing vacancies. The DDS states that it is currently underway to reorganize and utilize existing security guards more efficiently at Porterville.

Reduce the Quality Assurance Fee Paid by the DDS Due to the Agnews Closure.

As requested by the Governor, a reduction of \$755,000 (General Fund) was made for the current-year and \$2.3 million (General Fund) was assumed for 2008-09 since this fee will no longer need to be paid by the DDS. This proposal reflects a reduced amount which would occur on the natural with DDS using fewer beds and therefore, paying less of a quality assurance fee.

State Headquarters Reduction—Eliminate Certain Vacant Positions. As requested by the Governor, eight vacant positions are being eliminated for savings of \$119,000 (General Fund) in the current-year and \$362,000 (General Fund) for 2008-09. These positions are used to conduct work related to audits.

Department of Mental Health

The Senate took the following actions as proposed by the Governor.

Reduce the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT).

As requested by the Governor, action was taken to reduce the EPSDT Program by \$3.5 million (General Fund) in the current-year and \$14.6 million (General Fund) in 2008-09. These adjustments reflect savings to be achieved by not providing a home health market basket cost-of-living-adjustment (COLA) and through increased oversight by the DMH of this program which is expected to reduce the cost per child.

Reduce the Caregiver Resource Centers. As requested by the Governor, action was taken to reduce by \$400,000 (General Fund) in the current-year, or by 10 percent, the amount provided for these centers.

Delay Payment Advance to County Mental Health Plans for Managed Care. As requested by the Governor, action was taken to delay for two months the advance payment made by the state to County Mental Health Plans for services provided under the Medi-Cal Mental Health Managed Care Program. This equates to \$200 million (General Fund) and is intended to assist the state with its cash flow.

Delay Payment Advance to County Mental Health Plans for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. As requested by the Governor, action was taken to delay for two months the advance payment made by the state to County Mental Health Plans for services provided under the EPSDT Program. This equates to \$92 million (General Fund) and is intended to assist the state with its cash flow.

Reduce Funding for the Cathie Wright Technical Assistance Center. As requested by the Governor, action was taken to reduce the center by a total of \$10,000 (General Fund) for the current-year.

Reduce Certain State Administrative Costs. As requested by the Governor, action was taken to reduce certain positions and administrative expenditures by a total of \$722,000 (General Fund) in the current-year and \$1.9 million (General Fund) in 2008-09.

Reduce State Hospital Expenditures Due to Reduced Caseload. The Legislative Analyst's Office identified \$12.6 million (General Fund) in savings for the current-year due to reduced caseload at the State Hospitals. This action was adopted.

Department of Social Services

- ***Delay Implementation of the 2008-09 CalWORKs Cost-of-Living Adjustment (COLA).*** Delays on a one-time basis the start of the COLA from July 1, 2008 to October 1, 2008. The delay results in General Fund savings of \$41.5 million in 2008-09.
- ***Eliminate CalWORKs Pay for Performance Funding for the Current Year.*** Eliminates the \$40 million General Fund in Pay for Performance incentive funds available to counties that meet specified program outcomes in 2007-08.
- ***Reduce Funding for the Welfare Policy Research Project (WPRP).*** Eliminates \$1.4 million General Fund available to the WPRP for an experimental design study on home visits and subsidized employment programs for CalWORKs clients.
- ***Delay Implementation of the June 2008 State Supplemental Program (SSP) COLA.*** Delays the start of the June 2008 SSP COLA from June 1, 2008 to October 1, 2008. This is a one-time shift in the SSP COLA. The delay results in a General Fund savings of \$23.3 million in the current year and \$67.8 million in 2008-09.
- ***Delay the Interim Statewide Automated Welfare System (ISAWS) Migration Project.*** Reflects \$3.5 million General Fund savings in the current year as a result of delaying, but not eliminating, implementation of the ISAWS Migration project.
- ***Reduce Current Year Funding for the Child Welfare Services/Case Management System (CWS/CMS) Project.*** Reduces current year funding for the CWS/CMS project by \$3.0 million General Fund to reflect one-time savings in maintenance and operations costs.
- ***Reduce the Department of Social Services' (DSS') Budget.*** Reduces DSS' operating expense and equipment budget by \$70,000 General Fund in the current year.

Department of Alcohol and Drug Programs

- ***Reduce Drug Medi-Cal (DMC) State Operations Funding.*** Reduces state operations funds for administering the DMC program by \$100,000 General Fund in the current year.
- ***Reduce the California Methamphetamine Initiative (CMI) by Ten Percent.*** Reduces funding for the CMI by ten percent effective March 1, 2008, resulting in General Fund savings of \$360,000 in the current year.

