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

SENATOR MARK LENO, CHAIR

MAY REVISION HIGHLIGHTS

May 14, 2012

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 12.)

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 17.

OVERVIEW OF GOVERNOR'S MAY REVISION

<u>The Problem Definition:</u>

On May 14, the Governor released his May Revision for budget year 2012-13. The Governor indicates the remaining and adjusted General Fund (GF) deficit is $16.7 billion for the two-year period ending June 30, 2013. This includes a $1 billion reserve.

In January, the estimated GF shortfall was $10.3 billion – including a $1.1 billion reserve. The budget deficit has increased by $6.5 billion since the Governor's initial budget proposal in January. The deficit has increased due to a reduced revenue outlook, higher costs to fund schools, and decisions made by the federal government and courts to block budget cuts.

Despite the recent erosions to the budget deficit, the Governor and Legislature have made significant progress in shrinking the state's ongoing budget shortfall. A year ago, the gap was $20 billion and the current estimates of the ongoing shortfall are around $8 billion.

<u>Governor's Solutions – Overview</u>:

At a high level, the Governor is proposing to close the budget gap primarily through expenditure reductions. The Governor's overall budget framework also relies on the passage of a tax initiative on the November 2012 ballot and additional trigger reductions if the taxes do not pass. The proposed solutions fall into the following three categories:

Expenditure Cuts:	$ 8.3 billion
Revenues:	$ 5.9 billion
Other Solutions:	$ 2.5 billion
Total Solutions:	$16.7 billion

<u>May Revision – Changes in the forecast of revenues and expenditures:</u>

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 deteriorated by about

$6.5 billion, resulting in a deficit of $15.7 billion (or $16.7 billion when including a $1 billion reserve).

- **Revenue Changes**: Through April 2012, tax receipts were $3 billion below the Governor's January estimates. The Governor has also revised downward his budget year forecast by $1.3 billion to reflect the lower trends in the current year. Revenue trends are lower even after accounting for nearly $1.5 billion from the anticipated Facebook Initial Public Offering (IPO). In total, the May Revision revenue forecast is $4.3 billion lower than the January forecast.

- **Expenditures Changes:** The Governor's May Revision reflects numerous adjustments to expenditures related to Proposition 98, actions by the federal government and courts, caseload, and other changes. These changes have collectively increased the budget deficit since January by $2.2 billion. These changes are outlined below:
    - **Proposition 98**. The May Revision assumes that revenue changes are driving a $1.2 billion increase in the Proposition 98 guarantee. In addition, lower property tax estimates are driving increased GF expenditures of an additional $1.2 billion. The lower property tax is due to a drop in regular property tax revenues and lower property tax allocations from the dissolution of redevelopment agencies. In total, Proposition 98 calculations are driving $2.4 billion in additional GF expenditures.
    - **Federal Government and Court Actions.** The May Revision reflects $1.7 billion in increased expenditures from various actions by the federal government and courts. This includes the federal government's rejection of Medi-Cal copays adopted as a budget solution in 2011. This also includes increased expenditures by the federal court-appointed Receiver over medical care in the prisons and a court injunction on Medi-Cal provider rate cuts.
    - **Caseload and Other Adjustments.** The Governor's May Revision does include updated caseload information and other offsets that result in $1.9 billion in avoided GF expenditures relative to the January estimates. The savings are mainly due to reduced caseloads in health and human services programs, including CalWORKs and Medi-Cal.

May Revision – Proposal to Close the Remaining Budget Gap:

The May Revision maintains the Governor's overall budget framework from January, including assuming the passage of a tax initiative on the November 2012 ballot. Given the deterioration of the budget gap since January, the May Revision includes $4.2 billion in additional expenditure reductions above the January budget proposal. In addition, there are $1.2 billion in additional revenues due to a revised tax initiative. The Governor's May Revision also includes other new solutions, including shifting some General Fund expenditures to special funds and slower repayment of special fund loans.

- **Expenditure Changes.** The Governor's May Revision contains $8.3 billion in expenditure reductions to close the budget gap. This is $4.2 billion more than in January. Included is a proposal to capture cash assets related to building low- and moderate-income housing and other assets of the former redevelopment agencies to save $1.4 billion. There are significant new program reductions and many program reductions that are reconfigured since the January budget. These reductions are detailed later in this report.

- **Revenue Changes.** The Governor and the California Federation of Teachers reached a compromise on a modified version of the Governor's initial proposal to raise additional revenues on the November 2012 ballot. This compromise is now expected to generate $8.5 billion, including $2.9 billion in additional Proposition 98 expenditures in the budget year. This is slightly revised downward from earlier expectations by the Governor. The May Revision also includes additional tax enforcement efforts that will generate $50 million.

- **Other Changes.** The Governor's May Revision also includes $2.5 billion in "other" solutions, including $1.1 billion in new solutions, mainly related to paying down the debt slower, a new loan, and shifting GF costs to special funds.

TEMPORARY TAXES AND TRIGGER CUTS

Constitutional Amendment Increases Taxes

The May Revision is predicated on the passage of the Governor's tax proposal. This is a proposed Constitutional amendment that would raise the personal income tax and the sales and use tax on a temporary basis. Together, the proposed increase in the two taxes is expected to raise an additional $8.5 billion through the budget year, representing $2.9 billion to schools and community colleges and $5.6 billion for General Fund benefit. The measure would also permanently dedicate revenues to local governments to pay for programs realigned in 2011. These aspects are more fully described below.

Personal Income Tax Rates on High Income Taxpayers – The proposal would increase personal income taxes for seven years, beginning in tax year 2012. Under current law, the maximum marginal PIT rate is 9.3 percent, and it applies to taxable income in excess of $48,209 for individuals; $65,376 for heads of household; and $96,058 for joint filers. This measure temporarily increases PIT rates for higher incomes by creating three additional tax brackets with rates above 9.3 percent. Specifically, the measure imposes:

- A 10.3 percent tax rate on income between $250,000 and $300,000 for individuals; $340,000 and $408,000 for heads of household; and $500,000 and $600,000 for joint filers.
- An 11.3 percent tax rate on income between $300,000 and $500,000 for individuals; $408,000 and $680,000 for heads of household; and $600,000 and $1 million for joint filers.
- A 12.3 percent tax rate on income in excess of $500,000 for individuals; $680,000 for heads of household; and $1 million for joint filers.

Sales and Use Tax Rate Increase - The Governor's initiative would also raise the sales and use tax rate by 0.25 percent for four years. The tax increase would go into effect January 2013 and extend through December 2016.

Funding for Realignment. The Constitutional amendment being circulated by the Governor also contains Constitutional protection for the revenue dedicated to 2011 Realignment last year. The existing state revenue proposed for permanent allocation to 2011 Realignment is as follows:

- Defining 1.06 percent of the existing state sales tax as local revenue and removes these revenues from Proposition 98 calculations.
- The redirection of vehicle license fee (VLF) revenues from various sources to support public safety programs.

Trigger Cuts Absent New Revenues

In the event that the voters do not approve the Governor's tax proposal in November, the administration has proposed a series of trigger cuts, similar to those proposed as part of the January budget. These cuts would result in deeper cuts than originally proposed by the administration in a number of areas, especially K-12 schools and higher education. Reductions in these two areas constitute roughly 98 percent of the total amount. The proposed reductions (in the event the tax measure does not pass) are detailed in the table below.

2012-13 Trigger Cuts (in millions)

Program Area	**Jan. 10 Amount**	**May Revision Amount**
K-14 Education (Proposition 98)	$4,836.9	$5,493.6
University of California	200.0	250.0
California State University	200.0	250.0
Courts	125.0	0.0
Developmental Services	0.0	50.0
Department of Forestry and Fire Protection	15.0	10.6
Flood Control	6.6	6.6
Public Safety-Fish & Game, Park Lifeguards and Rangers, Department of Justice	6.5	6.0
Total	$5,390.0	$6,076.8

Tax Policy Changes

The May Revision does not contain tax policy changes pursued last year, such as changing current law to make the multi-state corporate income apportionment method mandatory instead of elective or reforming the tax incentives that benefit enterprise zones. However, the Governor has indicated that he will pursue these policy changes as part of a larger job creation effort proposed through policy legislation. There are a number of proposals, for example, that relate to reforming corporate income apportionment methodology.

Tax Enforcement

In addition to the various measures proposed for the tax agencies to improve tax compliance and enforcement, the May Revision includes two new provisions that will address income tax compliance issues.

- The revision includes a measure that would allow the Franchise Tax Board (FTB) to issue a wage garnishment against a delinquent tax payment without requiring the filing of a tax lien. This change would streamline the process and result in General Fund revenues of $11 million in the current year and $27 million in the budget year.

- The revision includes a proposal that would conform to federal law and provide for a penalty for filing a fraudulent claim for refund. The program is designed to discourage taxpayers from making unwarranted claims and would result in $1 million in General Fund revenue in 2011-12 and $3 million in 2012-13.

REDUCING BUDGETARY DEBT

The Governor indicates that, under current projections, the budget would be balanced on an ongoing basis under his proposal. In future years, the state would have the capacity to pay down the $33 billion in outstanding budgetary borrowing that has accumulated over the past decade. Specifically, the Governor estimates that outstanding debt will be reduced to $6.6 billion by the end of 2015-16.

