COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR MARK LENO, CHAIR

MAY REVISION HIGHLIGHTS

May 16, 2011

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision. (More detailed program information follows these Highlights – please see the Table of Contents on page 15.)

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 25.

OVERVIEW OF GOVERNOR'S MAY REVISION

<u>The Problem Definition:</u>

On May 16, the Governor released his May Revision for budget year 2011-12. The Governor indicates the remaining and adjusted General Fund (GF) deficit is $10.8 billion for the two-year period ending June 30, 2012. This includes a $1.2 billion reserve.

In January, the estimated GF shortfall was $27.6 billion – including a $1.0 billion reserve and including the cancelation of the sales-leaseback transaction. In March, the Legislature passed $14 billion in solutions, primarily spending reductions. The table below summarizes the budget with actions and revisions since January (in billions).

	Adjustment	**General Fund Deficit Running Total**
Governor's January Budget		-$27.6
Solutions Enacted by the Legislature in March*	$13.4	-$14.2
Expenditure Cuts	($10.0)	
Revenues	($0.5)	
Other Solutions	($2.9)	
May Revision - Net Forecast Adjustments (revenues, erosions, additional costs)	$3.4	-$10.8
Governor's May Revision Solutions	$10.8	$0
Expenditure Solutions	($2.3)	
Revenue Solutions	($9.3)	
Other Solutions	(-$0.7)	
Resulting Budget Reserve		$1.2

**As adjusted by the May Revision, including $600 million in erosions due to delayed implementation of budget solutions.*

Governor's Solutions – Overview:

At a high level, the Governor is proposing to close the budget gap primarily through expenditure reductions. The proposed solutions, including action already taken by the Legislature fall into the following three categories:

Expenditure Cuts*:	$11.2 billion
Revenues:	$ 9.8 billion
Other Solutions:	$ 2.2 billion
Total Solutions:	$23.2 billion

**Excludes the $1 billion attributed to the reduction of local Proposition 10 funds to pay for direct children's health care services in the Medi-Cal program. This action is the subject of a current legal challenge.*

May Revision – Changes in the forecast of revenues and expenditures:

The May Revision updates the estimated revenue the state will receive under current law, and updates caseload and other factors that impact expenditures. Based on this updated analysis, the budget problem has improved by about $3.1 billion, resulting in a remaining deficit to solve of $9.6 billion (or $10.8 billion when including a $1.2 billion reserve).

- **Revenue Changes**: Through April 2011, tax receipts have exceeded the Governor's January estimates by $2.5 billion. The governor expects this trend will continue with a net revenue gain through June 2012 of $6.6 billion. This revenue gain is relative to the current-law level of taxation, and does not include revenue proposals in the May Revision.

- **Expenditures Changes:** Due to revenue, caseload, and other cost changes, the Governor's revised workload budget increases expenditures by over $2.6 billion. The largest expenditure increase is a $1.6 billion increase to the Proposition 98 minimum funding guarantee. This adjustment to the Proposition 98 minimum funding guarantee is independent of the Governor's revenue budget solutions, which also affect the minimum finding level. Other changes include a $400 million increase to the Department of Corrections and Rehabilitation budget for 2010-11, and $600 million in higher expenditures due to delayed implementation of budget solutions. These expenditure numbers do not include expenditure proposals in the May Revision.

<u>May Revision – Proposal to Close the Remaining Budget Gap:</u>

The May Revision maintains the Governor's overall budget framework from January, including the public safety realignment. However, given the updated revenues and expenditures, the May Revision scales back the revenue proposals to ease the tax burden on households and to better-focus tax incentives to job creation. Other new revenue is directed to K-12 schools and to reduce the state's debt.

- **Revenue Changes.** The Governor has modified some of his January revenue proposal in light of the revised forecast and the delay in completing the 2011-12 budget plan. The revenue solutions included in the May Revision total $9.3 billion, which is about $2.3 billion less than what was proposed in the January budget. Most of the revenue solutions are from maintaining 2010 tax rates, which were raised in 2009 for a two-year period. The following summarizes the major revenue components included in the May Revision– the revenues listed below are partially offset by increased Proposition 98 expenditures of $1.6 billion:

  Maintenance of 2010 tax rates for five years, as specified:
  - $1.4 billion from maintaining the vehicle license fee (VLF) at current levels. Of this amount, $1.1 billion would be directed to local public safety programs and $270 million would be directed to schools.
  - $4.5 billion from maintaining the sales tax rate at current levels for local public safety programs.
  - $2.2 billion from maintaining the personal income tax (PIT) dependent exemption credit at the current level to fund schools.
  - $1.3 billion from continuing the personal income tax (PIT) surcharge in 2012 through 2015 at the 2010 level of 0.25 percent for schools. The surcharge would not be in effect for tax year 2011.

  Tax policy changes:
  - $1.4 billion from making the current single-sales factor corporate tax multi-state apportionment mandatory instead of elective.
  - $93 million from reforms to the Enterprise Zone tax credits (the Governor withdrew his proposal to eliminate Enterprise Zone credits, which would have resulted in total revenues of $924 million).
  - $94 million in revenue loss from expanding the small business hiring credit enacted in 2009.

- **Expenditure Changes.** The Legislature has already enacted $10 billion in expenditure cuts in March to help balance the 2011-12 budget ($9 billion if you exclude the cuts made to Proposition 10 that are currently subject to legal challenge). The Governor's May Revision includes $2 billion in additional expenditure reductions to close the budget gap, including some solutions from January that were not adopted in the March budget action. Included is the proposal to eliminate redevelopment agencies for savings of $1.7 billion. Other savings come from smaller items, including department consolidations and board eliminations.

- **Other Changes**. The Governor has proposed to use $745 million of the new forecast revenue to reduce the state's budgetary debt by reducing special fund loans to the General Fund. The Governor also proposes to extend a hospital fee to provide a General Fund solution ($320 million) and provide for greater drawdown of federal funds.

REDUCING BUDGETARY DEBT

The Governor continues to make the case in his May Revision that the State's budgetary borrowing has created long-term problems related to solving the underlying budget problems that have plagued the state. The Governor points out the following as the major drivers of debt:

- **Future Annual Payment Obligations.** The future obligations include nearly $10 billion in Proposition 98 maintenance factor obligations owed to schools after the suspension of Proposition 98 in recent years that was required to balance the state's budget. Other future obligations include debt service on authorized but unissued bonds ($3.2 billion) and interest on the unemployment insurance debt ($500 million).
- **Budgetary Borrowing.** The Governor estimates that the State currently has nearly $35 billion in outstanding budgetary borrowing. This borrowing is the result of many years of borrowing and one-time actions like deferrals that were used to balance the State's budget. The largest sources of budgetary borrowing include the payment deferrals to schools and community colleges at $10.4 billion, the Economic Recovery Bonds issued by the Schwarzenegger administration in 2004 to help balance the budget at $7.1 billion, and various loans from special funds at $5.1 billion.
- **Retirement Liabilities.** The Governor also sites $181 billion in unfunded retirement liabilities mainly related to retiree health and the pension liabilities of state employees.