Department of Child Support Services

- ***Reduce the Department of Child Support Services (DCSS) Budget.*** Reduces CDSS' operating expense and equipment budget by \$200,000 General Fund in the current year.

Judicial Branch

Delay New Judgeships. Adopted a one-year delay in the appointment of 50 new judgeships that were authorized in 2007. New judgeships would be appointed June 1, 2009. Also, postponed the appointment of 10 new judgeships until July 1, 2008 that were authorized in 2006. These delays result in \$21.9 million GF savings in the current year and \$54.2 million GF savings in the budget year.

Veterans Affairs

Department of Veterans Affairs

Resident Care Reduction. The 2007-08 appropriations for resident care at the Yountville and Chula Vista veterans homes were reduced by \$1.7 million General Fund, resulting in a reduction of 17.8 PYs that will limit the previously approved expansion of the Memory Care Unit at Yountville, and require the reduction, through attrition, of the Domiciliary and Residential Care for the Elderly census at Chula Vista.

Administrative Support. The 2007-08 appropriation for Administrative Support was reduced by \$30,000 GF, resulting in a 0.5 PY reduction in Human Resources staffing associated with initial hiring of activation staff for the new Greater Los Angeles and Ventura County homes.

Local Government

State Mandate Funding. Approved the Governor's proposal to save \$75.0 million in 2008-09 mandate payments to locals, by discontinuing the practice of paying *estimated* mandate claims. This action effectively defers payment of *estimated* mandate claims from August 2008 to August 2009.

Public Safety

California Department of Corrections and Rehabilitation

Various Corrections Program Savings. Reduced the California Department of Corrections and Rehabilitation funding by \$40 million in the current year to account for various program savings due to delays in starting new programs, including sex behavior treatment programs.

Office of the State Public Defender

Program Reductions. Reduced the Office of the State Public Defender by \$405,000 GF in the current year and eliminated six attorney positions. The Office of the State Public Defender is responsible for providing legal representation in capital appeals cases.

Natural Resources

Current Year Special Session Reductions for Resources. The Governor proposed to cut the Resources Agency budget by \$4.2 million General Fund in the current year.

California Conservation Corps. Rejected the proposal to reduce the California Conservation Corps budget by \$1.2 million. The reduction would have forced the closure of three non-residential satellites, reduction in corpsmember hours, a raise in the rent of residential corpsmembers, reduction in funding for local conservation corps, and elimination of two headquarters staff.

Fire Protection. Rejected a proposed trailer bill to implement a statewide emergency services surcharge on commercial and residential property insurance policies. The fee would have replaced General Fund with funding from the Insurance Fund to pay for fire protection in state responsibility areas. The trailer bill was assessed to be unconstitutional and was rejected by the Legislature.

Park Reduction. Accepted a \$1 million General Fund reduction to the Department of Parks and Recreation. This cut will result in the reduction of the equipment and maintenance budget.

Biodiversity Conservation. Accepted a \$1.4 million General Fund reduction for the Department of Fish and Game's Biodiversity Conservation Program. This cut comes out of fisheries restoration grants. In the Budget Act there remains \$10.4 million for fisheries restoration grants.

Hunting and Fishing. Accepted a \$165,000 reduction to eliminate contract funds for white seabass field sampling at the Department of Fish and Game.

Fish and Game Administration. Accepted a \$152,000 reduction to the Department of Fish and Game administration. This reduction will reduce application development and database maintenance for a database to track department lands and easements.

Flood Management. Accepted a \$200,000 reduction to the Flood Management Program at the Department of Water Resources. The reduction will come out of salary savings and no positions will be eliminated.

CALFED Bay-Delta Program. Accepted an \$87,000 reduction to the CALFED administrative budget.

Environmental Protection

Current Year Special Session Reductions for Environmental Protection. The Governor's budget proposes a budget-balancing reduction of \$1.6 million General Fund in the current year for the Environmental Protection Agency. The Department of Toxic Substances Control budget will be reduced by \$1.25 million, mainly from the illegal drug lab removal program.

Toxic Substances Control. Accepted a \$1.25 million reduction to the Illegal Drug Lab Removal and Off-Highway Spills Cleanup programs. Of this amount, \$1.17 million comes from Illegal Drug Lab Removal, due to the decrease of illegal drug labs requiring removal from about 800 to 348 annually.

Toxic Substances Control Administration. Accepted a \$50,000 reduction to the administrative budget for travel and facilities.