2012-13 Governor's May Revision
General Fund Summary
(in millions)

	Revised 2011-12	Proposed 2012-13
PRIOR YEAR BALANCE	**-$2,844**	**-$2,535**
Revenues and transfers	86,809	95,689
TOTAL RESOURCES AVAILABLE	**$83,965**	**$93,154**
Non-Proposition 98 Expenditures	$53,988	$53,658
Proposition 98 Expenditures	32,512	37,729
TOTAL EXPENDITURES	**$86,500**	**$91,387**
FUND BALANCE	**-$2,535**	**$1,767**
Encumbrances	719	719
Special Fund for Economic Uncertainties	-3,254	1,048
Budget Stabilization Account (BSA)	--	--
TOTAL AVAILABLE RESERVE	**-$3,254**	**$1,048**

2012-13 May Revision
General Fund Revenue
By Source
(in millions)

Source	Gov. Budget Jan. 10 Amount	May Revision Amount	Difference	% Change
Personal Income Tax	$59,552	$60,268	$716	1.2
Sales Tax	20,769	20,605	-164	-0.0
Corporation Tax	9,342	8,488	-854	-9.1
Other	5,726	6,328	602	10.5
Total	**$95,389**	**$95,689**	**$300**	**0.0**

2012-13 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	$38,179	$38,540	$361	0.9%
Health and Human Services	26,414	25,963	-451	-1.7%
Higher Education	9,377	9,516	139	1.5%
Corrections and Rehabilitation	8,744	8,889	145	1.7%
Resources	1,896	1,921	25	1.3%
Environmental Protection	47	46	-1	-2.1%
Business, Transportation & Housing	558	448	-110	-19.7%
Legislative, Judicial, Executive	2,600	2,074	-526	-20.2%
General Government				
Non-Agency Departments	514	485	-29	-5.6%
Tax Relief / Local Government	2,534	2,531	-3	-0.1%
Statewide Expenditures	553	-57	-610	-110.3%
State and Consumer Affairs	689	689	0	0.0%
Labor and Workforce Development	448	342	-106	-23.7%
Total	**$92,553**	**$91,387**	**-$1,166**	**-1.3%**

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Major Solutions

PUBLIC SAFETY REALIGNMENT

Public Safety Realignment. The 2011 Budget included a major realignment of public safety programs from the state to local governments. The May Revision proposes to create a permanent funding structure for 2011 Realignment. The funding structure is designed to provide local entities with a known, reliable, and stable funding source for these programs. The Administration proposes that within each Subaccount, counties will have the flexibility to meet their highest priorities. In those programs in which there are federal requirements, such as eligibility and state-wideness, counties will be responsible for meeting those requirements.

The 2011 Realignment is funded through two sources - a state special fund sales tax of 1.0625 percent and a dedicated portion of Vehicle License Fees (VLF). Although the revenue stream for 2011 Realignment is ongoing, the initial program allocations were for the 2011-12 fiscal year only.

The May Revision estimates the sales tax to be $5.2 billion and the VLF to be $439.4 million in 2011-12, and the sales tax and VLF values are projected to increase to $5.4 billion and $455.1 million, respectively, in 2012-13. Compared to the program allocation and funding chart included in the Governor's January Budget Summary, the 2012-13 funding level for several programs is proposed to be increased in the May Revision.

Changes to Allocations Since the Governor's Budget. The base for each of the programs included in 2011 Realignment will ultimately become a "rolling base," meaning the previous year's allocation level plus growth will equal the new base for the following year. However, the year in which the base is defined varies by program. The base for the following programs is established in 2011-12, and the allocation level for each has changed since the Governor's January Budget:

- The allocation for Substance Abuse Treatment programs has increased by $3.9 million, from $179.7 million to $183.6 million. These funds will be included in the Behavioral Health Subaccount beginning in 2012-13.

- The allocation for Foster Care, Child Welfare Services, and Adult Protective Services has increased by $5.5 million, from $1,616.7 million to $1,622.2 million. These funds will be included in the Protective Services Subaccount beginning in 2012-13.

- Although the 2011-12 funding level establishes the base for many of the Health and Human Services programs, the base for Mental Health Services and Foster Care/Child Welfare Services is proposed to be established differently in the May Revision. Changes in the allocation levels for these programs are as follows:

- The 2011-12 allocation for Existing Community Mental Health Programs is $1,083.6 million, which represents the amount that will be allocated to the Mental Health Account pursuant to the formula in statute for 2011-12. This amount is greater than the $1,068.8 million that is now estimated to have been available for Mental Health in 2011-12 under 1991-92 Realignment.

- The 2012-13 allocation for Existing Community Mental Health Programs is $1,120.6 million, which represents the amount that is estimated to otherwise have been available for Mental Health in 2012-13 under 1991-92 Realignment. Although this is less than the $1,164.4 million reflected in the Governor's Budget, Mental Health programs have a dedicated growth account in the new ongoing funding structure. These programs also will continue to receive any Mental Health growth resulting from 1991-92 Realignment.

- The allocation for the Early and Periodic Screening, Diagnosis, and Treatment program and the Mental Health Managed Care program has increased by $48.1 million, from $732.8 million to $780.9 million. The 2012-13 funding level for these programs establishes the base. These funds will be included in the Behavioral Health Subaccount beginning in 2012-13.

- The allocation for Foster Care and Child Welfare Services for 2012-13, 2013-14, and 2014-15, reflects the costs for counties to expand foster care benefit eligibility up to age 21 as authorized by Chapter 559, Statutes of 2010 (AB 12) for a cumulative increase of $53.9 million. These funds will be included in the Protective Services Subaccount and will be phased in over a three-year period beginning in 2012-13.

The following table shows May Revise funding for each realigned program as compared to the Governor's Budget:

Program (dollars in millions)	**2012-13 Jan. Budget**	**2014-15 Jan. Budget**	**2012-13 May Rev**	**2014-15 May Rev**
Court Security	$ 496.4	$ 496.4	$ 496.4	496.4
Vehicle License Fee Public Safety Programs	489.9	489.9	489.9	489.9
Lower-level Offenders/Parole Violators	581.1	762.2	581.1	762.2
Realign Adult Parole	276.4	187.7	276.4	187.7
Mental Health Services:				
EPSDT	544.0	544.0	584.2	584.2
Mental Health Managed Care	188.8	188.8	196.7	196.7
Existing Community Mental Health	1,164.4	1,164.4	1,120.6	1,120.6
Substance Abuse Treatment	179.7	179.7	183.6	183.6
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,585.4	1,621.1
Adult Protective Services	54.6	54.6	55.0	55.0
Existing Juvenile Justice Realignment	98.8	101.3	98.8	98.8
Growth	180.1	988.8	221.7	1,014.7
Total	**$5,816.3**	**$6,719.9**	**$5,889.8**	**$6,810.9**

CORRECTIONS

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

Solutions Already Adopted. Last year, the Legislature passed AB 109 and AB 117 (known as Public Safety Realignment). Public Safety Realignment is the cornerstone of California's solution for reducing the number of inmates in the state's 33 prisons, as ordered by a Three-Judge Court and affirmed by the United States Supreme Court. In a May 23, 2011 decision, the United States Supreme Court affirmed the judgment of a three-judge panel convened pursuant to the Prison Litigation Reform Act of 1995 (18 U. S. C. §3626) ordering California to reduce its prison population to no more than 137.5 percent of its design capacity within two years.

Public Safety Realignment is projected to result in savings of $1 billion in 2012-13, growing to $1.5 billion by 2015-16. In April 2012, The Administration released a comprehensive plan to achieve these savings. In addition, the Administration's plan is intended to end federal court oversight and improve California's prison system. The plan is predicated on the inmate populations continued decline due to Public Safety Realignment. The plan rojects a total inmate average daily population of 129,461 (119,724 institutions and fire camps) in 2012-13, decreasing to 122,946 (120,491) institutions and fire camps) in 2015-16.
The primary components of the plan include:

- **Position Reduction:** Projects a reduction of 5,549.1 positions in 2012-13, growing to 6,629.9 by 2015-16.
- **Targeted New Construction:**
  - Three infill projects (approximately 800 beds each) - $810 million lease-revenue authority. The specific locations for these projects have yet to be determined.
  - Health Care Facility Improvement Program - $700 million in AB 900 (Solorio 2007) lease revenue authority.
  - DeWitt Conversion (1,133 beds, including 953 health care beds) – approximately $167 million ($166.9 million AB 900).
  - Eliminates approximately $4.1 billion in AB 900 lease-revenue bond authority.

    - In addition to new construction, the plan calls for closure of the California Rehabilitation Center—one of CDCR's oldest, most costly (approximately $160 million per-year) and inefficient prisons to operate.
- **Return Out-of-State Inmates.** CDCR began sending inmates out-of-state when overcrowding was at its worst in 2007. Currently, there are more than 9,500 inmates outside of California. The department will be able to bring these inmates back as the prison population continues to drop, classification changes are made, and additional housing units are constructed at existing facilities. Returning these inmates to California is expected to save the state $318 million annually.
- **Improve Access to Rehabilitation.** This plan sets a goal of placing at least 70 percent of the CDCR's target population in programs consistent with their academic and rehabilitative needs. The department will establish reentry hubs at certain prisons to concentrate program resources and better prepare inmates as they get closer to being released. It will also designate enhanced programming yards, which will incentivize positive behavior. For parolees, the department will build a continuum of community-based programs to serve, within their first year of release, approximately 70 percent of parolees who need substance-abuse treatment, employment services, or education.
- **Standardized Staffing.** The Plan establishes new and uniform staffing standards for each prison. This will eliminate the need to adjust CDCR's staffing based on marginal changes to the inmate population and ensure sufficient staffing levels, across the prison system, to safely operate and allow for appropriate out-of-cell time.

