



COMMITTEE ON BUDGET & FISCAL REVIEW
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FINAL 2009 BUDGET REVISIONS

July 23, 2009

The purpose of this document is to provide members and staff of the State Senate with a broad summary of the actions adopted by the Budget Conference Committee and modified by final decisions of the Legislative leaders and Governor. If you have questions, please contact the committee at (916) 651-4103. Please note that this is not a comprehensive analysis of all the Final Budget actions, but is rather a high level analysis.

OVERVIEW OF FINAL BUDGET DECISIONS

On July 20, using the underlying foundation of work accomplished primarily through the full committee, the subcommittee, and Budget Conference Committee process; the Leadership of the Legislature, with the Governor, concluded discussion on revisions to the 2009 Budget Act. The revisions to the Budget solve for a \$23.3 billion deficit, up from \$19.5 billion at the time of the May Revision (if you include the governor's target reserve of \$2

billion, the problem is \$25.3 billion), and include a General Fund reserve of approximately \$921 million.

At the May Revision, the deficit was estimated at \$19.5 billion. The LAO estimated lower revenues of \$3 billion, actual June revenues were lower than anticipated by \$500 million, and due to an ability to capture a 2008-09 RDA property tax shift, the problem grew by another \$350 million. Therefore, the total problem to solve for became \$23.3 billion. The final package includes \$24.2 billion of solutions. The final deal provides for a \$921 million General Fund (GF) reserve.

The summary of solutions are:

- Cuts: \$15.6 billion
- Revenues: \$3.9 billion
- Borrowing: \$2.1 billion
- Fund Shifts: \$1.5 billion
- Deferral/Other: \$1.2 billion
- Total: \$24.2 billion

The package solves the worst fiscal problem in California since the Great Depression:

- It avoids suspension of Proposition 98, the funding source for both K-12 education and community colleges – and guarantees repayment in future years of \$11.2 billion in Proposition 98 “Maintenance Factor.”
- It protects the human services “safety net.” It protects CalWORKs from elimination and from extreme cut proposals. It maintains the IHSS program largely intact, except for major new fraud prevention measures. It protects Healthy Families from elimination or from a reduction in the program eligibility threshold, although there are significant cuts to the program.
- Restores \$62 million of the \$70 million parks cut to avoid massive park closures.
- No new tax credits.
- Some action on “reforms,” but not all items demanded by the Governor.

- Reductions to local government, but with some mitigation.
- Major spending reductions include: \$6.1 billion in Proposition 98, K-14 education funds; \$2 billion in higher education; \$1.3 billion associated with state worker furlough days; \$1.2 billion in corrections; \$1.3 billion in Medi-Cal GF reductions; \$1.3 billion from local redevelopment agencies; \$528 million to CalWORKS; \$334 million GF in Developmental Services; \$226 million to In-Home Supportive Services; and \$124 million in the Healthy Families program.
- Revenue solutions include: \$1.7 billion from increasing payroll withholding schedules by 10 percent; \$610 million from accelerating Personal Income Tax and Corporation Tax revenues into 2009-10; \$1 billion from the sale of a portion of the State Compensation Insurance Fund (SCIF).
- Borrowing solutions include \$2 billion from the suspension of Proposition 1A (2004). Suspension diverts eight percent of property tax revenues of cities, counties, and special districts. The state must repay the \$2 billion (with interest) within three years.
- Major fund shifts include: approximately \$1 billion from transferring transportation revenues (the Highway Users Tax Account, or HUTA) from local governments to pay for debt service on transportation bonds; \$100 million from an oil drilling lease for the Tranquillon Ridge project in Santa Barbara.

[With respect to HUTA (1) this is for two years only, not permanent as Governor proposed; (2) local entities will continue to receive their local streets and roads money under Proposition 42 (which is NOT suspended); (3) local entities also have Prop. 1B bond funds and ARRA monies; and (4) there is an exemption for very small cities that have no Prop. 1B money left and for those with unique financial hardship.]

- And finally, approximately \$860 million in one-time savings from deferring the June 30 state worker pay check until July 1.

Overview of Solutions Since Conference Committee:

- \$15.6 billion in cuts, up from \$12 billion in the Conference Version (*see Senate Budget Committee website for link to Conference Committee Highlights dated June 17*). Major changes since Conference Committee are:
 - \$660 million in additional Prop 98 reductions, following assurances that \$11.2 billion in total maintenance factor obligations are recognized in 2008-09. Originally, the Governor proposed suspending Proposition 98 and did not recognize this maintenance factor.
 - \$450 million in General Fund savings achieved by funding the Quality Education Investment Act (QEIA) program in 2009-10 with \$402 million in ongoing K-12 Proposition 98 funds -- rather than one-time funds -- directed to revenue limit funding for districts and through a \$48 million deferral of community college QEIA payments. The QEIA program resulted from a settlement between the state and education groups following suspension of Proposition 98 in 2004-05.
 - \$425 million in recognition of the Governor's order for a third furlough day.
 - \$1.7 billion in redevelopment revenues to the new Supplemental Educational Revenue Augmentation Fund in 2009-10 to benefiting the State General Fund. (An additional \$350 million is shifted in 2010-11.) For 2009-10, the state orders the shift of \$1.7 billion from redevelopment agencies to schools in order to save the same amount in State General Fund support.
 - For this year only, we suspend the statute that requires redevelopment officials to set aside 20% of their property tax increment revenues for affordable housing.
 - A redevelopment agency can pay the shift by borrowing from its affordable housing trust fund, but it has to repay the money in 5 years.

