



August 24, 2007

GOVERNOR SIGNS 2007-08 BUDGET

Governor Arnold Schwarzenegger signed the 2007-08 Budget into law on Friday, August 24. One of the state's longest budget stalemates ended on Tuesday, August 21, when the Senate approved the budget and accompanying implementing legislation. The Assembly had passed the budget and related legislation over a month earlier. The plan ratified by the Senate was largely identical to that passed by the Assembly in July. In order to achieve the required two-thirds vote in the Senate, Governor Schwarzenegger promised to use his line-item veto authority to reduce spending by approximately \$700 million. The final agreement also:

- Includes legislation that requires the elimination of any state position that is vacant for six consecutive monthly pay periods. This provision would provide exemptions for positions in 24-hour care institutions, positions needed to satisfy various licensing requirements, positions involved in public health, public safety, or homeland security, or positions held vacant because the prior incumbent is on specified leaves of absence. A measure included as part of the budget agreement passed by the Assembly would have required the elimination of vacant positions after 12 months.
- Deletes a provision included in the budget package approved by the Assembly that would have required new or renovated buildings intended for occupancy by the state to meet certain environmental and energy efficiency standards. The deleted provision would have applied to new construction or renovations beginning on or after January 1, 2009.
- Allows certain railroads to be eligible to receive funds from the transportation bond approved by the voters in November 2006 to replace or retrofit diesel locomotive engines.
- Directs the state's Office of Planning and Research and Resources Agency to develop and adopt guidelines for the mitigation of greenhouse gas emissions as required by the California Environmental Quality Act (CEQA). The measure also prevents CEQA challenges based on the failure of a public agency to adequately analyze the effects of greenhouse gas emissions associated with a project if the Air Resources Board adopts regulations affecting state transportation and flood projects funded by the recently approved infrastructure bonds. This provision sunsets January 1, 2010.
- Modifies the budget agreement approved by the Assembly by deleting one sentence regarding the recovery of Medi-Cal costs related to awards from medical damage lawsuits. Health insurance companies raised concerns that the language could inflate the level of these awards.
- Does not contain the tax breaks approved by the Assembly in SB 98 in July. The Senate held that measure.

The Governor's Vetoes

The Governor vetoed \$703 million in General Fund expenditures, with \$527 million (75 percent) coming from Health and Human Service programs and \$240 million in Special and Bond Fund expenditures. Significant vetoes include:

- \$331.9 million in state funds from the Medi-Cal Program based on the assumption that the number of beneficiaries who enroll in the program will be lower than previously estimated. The reduction should not affect services to Medi-Cal enrollees.
- \$53.1 million in state funds for increased payments to managed care plans that enroll Medi-Cal recipients. However, the Budget retains \$54.0 million for increased payments to these plans.
- \$54.9 million from the Integrated Services for Homeless Adults with Serious Mental Illness Program, which provides funding for local mental health agencies to serve homeless and other adults with a serious mental illness. The Governor claims similar services can be funded from revenues raised by Proposition 63.
- \$15 million in state funds for county outreach programs aimed at enrolling uninsured children in Medi-Cal or Healthy Families.
- \$15.4 million in state funds by delaying implementation of SB 437 (Escutia, Chapter 328 of 2006), which includes a pilot program to allow Medi-Cal recipients to self-certify their income. Implementation of the pilot program was expected to increase the number of children enrolled in Medi-Cal by more than 16,000 in 2007-08.
- \$12 million to eliminate a payment increase for Medi-Cal mental health managed care services.
- \$10 million from the Expanded Access to Primary Care program, which provides funding for clinics to serve uninsured Californians.
- \$8.5 million in state funds allocated to help local health departments prepare for influenza outbreaks.
- \$6.3 million allocated by the Legislature for the implementation of the California Discount Prescription Drug Program, which would provide discounted drugs to individuals with family incomes below 300 percent of the poverty line (\$51,510 for a family of three) and other individuals.
- \$12 million in funds added by the Legislature for the Adult Protective Services Program, which assists seniors and adults with disabilities who are victims of abuse, neglect, or exploitation.
- \$9.4 million General Fund added by the Legislature for hardware replacement and help desk support for various Health and Human Services programs.
- \$5 million to provide child care for children participating in the state's Pre-Kindergarten Family Literacy (PKFL) Program, which expanded state preschool programs in targeted neighborhoods. The Legislature proposed to allow these funds to serve children in any state preschool program, not just the PKFL Program. The Governor stated this change would "undermine" the PKFL Program.
- \$2.9 million in funds added by the May Revision for emergency food organizations – including local food banks – to assist individuals affected by last winter's freeze. The Governor stated that this funding is not needed, in part, because of "a decrease in the number of disaster victims being served."
- \$2.8 million General Fund to help adopted children locate siblings and to help prevent foster youth identity theft.
- \$72 million from funds available to augment employee compensation. The Governor notes that he will instruct the Director of the Department of Finance to reduce the allocation to each department by 8.576 percent of that department's April 2007 General Fund expenditures for personal services. The Governor states, "This reduced amount available for allocation to departments will not affect pay or benefits for employees in any way" and "will be funded by a redirection within existing resources by individual departments."
- \$2 million, leaving \$3 million, for the Naturalization Services Program administered by the Department of Community Services and Development. These services help immigrants complete their citizenship application forms and help immigrants prepare for the testing and interviews required of individuals seeking citizenship.
- \$7 million for Direct Loan and Interlibrary Loan programs administered by the State Library and \$8.0 million in other support for the Library.