Inmate Medical Services Program. The May Revision includes an increase of $295.4 million GF in 2011-12 and $128.4 million GF in 2012-13 to fund court-required inmate medical costs. These augmentations align the medical care budget with the Receiver's projected expenditures and include resources to operate the California Health Care Facility opening in the summer of 2013.

Division of Juvenile Justice (DJJ). The May Revision rescinds the January proposal to further realign juvenile offenders to the counties and instead retains the DJJ for the housing and treatment of the most serious and violent juvenile offenders. The May Revision also includes the following proposals to achieve savings of $24.8 million in 2012-13:

- Reduce staff within headquarters and DJJ facilities.

- End juvenile parole on January 1, 2013 instead of July 1, 2014.
- Reduce DJJ's age of Jurisdiction from 25 to 23.
- Implement a new fee structure to charge counties $24,000 per year for each offender committed by a juvenile court to DJJ.

Juvenile Population Adjustment. The May Revision includes reductions of $3.4 million ($2.2 million GF, $1.1 million Proposition 98 GF, and $95,000 other funds) in 2011-12, and $9.1 million ($7.2 million GF, $1.6 million Proposition 98 GF, and $229,000 other funds) in 2012-13 to reflect revised population projections. The May Revision reflects an estimated average daily population of 992 wards in 2012-13, which is 156 less than projected in the Governor's Budget.

Board of State and Community Corrections. The May Revision includes total funding of $129.9 million ($37.7 million GF and $92.2 million other funds) for the state operations and local assistance programs included under this Board.

Legislation associated with the 2011 Budget Act abolished the Corrections Standards Authority and established the Board of State and Community Corrections as an independent entity, effective July 1, 2012. The Board will assume the previous functions of the Authority as well as other public safety programs previously administered by the California Emergency Management Agency.

The Board will provide statewide leadership, coordination, and technical assistance to promote effective state and local efforts and partnerships in California's adult and juvenile criminal justice system. Particularly important in the next several years will be coordinating with and assisting local governments as they implement the realignment of many adult offenders to local government jurisdictions that began in 2011. The Board will guide statewide public safety policies and ensure that all available resources are maximized and directed to programs that are proven to reduce crime and recidivism among all offenders.

Grants for City Police Departments. The May Revision includes $20 million GF to create a new grant program for city police departments.

Local Jail Construction Funds. The May Revision includes $500 million in new lease-revenue bond authority for the acquisition, design, and construction of local facilities to help counties manage their offender population. This authority is in addition to the $1.2 billion authorized in AB 900.

GENERAL GOVERNMENT

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

The May Revision proposes to utilize a portion of the proceeds from the National Mortgage Settlement to offset debt service costs currently paid for with GF contributions. The state is paying for housing bond debt service on Proposition 46 and Proposition 1C housing bonds, which are programs designed to assist homeowners. The May Revision proposes using $198 million dollars of the proceeds in order to offset the General Fund costs for housing bond debt service associated with these programs.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The May Revision proposal would direct $8.2 million dollars of the proceeds from the National Mortgage Settlement in order for the Department of Fair Employment and Housing to prevent and eliminate unlawful discrimination in housing and the prosecution of violations under the Fair Employment and Housing Act.

FRANCHISE TAX BOARD

The May Revision includes two policy changes that will facilitate compliance with the state's income tax laws and increase the ability to enforce and collect overdue tax liabilities. These are discussed in the Overview Section.

DEPARTMENT OF GENERAL SERVICES

The May Revision proposes a reduction of $108.4 million dollars in special funded programs and a reduction in 45.5 positions within the department. Specifically, the May Revision proposes to reduce expenditure authority by $75 million for the Natural Gas Services program, decrease the Real Estate Services Division by $6.7 million dollars, decrease the Office of State Publishing by $15.4 million, decrease the Building Regulation Services spending by $6.3 million, and decrease the administration and statewide support by $5.0 million dollars. Additionally, the May Revision includes a proposal to sell up to seven Capital Area Development Properties which will provide additional revenue to the state.

STATE CONTROLLERS OFFICE

The May Revision proposes a $1.55 million dollar reduction in GF contribution to support the implementation of the 21st Century Project. The reductions reflect a lower level of resources that will be required to implement the project than original projections had calculated in the Governor's January Budget.

DEBT SERVICE

Debt service requirements are slightly revised from the Governor's January Budget, declining by $162.5 million to $5.2 billion. This is a decrease in debt service of $158 million for General Obligation (GO) bonds and $4.5 million for lease-revenue bonds. The decrease for GO bonds is due to the use of recent mortgage settlement moneys for debt service (as described above) and reductions in the size and cost of recent bond sales. Similar reductions will occur for the current year.

BUDGETARY LOANS

As discussed in the Transportation Section, an additional $300 million will be used for General Fund relief based on a loan from the Motor Vehicle Account (MVA).

REDEVELOPMENT AGENCIES/SUCCESSOR AGENCIES

The May Revision proposes to use cash or cash equivalent assets held by successor agencies to the former redevelopment agencies (RDAs) to offset its Proposition 98 obligations. The Proposition 98 offset is estimated to be $1.4 billion in 2012-13 and $600 million in 2013-14. In addition, maintains the January assumptions regarding property tax revenues redirected to local governments and schools as a result of the action by the California Supreme Court that upheld the Legislature's ability to eliminate RDAs. The GF will receive about $800 million in 2011-12 and $900 million 2012-13 (down from the January Budget) as a result of increased property taxes flowing to schools, offsetting GF payments that would otherwise be required under Proposition 98. There would also be additional property tax funds for local governments.

HEALTH

MEDI-CAL PROGRAM

- **Coordinated Care Initiative.** The Governor's January Budget proposed a Coordinated Care Initiative (CCI) to integrate care for individuals who are eligible for both Medi-Cal and Medicare (dual eligibles). The CCI proposed to make health plans responsible for the delivery of all benefits by combining the full continuum of medical, long-term institutional care, and home- and community-based services for dual eligibles into a single benefit package beginning in January 1, 2013. The CCI proposed to expand upon a previously authorized demonstration project for four counties by including ten counties in the first year and all counties by year three. (The Administration also proposed to expand Medi-Cal managed care to the 28 counties that are currently fee-for-service beginning in June 2013.)

  The May Revision proposes the following changes to the CCI:
  - Delay the CCI start date from January 1, 2013 to March 1, 2013.
  - Reduce the number of counties from ten to eight that will implement CCI in the first year.
  - Phase in the long-term care benefits as each county transitions to managed care. (The Administration made this change in February; however, the May Revision estimates reflect this change.)
  - For specific changes to In-Home Supportive Services, see Human Services section.

  As modified, the proposal saves $663.3 million General Fund (an increase of about $41 million in savings compared to the January proposal), in 2012-13 and $887 million General Fund (a decrease of about $165 million in savings compared to the January proposal) when fully implemented.

- **Reductions in Hospital Supplemental Payments and Grants.** The May Revision proposes to reduce supplemental payments to hospitals, eliminate public hospital grants, and eliminate increases to managed care plans for supplemental payments to designated hospitals for savings of $150 million General Fund in 2012-13 and $75 million in 2013-14. Additionally, the May Revision proposes to delay the transition to a new diagnosis-related group-based payment methodology for hospitals by six months (from January 1, 2013 to July 1, 2013).

- **Unspent Public Hospital Federal Waiver Funds.** The 1115 Medi-Cal Waiver provides the state and Designated Public Hospitals access to over $750 million in federal funds for providing care to individuals who are uninsured and who are not eligible for full-scope Medi-Cal benefits. Designated Public Hospitals can draw down federal funds using their certified public expenditures. Unspent prior year waiver funds can be rolled over to provide additional federal funding. The May Revision proposes that the unspent public hospital waiver funds be split equally between the state and the Designated Public Hospitals, rather than the funds being provided exclusively to the Designated Public Hospitals. This results in $100 million General Fund savings in 2012-13 and $9 million in 2012-13.

- **Non-Designated Public Hospital Payment Changes.** The May Revision proposes to change Non-Designated Public Hospital (district and city-owned hospitals) payment methodology for inpatient Medi-Cal fee-for-service to require that these hospitals use their own funds to draw down federal funds. This change would result in approximately $75 million General Fund savings in 2012-13 and ongoing. It would align Non-Designated Public Hospital Medi-Cal funding with the Designated Public hospital funding methodology.

- **Nursing Homes.** Existing law authorizes a cumulative 2.4 percent rate increase for nursing homes in 2011-12 and 2012-13. The rate increase is funded with fee revenues. The May Revision proposes to rescind the 2012-13 rate increase (estimated at about 2 percent), continue the maximum amount of fee revenue collection, and retain fee revenue for a General Fund savings of $47.6 million.

  Existing law also requires the Department of Health Care Services (DHCS) to set-aside 1 percent of nursing home payments for supplemental payments based on quality measures. The May Revision proposes to retain the 1 percent set-aside for a General Fund savings of $23.3 million.

- **Proposition 10 Funding.** The May Revision proposes $40 million in funding to be provided by the First 5 California Children and Families Commission for Medi-Cal for children ages birth through five. This would decrease Medi-Cal General Fund spending by $40 million.