- A redevelopment agency that pays its full shift amount gets a one-year extension on its time limits.
 - If a redevelopment agency fails to shift the money, its affordable housing requirement permanently increases from 20% to 25%.
- \$200 million in additional reductions to the CalWORKs single allocation, in large part to recognize that employment services are not needed during these recessionary times. The Governor wanted to cut an additional \$200 million from this item.
 - \$24 million to reflect a ten percent reduction to certain private hospitals for disproportionate share hospital funding.
 - \$54 million reduction to the Healthy Families program, but with no changes in eligibility threshold. It is hopeful that various foundations will help mitigate the impact of this cut with contributions to this program. The Governor proposed \$46 million beyond this additional level of cuts and limiting the program to families at 200 percent of poverty.
 - \$21 million reduction by increasing the IHSS share of cost for the small percentage of recipients that have a share of cost. The Governor proposed \$180 million in additional cuts and would have cut off services to individuals with a Functional Index of Three and below.
 - \$90 million in recognition of the savings generated from implementing various IHSS fraud prevention measures.
 - \$50 million in lower inmate medical costs from establishing limits on reimbursement rates to health care providers outside of prisons.
- \$3.9 billion in revenues, down from the \$8.2 billion included in the Conference Report. The major changes are:
 - Lost \$1.9 billion with no oil, tobacco, or corporate loophole tax increases.
 - Lost \$1.9 billion with no independent contractor withholding.
 - Lost \$142 million with no "Parks Pass" tax increase.
 - Lost \$84 million with eliminating tax enforcement proposals.

- Lost \$110 million by not implementing the Governor's Emergency Response Initiative (ERI) or the fire fee.
- \$2.1 billion in borrowing, up from the \$139 million in the Conference Version. This is mainly due to the suspension of Proposition 1A (\$2 billion).

Unlike previous Education Revenue Augmentation Fund (ERAF) shifts, Prop. 1A suspension is a loan, not a steal.

- All cities, counties, and special districts are included.
 - Amount of reduction is equal to eight percent of the total property tax revenue apportioned in 2008-09. There are no exceptions, although there are some flexibility provisions.
 - There is a hardship clause intended for cities in bankruptcy or similar distress - this would be determined by the Director of Finance and a reduction for a distressed entity would be made up with increased payments by the other entities in the same county.
 - Local entities could mutually agree to shift the reduction across entities within the county.
 - An RDA could agree to loan funds to its legislative body to fund the Prop 1A borrowing. Also, cities, counties, and special districts all have the option of selling their receivables (repayment from the state) to the special purpose entity and to receive bond funds for early repayment of the state borrowing.
 - Finally, unlike in the past, the Constitution now requires repayment and there is a bonding option that could significantly mitigate the local effects of the borrowing.
- \$1.5 billion in fund shifts, down from \$1.8 billion in the Conference Version. The major changes are:
 - Lost \$300 million in Driver License Fees to provide CalWORKs realignment funding backfill.
 - Lost \$75 million due to updated spillover scoring.
 - Gain of \$100 million from the Tranquillon-Ridge slant drilling proposal.
 - \$1.2 billion in other solutions. This is down slightly from the Conference Version due to the updated scoring of the paycheck deferral.

Summary of Various “Reforms”

- Repeal SB 1419 (limits on school contracting-out): Rejected Governor’s proposal.
- Electronic Court Reporting: Rejected Governor’s proposal.
- Asset Management:
 - Provided authority to enter into sale/lease back agreements for 11 state properties, and to enter into long-term leases.
 - Provided authority to sell Orange County Fair Grounds.
- Procurement Reform: Approved limited proposal, modified from Administration original broader proposal.
- Elimination/consolidations: Eliminated and consolidated various boards, including the elimination of the Integrated Waste Management Board.
- Pension and Employee Health Rollbacks: Taken off the table.
- Centralized Eligibility Determination for certain programs: Provided authority to develop a plan; no authority to move forward on project without Legislative approval of the plan.
- Restructure of Medi-Cal to Include Greater Use of Managed Care and Medical Homes: Approved.
- Hospital Fee to Increase Rates and Offset State Costs: Taken off the table, pending discussion on policy legislation.
- CalWORKs Reforms:
 - Rejected most draconian proposals to limit length of program and to provide full family sanctions.
 - Approved graduated sanction policy, but only after interventions to assist the families with the appropriate services and programs.
 - Maintained 60 month lifetime limit, but only 48 months in any 60 month period.

