



## **Governor Signs 17-Month Budget Package Ending Partisan Standoff Over State Budget**

On February 20, Governor Schwarzenegger signed a budget plan that seeks to address the state's \$41 billion budget deficit. One day earlier the California State Senate approved the package after a marathon 45 hour session which went early into the morning on February 19<sup>th</sup>.

The Senate's passage of the plan ended a budgetary standoff that had consumed the Legislature since the final months of 2008. The budget package includes mid-year budget reductions for the current budget year (2008-09) and the earliest budget on record for an upcoming fiscal year (2009-10).

The primary point of contention continued to be the refusal of Senate Republicans to vote for taxes to help close the budget hole. In the Senate, the package had the votes of former State Senate Republican Leader Dave Cogdill and termed out Senator Roy Ashburn but still required one additional vote to meet the constitutionally required 2/3 vote threshold for passage of a state budget.

The budget situation seemed to deepen every day as the state came closer to financial insolvency. Earlier in the new year, State Controller John Chiang (D) and State Treasurer Bill Lockyer (D) were forced to put a halt to the funding of vital transportation projects up and down the state to conserve money for essential state programs such as education, public safety and health and human services. The state would also not be allowed to issue tax refunds in the event that a budget deficit reduction was passed.

The situation was dire with many Capitol experts saying that California was dangerously close to "going off a cliff." The budget package passed the Assembly several days before the standoff in the Senate.

The standoff ended when Senator Abel Maldonado cut a deal with the Senate Democratic leadership to cast his vote in favor of the budget package. Senator Maldonado, who was concerned about what a vote for taxes would do to his ambitions for higher political office, asked the Democratic leadership to agree to place a measure on a future ballot that would call for an open primary system to help make it easier for moderates to win office.

Senator Maldonado also requested a ban on legislative pay increases when the state budget is in deficit and demanded that the proposed 12-cent gasoline tax be removed from the package.

### **The Big Picture**

According to the California Budget Project, the final agreement includes a total of \$41.6 billion in “solutions”— \$30.3 billion to balance the 2009-10 budget and \$11.3 billion to close the gap projected for the remainder of the 2008-09 fiscal year. Specifically, the budget package includes:

- \$14.9 billion in spending reductions
- \$12.5 billion in increased revenues
- \$7.9 billion in federal funding from the economic recovery bill signed by President Obama
- \$5.4 billion in new borrowing
- \$957 million from the Governor’s line-item vetoes

The budget agreement also assumes the state will received \$5.0 billion from the sale of bonds backed by lottery proceeds, according to the California Budget Project.

The \$12.5 billion in tax increases included in the budget include a temporary 1 cent per dollar sales tax increase for two years (which could be extended to five years), a 0.5% across the board increase in the personal income tax, an increase in the vehicle license fee from 0.65% to 1.15%, and reduction in the dependent credit amount to the amount of the personal tax credit.

The \$15 billion in expenditure reductions include:

- \$8.4 billion in reductions to education
- \$900 million to higher education
- \$200 million to health programs
- \$2.3 billion to human service programs
- \$700 million to transportation programs
- \$2.3 billion to general government and other state programs

### **May Special Election**

A number of the changes enacted by the budget deal are required to be approved by the voters. The Legislature scheduled a May 19 special election for voters to consider six propositions:

**Proposition 1A: State Spending Cap** would require the enactment of a new state spending cap that requires revenues in excess of the limit to be deposited into a rainy day fund.

**Proposition 1B: Education Finance** would make a number of modifications to Proposition 98 school finance to repay schools \$9.3 billion in funding over a series of years beginning in 2011-12.

**Proposition 1C: State Lottery** would make changes to the state lottery to allow the state to receive \$5.0 billion from the sale of bonds backed by future lottery proceeds.

**Proposition 1D: California Children and Families Act of 1998** would make changes to the voter approved Prop. 10 to expand the use of Prop. 10 funds to help fund health and human service programs. Specifically, the measure calls for transfers of up to \$340 million on a one-time basis and \$268 million annually for five fiscal years beginning with 2009-10. The funds will be appropriated by the Legislature as part of the annual budget process.

**Proposition 1E: Mental Health Services Act (Prop. 63)** would amend the act to provide \$226.7 million in 2009-10 and up to \$234 million in 2010-11, to support the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program that is administered by the State Department of Mental Health.

**Proposition 1F: State Officer Salary Increases** would prohibit any salary increase for the Legislature and constitutional officers in years in which there is determined to be a budget deficit.

Passage of Prop. 1A is linked to the passage of 1B, which means they both must pass for either measure to take effect.

