



Updated February 15, 2008

LEGISLATURE APPROVES MIDYEAR CUTS

On Friday, February 15, the Legislature passed a series of reductions to the 2007 Budget Act as well as related bills primarily aimed at bridging this year's shortfall. The largest reductions were in the areas of K-14 education and Medi-Cal and many actions will affect the 2008-09 budget. The following is a "quick and dirty" description of the bills passed by the Legislature. Specifically, the Legislature's actions would:

- Delay \$1.1 billion in payments to K-12 schools from July 2008 to September 2008.
- Allow the state to score K-14 education savings of \$506.8 million by reducing 2007-08 spending by \$211.4 million and reappropriating \$295.4 million of unspent funds from prior years. The reductions include funding for physical education teacher incentive grants (\$41.8 million), child development (\$40.3 million), class size reduction (\$37 million), and Economic Impact Aid (\$25 million).
- Reduce payments to many Medi-Cal providers – including doctors, hospitals, clinics, and managed care plans – by 10 percent beginning July 1, 2008, similar to the Governor's January budget proposal. For information on the dollar impact of these cuts by county, see "The Governor's Proposed Budget Would Cut Payments to Health Care Providers in Local Communities Across California," available at http://www.cbp.org/pdfs/2008/080214_ProviderCut.pdf.
- Permanently defer certain payments to Medi-Cal providers, for savings of \$165 million.
- Not implement other reductions to Medi-Cal proposed by the Governor, such as eliminating dental and other services for adult beneficiaries and requiring adults and children to return paperwork four times annually to retain access to health care services. However, the Legislature could make these changes when it passes a spending plan for 2008-09.
- Reduce funding for Regional Centers, which purchase and coordinate services for persons with developmental disabilities, by \$249.3 million in 2008-09 by extending policies intended to contain costs, such as freezing payment rates for specified program categories.
- Delay the state's June 2008 cost-of-living adjustment (COLA) for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants to October 2008, for savings of \$23.3 million in 2007-08 and \$67.8 million in 2008-09. SSI/SSP grants will help an estimated 1.3 million seniors and people with disabilities meet basic living expenses in 2008-09.

- Delay the July 2008 COLA for California Work Opportunity and Responsibility to Kids (CalWORKs) cash assistance grants to October 2008, for 2008-09 savings of \$41.5 million.
- Eliminate "Pay for Performance" incentive allocations to counties in 2007-08, for savings of \$40 million. These funds were intended to reward counties that meet certain goals, including increasing the share of former CalWORKs families who have earnings in the quarter after leaving cash assistance.
- Not adopt the Governor's proposed CalWORKs policy changes, which would eliminate "safety net" cash assistance for certain children whose parents have reached the 60-month time limit; eliminate cash assistance after 60 months for certain children whose parents are ineligible for CalWORKs; and reduce, and then eliminate, cash assistance for children if their parents do not comply with CalWORKs requirements within 12 months.
- Reduce funding for the Welfare Policy Research Project by \$1.45 million.
- Delay \$2.5 billion in payments to Regional Centers, counties, and Medi-Cal providers to help the state avert a cash shortfall at the end of 2007-08 and the beginning of 2008-09. The state can accomplish some of these payment delays without legislative action.
- Replace \$30 million in General Fund support for state parks with Proposition 84 bond fund dollars for deferred maintenance projects.
- Shift \$409 million in Public Transportation Account (PTA) funds that the Legislature allocated to reimburse the General Fund for prior years' bond debt service as part of the 2007-08 budget agreement, to instead pay for home-to-school transportation for K-12 students. The action responds to the outcome of a recent lawsuit on the use of PTA funds, which rejected the use of PTA funds for prior years' debt service costs.
- Defer the transfer of \$500 million in gas tax revenues to cities and counties until September 2008 to help with cash flow problems.
- Eliminate payments to local governments for their estimated 2007-08 costs mandated by the state (so-called "state mandates") for a one-time saving of \$75 million in 2008-09. The state would only reimburse local governments after they incur these costs.
- Reduce funding to the Department of Corrections and Rehabilitation by \$40 million attributable to savings from delayed implementation of certain new programs.
- Delay 10 new judgeships authorized in 2006 until July 1, 2008 and delay 50 new judgeships authorized in 2007 until June 1, 2009, for savings of \$21.9 million in 2007-08 and \$54.2 million in 2008-09.

The Senate, but not the Assembly, passed a measure that would extend the amount of time that owners would have to keep yachts and other large vessels, vehicles, and aircraft outside the state to avoid paying the sales and use tax from 90 days to one year to raise \$5 million in 2007-08 and \$21 million in 2008-09.

The Legislature also assumes that the Administration will sell the remaining \$3.3 billion in authorized deficit-financing bonds to help bridge the 2007-08 budget gap and address the state's cash flow problems. The Legislature does not need to take action in order for these bonds to be sold.

The bills passed by the Legislature include:

AB X3 3: Amendments to the 2007 Budget Act

AB X3 4: K-14 Education

AB X3 5: Health

AB X3 6: Human Services

AB X3 7: Transportation

AB X3 8: General Government

SB X3 8: Taxes (sales and use tax on certain vehicles, vessels, and aircraft) – only passed by the Senate