- IHSS Reforms:
 - Rejected proposals to limit services.
 - Approved various "fraud" proposals, such as background checks, pay slip changes, fingerprinting, and unannounced visits in certain cases.
- Mid-Year Cut Authority: Taken off the table.
- Elimination of Statutory COLAs: Approved.

PUBLIC PARTICIPATION AND TRANSPARENCY

In February, the Legislature passed a Budget that included \$36 billion in deficit reduction solutions for 2008-09 and 2009-10.

Although the 2009 Budget Act has been enacted, the State's overall economy continued to worsen, eroding revenue assumptions made when the Budget was passed in February 2009, and requiring action on the part of the Legislature to insure a positive ending balance. In addition, the State's overall cash flow position required immediate action in order to assure investors of the State's solvency and allow the State access to credit markets to keep the State's monthly payment schedules.

In March, Senate Budget subcommittees began public hearings on (1) various items that were not addressed as part of February's Budget Act (also known as the "without prejudice" list), (2) numerous new items that resulted from the Federal Economic Stimulus package that was passed by Congress, and (3) the traditional budget changes that occur on the natural.

On May 21st, the Legislature began deliberations on the May Revise. The Legislature's goal was to address both the budget and cash flow issues by mid-June. The Conference Committee (this year comprised of 10 members of each house of the Legislature) heard public testimony for over two weeks – thousands of concerned citizens and their locally elected representatives presented their views and suggestions regarding the Governor's May Revise proposals.

After this period of public testimony, the Conference Committee began its process of deliberation and discussion. The challenge of the Conference Committee was to make difficult, but significant reductions in all subject areas of the budget; maximize, to every extent possible, the receipt of available federal funds; limit the expansion of unnecessary bureaucracy, while maintaining the state's infrastructure of education and health/human services for its children, senior citizens, and most needy persons.

On June 16, the Budget Conference Committee concluded a large portion of its work by adopting a balanced approach to closing the multi-billion dollar gap in the 2009 Budget since its passage in February.

Beginning June 24, the Legislature attempted, on a two-thirds vote, to pass a package of bills that represented all the final actions of the Conference Committee; however, the package had yet to receive the necessary votes for passage.

On June 28, in the absence of a two-thirds vote, the Legislature put forth a package of 14 majority vote measures in the 3rd Extraordinary Session intended to provide a level of savings and additional revenues that would assist the State from falling into a fiscal abyss. Leadership discussions with the Governor began in earnest immediately following the June 30 end of the 2008-09 fiscal year, when the State Controller began issuing registered warrants in lieu of immediate cash payments for various bills owed.

MAJOR REVISIONS

[To the 2009 Budget Act (Chapter 1 of the 3rd Extraordinary Session, February 2009)]

The premise of the final Budget Revisions was to insure an appropriate level of a health and human services safety net infrastructure, minimizing to the greatest extent possible harm to programs and services for the most vulnerable in society; provide for future repayment of education reductions; minimize the loss of any available federal funds; and provide for reforms and changes to existing programs and services in an effort to create efficiencies, reasonable savings, and limitations on fraud and abuse.

Below, by major subject matter area, are some of the significant changes adopted by the Conference Committee.

EDUCATION

- **Overall Proposition 98 & K-12 Reductions:** Adopts \$6.1 billion in Proposition 98 reductions for K-14 education over two years. This includes the following major adjustments for K-12 education:
 - \$1.6 billion in Proposition 98 savings from the reversion of unallocated categorical program payments in 2008-09. These reductions are reallocated in 2009-10, on a one-time basis, via revenue limit cuts in order to offset categorical reductions.
 - \$2.2 billion in revenue limit reductions in 2009-10, including commensurate categorical reductions for Basic Aid Districts.
 - \$1.7 billion in deferral savings achieved by shifting revenue limit payments from 2009-10 to 2010-11.
 - \$282 million increase to partially restore Home-to-School Transportation funding for local educational agencies (LEAs) (on top of \$214 million already budgeted) and \$3.9 million to fully restore transportation services at the State Special Schools in 2009-10, due to the elimination of special funds.

- **Home-to-School Transportation Details:** Provides total funding of \$496 million in Proposition 98 funding for Home-to-School Transportation. This level of funding equates to a program reduction of nearly 20 percent, which is in line with reductions for other categorical programs.