The Governor has made several proposals to start to pay down the debt summarized above. Specifically, the Governor has proposed the following actions to reduce budgetary debt:

- **Repay Special Fund Loans.** The Governor has proposed to use $745 million of the new forecast revenue to reduce the State's budgetary debt by reducing special fund loans to the General Fund.
- **Reduce Proposition 98 Deferrals.** The Governor has proposed that $2.5 billion of the new Proposition 98 funds go toward reducing education payment deferrals.
- **Limit New Bond Issuances.** The Governor has proposed to greatly reduce the planned fall bond sale from a planned $5.7 billion in debt issuance to $1.3 billion. This will reduce future debt service costs.

PUBLIC SAFETY REALIGNMENT

Public Safety Realignment. The Governor's May Revision retains most of the revised realignment structure that was adopted by the Budget Conference Committee in March. Realignment would still be funded by extending the current sales tax and Vehicle License Fee (VLF) rates, but the package would be reduced from $5.9 billion to $5.6 billion. The proposed modifications are as follows:

- The size of the realignment package would be reduced by $270 million, with that amount directed to the schools – this represents 0.10 percent of the Vehicle License Fee revenue.
- Student mental health, or AB 3632 funding, would be removed from realignment and placed within a re-benched Proposition 98 guarantee.
- Public safety mandate reimbursement funding and state penalty funds would be removed from realignment and continue to be funded in the state budget.
- Fire protective services would be removed from realignment and continue to be funded in the state budget.

The Governor's proposal takes a significant step towards bringing services closer to the people, allows for more integrated service delivery, and allows the services to be tailored to local situations and conditions. In total, the May Revision realignment proposal dedicates $5.6 billion in revenues in 2011-12 to fund a menu of programs shifted from the State to the locals. However, because the Conference version reduced the number of low-level offenders that would be transferred to the counties, the March realignment package included funding the existing county mental health services (realigned in 1991) out of this revised realignment proposal. This frees up the 1991 realignment funds to cover an increased share of CalWORKs grants. This "swap" should have no programmatic impacts.

The table below shows the Governor's February 25 revised realignment proposal with an indication of the four programs dropped from realignment with the May Revision. If the May Revision package is adopted, there still needs to be significant follow-up legislation related to implementing the realignment.

As noted below, the realignment funding is expected to grow to $7.0 billion by 2014-15.

Program	2011-12 Feb 25	2014-15 Feb 25	2011-12 May Rev	2014-15 May Rev
~~Fire and Emergency Response~~	$52.0	$52.0	~~$52.0~~	~~$52.0~~
Court Security	485.0	485.0	497.8	497.8
Vehicle License Fee Public Safety	506.4	506.4	504.4	504.4
Lower-level Offenders/Parole Violators	1,096.0	705.1	955.3	762.2
Realign Adult Parole	421.2	183.0	420.5	187.7
Realign Remaining Juvenile Justice	156.0	234.0	241.5	241.5
Mental Health Services:				
EPSDT	0.0	636.9	0.0	579.0
Mental Health Managed Care	0.0	190.7	0.0	183.7
~~AB 3632 Services~~	0.0	150.9	~~0.0~~	~~150.9~~
Existing Community Mental Health	1,077.0	1,077.0	1,077.0	1,077.0
Substance Abuse Treatment	184.0	184.0	183.6	183.6
Foster Care and Child Welfare Services	1,623.9	1,703.9	1,567.2	1,567.2
Adult Protective Services	55.0	55.0	55.0	55.0
~~State Penalty Funds to Locals~~	40.5	40.5	~~40.5~~	~~40.5~~
Existing Juvenile Justice Realignment	97.1	103.3	97.1	103.3
~~Funded Public Safety Mandates~~	50.9	50.9	~~50.9~~	~~50.9~~
Growth*	0.0	888.4	0.0	1,069.6
Total	**$5,931.0**	**$7,255.0**	**$5,599.4**	**$7,012.0**

The public safety realignment proposal outlined above would be funded by maintaining the Vehicle License Fee and sales tax at current levels for five years via a constitutional amendment. The related constitutional amendment would also provide that the State is responsible for funding this realignment after the five-year period has ended.

REDUCING STATE GOVERNMENT

The March 2011 budget package recognized $250 million GF ($163 million other funds) for savings associated with the identification of efficiencies in state operations, including identification of agencies, departments, and programs that can be reorganized to eliminate duplication and unnecessary functions; review of state peace officer and safety classifications; and reductions in other areas like contracting, fleet operations, and cell phone use. The mechanism to achieve these savings is a budget control section that provides the Administration with the authority to make the required budgetary reductions to achieve the total savings.

Working from these totals, the Administration has since identified, and in some cases already achieved, savings through a variety of executive actions, including eliminating the offices of the Secretary of Education and the American Recovery and Reinvestment Act Inspector General, banning non-essential travel, implementing a statewide building rental rate reduction, reducing the number of state-issued cellular phones, and reducing the statewide vehicle fleet, including the elimination of any non-essential vehicles and reducing the number of home-storage permits.

The May Revision builds on these executive actions and proposes to further reduce state operations by $82.7 million ($41.5 million GF) via the same control section mechanism included in the March 2011 budget package. These savings would be achieved through a variety of eliminations, consolidations, reductions, and efficiencies, including: (1) the elimination of 32 boards, commissions, task forces, and offices; (2) the consolidation of the State Personnel Board and the Department of Personnel Administration; (3) several changes due to realignment, including the elimination of the Departments of Mental Health and Alcohol and Drug Programs and a 25 percent state operations reduction for realigned public safety programs; (4) various program reductions and efficiencies; and (5) a comprehensive state asset review resulting in the disposition of non-essential or under-utilized state properties.

CREATING ECONOMIC INCENTIVES

The Governor has proposed several changes to tax policy to provide economic incentives for business to invest in the State and create jobs. These proposals include the following:

- **Mandatory Single Sales Factor.** The Governor is maintaining his proposal from January to make the multi-state corporate income apportionment method mandatory instead of elective. The revenue from this policy change in the budget year is $1.4 billion, and approximately $950 million ongoing. Current law gives tax advantages to companies that invest capital and workforce outside of California, thereby providing disincentive for investment in California.

- **Enterprise Zones.** The Governor has withdrawn his proposal to eliminate all tax incentives for companies investing in designated enterprise zones. Even though there is limited evidence that enterprise zones result in overall economic growth to the State, these zones are perceived to provide benefits to certain economically depressed areas of the state.

  Nevertheless, the Governor's May Revision includes several reforms to the enterprise zone program that will hopefully improve the overall effectiveness of the program in incenting new economic activity in economically depressed areas of the state. Specifically, the Governor proposes to reform enterprise zone hiring credits so that the credits are only available to firms that actually increase their level of employment and would only be allowed if claimed on the taxpayer's original tax return. The Governor also proposes to limit the use of new vouchers for tax years prior to 2011 and limit the carry-forward period for credits to five years.

- **Improve Existing Job Credit.** The Governor has proposed to reform the 2009 jobs credit for small business to stimulate job creation by small businesses during this early part of the State's economic recovery. The May Revision reforms this existing credit, which is capped at $400 million, to provide a $4,000 credit per job instead of $3,000 per job and to target the credit to small businesses with 50 or fewer employees instead of small businesses with 20 or fewer employees. This credit was underutilized in its first two years of existence, but the Governor has proposed a public awareness effort by the Business, Transportation, and Housing Agency to increase the awareness of this credit.

