



June 30, 2009

Final Countdown ... to Cash Implosion

The Governor and Legislative leadership negotiated over the weekend and late into Monday to try to avert the looming cash crisis. The Governor has until midnight tonight to sign bills that would produce \$3.3 billion in education savings in the 2008-09 fiscal year. The state can no longer capture those education savings once the new fiscal year begins tomorrow, and if the current fiscal year closes without the Legislature taking action, the state's budget deficit will grow by another \$3 billion — pushing the state's budget shortfall to the \$27 billion mark.

To technically meet today's midnight deadline, the Legislature must take action to pass bills by 10 p.m. to allow enough time to prepare and process the measures for delivery to the Governor's desk. Clearly, this constraint further shortens the time available to negotiate a budget solution.

Late last week, the Assembly passed a three-bill package on a bipartisan basis to capture education savings in 2008-09 and defer certain payments. The package is considered a stop-gap to the state's immediate cash issues and would stave off the need for IOUs through the month of July. Counties undoubtedly recall that the State Controller has announced that he will begin issuing IOUs on July 2 to conserve cash absent significant revisions to the previously adopted 2009-10 budget. The Senate currently has the three-bill package on call and is negotiating to secure the required Republican votes.

In addition, the Assembly and Senate passed a majority-vote budget — which reportedly would close the state's entire budget shortfall — over the last two days. However, the Governor has vowed to veto the package of bills that revise the 2009-10 budget, given that the solutions rely in part on new revenues.

On Saturday, the Governor threw a fairly significant wrench in negotiations on the short-term package by putting four new proposals on the table. The Governor unveiled a package of "reforms" that he is seeking and has indicated that he is unwilling to sign the three-bill, short-term package without legislative adoption of these reforms. However, more recent reports out of the Governor's office indicate that the reforms may be severable and are not an all-or-nothing deal. We outline the Administration's four new proposals below.

Governor's "Reform" Demands

Democratic leadership appears to be initially resistant to the Governor's 11th hour reform proposals — some of which are entirely new and many of which don't generate immediate budget savings. President Pro Tempore Darrell Steinberg called the situation "surreal" in his floor remarks Monday night, expressing frustration with the course of the negotiations.

The Governor's four new proposals affect the following programs:

1. **In-Home Supportive Services.** Reintroduces the Governor's May fraud proposals and includes new fingerprinting requirements for all recipients AND providers.
2. **CalWORKs.** The Governor's latest CalWORKs proposal includes a mix of new proposals and ones that have already been introduced and rejected by the Legislature, including the following:
 - Prioritize funding and services to only those CalWORKs clients who are meeting federal work participation requirements to generate significant, but unspecified, savings in the single allocation and eliminate funding for services, such as substance abuse, that are supposedly already provided by other community programs.
 - Reduce the total amount of time that recipients can receive aid over their lifetime from five years to two years. Families who are meeting federal work participation requirements would continue to be eligible to receive aid beyond the two-year limit.
 - Impose program reductions previously proposed including: cutting grants by six percent; imposing a face-to-face self-sufficiency review every six months; imposing a graduated full-family sanction; and imposing a 60-month time limit on grants for children whose parents are undocumented noncitizens, drug felons, or fleeing felons.
3. **Medi-Cal.** The Governor has put forth a new proposal described as Medi-Cal "reforms" that would shift enrollment functions for Medi-Cal, CalWORKs and Food Stamps to an online, centralized, and privatized structure. In addition, the Governor is looking to reduce Medi-Cal costs associated with aged, blind and disabled recipients by either requiring enrollment into managed care OR requiring a medical home. Finally, in the area of Medi-Cal, the Administration is proposing a provider tax on hospitals.
4. **State employee pension and retiree health care benefit reform.** Pension reform would affect new state employees hired after July 1, 2009. The proposal would return retirement to pre-2002 levels and remove the floor before which state employee contributions to retirement are calculated. On the retiree health side, the proposal would increase the time required to vest and modify health care contribution rates for retirees.

IOUs: How Do they Impact Counties?

So what might happen if the Legislature is unable or unwilling to deliver a budget solution or if the Governor is unwilling to approve any package that the Legislature puts on his desk? State Controller John Chiang has indicated that on July 2 counties will begin receiving IOUs instead of payments for programs we provide on the state's behalf: social services grants, social services administration, alcohol and drug treatment services, and mental health services. The State Controller has resorted to this plan to conserve cash

to continue to make required state payments (schools, general obligation bond debt, employee salaries, and Medi-Cal associated services).

CSAC is working with the State Controller's Office to ascertain if there is an available market for the IOUs. Following discussions this morning with the California Banking Association, it appears counties may have an extremely difficult time finding a market for IOUs. We anticipate serious cashflow shortfalls, as counties are currently struggling with their own cashflow situation and issuance of short-term borrowing. While counties do have the ability to issue their own registered warrants to contractors and vendors if the state issues IOUs, counties obviously can't issue registered warrants for alcohol and drug treatment programs, CalWORKs recipients or county employees who administer social service programs. Please see the attached [memo](#) sent to the Governor and Legislature today on this issue.

What's Next?

Many Capitol observers believe the stage may set for a "Thelma and Louise" ending. We will keep counties apprised in the coming hours and days while the Legislature debates these very serious fiscal issues.

We are very mindful that these are unprecedented and anxiety-producing times and commit to communicating with you the most pertinent developments as they arise.

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