- **Federal Funds.** Authorizes a significant increase in federal funds in 2009-10 – primarily new, one-time, funds authorized under the ARRA (American Recovery and Reinvestment Act), including:

- \$600 million in anticipated ARRA Stabilization Funds to backfill K-12 revenue limit reductions and related categorical reductions for Basic Aid Districts;
 - \$634 million in anticipated ARRA Individuals with Disabilities Education Act (IDEA) funds for students with disabilities;
 - \$540 million in anticipated ARRA Title I Basic Grants for low-income students;
 - \$165 million in available federal Title I Set-Aside funds and \$403 million in anticipated federal School Improvement Grant funds that are set aside for the Quality Education Investment Act (QEIA) program and other program improvement purposes pursuant to legislation.
- **Flexibility.** Provides K-12 LEAs with additional program and funding flexibility, beyond what was provided in February, as follows:
- Suspends the High School Exit Exam as a requirement for graduation for eligible students with disabilities, beginning in 2009-10, until the State Board of Education acts upon a recommendation for an alternative means of measurement for eligible students.
 - Allows school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2012-13 without losing longer-year incentive grants (modified Governor’s proposal);
 - Suspends the LEA requirement to purchase newly adopted instructional materials through 2012-13 and prohibits the State Board from adopting materials during this period;
 - Allows school districts to sell surplus property not purchased with state funds and use proceeds for general fund purposes for nearly three years (Governor’s proposal);
 - Suspends the remaining routine maintenance reserve requirement of one percent through 2012-13 for school districts that meet the facility requirements of the Williams settlement (Governor’s proposal);

- Provides LEAs with access to additional, prior-year fund balances in 2009-10 beyond those provided in February. Additions include: Targeted Instructional Improvement Grants; Instructional Materials; California High School Exit Exam; Adult Education; ROC/P Facilities; and Deferred Maintenance. (Economic Impact Aid; Special Education; Home-to-School Transportation; QEIA; Child Development; and Child Nutrition are protected. Modified Governor's proposal.)

➤ **Fiscal Oversight Relief**

- Changes the minimum requirement for reserves for economic uncertainty to one-third of the currently required level in 2009-10, provided that LEAs make annual progress in restoring reserves and fully restore reserves in 2011-12.
- Allows LEAs to avoid a negative or qualified fiscal certification due to a substantial loss of federal ARRA Stabilization Funds in 2011-12 and 2012-13. To ensure consistent statewide implementation, the Superintendent of Public Instruction shall convene the Standards and Criteria Committee to modify the budget and fiscal review criteria to incorporate these changes.

➤ **Proposition 98**

- Certifies the amounts of the Proposition 98 minimum guarantee and outstanding balances for the 2005-06 through 2008-09 fiscal years.
- Certifies that the maintenance factor for the 2008-09 is \$11.2 billion and provides that this amount will be restored to the Proposition 98 base as otherwise provided in the State Constitution.
- Creates an alternative statutory appropriation equivalent to the maintenance factor amount to guarantee that the Proposition 98 funding base is restored by the full \$11.2 billion.

- **Quality Education Investment Act (QEIA).** Funds the K-12 QEIA program in 2009-10 with \$402 million in ongoing Proposition 98 funds, rather than one-time funds, directed to revenue limit funding in districts. Together with a deferral of \$48 million in QEIA payments for

community colleges, creates General Fund savings of \$450 million in 2009-10. Extends the QEIA program for an additional year, through 2014-15.

➤ **Child Care**

- Fully funds Stage 2 and Stage 3 child care services.
- Adds \$15.5 million from Federal ARRA funds for additional child care slots for low-income families.
- Eliminates the Extended Day Care Program, which is redundant of the Prop 49 After-School Education & Safety program, effective September 1, 2009.
- Denied Governor's proposal to increase family fees and decrease reimbursement rates for child care providers.

HIGHER EDUCATION

➤ **Community Colleges**

- Reduces funding by approximately \$700 million for community colleges consistent with the Proposition 98 minimum funding guarantee and the funding levels proposed by the Governor in the May Revise.
- Provides smaller reductions to priority categorical programs, and places many (but not all) categorical programs into a flexible pot. Provides community colleges with some flexibility to achieve savings.
- Increases student fees by \$6 per unit (to \$26 per unit), consistent with pre-2007 levels. The additional fee revenue provides community colleges with \$80 million in funds to offset necessary reductions. However, no reduction is made in the area of financial aid administration, ensuring that there are resources for students to find financial assistance.
- Provides community colleges with \$130 million in federal economic stimulus funds to offset cuts.

➤ **University of California / California State University**

- Captures \$1.44 billion in General Fund savings from the UC and CSU attributable to the 2008-09 fiscal year.

Total reductions of \$266 million to each segment (total of \$532 million) in 2009-10 are equal to the Governor's May Revise proposal, but unlike the Governor's proposal, cuts are equalized between UC and CSU.

Of these total reductions – \$1.97 billion over two-years – approximately \$1.7 billion will be offset by federal economic stimulus funds.