- **Sales and Use Tax Exemption.** The Governor has also proposed a sales and use tax exemption for the purchases of manufacturing equipment. This exemption would start in 2012-13 and would be in effect during periods when the sales and use tax rate is at 6 percent. Under the Governor's proposal manufacturing firms would be eligible for a 1 percent exemption from the General Fund Sales and Use Tax and a start-up firm would be eligible for a full 5 percent exemption. The Governor indicates that this tax exemption would not be affordable if the single sales factor is not made mandatory and could result in an annual loss of $300 million to the State. This sales and use tax exemption could help to stimulate investment and job growth in manufacturing in California.

2011-12 Governor's May Revision
General Fund Summary
(in millions)

	Revised 2010-11	Proposed 2011-12
PRIOR YEAR BALANCE	**-$6,950**	**-$2,776**
Revenues and transfers	$95,740	$93,623
TOTAL RESOURCES AVAILABLE	**$88,790**	**$90,847**
Non-Proposition 98 Expenditures	$55,875	$50,481
Proposition 98 Expenditures	35,691	38,322
TOTAL EXPENDITURES	**$91,566**	**$88,803**
FUND BALANCE	**-$2,776**	**$2,044**
Encumbrances	$770	$770
Special Fund for Economic Uncertainties	-$3,546	$1,274
Budget Stabilization Account (BSA)	--	--
TOTAL AVAILABLE RESERVE	**-$3,546**	**$1,274**

2011-12 May Revision
General Fund Revenue
By Source
(in millions)

Source	**Gov. Budget Jan. 10 Amount**	**May Revision Amount**	**Difference**	**% Change**
Personal Income Tax	$49,741	$54,329	$4,588	9.2
Sales Tax	$24,050	$23,915	-$135	-0.6
Corporation Tax	$10,966	$10,160	-$806	-7.3
Other	$4,939	$5,219	$280	5.7
Total	**$89,696**	**$93,623**	**$3,927**	**4.4**

2011-12 May Revision
General Fund Expenditures
By Major Program Area
(in millions)

Major Program Area	Jan. 10 Amount	May Revision Amount	Difference	% Change
K-12 Education	$36,211	$38,252	$2,041	5.6%
Health and Human Services	$21,175	$21,937	$762	3.6%
Higher Education	$9,814	$10,737	$923	9.4%
Corrections and Rehabilitation	$9,165	$9,768	$603	6.6%
Resources	$2,066	$2,009	-$57	-2.8%
Environmental Protection	$63	$62	-$1	-1.6%
Business, Transportation & Housing	$691	$603	-$88	-12.7%
Legislative, Judicial, Executive	$2,507	$2,546	$39	3.2%
General Government				
Non-Agency Departments	$541	$491	$50	9.2%
Tax Relief / Local Government	$1,003	$1,003	$0	0.0%
Statewide Expenditures	$367	$398	$31	8.4%
State and Consumer Affairs	$597	$626	$29	4.9%
Labor and Workforce Development	$414	$371	-$43	-10.4%
Total	**$84,614**	**$88,803**	**$4,189**	**5.0%**

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CORRECTIONS

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

Solutions Already Adopted. The Legislature has already adopted approximately $400 million in reductions to the California Department of Corrections and Rehabilitation (CDCR). This includes a one-time $150 million reduction to programs for adult inmates and parolees. This also includes an unallocated reduction to the Receiver's medical services program of approximately $250 million.

Current Year Deficiency. The May Revision includes a request for $415 million GF to support a current year deficiency at CDCR that is the result of various structural and operational shortfalls. The Governor proposed to adjust these structural shortfalls in the budget year as part of the Governor's May Revision. The Legislature approved more than half of this proposal in March of this year.

Population Adjustment. The May Revision projects minimal changes to the adult prison population and a slight increase in the adult parolee population. The May Revision also includes a small decrease to the juvenile ward population and a larger decrease to the juvenile parole population. Overall, these population adjustments result in a $6.5 million GF reduction in the current year and a small increase of $342,000 GF in the budget year as compared to January. These estimates do not reflect impacts of realignment that the Governor proposes to track in a separate item.

State Operations Reduction—Realignment. The Governor's May Revision proposes to reduce state operations by 25 percent for programs that are being realigned to the counties. The Governor assumes that it will take two years to fully implement the realignment changes and the associated state operations reductions. These savings, along with realignment savings, will be tracked in budget item 5196 and is assuming $210 million in savings in the budget year. These savings may accrue to all departments impacted by realignment and not just CDCR.

Board of Parole Hearings. The May Revision proposes a $36.2 million GF reduction to the Board of Parole Hearings related to reduced revocation workload as a result of moving revocation hearings to the Judicial Branch. This is consistent with AB 109 that was passed by the Legislature this past March.

Community Corrections Performance Incentive Grants. The May Revision includes an increase of $30 million GF for local county probation departments that have demonstrated success in reducing the number of adult felony probationers going to state prison. The May Revision estimates that approximately 6,200 felony probationers were successfully kept out of state prison as a result of this program, which saved the state approximately $160 million.

Technical Budget Adjustment. The May Revision proposes to shift the workforce cap savings from the Department's budget to Control Section 3.93. This control section will be used to track the workforce cap savings separate from realignment savings. This action results in an increase to CDCR's budget of $292 million. Furthermore, the Department of Finance has proposed to recalculate the workforce cap savings target to reflect the reduced size of the CDCR budget after realignment. The new workforce cap is approximately $195 million GF.

GENERAL GOVERNMENT

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

Adopts Legislative changes made earlier this spring to ensure the HCD has bond appropriation authority in 2011-12. More specifically, the May Revision reflects an increase of $63 million in Proposition 1C Bond Funds appropriations, including $25 million for the Housing Urban-Suburban-and-Rural-Parks Program, $18 million for the Transit-Orientated Development Program, and $20 million for the Building Equity and Growth in Neighborhoods Program. The May Revision also withdraws January budget language rejected by the Legislature that would have restricted HCD from making new awards for bond programs with continuous appropriation authority.

DEPARTMENT OF FINANCE

Building on a legislative action in the March 2011 budget package, which reduced the California Recovery Task Force by $393,000 ($224,000 GF and $169,000 Central Service Cost Recovery Fund), the May Revision proposes to eliminate the Task Force on January 1, 2012, for additional savings of $800,000 ($400,000 GF) and 3.4 positions. Under the May Revision proposal, any remaining federally-mandated quarterly reporting will be decentralized to the appropriate state department.

FRANCHISE TAX BOARD

The May Revision includes the April Finance Letter proposal to increase expenditures on the Franchise Tax Board's (FTB's) Enterprise Data to Revenue (EDR) project, which is a major new information technology project to update the department's filing, audit, and collections functions. The investment in this system is estimated to generate approximately $4.7 billion by 2017-18. The EDR project is a benefits-based procurement, meaning the vendor will be paid with revenues generated from the project.

STATE AND CONSUMER SERVICES AGENCY

The May Revision proposes to decrease all General Fund for the State and Consumer Services Agency in 2011-12, for a savings of $548,000. The departments under the Agency's purview will be required to reimburse the Agency for operational expenses.

COMMISSION ON THE STATUS OF WOMEN

The May Revision proposes to eliminate the Commission on the Status of Women for savings of $234,000 in total funds ($233,000 General Fund) and 2.1 personnel years in 2011-12.