Secretary for CalEPA. Accepted a \$100,000 reduction in administrative costs, including support activities, contracts, and workshops.

Air Resources Board. Accepted a \$100,000 reduction in contracts for the stationary source program.

Office of Environmental Health Hazard Assessment (OEHHA). Accepted a \$100,000 reduction to consultant contracts for biomonitoring and pesticide risk assessment.

Agriculture

Current Year Cuts. The Governor's budget proposes a decrease of \$500,000 General Fund for the Department of Food and Agriculture out of the department's \$107.8 million General Fund budget. The Governor also proposes a decrease of

\$150,000 General Fund for the Agricultural Labor Relations Board out of the board's \$5.13 million General Fund budget.

Weighing and Measuring Activities. Accepted a \$237,000 reduction to the Weighing and Measuring Activities budget, which will be replaced with special funds coming from the industry.

General Agricultural Activities. Accepted a \$263,000 reduction to the Policy, Planning, and Development program. The reduction will come from salary savings of currently vacant positions.

Agricultural Labor Relations Board. Accepted a \$150,000 reduction to the Board and General Counsel budget, which will come from salary savings for 1.8 positions currently not filled.

State Administration and General Government

Board of Equalization

Yacht and Aircraft Use Tax Revenues. Restored the requirement that use tax be paid if a vehicle, vessel, or aircraft is brought into the state within 12 months of purchase. Under current law, any vessel or aircraft purchased outside California and brought into the state 90 days after purchase is not subject to the tax. This proposal would increase GF revenues by \$5 million in 2007-08 and \$21 million in 2008-09.

Department of General Services

Capitol Maintenance and Repair. The 2007-08 appropriation for capitol infrastructure projects was reduced by \$1.2 million GF. This will result in deferral of some lower priority projects.

Housing and Community Development

Housing Element. The 2007-08 appropriation for review and approval of local housing elements was reduced by \$100,000 GF. The department indicated this savings was available due to a workload fund-shift from GF to Proposition 1C.

State Housing Law. The 2007-08 appropriation for promulgation of revisions to the state's building codes for housing was reduced by \$50,000 GF. The department indicated these savings were available due to staff vacancies.

Enterprise Zones. The 2007-08 appropriation for enterprise zone management and outreach was reduced by \$50,000 GF. The department indicated the savings were available due to staff vacancies.

Office of Emergency Services

Disaster Assistance. Reduces \$2.4 million for disaster assistance, which provides aid to local agencies for repair and restoration of public real property. The cuts will

not result in a reduction in service levels, because the department will adjust its funding formula to prioritize the expenditure of federal funds for all federal recognized disasters.

Mutual Aid. Reduces \$326,000 for emergency mutual aid services to jurisdictions whose resources and services are overextended in a disaster situation. The reduction does not relieve the Office of their statutory duty to respond to a disaster.

Plan and Preparedness. Reduces \$430,000 current year for future disaster preparation. The Office is responsible for interfacing federal, state and local disaster response plans, as well as conducting post disaster assessment.

State Terrorism Threat Assessment Center. Reduces the current year appropriation by \$1 million to capture salary savings from various unfilled vacancies.

Department of the Military

Air National Guard Program. The 2007-08 F appropriation for the Air National Guard was reduced by \$100,000 GF. The department indicated these savings were available due to staff vacancies.

Office of the Adjutant General. The 2007-08 appropriation for the Air National Guard was reduced by \$700,000 GF. The department indicated these savings were available due to staff vacancies.

Military Support to Civil Authority. The 2007-08 appropriation for the Air National Guard was reduced by \$100,000 GF. The department indicated these savings were available due to staff vacancies.

Military Retirement. The 2007-08 appropriation for the Air National Guard was reduced by \$100,000 GF. The department indicated these savings were available due to staff vacancies.

Youth Programs. The 2007-08 appropriation for the Air National Guard was reduced by \$100,000 GF. The department indicated these savings were available due to staff vacancies.

Transportation

Highway Users' Tax Account (HUTA) Distribution to Local Governments.

Approved the Administration proposal to delay the disbursement to cities and counties of the gasoline excise tax (or HUTA) distribution in March 2008 through July 2008 so up to \$500 million can be borrowed, short-term, by the GF for cashflow purposes. The deferred amounts would be fully repaid with the regular September 2008 transfer. Statutory language specifies that the \$950 million in Proposition 1B funds made available to cities and counties in the 2007 Budget Act may be borrowed for local cashflow purposes during the term of the deferral.