- **Decreased Caseload Projections for Medi-Cal.** The May Revision reflects updated caseload forecasts for Medi-Cal and a resulting decrease of about $200 million General Fund in 2011-12 and $700 million General Fund in 2012-13. The average monthly caseload for 2012-13 is projected to be 8,241,600, which represents a decrease of 106,200 enrollees from the Governor's January estimate.

- **Community-Based Adult Services.** The May Revision includes an additional $71.7 million General Fund for the Community-Based Adult Services (CBAS) program for 2012-13. This increased funding is due to an increase in the percentage of Adult Day Health Care beneficiaries eligible for CBAS.

- **Provider Payment Reductions.** The May Revision includes an increase of $245.5 million in 2011-12 and $174.6 million in 2012-13 as a result of court rulings preventing the implementation of provider payment reductions.

- **Copayments.** The May Revision includes an increase of $555.3 million General Fund in 2012-13 as a result of the federal government's rejection of the proposal to implement various copayments for Medi-Cal enrollees. The May Revision includes copayments of $15 for non-emergency room visits and $1 and $3 copayments for pharmacy based on the drug status and how medications are dispersed to achieve savings of $20.2 million General Fund in 2012-13.

- **Current Year Operating Shortfall.** DHCS will seek a supplemental appropriation in the current year to fund the cost increases resulting from various erosions to prior savings proposals due to decisions made by the federal government and the courts. The current shortfall is estimated to be approximately $760 million.

MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

- **Reduce Healthy Families Program Rates.** The Governor's January Budget proposed to reduce Health Families managed care rates to the same level that it would cost to cover these children under Medi-Cal and to transfer the Healthy Families Program to Medi-Cal over a nine-month period beginning in October 1, 2012. This proposal assumed savings of $64.4 million. The May Revision maintains this proposal but reflects savings of $48.6 million. This decrease is mainly attributable to revising the per-member per-month average cost of a Medi-Cal beneficiary from $76.86 to $83.91.

- **Increase Costs for Healthy Families Program.** The May Revision includes an increase of $5.7 million in 2011-12 and $9.5 million in 2012-13 in the Healthy Families Program due to primarily a shift in enrollment from lower-cost to higher-cost plans and an increase in wraparound payments to Federally Qualified Health Centers and Rural Health Clinics.

- **Premium and Copayment Increases Unallowable.** The May Revision includes an increase of $42.4 million General Fund in 2012-13 because the federal government rejected the proposal to increase premiums and copayments.

DEPARTMENT OF MENTAL HEALTH (PROPOSED TO BE DEPARTMENT OF STATE HOSPITALS)

- **Realigned Mental Health Services.** The Governor's January Budget implemented the realignment of the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program and Medi-Cal Specialty Mental Health services (Mental Health Managed Care program).

  The May Revision includes $584.2 million for the EPSDT program, a $40.2 million increase from the Governor's January Budget. Additionally, the May Revision includes $196.7 million for Medi-Cal Specialty Mental Health services, a $7.9 million increase from the Governor's January Budget.

- **State Hospitals.** The Governor's Budget transferred community mental health programs to other departments, and restructured the department to focus on administering the California state hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed and voluntary patients. The May Revise includes $1.4 billion ($1.3 billion General Fund) in 2012-13 for support of the department. The patient population is projected to reach a total of 6,439 in 2012-13. This is unchanged from the January budget proposal.

- **Current Year Deficiency.** The May Revision includes a reduction of $21 million General Fund to the Department of Mental Health's (proposed to be Department of State Hospitals) 2011-12 deficiency request, bringing the shortfall to $41.7 million General Fund. The Governor's Budget originally included a current year shortfall of approximately $63 million General Fund. The reduced need included in the May Revision is a result of a decrease in the estimated population census in the current year.

DEPARTMENT OF PUBLIC HEALTH

- **Increase Client Share of Cost for the AIDS Drug Assistance Program (ADAP).** The Governor's January Budget proposed increasing the client share of cost in ADAP to the maximum percentages allowable under federal law for $14.5 million General Fund savings. The May Revision eliminates this share-of-cost requirement for private insurance clients because a cost-sharing obligation would exceed their out-of-pocket costs for private insurance. Additionally, a 90-day delay in implementation is proposed to allow for billing system modifications necessary to implement the proposal. The revised proposal achieves $10.7 million General Fund savings in 2012-13.

- **AIDS Drug Assistance Program (ADAP).** The May Revision estimate for ADAP includes a net increase of $4.8 million ($1 million General Fund) in 2011-12 and $30.1 million ($4.1 million General Fund decrease and $34.2 million other fund increase) to reflect a delay in ADAP clients enrolling in county Low Income Health Programs, increased federal funds through the Ryan White Part B grant, a decrease in Safety Net Care Pool funds, and an increase in the projected drug rebate collection rate.

- **California Reducing Disparities Project.** The May Revision includes an increase of $15 million from the Mental Health Services Fund in 2012-13 for the California Reducing Disparities Project with the intent of providing a total of $60 million toward the project over four years. This funding continues statewide efforts to improve access to mental health services and quality of care, and increase positive outcomes for underserved communities.

- **Public Health Laboratory Training Program.** The May Revision eliminates the Public Health Laboratory Training Program for a savings of $2.2 million General Fund. This program provides local assistance grants to subsidize training, support, outreach and education, and provides funding for doctoral candidate stipends and post-doctoral fellowships for individuals training for public health laboratory directorships.

DEPARTMENT OF MANAGED HEALTH CARE

- **Expanded Oversight of Medi-Cal Dental Managed Care Program.** The May Revision includes an increase of $295,000 from the Managed Care Fund and three permanent positions to provide expanded oversight and consumer assistance relating to dental plans participating in the Medi-Cal Dental Managed Care (DMC) program. The positions would be responsible for (1) planning, preparation, and development of the tools and documents required to conduct annual dental plan surveys and financial examinations of Medi-Cal DMC plans, and (2) the increased consumer assistance workload generated at the department's help center due to the proposed transition of Healthy Families Program enrollees into Medi-Cal DMC commencing October 1, 2012.

- **Coordinated Care Initiative (CCI) Oversight of Managed Health Care Plans.** The May Revision includes an increase of $1 million from the Managed Care Fund and 13 permanent positions to address the increase in workload associated with the implementation of the CCI (as discussed under the Medi-Cal section). The positions would provide oversight of the managed care plans that will participate in the CCI through the development and completion of health plan surveys and financial examinations and plan network adequacy reviews.

HIGHER EDUCATION

University of California (UC)

- The Governor's January budget proposed an ongoing GF augmentation of $90 million for base operating costs, which the Administration indicated could be used to address costs related to retirement program contributions. The May Revision reduced that augmentation by $38 million, to a total of $52 million in 2012-13, and notes that the remaining $38 million augmentation is delayed until 2013-14.

- Proposes an additional "triggered" unallocated reduction of $50 million should the Governor's tax package not be approved by the voters, for a total "trigger" cut of $250 million.

California State University (CSU)

- The Governor's January budget proposed that CSU no longer receive annual budget adjustments for its retirement costs beginning in 2013-14. The May Revision substantially modifies this proposal. Under the May Revision, CSU will receive annual budget adjustments associated with the unfunded liability portion of its retirement costs, as outlined by the California Public Employees' Retirement System. The May Revision will also adjust CSU's base budget to reflect incremental changes for 2012-13 employer contribution rates. In total, the May Revision proposes an increase of $52 million (over the Governor's January budget) for these costs in 2012-13.

- Adds a new item to reflect the costs of health benefits provided to CSU retirees. Currently, these costs are in the statewide budget items that reflect the state costs of providing health benefits to most retired state workers. The total cost of health benefits for CSU retirees is $267.2 million. The Administration indicates that CSU will continue to receive adjustments for these costs in the future. This proposal would also reduce the amounts in the statewide budget items by a like amount.

- Proposes new budget trailer bill language to provide CSU with the same statutory authority to negotiate or set employee health care benefits that is currently provided to the Department of Personnel Administration (DPA) in setting policies for other state employees. Currently, CSU pays 100 percent of the health care premiums for its employees and 90 percent of employees' family members. For most state employees, the state pays either 80 or 85 percent of employees' health care premiums and 80 percent for employees' family members. State law specifies contribution rates for state and CSU employer payments for health care premiums. In 1991, state law provided DPA with the ability to negotiate employer shares for health benefits for state employees; this proposal would provide the same authority to CSU.

- Proposes an additional "triggered" unallocated reduction of $50 million should the Governor's tax package not be approved by the voters, for a total "trigger" cut of $250 million.

California Community Colleges (CCC)

Significant Budget Adjustments. As updates to the Governor's January budget, the May Revision proposes the following significant adjustments to the CCC budget:

- **Mandates Block Grant.** The January budget proposed to eliminate nearly half of the existing K-14 mandates and provide $200 million to fund a mandates block grant incentive program to reimburse K-12 schools and CCC districts for all remaining mandated activities. The May Revision proposes the following changes to the block grant program:
  - Distribute funding equally on a per-student basis, or $28 per student (the January proposal would have provided $30 per K-12 student and $20 per CCC student);
  - Eliminate the existing mandate claiming process to ensure K-12 schools and CCCs are reimbursed at the same rate for performing the same mandate activities; and
  - Add the Minimum Conditions for State Aid and Community College Construction mandates to the block grant and add the Discrimination Complaint Procedures mandate to the suspension list.