HEALTH

MEDI-CAL PROGRAM

- **Enacted Reductions to Medi-Cal Program and Slowed Growth.** Actions taken to-date have reduced the Medi-Cal Program by *over* $1.518 billion (General Fund) across the current-year and 2011-12. These actions included enactment of mandatory copayments for services, Provider Payment reductions, "soft caps" for Physician Services, elimination of Adult Day Health Care Services, cap on hearing aid expenditures, reduction to Medi-Cal eligibility administration and other related actions.

  Over the current-year, 2011-12 Medi-Cal Program expenditures are projected to *decline* by about 10.8 percent due to the enacted reductions and the Governor's proposed May Revision adjustments (after adjusting for the end of enhanced federal stimulus funds).

- **Transition Healthy Families Program to Medi-Cal.** Effective January 1, 2012, *all* children in the Healthy Families Program will be transitioned into the Medi-Cal Program for an *overall* savings of $31.2 million General Fund in 2011-12. Trailer bill legislation is proposed for this transition and a State Plan Amendment, subject to federal approval, is required.

  Federal law allows for full-scope Medicaid (Medi-Cal) coverage of this population (100 percent of poverty to 250 percent of poverty). The benefits provided to these children are eligible for *enhanced* federal funding of 65 percent which California will continue to receive as compared to the Medi-Cal federal fund ratio of only 50 percent.

  To the extent possible, transitioned children will be enrolled into Medi-Cal Managed Care delivery systems. Medi-Cal Fee-for-Service arrangements will be provided in those areas where managed care is not available. Children will be transferred to Medi-Cal on a phased-in basis as follows:

	Eligibles	Phase-In
o Able to enroll in the same health plan	387,366	by February 2012
o Unable to enroll in same health plan	454,734	March-April 2012
o Not in Medi-Cal Managed Care area	49,600	March-June 2012

  Children over 150 percent of the federal poverty level will continue to be required to pay a premium for coverage.

- **Transfer Administration of Medi-Cal Community Mental Health to DHCS.** State-level responsibilities associated with Medicaid (Medi-Cal) programs that serve people with severe mental illness will be transferred to the Department of Health Care Services (DHCS) during 2011-12. This is the second phase of the Governor's realignment process which transferred responsibility for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program and Mental Health Managed Care to County Mental Health Plans.

- **Transfer Administration of Drug Medi-Cal Program to DHCS.** State-level responsibilities for administration of the Drug Medi-Cal Program will be transferred to the Department of Health Care Services (DHCS) during 2011-12.

- **Rescinds Transfer of $1 billion in Proposition 10 Funds.** The May Revision for Medi-Cal no longer includes $1 billion in Proposition 10 Funds as an offset for General Fund expenditures.

- **Extension of Hospital Fee.** As contained in Senate Bill 90 (Steinberg), Statutes of 2011, the May Revision reflects a one-year extension of the existing hospital fee which will save $320 million (General Fund) in Medi-Cal.

- **Administrative Fee on Inter-Governmental Transfers.** Trailer bill language is proposed to assess a new 20 percent Administrative Processing Fee on 17 counties that operate Medi-Cal Managed Care Plans and utilize Inter-Governmental Transfers (IGTs). The 20 percent assessment on IGTs is estimated to generate $34.2 million in General Fund revenues which will be used to offset expenditures within Medi-Cal.

  Counties may transfer funds under an IGT to the DHCS, where the funds are matched with federal funds, for the purpose of providing capitation rate increases to Medi-Cal Managed Care Plans. Therefore, the May Revision proposal may have the effect of flatting these Medi-Cal reimbursement rates.

- **1115 Medi-Cal Waiver Adjustments.** Among other things, this Waiver enables California to receive up to $10 billion in additional federal funds over a 5-year period, and provides the State $400 million in annual General Fund savings. In order to achieve the $400 million in General Fund savings, certified public expenditures (CPEs) must be identified to obtain the federal funds and offset General Fund expenditures. The May Revision proposes trailer bill language to allow Designated Public Hospitals to provide the State with excess (not usable to them) CPEs for the State to claim the full $400 million in General Fund savings. Presently the State is unable to identify enough CPEs to reach the $400 million amount.

- **Reduces Legislative Action on ADHC Transition.** As contained in the SB 69 Budget Bill, the Legislature provided a total of $170 million ($85 million General Fund) for the transition of Medi-Cal enrollees using Adult Day Health Care (ADHC) services. The May Revision proposes a narrower transition that states up to $50 million ($25 million General Fund) may be used for assessment, placement, and the provision of services.

- **One-Year Lock-In for Medi-Cal Managed Care Enrollees.** The May Revision proposes trailer bill language and savings of $5.3 million ($2.7 million General Fund) by allowing Medi-Cal Managed Care enrollees to switch plans only once a year. New Medi-Cal enrollees will have a 60-day period from their initial enrollment date to switch plans after which they will be locked in for the balance of the one-year period. Presently enrollees may switch plans as frequently as monthly.

MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

- **Eliminates the MRMIB.** The May Revision eliminates the MRMIB by July 1, 2012 and transfers the (1) Healthy Families Program; (2) Access for Infants and Mothers (AIM); (3) Major Risk Medical Insurance Program (MRMIB); (4) Pre-Existing Conditions Insurance Plan (PCIP); and (5) County Children's Health Initiative Program to the Department of Health Care Services.

  These program transitions are to proceed through 2011-12. Discussion of the Healthy Families Program is under the Medi-Cal Program, above.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- **Enacted Reductions to Developmental Services System.** Actions taken to-date have reduced the Developmental Services System by $591 million (General Fund), as adjusted by the May Revision. These actions included over $52 million from Developmental Centers, enactment of a comprehensive trailer bill package on accountability and transparency, continuation of a 4.25 percent

Regional Center Operations and Provider reimbursement reduction, a reduction of up to $174 million (General Fund) by implementing Best Practices in the Regional Center system, and identifying alternative fund sources and fund shifts.

- **Best Practices and Identification of Up to $174 million (General Fund) in Reductions.** In lieu of other reductions, the Legislature directed the DDS to work with constituency groups and convene public forums to identify up to $174 million (General Fund) in proposals for legislative consideration.

  The May Revision contains two key aspects. *First*, through a review of actual expenditures, the May Revision identifies a one-time savings of $28.5 million (General Fund) for the current-year and savings of $55.6 million (General Fund) in 2011-12, primarily due to lower than anticipated caseload and utilization changes. Both of these savings amounts—a total of $84.1 million (General Fund)—are recognized as an offset to the $174 million for 2011-12. Utilizing these savings will assist in providing the time necessary to implement some of the reduction proposals more gradually in the budget year.

  Second, the May Revision identifies a series of proposals to achieve savings of $71.9 million ($53.1 million General Fund) in 2011-12 that are associated with the Purchase of Services in the community.

  The total May Revision reduction is $145.5 million General Fund for 2011-12, with a projected savings of $174 million (General Fund) for 2012-13.

MENTAL HEALTH

- **Enacted Reductions to Mental Health Services**. Actions taken to-date have shifted $861 million in Mental Health Services Act Funds (Proposition 63 Funds) on a one-time basis from the counties to backfill for expenditures in the Early and Periodic Screening, Diagnosis, and Treatment Program, Medi-Cal Mental Health Managed Care, and mental health services provided to special education students.

- **Transfer Administration of Medi-Cal Community Mental Health to DHCS.** State-level responsibilities associated with Medicaid (Medi-Cal) programs that serve people with severe mental illness will be transferred to the Department of Health Care Services (DHCS) during 2011-12. This is the second phase of the

Governor's realignment process which transferred responsibility for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program and Mental Health Managed Care to County Mental Health Plans.