The California Teachers' Association (CTA) and other school groups are said to be supporting Prop. 1A and 1B because it came out of a deal with leadership to provide more money for schools. Many of the other large union groups have been rumored to be lining up against Prop. 1A because it would severely restrict future state spending on vital state programs, particularly health and human services programs. However, to date union groups remain silent on these ballot initiatives, and organized opposition to these initiatives are starting to formalize their opposition.

### **Summary of Significant Health and Human Service Expenditure Reductions**

The budget made deep cuts to health and human service programs that are summarized below by program. Many of these cuts hit the state's most vulnerable, particularly the poor and minorities.

The good news is that the budget agreement rejected the Governor's proposal to eliminate the Cash Assistance Program for Immigrants (CAPI), which is a state funded program that provides cash assistance to legal immigrants who are aged, blind or disabled, and the California Food Assistance Program (CFAP) which provides food benefits to low-income, legal non-citizens. The budget agreement also rejected the proposals to limit full scope Medi-Cal for legal immigrants who recently arrived into the

United States within five years, and those immigrants under PRUCOL<sup>1</sup> status to emergency services.

There were also no significant reductions made to state mental health programs (other than the diversion from Prop. 63 programs subject to voter approval in Prop 1E) and the state's Health Families Program which provides health care for kids.

## **Medi-Cal**

Medi-Cal, which is California's version of the federal Medicaid program, currently provides free health insurance, including regular doctor's visits, hospitalization, dental and vision care, and prescription drugs for approximately 17 percent of all Californians—6 million beneficiaries. Approximately half of Medi-Cal enrollees are Latino. Here is a summary of the significant cuts to the Medi-Cal program:

- Eliminates the cost-of-doing business funding paid to counties for them to conduct Medi-Cal eligibility processing as an agent for the state. This proposal results in a reduction of \$49.4 in funding (\$24.7 million General Fund) for the program.
- Contains an “unspecified” reduction of \$646.6 million to the program (\$323.3 million General Fund with the remainder being the federal match) as proposed by the Governor which is a continuation of the Governor's veto action from the Budget Act of 2007. The Administration contends that Medi-Cal expenditures, on average, have been more than \$800 million (both federal and state) lower than the Medi-Cal estimate package which was calculated by the Department of Health Care Services (DHCS). The Administration contends that such an on-going adjustment should be made at this time.
- Deletes \$258.8 million (\$129.4 million General Fund) in funding by eliminating Medi-Cal dental and other optional benefits for about 3 million adults. The eliminated benefits include audiology and speech therapy, acupuncture, chiropractic services, optometry, podiatry and psychological services, and incontinence creams and washes.
- Deletes \$54.2 million in federal funding, or 10 percent, from certain public hospitals and safety net care hospitals and uses the money to fund other health programs.
- Suspends the July 2009 COLA for county operation of the Medi-Cal program for savings of \$24.7 million in 2009-10. (Source: Senate Budget and Fiscal Review Committee)

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<sup>1</sup> PRUCOL immigrants are those immigrants who are in the U.S. and are not considered “qualified aliens,” for public benefits purposes but are residing in the U.S. with USCIS knowledge, yet are not being subjected to removal. For example, this may include certain VAWA applicants, and U and T visa applicants.

### **Redirects Proposition 10 Funding**

Proposition 10 was passed by the voters in 1998, and provides funding for California's First Five Commission. The budget provides for \$68 million of Prop 10 funding to be redirected to the Department of Social Services to offset general fund costs for Child Welfare Services, foster care, and the Adoption Assistance Program. California's First Five Commission administers the local county Healthy Kids Program that provides health care coverage for uninsured children.

### **Supplemental Security Income/State Supplementary Payment (SSI/SSP)**

SSI is the federal program which provides monthly aid to poor seniors and persons with disabilities. SSP is the state's supplement to the SSI cash grant. The budget does not pass through, beginning May 1, 2009, the 2009 federal cost of living adjustment (COLA) in the SSI/SSP program for a reduction of \$80 million in 2008-09 and \$487.3 in 2009-10. This change would reduce the maximum monthly grant for an individual from the current \$907 to \$870. The budget agreement also suspends the June 2010 state COLA in the SSI/SSP program for a savings of \$327 million over the current year and budget year 2009-10. (Source: California Budget Project)

### **CalWORKs**

CalWORKs is the state's cash-aid program, which is recognized as TANF (temporary aid for needy families) at the federal level, and provides cash-aid assistance to poor children and families. The budget agreement suspends the July 2009 COLA for CalWORKs grants for a savings of \$79 million in 2009-10 and suspends funding for the pay for performance program for additional savings of \$40.0 million in 2009-10. This program was intended to provide additional funding to counties that achieve certain CalWORKs outcomes. (Source: California Budget Project)

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