- Does not eliminate funding for academic preparation as proposed by the Governor, but rather achieves savings through unallocated reductions.

➤ **Hasting College of the Law.** Rather than eliminate all funding for Hastings, the conference committee adopted a 10 percent reduction.

➤ **Student Financial Aid**

- Does not eliminate the Cal Grant Financial Aid Program.
- Achieves substantial savings by transferring \$32 million in excess funds in the Student Loan Operating Fund to the General Fund to offset Cal Grant costs.

HEALTH

➤ **Healthy Families:** Rejects elimination of the program, but achieves substantial savings of approximately \$124 million, by establishing a waiting list for enrollment unless third-party philanthropic organizations, donations, or other sources, become available to continue enrollment of children throughout the year.

➤ **Medi-Cal:** Does not adopt the Governor's proposals to eliminate Adult Day Health Care, state-only programs, clinic programs, services for legal immigrants, or recent family planning rate increases. Rather, it makes

redirections to provide rates in selected areas, seeks federal repayment for certain Medi-Cal expenditures and makes other related reductions.

- Reduces by about \$2.8 billion (GF) to reflect receipt of enhanced federal funds as provided under the American Recovery & Reinvestment Act (ARRA).
- Assumes receipt of \$1 billion in federal funds for repayment to California for expenditures made within the Medi-Cal Program which should have been funded by the federal government.
- Adopts the Governor's unallocated reduction of \$323.3 million (GF).
- Reduces by \$22.5 million (GF) by requiring pharmacies to bill Medi-Cal at a rate that is comparable to private third-party payers as specified in trailer bill language.
- Reduces by \$37 million (GF) by making changes in the Medi-Cal reimbursement made to pharmacies as it pertains to the estimated acquisition cost of drugs.
- Reduces payments to hospitals by sweeping the Distressed Hospital Fund for a savings of \$23 million (GF).
- Reduces payments to private hospitals by \$23.9 million (GF) to reflect a ten percent reduction in disproportionate share hospital funding.
- Reduces Adult Day Health Care coverage to three days per week and related changes, for a savings of \$26.8 million (GF).
- Increases fees paid by skilled nursing facilities by expanding the amount of revenue upon which the AB 1629 fee is based, to include Medicare revenue, for increased revenue to the State of \$18 million.
- Suspends cost-of-living increases effective August 1, 2009, for skilled nursing facilities and other long-term care for a General Fund savings of \$75.8 million in 2009-10.
- Reduces by \$14 million (GF) to reflect the elimination of the state-

only payment for ancillary health services provided in Institutions for Mental Disease (IMDs).

- **Other Health Programs:** Does not adopt Governor's proposals to reduce funding for AIDS drugs, HIV education and prevention, domestic violence shelters, maternal and child health programs. Rather, reduces funding in a more rationale manner:
 - **Maternal and Child Health:** Rather than total elimination of the various programs and services offered, a reduction of \$11.5 million was adopted.
 - **Community-Based Clinics:** Rather than total elimination as proposed by the administration, the conference committee: (a) reduced Rural Health Services by \$2.2 million; (b) reduced Seasonal Migratory Worker services by \$1.9 million; and (c) reduced Expanded Access to Primary Care Clinics by \$8.4 million (total funds).
 - **HIV/AIDS:** Rather than total elimination of these programs, a reduction of \$33.5 million was adopted without jeopardizing federal Ryan White funding and utilizing AIDS Drug Rebate Funds to offset a portion of the General Fund reduction.
 - **Domestic Violence Shelters:** Reduced overall funding by 20 percent, rather than a complete elimination as proposed by the Governor.
- **Emergency Medical Services Authority:** Reduces funding for the California Poison Control System, which provides immediate free treatment advice and assistance over the phone, for a savings of \$3 million.
- **Department of Mental Health:** Proposes to reduce the Mental Health Managed Care Services and Early and Periodic Screening, Diagnosis, and Treatment (EPDST) Program for a combined General Fund savings of \$92 million.
- **Developmental Services:** Reduces by \$334 million, as proposed by the Governor, through a methodical and inclusive approach with substantial input from the communities that access these services.

HUMAN SERVICES

- **CalWORKs:** Does not eliminate the program as originally proposed by the Governor, but achieves budget year savings by reducing funding to counties, temporarily exempting certain families (e.g., those with very young children) from work requirements, reverting funds, and adjusting caseload estimates. More specifically, reduced funding by a smaller amount for two years (\$528 million), thus keeping more recipients working and earning. Instituted various reforms, starting in two years, including additional face-to-face contacts with recipients and social workers (twice a year, instead of current once a year), instituted penalties for families by as much as 50% when adults do not comply with work requirements, reduce time families could be on the program to 48 cumulative months, with recipients maintaining a final 12 months of eligibility following a year out of the program.