- **State Hospital Deficiency.** An increase of $50 million (General Fund) is requested for a pending deficiency in the State Hospitals. Specific details are pending.

- **Security Improvements for State Hospitals.** An increase of $9.5 million (General Fund) and 78 positions is proposed to increase safety and security at Napa State Hospital, Metropolitan State Hospital, and Patton State Hospital.

- **Create a Department of State Hospitals.** A Department of State Hospitals is to be created over the course of 2011-12. Details are to be worked out during the budget year with implementation anticipated by July 1, 2012.

- **Shifts AB 3632 Mental Health Services for Special Education Students.** The May Revision continues to utilize *one-time only* Mental Health Services Act Funds (Proposition 63 Funds) to fund this program in 2011-12 but proposes to transition the program to the Department of Education within two-years.

OFFICE OF AIDS—AIDS DRUG ASSISTANCE PROGRAM

- **AIDS Drug Assistance Program (ADAP).** A total of $511.1 million ($86.7 million General Fund) is proposed for 2011-12. The May Revision conforms to the Legislature's direction to expand the CARE/HIPP Program and to utilize the Pre-Existing Conditions Insurance Program (PCIP) to provide health care coverage to people with HIV/AIDS. These actions reduce overall expenditures in ADAP on the natural and provide more comprehensive care to people with intensive medical needs. There are no changes in eligibility, formulary, or cost-sharing. Over 42,500 individuals will receive ADAP services in 2011-12.

CALIFORNIA MEDICAL ASSISTANCE COMMISSION (CMAC)

- **Eliminates CMAC.** The May Revision would eliminate CMAC effective as of July 1, 2012 and transfer applicable responsibilities to the DHCS following implementation of a revised hospital payment structure DHCS is developing.

HIGHER EDUCATION

University of California (UC)

Overall Funding Level. The Governor's May Revise proposes to maintain the UC General Fund budget at the March Budget (SB 69) level of **$2.52 billion**.

Cancer Research. The May Revise proposes to increase expenditure authority from the California Cancer Research Fund by $175,000 based on personal income tax contributions voluntarily made to the fund through 2010-11. Also proposes elimination of budget bill language that prevents UC from spending from the fund until the Franchise Tax Board verifies the revenues collected.

Tobacco Research. The May Revise proposes to increase expenditure authority from Proposition 99 (Tobacco Tax and Health Protection Act of 1988) Research Account by $137,000, due to increased revenues to the fund.

Reductions Already Implemented in SB 69

- The Legislature already adopted a $500 million unallocated reduction to the UC system. The UC is required to report on their recommended options for implementing this reduction in a way that minimizes tuition and enrollment impacts prior to the adoption of a final plan by the UC Regents.

California State University (CSU)

Overall Funding Level. The Governor's May Revise proposes to maintain the CSU General Fund budget at the March Budget (SB 69) level of **$2.29 billion**.

Retirement Contributions. The May Revise states that due to a decrease in state contributions to CalPERS for state employees, CSU budget may be decreased up to $69.2 million after an administrative process. However, the May Revise is not proposing a specific dollar amount for a reduction; instead the reduction will be handled through a control section. SB 69 had contained a $75 million increase for CSU CalPERS costs.

Duplicative Audits. The May Revise proposes trailer bill language to eliminate duplicative audits required biennially at each of the 23 CSU campuses, which will save $1.6 million annually.

Reductions Already Implemented in SB 69

- The Legislature already adopted a $500 million unallocated reduction to the CSU system. The CSU is required to report on their recommended options for implementing this reduction in a way that minimizes tuition and enrollment impacts prior to the adoption of a final plan by the CSU Board of Trustees.

California Community Colleges (CCC)

Overall Funding Level. The Governor's May Revise proposes to increase funding for community colleges by $350 million in Proposition 98 General Fund to restore apportionment funding that had been deferred. The deferrals are rolled back from $961 million contained in the March Budget to $611 million. The overall funding level for CCC is increased from $3.542 billion to **$3.817 billion**.

Deferrals. The March Budget contained $961 million in deferrals for CCC. The Governor's May Revise proposes to decrease the amount of deferrals to $611 million, which would provide more cash to the community colleges in 2011-12.

Property Taxes. The Governor's May Revise estimates that local property tax revenues available to CCC will increase by $57.8 million in 2010-11 and $75.1 million 2011-12. This brings the local property tax level for CCC to $1.948 billion for 2011-12.

Vocational Education. The May Revise proposes to decrease reimbursements available for the Vocational Education Program by $5,542,000 due to the elimination of the federal Tech Prep program. This program is an articulated, planned sequence of study in vocational education beginning in high school and extending through at least two years of postsecondary education.

Mandates. The May Revise proposes to reduce funding for CCC mandates by $5.9 million and amend provisional language.

Minor Changes. The Governor's May Revise proposes the following minor changes:

- Restore one position to the CCC Chancellor's office that was eliminated in error.
- Decrease apportionments by $731,000 to reflect an equal offset with increased Oil and Mineral revenues.

Reductions Already Implemented in SB 69

- The Legislature already adopted a $400 million unallocated reduction to the CCC system. Due to $110 million in increased revenue from student fees, the net apportionment reduction is $290 million.
- The Legislature increased the student fee at community colleges from $26 to $36 per unit.

Financial Aid

Student Loan Default Risk Index. SB 69 assumed $19 million in savings from implementation of the Student Loan Default Risk Index, which limits participation in the CalGrant program for higher education institutions with a three-year student loan default rate of 24.6 percent or above. The savings calculation was based on inaccurate federal data. The revised savings estimate is $5.7 million.

Temporary Assistance for Needy Families (TANF) Offset. SB 69 assumed $285.3 million in an offset of General Fund with TANF. The May Revise decreases the offset to $171.9 million due to availability of TANF funds through an interagency agreement with the Department of Social Services. The lost TANF funds are proposed to be backfilled with General Fund for the California Student Aid Commission, so that there will be no impact on the CalGrant program.

Caseload Increase. The May Revise proposes an increase of $16,358,000 to the CalGrant program due to revised base caseload estimates. May Revise also requests $33.17 million for current year due to CalGrant program caseload increase.

Funding Shift. The May Revise proposes to shift $12.25 million from General Fund to the Student Loan Operating Fund (SLOF) to support the CalGrant program.

LEAP. The May Revise proposes to increase $5 million General Fund for the Leveraging Educational Assistance Partnership (LEAP) to reflect the loss of an equal amount of federal funding for this program.

Robert C. Byrd Honors Scholarship Program. The May Revise proposed to decrease $5.67 million in federal funds for the Robert C. Byrd Honors Scholarship Program to reflect the federal elimination of this program.

Minor Changes. The Governor's May Revise proposes the following minor changes:

- Restore three positions that were eliminated in error when EdFund responsibilities were shifted away from the state.
- Increase current year appropriations for the LEAP program by $186,000 to reflect additional federal funds received.

California Postsecondary Education Commission (CPEC)

Proposed Elimination of CPEC. The Governor's May Revise budget proposes to eliminate CPEC. The elimination would provide savings of $927,000 in 2011-12.

Improving Teacher Quality Grant Program. Currently CPEC administers the Improving Teacher Quality federal grant program. The Governor's May Revise would move this program to the California Department of Education.