- **Apportionments Adjustments.** The May Revision proposes an increase of $30.8 million in 2011-12 and a net decrease of $238.9 million in 2012-13 to apportionment funding to conform to the Proposition 98 guarantee, as follows:
  - An increase of $30.8 million GF in 2011-12 to reflect a decrease in estimated local property tax revenues associated with the end of redevelopment agencies. This is an update to the January budget

proposal of increased RDA-related local property taxes of $146.9 million, reducing it to $116.1 million;
  - A decrease of $191.2 million in 2012-13 to reflect an increase in estimated local property tax revenues due largely to the recovery of cash assets held by redevelopment agencies;
  - A decrease of $125.4 million in 2012-13 to reflect an increase in estimated Education Protection Act (Governor's tax package) revenues;
  - An increase of $95.1 million in 2012-13 to reflect restoration of apportionment funding previously deferred. This is an update to the January budget proposal to pay down deferrals by $218 million, bringing the deferral pay down to $313 million;
  - A decrease of $15 million in 2012-13 to reflect an increase in estimated fee revenues due to the recent policy changes by the CCC Board of Governors to increase the need threshold for Part C fee waiver eligibility from $1 to $1,104; and,
  - A decrease of $2.4 million in 2012-13 to reflect an increase in estimated oil and mineral revenues.

- **Quality Education Investment Act.** Of the $450 million in 2012-13 Quality Education Investment Act funding discussed in greater detail in the K-12 section of this document, $48 million is associated with the CCCs.

- **Increased Trigger Cut**. As discussed in greater detail in the K-12 section of this document, the May Revision increases the overall K-14 trigger cut by about $300 million (in programmatic spending) should the voters reject the Governor's tax package. For the CCC, assuming the statutory 11 percent normally associated with the CCC's share of Proposition 98, the May Revision increases the CCC's programmatic trigger cut from $292 million (January proposal) to $325 million.

Financial Aid

The May Revision updates the Governor's January budget to further reduce costs in the Cal Grant program, the state's principal postsecondary financial aid program, as follows:

- **Additional Fund Shifts to Achieve GF Savings**. The Governor's January budget proposed to shift $736.4 million of Cal Grant Program costs from the GF to federal Temporary Assistance for Needy Families (TANF) Program funds available due to proposed reductions in the CalWORKs program and offset $30 million GF due to surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program. The May Revision proposes an additional $67.4 million from TANF and another $30 million offset from SLOF funds, for a total of $803.8 million TANF and $60 million SLOF.

- **Restrict Cal Grant Program Participation to Institutions that Meet a New Graduation Rate Standard.** The Governor's January budget proposed to retain the current cohort default rate allowable at participating institutions at 24.6 percent (under current law it was scheduled to increase to 30 percent). The May Revision replaces this proposal with a new proposal that saves $38.4 million in 2012-13 by: (1) reducing the maximum student loan cohort default rate from 30 percent to 15 percent and (2) instituting a 30 percent minimum graduation rate standard for all participating institutions. The May Revision will not apply to any participating institution with 40 percent or fewer of their students borrowing federal student loans to attend college.
- **Align Cal Grant Program Award Methodology with Federal Pell Grant Methodology.** Currently a Cal Grant applicant who meets academic, income, and asset requirements is eligible for a full award equal to the full tuition fee cost at UC and CSU or an award amount specified in the annual Budget Act for private, for-profit and non-profit institutions. This results in an "all-or-nothing" award determination. In contrast, the Pell Grant award is tailored to the financial need of each student and factors in family income, the cost of attendance and the expected family contribution. The May Revision proposes budget trailer bill language that will provide the neediest students with maximum award amounts (approximately 63 percent of Cal Grant recipients) while students with lower costs of attendance and/or higher family incomes will received a reduced Cal Grant award (that would mirror the Pell Grant award). This proposal is applicable to students who apply for grants after July 2012. The Administration estimates that savings from this proposal in 2013-14 is estimated at between $90 to $100 million.

Other Significant Adjustments. The May Revision acknowledges new Cal Grant program costs, including: (1) $27.7 million in 2011-12 and $26.5 million in 2012-13 to permit co-eligible Cal Grant recipients to switch from B to A awards and (2) $31.2 million in Cal Grant costs related to CSU's 9.1 percent tuition increase, effective fall 2012. In addition, the May Revision also acknowledges a $49.5 million increase to Cal Grant program costs to reflect a decreased amount of savings achievable from the Governor's January budget proposals due to calculation errors.

HUMAN SERVICES

Department of Social Services (DSS)

CALWORKS

The January budget proposed $946.2 million GF savings from reductions in benefits and services available under the California Work Opportunities and Responsibilities to Kids (CalWORKs) welfare-to-work program. The Governor also proposed the restructuring of the program to include two new subprograms--CalWORKs Basic and CalWORKs Plus--as well as a new Child Maintenance Program outside of CalWORKs. CalWORKs Basic would continue much of the current program, but with a 24-month (rather than the existing 48-month) time limit. Only adults working sufficient hours in unsubsidized employment would be eligible for 24 additional months (48 total) in CalWORKs Plus. The Child Maintenance program would include families currently served in the CalWORKs child-only caseload, as well as 109,000 families in which the adult would lose eligibility. Child maintenance grants would not be time-limited for minors, but maximum grants would be reduced 27 percent. Overall, the January proposals would have resulted in 63,000 families with 125,000 children losing all eligibility.

The May Revision makes the following changes, with an adjusted net savings of $879.9 million GF:

- Work participation requirements could be met through any combination of state-specified activities during the first 24 months. Adults participating in sufficient hours of federally-defined activities would be eligible for up to an additional 24 (48 total) months.

- The new time limits would no longer be applied retroactively.

- Short-term exemptions for parents of young children that have been in place since 2009 would be extended to October 1, 2012 (rather than expiring on July 1, 2012), with all individuals who would otherwise have been exempted phased back in to work participation requirements by October 1, 2013.

The January and May budget proposals also include changes to child care that would impact the Department of Social Services and CalWORKs. For additional information, please see the K-12 Education and Child Care section of this report.

In-Home Supportive Services (IHSS)

As the Health section of this report describes in greater detail, the January budget and May Revision propose to improve coordination of certain health and social services by expanding a previously authorized demonstration project and better integrating services in the Coordinated Care Initiative. For IHSS, the May Revision formalizes changes the Administration made in February and proposes new changes, including that:

- Counties would continue their role in assessing and authorizing hours for the IHSS program and IHSS recipients would continue to select and direct their providers.

- There would be a maintenance of effort requirement for counties to continue IHSS expenditures at the level they would have been absent these changes.

- Collective bargaining to determine IHSS providers' wages would transition to the state-level (though the timing of this change is not yet determined).

Both the January and May Revision proposals would eliminate domestic and related services (e.g., housework, food shopping, and meal preparation) for individuals who reside in shared living arrangements. The updated 2012-13 estimate includes $125.3 million GF savings from this change.

Finally, the May Revision newly proposes $99.2 million GF savings from a seven percent across-the-board reduction in authorized IHSS hours effective August 1, 2012. This proposal would continue and deepen an existing 3.6 percent reduction that sunsets July 1, 2012, and would be in addition to a 20 percent across-the-board reduction, with exceptions, that was triggered in 2011 but enjoined from taking effect.

Realignment

As described in the Realignment section of this report, the May Revision proposes trailer bill language to create a permanent funding structure for the 2011 realignment. For Child Welfare Services and Foster Care, the May Revision additionally includes $53.9 million phased in over a three-year period to account for costs of providing foster care up to age 21 as authorized under Chapter 559, Statutes of 2010 (AB 12).

OTHER

The May Revision also proposes:

- Savings of $180 million GF relative to January's estimates due to updated caseload estimates based on more recent data for CalWORKs, IHSS, and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program.

- Increased costs of $212.8 million GF for IHSS because of the assumed erosions of savings associated with previously adopted solutions.

- Funding of $36.5 million ($15.3 million GF) to continue work on replacing the existing Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting (LEADER) system.

Department of Developmental Services (DDS)

The May Revision proposes policies to implement a reduction of $200 million annually that was triggered in December 2011 by lower than anticipated state revenues, including:

- Implementing new legislation (SB 946, Chapter 650, Statutes of 2011) that takes effect July 1, 2012 and requires health insurers to provide coverage for specified behavioral health treatments ($79.8 million GF savings)

- Maximizing federal funding through more aggressive enrollment in the Home & Community-Based Waiver ($61.0 million GF savings) and amending the state's plan for its Community First Choice Option ($1.9 million GF savings)

- Continuing 1.25 percent of a 4.25 percent Regional Center and provider rate reduction that would otherwise expire July 1, 2012 ($30.7 million GF)

- Redesigning services for individuals with challenging service needs, including a moratorium, with exceptions, on new admissions to developmental centers and other changes ($20 million GF savings)

- Redesigning Supported Living assessments ($4.2 million GF savings)

Additionally, the May Revision proposes to trigger, as of January 1, 2013, a reduction of $50 million GF to 2012-13 developmental services expenditures if the Governor's revenue-related ballot initiative does not pass in November. The policy changes that would lead to this reduction do not appear to be specified yet.

Finally, the May Revision proposes $40 million GF savings from an assumption that the California First Five Commission will continue to fund specified Early Start services for very young children.