- **In-Home Supportive Services (IHSS):** Does not make the devastating cuts proposed by the Governor (the level of reduction initially envisioned by the administration was \$767 million), however, does provide for GF savings of \$226 million. Savings are achieved by (1) increases “out-of-pocket” costs for consumers (so-called “share of costs” buy-out) and (2) increased efforts to reduce and eliminate fraud. Various changes associated with reducing and eliminating fraud, include: enhanced training for social workers, background checks and fingerprinting of providers, fingerprinting of recipients in their home at time of eligibility determination (exempts amputees), timesheet verifications, limited use of P.O. boxes for providers to receive checks, unannounced visits by county social workers to ensure services being delivered, and additional funding for state and local fraud detection staffing.

Restrict services to neediest individuals, but in less restrictive way than in May Revision (those with functional index score of 2 and above).

Maintains state payments of IHSS worker wages at current \$10.10 per hour.

- **Supplemental Security Income/State Supplementary Program (SSI/SSP):** Adopts modified version of Governor’s proposal. Reduces grants for couples who are aged, blind or disabled to federal minimum

level (as proposed), but reduces grants for individuals by a lesser amount. Ensures that grants for individuals are close to the poverty line (unlike Governor's proposal, which would have dropped substantially below). These changes result in General Fund savings of \$115.9 million in the budget year.

In the February 2009 Special Session, SSI/SSP grants were reduced by 2.3 percent, or \$20 for individuals and \$35 for couples per month, effective July 1, 2009, under the assumption that federal funds would not be received at a \$10 billion level. This proposal would further reduce the maximum grants for individuals from \$850 to \$845 per month and for couples from \$1,489 to \$1,407 per month.

- **Foster Care:** Proposes a General Fund reduction of \$36.7 million to foster care programs, including savings of \$26.6 million from a 10 percent reduction to rates for Group Homes, Foster Family Agencies, and placements for Seriously Emotionally Disturbed children.
- **Safety Net and Food Programs for Poor Immigrants:** Does not eliminate Cash Assistance Program for Immigrants (CAPI) or California Food Assistance Program (CFAP), as proposed by the Governor. However, CAPI recipients (approximately 12,000 aged, blind, and disabled legal immigrants who would be eligible for the SSI/SSP program but for their immigration status) will see a decrease in their grants consistent with the reductions adopted in the SSI/SSP program. CFAP would continue to provide food assistance to more than 22,000 low-income legal non-citizens between the ages of 18 and 65, who meet all the eligibility requirements for the federal Food Stamp program but have resided in the United States for less than five years.
- **Alcohol and Drug Programs:** Reduces funding by \$90 million for Proposition 36 programs that provide treatment to substance abuse offenders, but continues to fund treatment under the Offender Treatment Program (OTP). Provides federal Byrne funds of approximately \$45 million to supplement OTP services.

Reduces, by 10 percent, the rates paid to Drug Medi-Cal providers for a General Fund savings of \$8.8 million.

CORRECTIONS AND JUDICIARY

- **Overall in Corrections:** Achieves \$1.2 billion in unallocated reductions to corrections.

- **Judicial Branch**
 - Reduces funding, by \$168.6 million, by reducing general fund support to the courts by 10 percent. This reduction will be achieved through various measures, including one-day per month court closures, transfer of reserves in various funds, and an increase in fees.

NATURAL RESOURCES AND THE ENVIRONMENT

- **Offshore Oil Drilling:** Attempts to work-out an alternative agreement on slant oil drilling, to insure \$100 million in GF revenue, from the leasing of Tranquillon Ridge.

- **Department of Parks and Recreation:** Provides for partial restoration of parks reductions proposed by the administration, in total the parks receive an unallocated GF reduction of approximately \$8 million.

- **Department of Conservation:** Reduces "Williamson Act" payments by approximately 20 percent, leaving \$28 million to counties for Agricultural and Open Space Land Preserves. These subventions currently backfill a portion of revenue lost by local governments when they enter into voluntary agreements with land owners for lower property tax assessments when those land owners agree to use the land only for agricultural or open space purposes.

- **California Conservation Corps:** Fully funds the local conservation corps, which would have been severely cut under the Governor's plan.

- **Integrated Waste Management Board:** Eliminates the California Integrated Waste Management Board (CIWMB) and creates efficiencies by combining the CIWMB functions with recycling into a new department.

STATE GOVERNMENT

- **Consolidations and reorganizations:** Adopts Governor's proposed savings from consolidations and reorganizations.
- **Information Technology Savings:** Reduces funding for state information technology services, consistent with recent IT consolidation, and provides the Office of the Chief Information Officer (OCIO) additional authority to achieve another \$100 million in savings.
- **Cash Deferrals:** Adopts Governor's cash deferral proposals.
- **Employee Compensation:** Rejects Governor's proposal to reduce salaries by 5 percent – thereby maintaining a 2-day furlough for all employees.