HUMAN SERVICES

Department of Social Services (DSS)

The March budget package made significant reductions to programs administered by DSS, including estimated GF savings of:

- $1.0 billion from reductions in benefits and services available under the California Work Opportunities and Responsibilities to Kids (CalWORKs) welfare-to-work program;

- $486 million related to new eligibility requirements and other changes in the In-Home Supportive Services (IHSS) program; and

- $178.4 million from decreasing monthly grants that provide basic support to individuals who are elderly, blind, or who have disabilities.

The May Revision additionally proposes to:

- **Suspend development of the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) Replacement System (LRS)** for an indefinite period of time. The project would otherwise be beginning its design, development, and implementation phase (which was scheduled to conclude by 2015). Anticipated GF savings in 2011-12 include $26.2 million.

- **Suspend development of the Child Welfare Services/Web (CWS/Web) automated system** for an indefinite period of time. The project is in its planning and procurement phase and would otherwise have been scheduled to begin design and implementation in 2012-13. Anticipated GF savings in 2011-12 include $3.1 million.

- **Shift Responsibility** for $166.5 million ($66.6 million GF) in costs for the residential care of children deemed **Seriously Emotionally Disturbed** from the Department of Social Services to the Department of Education. See the Education section of this report for additional information.

- **Increase Foster Family Home Rates.** The proposed increase of $41.3 million ($10.7 million GF) results from a court order regarding the rates paid to families for care and supervision of foster children.

- **Recognize Changes in Estimated Savings** from budget solutions included in the March budget package. These changes include an erosion of $67.3 million GF in savings related to the CalWORKs program and an erosion of $53 million GF in savings related to the IHSS program.

Department of Alcohol & Drug Programs (ADP)

The May Revision proposes to:

- **Transfer Responsibility for State Administration of the Drug Medi-Cal (DMC) Program** (with $130 million GF and related federal resources) from ADP to the Department of Health Care Services. DMC provides medically necessary substance abuse treatment services to Medi-Cal beneficiaries.

- **Eliminate ADP.** The non-DMC programs that ADP currently administers would be shifted to another department as part of the 2012-13 budget.

Realignment

With some changes to details related to Child Welfare Services (CWS), the May Revision continues to propose **realignment from the state to the counties** of:

- $1.6 billion from the GF for CWS, including foster care and adoptions programs;

- $184 million from the GF for substance abuse treatment services; and

- $55 million from the GF for Adult Protective Services.

Finally, the May Revision proposes to **update caseload estimates across human services programs** based on more recent data.

JUDICIARY AND PUBLIC SAFETY

JUDICIAL BRANCH

Solutions Already Adopted. The Legislature has already adopted a $200 million reduction to the court system. This reduction was allocated proportionately across the state level judiciary and the trial courts. In many cases the trial court portion of the reduction will be offset by the use of reserve balances. The Legislature also reduced $17.4 million GF related to statutory changes which made the Conservatorship and Guardianship Act of 2006 permissive at the trial court level. The Legislature has also approved a $350 million loan from the state Trial Court Construction Fund, thereby delaying some court replacement projects from moving forward.

Parole Revocation Hearings. As part of legislation (AB 109) enacted to start the implementation of the Governor's public safety realignment, parole revocation hearings were shifted from the Board of Parole Hearings to the judicial system. The Governor has proposed allocating approximately $42 million to fund this additional workload at the trial courts.

DEPARTMENT OF JUSTICE

DNA Identification Fund Shortfall. The May Revision proposes to transfer $10 million GF to the DNA Identification Fund and $4 million GF to the Department of Justice (DOJ) for lease revenue payments on regional forensic laboratories. Revenues to the DNA Identification Fund have not come in as projected last year when GF savings were assumed by the passage of ABx8 3 (Budget) in March of 2010 that increased the state penalty assessment to provide additional special fund revenue.

OFFICE OF INSPECTOR GENERAL

Reduce Office of Inspector General Responsibilities. The Governor's May Revision includes a proposal to save $6.4 million GF by reducing the workload of the Office of Inspector General (OIG) to performing use-of-force and employee discipline oversight at the California Department of Corrections and Rehabilitation. This proposal would transfer medical inspection audits that are currently the OIG's responsibility to the Department of Finance's Office of State

Audits and Evaluations. This proposal would also eliminate the California Rehabilitation Oversight Board that is currently staffed by the OIG.

VARIOUS PUBLIC SAFETY CENTERS, OFFICES, COUNCILS

The Governor has proposed, in his May Revision, to eliminate the various public safety centers, offices, and councils in order to streamline administration and reduce inefficiencies. The public safety related activities proposed for eliminate are as follows:

- **California Anti-Terrorism Information Center**. This program is operated by the Department of Justice through a grant from the California Emergency Management Agency (CalEMA). The CalEMA also operates the State Terrorism Threat Assessment Center using federal homeland security funding. This proposal will save $3.2 million GF and eliminate 23.2 positions.
- **Office of Gang and Youth Violence Prevention.** This office provides grants to various local governments to combat gang-related issues. The grants will continue to be administered by CalEMA. This proposal will save $600,000 GF and 3.8 positions.
- **California Council on Criminal Justice.** This office had established funding priorities for federal criminal justice grants. However, these activities have been performed recently by the Administration and the Legislature with local input. This proposal would save approximately $30,000 in federal funds.
- **Governor's Emergency Operations Executive Council.** This council is no longer needed because legislation enacted in 2008 merged the major emergency response departments.
- **California Emergency Council.** This council is responsible for recommending and approving orders, regulations, and emergency planning documents for the Governor. This activity can be performed as necessary without the need for a council.

EDUCATION

K-14 -- Proposition 98 Overall

- **Major Increase in Appropriation Level**. Provides **$52.4 billion** in K-14 Proposition 98 funding in 2011-12, which equates to a $**3 billion** increase above the March budget package of $49.4 billion. The additional $3 billion is due to an increase in the Proposition 98 minimum funding guarantee resulting from increased local property taxes and state General Fund revenues. General Fund increases reflect updated General Fund revenue estimates for 2011-12, revenue policy changes, and the effect of rebenching Proposition 98 for revenue and program shifts.

- **Rebenching Proposals.** Rebenches Proposition 98 -- which contributes to General Fund increases noted above -- by: (1) holding Proposition 98 funding harmless from any loss of revenue associated with the motor vehicle fuel tax swap, and (2) increasing the Proposition 98 minimum guarantee due to the shifting of responsibility for mental health related services for students with disabilities from counties to K-12 schools.

- **Major Expenditure Proposals.** Proposes to appropriate the additional **$3 billion** in K-14 Proposition 98 funding for the following major purposes in 2011-12:

  - ✓ **$2.5 billion** to reduce K-12 inter-year payment deferrals;
  - ✓ **$350 million** to reduce community college inter-year payment deferrals;
  - ✓ **$222 million** to fund the shift of mental health related services for students with disabilities from counties to K-12 schools.

K-12 Education

Proposition 98 Adjustments.

Inter-Year Payment Deferrals. Provides an increase of nearly **$2.5 billion** to restore revenue limit apportionment for new and continuing inter-year payment deferrals for K-12 schools in 2011-12. More specifically, the May Revise proposal eliminates the additional **$2.1 billion** payment deferral added in the March budget package, and reduces other existing deferrals by **$434 million** in 2011-12.