Department of Child Support Services (DCSS)

The May Revision makes the following adjustments, with a net reduction of $3.6 million in General Fund contribution to the Department of Child Support Services:

- A $14.7 million reduction ($5 million General Fund) in 2012-13 to reflect reduced funding for Local Child Support Agencies (LCSAs). In order to achieve the reduction in funding LCSAs will no longer be required to prepare cases for state hearings and would instead continue their complaint resolution process and refer cases to the state for administrative review.

- The Governor's January Budget proposed suspension of the county share of child support collections in 2012-13. The January Budget assumed that the state would save $34.5 million in General Fund due to the suspension; however, due to a decreased projection of child support collections, this proposal is now estimated to save $31.9 million General Fund in 2012-13.

- The May Revision reflects a reduction in spending on the DCSS Child Support Automation System. Specifically, there will be a $5.5 million reduction in the 2011-12 budget and a $1 million reduction in General Fund contribution in the 2012-13 budget associated with the Child Support Automation System.

JUDICIARY AND PUBLIC SAFETY

JUDICIAL BRANCH

Solutions Already Adopted. Since 2007-08, GF support for the Judicial Branch has been reduced by $653 million ongoing. The majority of these reductions, $606 million, have been to trial courts. However, the Administration, the Legislature and the Judicial Council have mitigated these trial court reductions through a mix of permanent and one-time offsets, including transfers from special funds, fee increases, and use of trial court reserves.

Judicial Branch Funding. The May Revision proposes $544 million in GF reductions in 2012-13. Of this amount, $419 million is one-time and $125 million is ongoing. [In 2012-13, $540 million affects trial courts, including offsetting new allocations to the trial courts against reserve funds and redirecting court construction to trial court operations.] The remaining $4 million will be achieved by permanent changes in retirement contributions for the Administrative Office of the Courts (AOC), including staff within the Supreme Court, Courts of Appeal, and the Habeas Corpus Resource Center. Additional detail for these reductions include:

- **Restructure Trial Court Funding**—Reduction of $300 million GF on a one-time basis and offset each trial court's allocation by their available reserve. A statewide reserve equal to 3 percent of the statewide allocation to trial courts will be held at the state level. The Judicial Council will be authorized to allocate funds from the statewide reserve to individual courts as necessary to address emergencies and unavoidable budget shortfalls.

  By the end of 2010-11, the trial courts had accumulated approximately $562 million in reserves, a five-percent increase since 2008-09. Reserves vary among the individual trial courts. These reserves will make it possible for the state to achieve substantial savings while maintaining trial court operations.

- **Delay Court Construction**—Reduction of $240 million GF on a one-time basis by redirecting an equal amount from court construction funds to support trial court operations. This pause in construction will delay design activities for up to 38 court projects. It will coincide with a full review of the court construction program and court construction standards. Up to six projects that are near design completion are proposed to proceed to construction in 2012-13 once the Judicial Council is able to verify the cost and scope of these six projects. These projects will be funded with lease-revenue bonds. Ongoing, $50 million will be redirected from court construction funds to support trial court operations.

- **Increase Retirement Contributions for State Court Employees**—An ongoing reduction of $4 million General Fund by increasing the retirement contribution for state court employees from five percent to eight percent, consistent with other state employees. The May Revision also assumes that the practice of paying the employee retirement contribution will be discontinued.

Trial Court Operations. During the mid-1990s there were significant reforms in the Judicial Branch—court unification and the state assumption of funding responsibility for trial courts. Prior to state funding, many small courts were in financial crisis and needed emergency state funding to keep their doors open. One of the goals of state funding was to promote equal access to justice so that a citizen's access to court services was not dependent on the financial health of an individual county. Trial courts have benefitted financially, as the state has been able to stabilize and increase funding.

Fifteen years after the implementation of the Trial Court Funding Act, a comprehensive evaluation of the state's progress in achieving the goals outlined in the reform legislation, including the ability of trial courts to provide equal access to justice, is appropriate. The May Revision proposes to establish a working group to conduct the evaluation. The working group will conduct a statewide analysis of workload metrics, staffing standards, and other relevant data necessary to support a more uniform and efficient administrative system for the judiciary.

DEPARTMENT OF JUSTICE

National Mortgage Settlement Proceeds - The National Mortgage Settlement stipulates that California will receive $410.6 million in discretionary funds for administrative costs and to support programs that benefit California homeowners affected by the mortgage and foreclosure crisis and other consumers. The State expects to receive $300 million in the 2012-13 fiscal year. The May Revision proposes to utilize the proceeds from the settlement to provide funding for several programs:

- $41.1 million of the discretionary funds into the Unfair Competition Law Fund to offset the costs of various DOJ programs
- $44.9 million to support the DOJ's Public Rights and Law Enforcement programs relating to public protection and consumer fraud enforcement and litigation.

The remainder of the proceeds will be utilized to offset General Fund costs for housing bond debt service ($198 million), utilized by the Department of Fair Employment and Housing to uphold the Fair Employment and Housing Act ($8.2) and reserved for similar use in the 2013-4 budget ($118.4 million).

DNA Identification Fund Shortfall. A decrease of $10 million General Fund through the elimination of the General Fund transfer to the DNA Identification Fund. The May Revision proposes to replace this funding by increasing the penalty assessment by $1 for every $10 of base fine. Revenues to the DNA Identification Fund have not come in as projected; therefore, these changes are necessary to ensure the DNA and regional forensic laboratories are able to continue performing critical public safety work.

K-12 EDUCATION AND CHILD CARE

Proposition 98 – K-14

Current Year – Overall Funding Levels. The Governor proposes total Proposition 98 spending of **$47.8 billion** in 2011-12 for K-14 education. This is about the same level of funding proposed by the Governor in January. The Governor estimates the Proposition 98 minimum guarantee has fallen to **$47.0 billion** in 2011-12 -- a drop of about $1.3 billion reflecting a decline in anticipated state revenues. In order to maintain funding within the current year, the Governor proposes to provide an over-appropriation of $785 million. Of the $785 million, the Governor proposes to designate $450 million as prepayment of the 2012-13 QEIA settlement obligations and $335 million Proposition 98 settle up. (Note: Overall 2011-12 spending levels are about the same because in January the Governor proposed to pay about $600 million in Proposition 98 funding associated with the higher minimum guarantee as "future" settle-up payments, which are no longer required.)

Budget Year – Overall Funding Levels. The Governor proposes Proposition 98 funding of **$53.7 billion** for K-14 education in 2012-13, which reflects the estimated minimum guarantee. (This reflects an increase in the minimum guarantee of $1.2 billion above the Governor's January budget.) This level of funding provides a year-to-year increase of **$5.9 billion** over the revised 2011-12 spending level, and assumes passage of the Governor's tax initiative, which per the Administration would produce an additional $2.9 billion in new funds for education in 2012-13. While state revenues are also estimated to be lower in 2012-13, Proposition 98 calculations build off year-to-year changes, which are estimated to increase, and require higher maintenance factor payments that increase the minimum guarantee.

New Rebenching Adjustments. The Governor proposes some changes to his rebenching methodology proposed in January. More specifically, the May Revise would retain the current methodology for the child care, mental health services and one-time RDA shifts proposed in January for the current year, instead of moving to the 1986-87 methodology for these shifts as proposed in January.

Continued Reduction of Inter-Year Payment Deferrals. The Governor proposes an additional $446 million compared to January, which would provide a total of **$2.8 billion** in Proposition 98 funding to reduce inter-year budgetary deferrals for K-14 education beginning in 2012-13. This increase will provide $2.5 billion for K-12 schools and $300 million for community colleges.

New Trigger Cuts if Governor's Tax Initiative Fails. In the event the Governor's initiative does not pass, the Governor's May Revise proposes a trigger reduction of **$5.5 billion** for K-14 education – a further reduction of $700 million compared to the Governor's January proposal. Of the $5.5 billion, $2.8 billion would come from not paying deferral buydowns for K-14 education. The remaining $2.7 billion reduction would be achieved through programmatic cuts to K-14 education. If the ballot measure fails, K-12 schools would be authorized to reduce the school year by a total of 15 days in 2012-13 and 2013-14. This would be in addition to the current flexibility districts have to reduce the school year by five days.

The $5.5 billion trigger cut proposed by the Governor would result from an estimated $2.9 billion reduction in the minimum guarantee due to lower state revenues, and from a proposed shift of General Obligation Bond Debt Service and the Early Start program (currently funded under the Department of Developmental Services) into Proposition 98 requiring programmatic savings to accommodate the shift.

K-14 Mandates Funding. The Governor's May proposal continues to include an increase of **$110 million** in 2012-13 to support a new mandate block grant program and clarifies the proposal would eliminate the existing mandate claiming process for K-12 and community college mandates, as discussed further below. This will bring total funding for K-14 mandates to approximately $200 million in 2012-13. However, the Governor's May proposal would update the block grant funding to provide a uniform funding rate of **$28 per student** for all K-14 agencies, including K-12 school districts, county offices of education and charters schools, as well as community colleges. This rate change shifts an additional $11 million from K-12 schools to community colleges, compared to January.

Redevelopment Agency (RDA) Savings. The Governor estimates $818 million in tax-increment RDA funds in 2011-12 and $981 million in 2012-13. The Governor also estimates $1.4 billion in liquid assets from RDAs in 2012-13 and $600 million in 2013-14. This money would be allocated to K-12 schools and community colleges and provide General Fund savings.

Proposition 98 – Other Major K-12 Adjustments in Budget Year.