- \$500,000 for financing of a University of California research facility in Mexico. The Senate Republican Caucus requested this reduction. The Governor did not reduce the \$19.3 million included in the budget by the Legislature to support University of California outreach and academic preparation programs.
- \$17.4 million allocated to implement the Omnibus Conservatorship and Guardianship Reform Act of 2006. The Governor notes that he intends for the “Judicial Branch to delay implementation of the Act until the 2008-09 fiscal year.”
- \$3.5 million for grants to county assessors aimed at boosting local property tax collections. This augmentation was aimed at increasing collections, which in turn reduces the state’s school funding obligation under the Proposition 98 guarantee.
- \$30 million for grants to local governments to mitigate the impact of tribal casinos.
- \$33.1 million in funding for community colleges to improve basic skills instruction. The Governor set aside these funds for legislation for at-risk students that appropriates funds for services “in a manner more consistent with the priorities of my proposed Student Success Initiative.”
- \$13.8 million from an augmentation that increased the funding community colleges receive per full-time equivalent student (FTES) for noncredit courses. SB 361 (Scott, Chapter 631 of 2006) made a commitment to create greater parity between the FTES funding received for credit and noncredit courses.
- \$7.1 million for District Assistance and Intervention Teams (DAITs). The Governor notes that the augmentation, provided to K-12 schools facing sanctions from the No Child Left Behind Act, is premature without results from a pilot project presently evaluating DAITs’ effectiveness.
- \$12 million from an augmentation of support for 12 Local Conversation Corps programs.
- \$12.1 million from a state augmentation for the largely federally funded Job Services Program of the Employment Development Department that provides services that match employers to job seekers.

Health and Human Services

The 2007-08 Budget:

- Uses \$84 million in federal Temporary Assistance for Needy Families (TANF) block grant dollars to reduce General Fund costs by an equivalent amount.
- Suspends the cost-of-living adjustment (COLA) for California Work Opportunity and Responsibility to Kids (CalWORKs) Program cash assistance in 2007-08 – the third consecutive year that the CalWORKs COLA has been suspended.
- Shifts the effective date of the state COLA for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants to June 1 of each year starting in 2008. This five-month delay would result in one-time state savings in 2007-08. However, the federal COLA would continue to be provided on January 1 of each year.
- Rejects the Governor’s proposal to eliminate cash assistance to nearly 200,000 children in the California Work Opportunity and Responsibility to Kids (CalWORKs) Program.
- Suspends the July 2007 cost-of-living adjustment (COLA) for CalWORKs cash assistance for savings of \$124 million in 2007-08 – the third consecutive year the COLA has been suspended.
- Increases Proposition 98 support for CalWORKs Stage 2 child care by \$269 million, thereby achieving an equal amount of non-Proposition 98 General Fund savings.
- Rejects the Governor’s proposal to freeze the state’s share of In-Home Supportive Services (IHSS) workers’ wages and benefits. In 2006-07, the state contributed toward IHSS workers’ wages and benefits that did not exceed \$11.10 per hour. Projected General Fund revenue growth for 2007-08 is above the 5 percent level needed to trigger a required \$1 per hour increase to \$12.10 per hour in 2007-08.
- Rejects the Governor’s proposal to freeze the income eligibility limit for child care assistance at the 2006-07 level.