Mental Health Related Services. Provides an increase of **$221.8 million** to shift responsibility for providing federally mandated mental health related services for students with disabilities from county mental health and welfare agencies to K-12 schools in 2011-12. This shift would include out-of-home residential services. As a part of this proposal, the May Revision proposes permanent repeal of the AB 3632 state mandate and removes mental health related services from the realignment proposal for counties. The May Revise also continues **$98.6 million** in Proposition 63 funds for county mental health agencies on a one-time basis and **$69 million** in federal special education funds for mental health related services in 2011-12. In total, the May Revise proposes **$389.4 million** from all fund sources for mental health related services for students with disabilities in 2011-12.

K-12 Education Mandates. Reduces K-12 mandates by **$32.3 million** to reflect adoption of specific recommendations of the K-14 mandate work group on mandate reform created by Chapter 724, Statutes of 2010. The Administration intends to pursue additional long-term reform options in collaboration with the Legislative Analyst's Office to streamline future funding of K-14 mandates through a block grant approach. (Together with **$5.9 million** in reductions for community colleges, the May Revise K-14 mandate reduction proposal totals **$38.2 million** in 2011-12.)

Student Growth Adjustments. Proposes an increase of **$19.5 million** for Charter School Categorical Block Grant growth and Economic Impact Aid caseload growth in 2011-12. In addition, the May Revise proposes **$399,000** for Special Education caseload growth in 2011-12.

New Charter Schools. Proposes an increase of **$8 million** in 2011-12 to provide charter schools that commenced operations between 2008-09 and 2011-12 with supplemental categorical funding, in lieu of categorical funding they are no longer able to apply for under current categorical flexibility provisions.

Clean Technology and Renewable Energy Training. Proposes an increase of **$3.2 million** to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention program, which creates school-business partnerships that provide occupational training for at-risk high school students in areas such as conservation, renewable energy, and pollution reduction.

Federal Funds & Special Fund Adjustments.

Title I, Part A Basic Program. Proposes to allocate **$21.3 million** in 2011-12 from one-time, federal Title I Set-Aside carryover funds to all Title I local educational agencies using the state's Title I, Part A Basic program distribution methodology.

Eliminate Funding to Suspend Student Data System Development. Proposes to reduce **$2.9 million** in federal Title VI funds and 5.3 positions to the Department of Education state operations in 2011-12 to reflect suspension of funding for all development and implementation activities for California Longitudinal Pupil Achievement Data System (CALPADS), pending continued review of the system.

Eliminate Funding for Teacher Data System. Reduces **$560,000** in Federal Trust Funds and three positions to the Department of Education state operations in 2011-12 for California Teacher Information Data System (CALTIDES) development to reflect termination of the previous project proposal and suspension of CALPADS.

Eliminate Funding for Teacher Data System. Reduces **$84,000** in special funds and one position to the Commission on Teacher Credentialing state operations in 2011-12 for CALTIDES development to reflect termination of the previous project proposal and suspension of CALPADS.

Child Nutrition Administration. Provides an increase of **$2.5 million** in Federal Trust Funds for child nutrition programs in 2011-12. This amount includes $500,000 on an ongoing basis for workload associated with an increase in frequency of required compliance reviews of federal child nutrition programs, and $2 million on a one-time basis for projects to support the efficiency and quality of child nutrition program administration.

Child Nutrition Summer Food Service. Provides an increase of **$2 million** in Federal Trust Funds in 2011-12 to reflect an increase in the number of meals services in the Summer Food Program.

K-12 Policy Initiatives.

Student Testing, Data Collection, and Accountability. The Administration proposes to reform state testing and accountability requirements to better achieve accountability and maximize local autonomy. More specifically, the Administration proposes to engage teachers, scholars, school administrators, and parents to develop proposals to: (1) reduce the amount of time devoted to state testing in schools; (2) eliminate data collections that do not provide useful information to school administrators, teachers, or parents; and (3) restore power to school administrators, teachers, and parents.

Child Development Programs

Overall Funding Level. Child Care and Development was funded at $1.845 billion in SB 69, the March Budget package. The total in SB 69 included preschool at $322.7 million. The Governor's May Revise proposes various caseload adjustments for a total funding level of **$1.756 billion**.

CalWORKs Child Care Caseload Adjustment. The May Revise proposes to decrease by $123.5 million General Fund the Stage 2 and Stage 3 child care due to revised estimates of caseload costs. These adjustments reflect an increase of $64.4 million to Stage 2 and a decrease of $187.8 million to Stage 3, due mainly to the implementation of the Stage 3 veto in the *2010-11 Budget Act*.

Child Care Reduction Savings. The May Revise proposes to increase child care funding by $40.6 million to reflect decreased savings from the child care reductions adopted by the Legislature in SB 69 and SB 70. The revised estimates reflect the adjustments to CalWORKs caseload and the adjustment to growth funding for non-CalWORKs programs.

Early Learning Advisory Committee (ELAC). The May Revise proposes to eliminate ELAC for a savings of $3.6 million in federal funds. The ELAC was established through an executive order in 2009 to make California eligible for a three-year $10.8 million planning grant to pilot a recommended quality rating improvement system and to develop a data tracking system for children ages 0-5, including preschool.

Program Growth. The May Revise proposes to decrease child care programs by $6.9 million to reflect a negative growth of 0.67 percent in the 0-4 year old population. SB 69 had assumed a negative growth of 0.21 percent.
Stage 3 Federal Funds. The May Revise proposes a funding offset of $7.1 million in federal funds for an equal decrease in General Fund.

Child Care Quality Activities. The May Revise proposes to amend the appropriations for the child care quality activities by increasing the school age care and resource and referral earmark by $82,968 and the infant and toddler earmark by $356,146.

LABOR

LABOR AND WORKFORCE DEVELOPMENT AGENCY

- As part of the Governor's proposal to reduce state government, requests a decrease of $677,000 (reimbursements) and 3.9 personnel years to reflect a net reduction of four positions within the Agency and the relocation of its office from leased space to existing space within the Employment Development Department.

EMPLOYMENT DEVELOPMENT DEPARTMENT

- The March 2011 Budget package included an increase of $362.3 million GF to make the first interest payment due to the federal government for the quarterly loans that the EDD has been obtaining from the federal government since January 2009 to cover the Unemployment Insurance (UI) fund deficit (estimated at $10 billion). To offset this GF expenditure, the March 2011 Budget package included a transfer from the Disability Insurance Fund to the GF, resulting in no net GF cost in 2011-12. The estimated amount of the interest payment has been revised to $319.5 million. Therefore, as part of the May Revision, the Governor requests to reduce the estimated payment amount by $42.8 million, to $319.5 million.

- Requests an increase of $15.6 million (Unemployment Fund) to provide continued support for the Single Client Database Conversion and the Alternate Base Period (ABP) project. Proposed budget trailer bill language is also requested to extend the statutory deadline for implementing the ABP project from September 2011 to April 2012.

- Requests proposed budget trailer bill language to appropriate $48 million (American Recovery and Reinvestment Act Funds) tied to implementation of an APB methodology for calculating UI benefits. These funds will be used to support program operations through 2014-15.

- Requests no adjustments in 2011-12 for the Unemployment Insurance Program, Disability Insurance Program, or School Employees Fund.