Compared to the Governor's January budget, here are some of the major changes proposed by the May Revise:

School Transportation Funding Restored. The Governor proposes to restore all **$496 million** in funding for the Home-to-School Transportation funding in 2012-13. In January, the Governor proposed to eliminate this funding.

Revenue Limit Growth. The Governor estimates continued state-level growth in K-12 enrollments statewide for purposes of funding revenue limits. The May Revise estimates provide an increase of **$169 million** for school district and county office of education revenue limits as a result of projected growth in student attendance in 2012-13. (The Governor's May Revise also estimates a growth related revenue limit increase of $122 million in 2011-12.)

Continues Elimination of Transitional Kindergarten Program But Savings Lower. The Governor continues to propose elimination of funding for the new Transitional Kindergarten program – created pursuant to Chapter 705, Statutes of 2010 – in 2012-13. However, the Governor now estimates that this proposal will save a total of **$92 million** in 2012-13, which is $132 million less than the $224 million in savings estimated in January.

Redirect Transitional Kindergarten Savings to State Preschool. The Governor proposes to direct the **$92 million** Proposition 98 savings from the Transitional Kindergarten program to the part-day state preschool program in 2012-13. More specifically, the Governor now proposes to restore about $34 million to withdraw the 10 percent reduction in the state reimbursement rate originally proposed in January. In addition, the Governor proposes an increase of $58 million to provide an additional 15,500 preschool slots.

Adds Hold Harmless Funding for Weighted Pupil Formula. The May Revise adds **$90 million** in Proposition 98 funding to hold K-12 schools harmless for any loss in per pupil funding from the shift to the Weighted Pupil Formula in 2012-13.

Major K-12 Budget and Policy Reforms in Budget Year

Mandates Reform. As a part of the Governor's K-14 education mandate reforms, the Governor proposes to provide a total of $167 million for K-12 mandates – an increase of approximately **$87 million** in 2012-13 – for a new mandates block grant incentive program. The Governor's block grant proposal would provide funding to cover about half of the state's K-12 mandates and would eliminate the remaining mandates. More specifically, the Governor proposes the following changes and clarifications to the block grant program, as originally proposed in January:

- **Distribute Funding Equally on a Per Pupil Basis.** The new block grant would distribute funds based upon a uniform funding rate of $28 per student, as measured by average daily attendance**.**

- **Eliminate the Existing Claiming Process.** The existing mandate claiming process would be eliminated as an option for K-12 schools to seek reimbursement for the mandates funded in the block grant.

- **Repeal High Cost Mandates**: The Governor proposes to repeal the six highest cost mandates. Remaining mandates slated for elimination would be suspended in 2012-13 until subsequent legislation is introduced to permanently repeal those mandates.

Weighted Pupil Formula. The Governor proposes to continue his proposal to dramatically increase flexibility and local control by consolidating the vast majority of categorical programs (excluding federally required programs such as Child Nutrition and Special Education) with revenue limit apportionments into a single stream of funding -- Weighted Pupil Formula -- on a permanent basis. The Governor proposes to update the Weighted Pupil Formula as a part of his May budget revisions, as follows:

- Increases the formula "base" amount from $4,920 to $5,421.
- Reduces supplemental weight for disadvantaged students from 37 percent to 20 percent.
- Incorporates differential weights for different grade spans. (The K-3 rate would be adjusted to roll in the amount currently dedicated for K-3 CSR.)
- Excludes two categorical programs from the formula -- Targeted Instructional Improvement Grant and Home-to-School Transportation.

(Current district allocations for these two programs would be locked in, and programmatic requirements would be waived.)

- Requires districts to use supplemental funding (formula "weights") for disadvantaged (low income and English learner) students that generate the funding.
- Phases in new formula over seven years rather than six (only 5 percent of affected funds would go out via new formula in 2012-13).
- Delays implementation (and reverses 2012-13 5 percent change) if November revenue initiative fails. Also delays phase-in in future years if that year's growth in Prop 98 funding does not meet predetermined growth targets.
- Proposes intent language to restore existing deficit factor reduction to revenue limits before the weighted pupil formula is fully implemented.
- Makes continued phase-in of formula on 2013-14 contingent on legislation identifying additional indicators for district and school success.

Child Care and Development

Overall Funding Level – Non-Proposition 98 Funded Child Care. Child Care and Development was funded at $1.2 billion GF in the January 10 budget proposal for 2012-13. The Governor's May Revision contains **$1.3 billion GF** for the budget year, including funding for Stage 1 (funded in the Department of Social Services [DSS]). This is mainly due to caseload increases in Stages 2 and 3 and the Governor's proposal to rescind a January reduction proposal that would have required that all child care subsidy recipients meet federal work participation requirements through unsubsidized work. This policy would have eliminated thousands of families from the program that are currently engaged in education programs and other subsidized employment opportunities. The Governor replaced this policy change with a steeper reduction to the reimbursement rates provided for child care vouchers.

CalWORKs Child Care Caseload Adjustment. The May Revision proposes small upward adjustments of $3 million and $14.5 million for CalWORKs Stages 2 and 3 caseload, respectively.

Non-Proposition 98 Child Care Reduction Savings. The May Revision proposes approximately the same total budget savings **($452.5 million GF**) from non-Proposition 98 savings as was proposed in January. In addition to the caseload adjustments listed above, the Governor makes two major modifications to change the mix of cuts proposed in January. The Governor indicates that the modifications to the mix of cuts will result in retaining over 25,000 slots that would have been lost under the January proposal. The major modifications are as follows:

- **Loosens Work Eligibility Requirements.** Consistent with the Governor's May Revision proposal for CalWORKs, the Governor has also loosened the work eligibility requirements for recipients of child care subsidies. Under the Governor's revised proposal, parents pursuing education or training may receive child care subsidies for up to two years. Parents could continue to receive child care subsidies, but would have to be meeting work requirements (30 hours per week or 20 hours per week for families with young children). This policy change requires the Governor to **restore $180 million GF** to the January budget proposal.
- **Reduces Voucher Rates.** The Governor's May Revision also takes the proposed rate reductions to the Regional Market Rate (RMR) to the 40th percentile of the 2005 RMR survey. The Governor's May Revision proposal would also reduce the license exempt rate to 71 percent of the lowered RMR rate. This proposal would result in **$190 million GF savings** ($61 million GF savings from Stage 1). The January budget had also proposed reducing the RMR, but had proposed to reduce rates to the 50th percentile of the 2009 RMR survey for $17.1 million in GF savings ($5.3 million GF related to Stage 1). The January budget had also proposed to hold steady payments made to licensed exempt providers.

Child Care Restructuring. The Governor's January budget included a significant proposal to restructure the existing child care programs funded outside of the Proposition 98 guarantee. The May Revision proposes several notable changes to this proposal, including many that respond to concerns raised in committee hearings. The changes are outlined below:

- **Create Separate Block Grant.** Requires the creation of a separate child care block grant, to ensure eligible low-income working families continue to have access to child care services. In January, the Governor's budget was not specific about how child care monies would be allocated to the counties and there was some concern that the child care monies would be added to the County Single Allocation for the CalWORKs program and would not ultimately be expended on child care. It continues to be unclear exactly how the Administration proposes to organize the child care block grant if allocated to the counties.

- **Preserve Title 5 Infrastructure.** Requires that county welfare departments will contract with Title 5 centers for three years for the same number of slots that will be funded under the General Child Care program in 2012-13. The May Revision proposal would also provide counties with flexibility to deviate from this allocation up to 10 percent and after three years, counties would be able to adjust contracts with Title 5 centers including canceling contracts and shifting more resources to voucher-based providers within the county to better align service needs with available resources. The Title 5 designation will continue to be maintained by CDE through the annual submission of an assessment of the education program at the center.
- **Clarifications on Transition.** The May Revision proposal indicates that some funding would be shifted from CDE to the DSS to fund state operations costs associated with the transition of child care services to county welfare departments. It would also require that county welfare departments put together plans on how they would implement child care and provide the potential for a mid-year transfer of child care funding and responsibilities in 2012-13 if counties are ready to assume responsibilities early. This provides for a more aggressive transition of child care activities then contemplated in the January proposal.
- **Changes to State Plan for Quality Activities.** The May Revision indicates that the quality projects funded by federal funds (Child Care Development Block Grant) will continue to be funded by CDE in the budget year. However, in 2012-13 DSS will develop a plan in consultation with CDE that outlines how the quality funding will be expended in 2013-14. The plan would require that DSS conduct programs that promote health and safety of children in care and CDE retain programs and activities that promote early learning and readiness for school. The plan would also reflect an allocation to county welfare departments to target quality funds to local needs and priorities.

LABOR

EMPLOYMENT DEVELOPMENT DEPARTMENT

- The January budget proposed an increase of $417 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 $9.8 billion at the end of 2011). To offset this GF expenditure, the January budget included a transfer from the Disability Insurance Fund to the GF, resulting in no net GF cost in 2012-13. The federal government since lowered the interest rate on funds borrowed, resulting in a decrease of $104.4 million. Therefore, as part of the May Revision, the Governor proposes to reduce the loan from the DI fund to the GF to $312.6 million.

- Proposes an increase of $895.7 million in 2011-12, and an increase of $4.3 billion is 2012-13, for UI benefit payments primarily because of the enactment of additional federal benefits extensions.

- Proposes an increase of $16.9 million ($11.6 million Contingent Fund and $5.3 million federal funds) and a redirection of $6.3 million UI Administration fund in 2012-13 to provide continued support for the Unemployment Insurance Modernization (UIMOD) Project. The UIMOD project is intended to modernize UI services; it is scheduled for final implementation in early 2013.