Assumes some savings that will be achieved if proposed labor agreements are not ratified by the Legislature. General Fund savings are estimated at \$60 million in 2008-09 and \$150 million in 2009-10.

- **Paycheck Deferral:** Defers June 30, 2010 state employee paychecks to July 1, 2010 to achieve budget savings.
- **Rural Health Care Equity Program (RHCEP):** Proposes to eliminate funding for the RHCEP (except for Bargaining Unit 5, until its existing contract expires) which provides reimbursements for certain health care expenses for State employees who do not have access to a Health Maintenance Organization (HMO). Estimates annual savings of \$15.7 million. The 2008-09 approved budget eliminated payments through the RHCEP for retired annuitants.
- **Public Employees' Retirement System (PERS):** Rejects the Governor's proposal to save an estimated \$132.2 million, beginning in January 2010, by contracting for lower cost health care coverage either through PERS or directly from an insurer. This change could conflict with existing collective bargaining contracts. Instead assumes PERS' 2010 final adopted health and dental premium rate increase will be less than the nine percent increase assumed in the February enacted budget

and scores \$50 million in savings. Additionally, recognizes the plan adopted by the PERS Board to rebate, via a two-month payment holiday in 2009-10, \$100 million in excess Preferred Provider Organization premiums paid by the state.

- **State Compensation Insurance Fund:** Adopts the Governor's proposal to sell a portion of the State Compensation Insurance Fund (SCIF) to a private entity for an estimated \$1 billion. The SCIF would remain the "insurer of last resort". SCIF was established in 1914 as a self-supporting, non-profit enterprise that provides workers' compensation insurance to California employers with no financial obligation to the public.
- **Department of Industrial Relations:** Shifts the majority of the remaining General Fund support in the Department of Industrial Relations (DIR) budget to fee-support.
 - Employer fees will be increased to fund the Occupational Safety and Health Program and the Labor Standards Enforcement Program. Similar fees on employers were increased in the 2008-09 budget to address funding shortfalls. Ongoing cost reductions beginning in 2010-11 will produce over \$60 million in GF savings.
- **Department of General Services:** Delays repairs to the State Capitol building and park, for one year, providing \$6.6 million in savings.

LOCAL GOVERNMENT AND TRANSPORTATION

- Suspends Proposition 1A in 2009-10. Initially, the Budget Conference Committee resisted that suspension of Proposition 1A; however, as increased taxes were discredited, additional solution needed to be achieved. The budget now proposes to borrow \$1.935 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension, which requires legislation, allows the state to divert to schools up to eight percent of property tax revenues of cities, counties, and special districts to counties and special districts. Repayment, with interest, must be made within three years. The May Revision also proposed legislation to authorize a joint powers authority to facilitate local government borrowing against the state's repayment promise.

- Adopts the Governor’s proposals on public transit funds. This includes new General Fund relief of \$561 million by directing new transit “spillover” revenues to transportation-related debt service. Additionally, directs \$315 million in transit revenue formerly directed to home-to-school transportation, to transportation-related debt service.
- Adopts the Governor’s proposal to redirect the local gas tax for General Fund relief, but limits the shift to two years instead of permanent. In 2009-10, the amount of the shift would be \$971 million (after small city exemption), and in 2010-11, the shift would be about \$750 million. These amounts are consistent with the limit on bond debt payment of 25 percent of fuel and weight fee revenues outlined in Article XIX, Section 5 of the California Constitution. Future legislation can provide local governments with new opportunities to raise funds for public transit and local transportation services.
- Shifts \$1.7 billion in redevelopment revenues to the new Supplemental Educational Revenue Augmentation Fund in 2009-10 to benefiting the State General Fund. (An additional \$350 million is shifted in 2010-11.) For 2009-10, the state orders the shift of \$1.7 billion from redevelopment agencies to schools in order to save the same amount in State General Fund support.
 - For this year only, we suspend the statute that requires redevelopment officials to set aside 20% of their property tax increment revenues for affordable housing.
 - A redevelopment agency can pay the shift by borrowing from its affordable housing trust fund, but it has to repay the money in 5 years.
 - A redevelopment agency that pays its full shift amount gets a one-year extension on its time limits.
 - If a redevelopment agency fails to shift the money, its affordable housing requirement permanently increases from 20% to 25%.
- Creates the State ERAF account within the California Infrastructure and Economic Development Bank (I-Bank) and requires a redevelopment agency, unless it opts out, to annually deposit 10 percent of its tax increment revenue in this fund, which will then be securitized. Among other conditions, securitization may only move forward if the board of

directors of the I-Bank certifies that at least \$7.4 billion in bond proceeds are achievable by June 30, 2010, from this act. If these same conditions are met, the implementation of Proposition 1A borrowing and redirection of local gas excise tax revenues in associated legislation in the budget package would cease and the State General Fund would receive an equivalent amount of revenue from bond proceeds.