- Requests no overall adjustments for either local assistance or state operations funding for federal Workforce Investment Act funds. Within the state operations funding category, some changes in the array of funded programs are requested. The Administration is awaiting final federal guidance, as some interpretations of the recently enacted federal budget could result in a significant reduction to these state discretionary funds.

LOCAL GOVERNMENT

Redevelopment

- **Redevelopment Agency Elimination:** The Governor's May Revision continues to include the elimination of Redevelopment Agencies (RDA) for a General Fund expenditure solution of $1.7 billion in 2011-12. This proposal was adopted by the Budget Conference Committee, but not enacted with the March package of budget bills. Under this proposal, property tax would continue to flow for RDA debt service on outstanding debt and to finish approved development projects. The state General Fund relief would occur only in 2011-12, with the tax increment in 2012-13 and thereafter directed to supplement K-14 funding.

NATURAL RESOURCES

- **Department of Parks and Recreation**. The May Revision has no new reduction proposals for the Department of Parks and Recreation beyond the approved $11 million reduction in SB 69; however, the Governor did release the list of parks that would be transitioned to closure over the next two-years and is proposing a $4.5 million increase (State Parks and Recreation Fund) to continue the Public Safety Technology Modernization Project.

- **Department of Water Resources**. The May Revision proposes to reduce $1.8 million GF for water data collection, support for the Central Valley Flood Board, and flood control activities. The Governor also proposes to shift $1.3 million from GF to reimbursements to support the Watermaster Program. Finally, the Governor proposes to shift $16 million from GF to Proposition 1E bond funds for flood management activities.

- **California Tahoe Conservancy.** The May Revision proposes to eliminate the Conservancy's GF ($193,000) resulting in a 3 percent overall reduction.

- **Department of Forestry and Fire Protection**. The May Revision continues to propose baseline funding that was shifted from the department's emergency fund to the baseline budget, consistent with the Governor's January Budget. This item was denied by the Legislature without prejudice. The Governor's proposal to realign fire protection services to locals has been withdrawn.

- **Department of Conservation**. The May Revision proposes 32.4 positions and $4.7 million (Oil, Gas, and Geothermal Administrative Fund) to strengthen regulatory oversight and the permitting process of underground injection wells.

- **Elimination of Boards and Committees**. The May Revision proposes to eliminate the following boards and advisory committees:
  - Colorado River Board
  - Salton Sea Council
  - State Mining and Geology Board
  - Nine Advisory Committees and Review Panels at the Department of Fish and Game

ENVIRONMENTAL PROTECTION

- **State Water Resources Control Board.** The May Revision proposes no additional funding shifts beyond the $12.8 million shift in water quality and water rights programs.

- **Department of Toxic Substances Control.** The May Revision proposes a one-time reduction of $802,000 to the Clandestine Drug Lab Cleanup Program. The department has sufficient Illegal Drug Lab Cleanup Account expenditure authority for one year of funding and is working on a proposal for a stable, long-term funding source. The May Revision also proposes specific orphan-share appropriations for Santa Cruz and Santa Rosa remediation sites.

ENERGY

- **California Energy Commission.** The May Revision proposes an increase of $646,000 and 5 positions (Renewable Resources Trust Fund) to implement the California Renewable Resources Act (SBx1 2) which adopts a 33 percent Renewable Portfolio Standard (RPS) by 2020.

- **California Public Utilities Commission.** The May Revision proposes an increase of $2.1 million and 10 positions (Renewable Resources Trust Fund) to implement the California Renewable Resources Act (SBx1 2) which adopts a 33 percent Renewable Portfolio Standard (RPS) by 2020. The May Revision also proposes an increase of $1.1 million (Public Utilities Reimbursement Account) and redirection of 4 vacant positions to develop a risk analysis-based public safety program to review and identify safety risks associated with the provision of gas and electricity.

AGRICULTURE

- **Comprehensive Policy for Fairgrounds.** The May Revision does not propose further reductions to the California Department of Food and Agriculture beyond the elimination of state support for the California Network of Fairs ($32 million) and unallocated reductions ($11 million in 2011-12 and $30 million ongoing). The administration proposes to develop a plan for future operation, maintenance, and oversight of fairs and fairgrounds associated with the California Network of Fairs.

TRANSPORTATION

TRANSPORTATION FUNDING

- **General Fund Relief from Transportation Fund:** Through various mechanisms, the budget package enacted in March provided a total GF solution of $2.1 billion. The GF solution came from the following categories and amounts are combined totals for 2010-11 and 2011-12:
  - $962 million from bond debt service funded from truck weight fees.
  - $851 million from loans to the GF from truck weight fees.
  - $135 million from deferring a GF loan repayment from 2011-12 to 2012-13.
  - $101 million from redirecting specified tribal gaming revenues from transportation funds to the GF.
  - $72 million from bond debt service from miscellaneous transportation revenues.

  The May Revision keeps the overall structure of the above General Fund relief in place, but includes trailer bill language to adjust the treatment of weight fee loans in 2012-13 and thereafter.

DEPARTMENT OF TRANSPORTATION (CALTRANS)

- Requests an increase of $60.4 million in special funds, federal funds, and bond funds to deliver planned Capital Outlay Support (COS) workload. This budget item is zero-based each May, and the workload is relatively unchanged from last year. Compared to the January budget, workload is up 122 position-equivalents, or less than 2 percent of the base workload. But relative to the 2010-11 staffing level, workload is down.

- Requests an adjustment for Project Initiation Document (PIDs) workload to add 78 positions and $8.6 million funded by the State Highway Account for the State Highway Operations and Protection Program (SHOPP) and to eliminate 74 positions and $8.0 million funded by local reimbursements for locally-funded projects on the state highway system.

- Requests various funding changes with a net increase of $1.0 billion to conform Proposition 1B bond funding to the updated project schedules.

- Requests $1.6 million in reimbursement funding so Caltrans can receive funding from local-government sponsors for Public Private Partnership (P3) projects. The funding would allow Caltrans to contract with financial advisors to review, analyze, and evaluate up to three potential P3 projects.

HIGH SPEED RAIL AUTHORITY

- Requests a decrease in capital outlay funding of $46.2 million (from $179.3 million to $133.1 million) and an increase in state operations funding of $3.9 million (from $12.6 million to $16.5 million). The Administration indicates that $47.4 million in capital outlay funding appropriated in 2010, will be unexpended in 2010-11 and carry over into 2011-12, so the budget-year capital expenditure level is largely unchanged. The increase for state operations would fund a staffing increase of 15 positions, additional funding for information technology projects, and additional funding for contracts with Caltrans and Ogilvy Public Relations Worldwide.

VETERANS AFFAIRS

- Sustains the following major solutions adopted as part of the March 2011 budget package:

  - ✓ Decrease of $5.6 million GF to reflect savings achieved through efficiencies as a result of the implementation of the Enterprise-Wide Veterans Home Information System and savings resulting from the cancellation of federal sharing agreements at the West Los Angeles Veterans Home of California.

  - ✓ Decrease of $8.1 million to reflect savings achieved by delaying the opening of the Redding and Fresno Veterans Homes of California by three months and staggering the implementation of the Residential Care Facility for the Elderly and Skilled Nursing Facility services.

  - ✓ Sustained the historical funding level of $2.6 million GF for County Veterans Service Offices, local agencies that assist veterans in receiving federal benefits for which they are eligible. This funding level has been in place since 2004.