- Increases rates for foster family homes and group homes by 5 percent starting on January 1, 2008.
- Reduces funding by \$40 million for substance abuse treatment services for nonviolent offenders through the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36) and the Substance Abuse Offender Treatment Program, relative to the budget conference committee report.

Education and Higher Education

The 2007-08 Budget and related legislation:

- Make a series of shifts involving the Public Transportation Account (PTA), the Proposition 98 Reversion Account, and school facilities funds related to the Williams settlement, which has the effect of reducing ongoing Proposition 98 appropriations by \$427 million relative to the Governor's May Revision. The shifts maintain the previously agreed to total funding level for K-12 education, while reducing the 2007-08 Proposition 98 base. In addition, the spending plan does not provide any Proposition 98 "settle-up" funds to meet the revised 2006-07 Proposition 98 minimum funding level.
- Authorize and assume revenues from the sale of EdFund, a state-controlled entity that guarantees student loans made by private lenders, to a private bidder.
- Provide full funding for a 4.53 percent cost-of-living adjustment for revenue limits and categorical programs. The Budget reduces funding by \$11 million to reflect a projected decline of 0.48 percent in 2007-08 average daily attendance.

Housing, Transportation, and Infrastructure

The 2007-08 Budget:

- Shifts a total of \$1.259 billion in PTA funds to support programs usually supported by the General Fund. The budget plan uses PTA funds to pay for transportation-related debt (\$1.031 billion), home-to-school transportation costs (\$99 million), and transportation costs within the Department of Developmental Services (\$129 million). In addition, the plan permanently shifts half of so-called "spillover" revenues for similar purposes in future years.
- Allocates \$4.2 billion to implement transportation programs and projects supported by bond funds authorized by Proposition 1B of 2006. Summary documents note that the state also expects to award \$808 million in funds authorized by Proposition 1C of 2006, the housing bond, to support homeownership programs, rental housing construction, farmworker housing, housing for the homeless, homeless shelters, infill incentive grant programs, transit-oriented development projects, and deferred payment second mortgage programs. The budget also appropriates \$774.4 million in funds authorized by Proposition 1E of 2006 for a variety of flood control programs.

Other

The 2007-08 Budget:

- Allocates \$23.7 million for the Air Resources Board to implement AB 32 of 2006, the California Global Warming Solutions Act.
- Includes \$526.4 million for programs related to various lawsuits over medical, mental health, and dental services in the state's corrections system.

The Budget Bill and Related Legislation

The 2007-08 Budget Act and related legislation implementing the budget includes:

- SB 77: 2007-08 Budget Bill
- SB 78: Changes to appropriations to reflect negotiations after the close of the budget conference committee
- SB 79: Transportation
- SB 80: Education
- SB 81: Corrections
- SB 82: Administration of justice
- SB 84: Human services
- SB 85: Resources and environmental protection
- SB 86: State operations, local government, and housing
- SB 87: Taxes
- SB 88: Transportation bond implementation
- SB 89: Sale of EdFund
- SB 90: Information technology
- SB 91: Sale of EdFund
- SB 97: Climate change and the California Environmental Quality Act
- AB 199: Vacant positions and "green" buildings
- AB 201: Transportation bond implementation
- AB 203: Health

The Governor's summary of the 2007-08 Budget and a list of vetoes is available at <http://www.ebudget.ca.gov/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf>.