- Proposes no expenditure of federal Workforce Investment Act (WIA) Discretionary Funds for state-level discretionary programs and competitive grants in 2012-13. Rather, due to a recent reduction in the amount of funding provided by the federal government, the $20.5 million available in 2012-13 is proposed for expenditure on required oversight and auditing activities.

DEPARTMENT OF INDUSTRIAL RELATIONS

- The Governor's January budget proposed to support the implementation of Chapters 677 and 706, Statutes of 2011, pertaining to prevailing wage violations and willful misclassification of independent contractors, respectively, with funding from the Labor Enforcement Compliance Fund. However, the statutory authority for the LECF and the revenue source will sunset on July 1, 2013. Therefore, the May Revision proposes to shift support for the implementation of these two chapters to the Labor and Workforce Development Fund.

NATURAL RESOURCES

- **Timber Harvest Plan Review**. The May Revision includes a four-part proposal to improve the state's Timber Harvest Plan process. The first is a lumber assessment collected on retail sales of certain wood products to support Timber Harvest Plan (THP) state regulatory activities. The proposal also includes policy changes to extend the timeframe of Timber Harvest Plans to five years, limit damages from wildlife liability, and to improve agency coordination of the current regulatory process and shorten permit processing times.

- **Department of Water Resources—Davis Dolwig Reform.** The May Revision proposes a $10 million continuous appropriation from the Harbors and Watercraft Revolving Fund to fund the state's obligations under the Davis-Dolwig Act, which requires the State to pay for recreation, and fish and wildlife benefits at State Water Project facilities. This proposal follows legislative direction to find a solution to fund these state obligations under the Davis-Dolwig Act and within the confines of the state's long-term water contracts.

- **Department of Resources Recycling and Recovery—Beverage Container Recycling Fund**. The May Revision proposes to shift the day that beverage container distributors must submit redemption payments to the department to the last day of the first month following the sale rather than every third month. The proposal aligns the state's cash flows with container recyclers and processors and is consistent with direction and actions in the Senate Budget Subcommittee #2 in its April 25 hearing. This will enable additional liquidity in the Beverage Container Recycling Fund.

- **Department of Fish and Game—Local Water Safety Patrol Funding Trigger**. The May Revision proposes to shift the use of $10.6 million Harbors and Watercraft Revolving Fund from local assistance for water-based law enforcement and instead use the funding to replace the General Fund for similar state law enforcement activities at the Department of Fish and Game should the tax initiative fail.

- **Other Trigger Reduction Adjustments.** The May Revision revises the amount of triggers at CalFIRE should the tax initiative fail. The administration proposal includes revised reductions to emergency air response and fire station closures ($10 million in the budget year and $30 million ongoing). There is no change in the May Revision to the proposed reductions to the number of park rangers and game wardens, and elimination of lifeguard staffing at state beaches ($13.7 million ongoing); and reductions to flood control programs and mainly marine-based Fish and Game programs ($21.6 million ongoing).

ENVIRONMENTAL PROTECTION

- **Department of Toxic Substances Control.** The May Revision proposes a series of program and position reductions related to the structural deficit in the Toxic Substance Control Account. The total reductions are proposed to be $12.6 million and 59.8 positions ongoing, with $6.2 million and 52.3 positions shifted to federal funds, reimbursements or other state funds. This reduces the structural imbalance and provides funding to programs under the Green Chemistry Program.

ENERGY

- **Electricity Program Investment Charge (EPIC).** The May Revision proposes an increase of $2.1 million (from off-budget investor-owned utility rate-payer funds) to allow the Energy Commission to administer the EPIC program. In December 2011, funding for the state's Public Goods Charge (PGC) on electricity ratepayers expired and the California Public Utilities Commission (CPUC) initiated a plan to continue the programs off-budget with a sole focus on investor-owned utilities that are regulated by the CPUC. The focus of EPIC is mainly a continuation of the PGC energy efficiency programs.

AGRICULTURE

- **Department of Food and Agriculture.** The May Revision proposes a reduction of an additional $2.5 million General Fund to the department. This is in addition to the $31 million already adopted by the Legislature and is proposed to be determined in the same manner as previous reductions, in a stakeholder process.

PUBLIC EMPLOYMENT AND RETIREMENT

State Workforce

Employee Compensation. Proposes savings of $401.7 million GF ($839.1 million all funds) in employee compensation costs from: (1) the collective bargaining process, and/or (2) legislative reductions in the state workweek and changes in work schedules, and/or (3) furloughs, and/or (4) other reductions for represented and non-represented employees achieved through existing administration authorities. The total savings amount is equivalent to a five percent reduction in pay. The Administration indicates its intent is to avoid a furlough program and to mitigate layoffs. To this end, the Administration will pursue the implementation of a four-day, 38-hour work week for the majority of state employees to achieve the necessary savings. The Administration will also pursue commensurate reductions in work hours and pay for employees of entities that operate 24 hours per day, seven days a week, when implementation of the four-day workweek is not feasible.

Separately, the Administration indicates that it will continue to pursue changes to health coverage for active employees and retirees, to reduce costs for both employees and the state in the coming year. The Governor's January budget estimated that health premiums would increase by 8.5 percent; the May Revision revises that estimate to an increase of ten percent. Any potential savings from these changes to health coverage remain unspecified and are not included in the above estimate; i.e., the $839.1 million is from salary savings only.

Reduce Reliance on External Contracts. To achieve unspecified savings, proposes to reduce usage of external contracts. Specifically, the Administration will decrease vendor support for information technology oversight by developing professional expertise in the state workforce. In addition, the Department of General Services, in consultation with departments, will evaluate all personal services contracts, including for janitorial and security, and transition that work to state employees where appropriate.

Eliminate Non-Essential Hiring of Retired Annuitants. To achieve unspecified savings, proposes to direct all departments to review their use of retired annuitants and other temporary employees. Under this proposal, the Administration will retain only those retired annuitants that have been deemed critical to a department's core mission.

Permanently Reduce the State Workforce. To accurately reflect department staffing levels, proposes to permanently eliminate 11,700 vacant positions in 2012-13. The proposal is cost neutral as it will reflect actual department staffing levels and actual spending on personal services and operational expenses, as opposed to the current practice whereby funds are tied to vacant positions.

Technical Adjustments to Various Public Employment and Retirement Budget Items. Makes technical adjustments to various public employment and retirement budget items, such as for the recent decision of the California Public Employees' Retirement System Board of Administration to adopt a decrease in the assumed investment rate of return (thereby increasing state employer pension contributions over the Governor's January budget estimate), updated health care enrollment figures, and projected health care premium increases.

California State University Employees. For health benefit- and pension-related proposals specific to CSU employees, please see the Higher Education section of this document.

TRANSPORTATION

DEPARTMENT OF MOTOR VEHICLES

The May Revision calls for two changes to the budget for this department relative to the January proposal.

- The January proposal to reduce annual vehicle registration fees by $5 for vehicle owners that pay by mail or the internet will be withdrawn, thus avoiding the estimated revenue loss of $75 million in 2012-13 and $100 million annually ongoing. These resources will constitute a portion of the General Fund loan detailed below.
- The revision proposes a loan from the Motor Vehicle Account (MVA) of $300 million from the fund balance in 2012-13. The collections for the account from registrations and licenses will result in a higher balance than necessary for department operations. The loan will be repaid by June 30, 2016.

DEPARTMENT OF TRANSPORTATION

The May Revision calls for several changes in the funding and programs for the Department of Transportation (Caltrans).

- A transfer of $184 million in 2011-12 and $128 million in 2012-13 and ongoing from various special funds within the department to the General Fund.
- An increase of roughly $700,000 in the Public Transportation Account to enable Caltrans to work with the High Speed Rail Authority (HSRA) and other local and regional rail operators to improve service consistent with HRSA's revised 2012 business plan.
- A reduction of $14.5 million and 330 positions associated with Capital Outlay Support as a result of decreased workload associated with the expiration of the American Recovery and Reinvestment Act (ARRA) funds.

HIGH-SPEED RAIL AUTHORITY

The May Revision includes $7 million in additional funds for program management oversight and capital outlay support for the High-Speed Rail Authority (HSRA) activities. Note that the administration previously provided April 1 Finance Letters that request new budget funding of $6.9 billion for three areas of rail investment. That funding request pending before the Legislature relates directly to the design and construction of the high-speed rail system.

VETERANS AFFAIRS

Sustains the following major solutions adopted as part of the January 2012 budget package:

- 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.

- Continued delay of opening the Redding and Fresno veterans homes, as proposed in the Governor's January 2012 Budget. This delay will result in a savings of $10.6 million dollars in General Fund contributions.

The May Revision makes the following adjustments, which makes a net reduction of $3.0 million dollars in General Fund contributions to the California Department of Veterans Affairs:

- The May Revision proposes delaying the opening of the Skilled Nursing Facility located at Greater Los Angeles Ventura County-West Los Angeles veterans home from February 2012 to the summer of 2012. The delay stems from the need to procure a food services agreement following the elimination of the food services sharing agreement with the U.S. Department of Veterans Affairs. The delay has reduced staffing needs at the facility by a total of 42.0 positions in fiscal year 2012-13. This delay will result in a $3.0 million dollar reduction in General Fund contributions toward the veterans home located in West Los Angeles.