- **Reduces Open Space Subventions.** Reduces state subventions to local governments (primarily counties) under the Williamson Act Program for a General Fund savings of \$7 million. Under this longstanding program, the state backfills a portion of the revenue lost by local governments when they enter into contracts with land owners to limit property tax assessments for lands that are maintained as open space or agricultural lands. Also discussed under the Resources heading.

REVENUE AND TAXATION

Revenue Accelerations

- **Quarterly prepayments.** Accelerates \$610 million of Personal Income Tax and Corporation Tax revenues into 2009-10 by increasing the June (second) quarterly estimated payment from the current 30 percent of annual tax liability to 40 percent, beginning June 2010. The percentage due with the first quarterly estimated tax payment (due in April) is 30 percent, so the total amount due in the first half of the year would be 70 percent. However, the proposal would eliminate the third quarterly estimated payment (now 20 percent of annual liability) and increase the final quarterly payment (due in December) from the current 20 percent to 30 percent of annual tax liability.
- **Payroll Withholding.** Increase payroll withholding schedules by 10 percent, effective January 2010, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10.

Revenue Enforcement and Administration

- **Backup withholding:** Generally conforms California to federal income tax backup-withholding rules related to various non-wage payments. Requires a business to withhold seven percent of reportable payment of

interest, dividends, compensation for services, and other forms of income if the IRS determines a condition for withholding exists (such as significant underreporting of non-wage payments by the recipient on tax returns). Revenue gain of \$26 million in 2009-10 and ongoing revenue gain of about \$26 million.

- **Non-retailer registration at BOE:** Requires non-retailers to register with the Board of Equalization (BOE). Businesses that provide services will be required to register with the board and file annual use tax returns by April 15. The annual use tax return and payment applies to purchases on which sales tax was not collected (generally from out-of-state sellers), excluding vehicles, vessels and aircraft. This provision increases compliance, but does not change tax liabilities. Revenue gain of \$28 million in 2009-10, revenue gain of \$57 million in 2010, and potentially larger amounts in future years. Also increase in local use tax revenues.

**Budget Package
General Fund Budget Summary
With Solutions
(Dollars in Millions)**

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$4,070	-\$3,493
Revenues and Transfers	<u>\$84,098</u>	<u>\$89,586</u>
Total Resources Available	\$88,168	\$86,093
Non-Proposition 98 Expenditures	\$57,609	\$49,061
Proposition 98 Expenditures	<u>\$34,052</u>	<u>\$35,032</u>
Total Expenditures	\$91,661	\$84,093
Fund Balance	-\$3,493	\$2,000
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Special Fund for Economic Uncertainties	-\$4,572	\$921

4th Extraordinary Session Measures:

<i>If bills start in Senate:</i>	Subject	<i>If bills start in Assembly:</i>
AB 1	"Budget Bill, Jr." (Revisions to the 2009 Budget Act)	SB 1
AB 2	Education #1: Omnibus	SB 2
AB 3	#2 Education: 2008-09 Reversions, Certification, Maintenance Factor	SB 3
AB 4	Human Services omnibus	SB 4
AB 5	Health omnibus	SB 5
AB 6	Medi-Cal Restructuring and Managed Care	SB 6
AB 7	Centralized Eligibility for Public Assistance Programs	SB 7
AB 8	CalWORKs Reforms and COLA Suspensions	SB 8
AB 9	Developmental Disabilities	SB 9
AB 10	Transportation omnibus	SB 10
AB 11	Resources omnibus	SB 11
AB 12	General Government omnibus	SB 12
AB 13	Public Safety / Judicial omnibus	SB 13
AB 14	Proposition 1A: Suspension	SB 14
AB 15	Proposition 1A: Payback	SB 15
AB 16	Cash Management and CashDeferrals	SB 16
AB 17	Revenues #1: Omnibus	SB 17

AB 18	Revenues #2: Tax Enforcement	SB 18
AB 19	IHSS Reforms	SB 19
AB 20	Consolidation and elimination of boards	SB 20
AB 21	Procurement Reform	SB 21
AB 22	Asset Management	SB 22
AB 23	Tranquillon Ridge oil drilling	SB 23
AB 25	Treasurer's Office Cash Management	SB 25
AB 26	RDA Shift (\$1.7 billion)	SB 26
AB 27	RDA Securitization (court validation, time extensions, etc.)	SB 27
AB 28	Education 2.1: Reversion, et. al.	SB 28
AB 29	Education 2.2: Certification and Maintenance Factor	SB 29
AB 30	HUTA: Diversion, Hardship Exemptions	SB 30

<i>If bills start in Senate:</i>	Subject	<i>If bills start in Assembly:</i>
--	Supplemental Appropriations	SB 90
AB 181	Integrated Waste Management Board elimination	SB 63
--	RAWs	SB 116