



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

SENATOR MARK LENO, CHAIR

## **Budget Conference Committee Action Quick Summary**

March 4, 2011

The purpose of this Quick Summary is to provide members and staff of the State Senate with a review of the actions adopted by the Budget Conference Committee.

If you have additional questions, please contact the committee at (916) 651-4103.

## 2011-12 Budget Package

### Conference Committee Adopts Balanced Budget

On March 3, 2011, the Budget Conference Committee completed its work to reconcile the Assembly version and the Senate version of the 2011-12 Budget. The Conference Committee built upon extensive work by both Senate and Assembly Budget Committees.

The Governor released his budget on January 10, 2011, and indicated that the State has a General Fund deficit of \$25.4 billion for the two-year period ending June 30, 2012. On February 8, 2011, the Governor indicated he will cancel the sale-for-leaseback of 11 state properties, which reduces 2010-11 revenues by \$1.2 billion, but saves the state \$6 billion in higher lease costs over the next 35 years. With the Governor's February 8 action, and a desired budget reserve of \$1.0 billion, a total of about \$27.6 billion in budget solutions are needed.

The Governor's budget framework relies primarily on expenditure reductions, and a constitutional amendment to maintain temporary taxes for an additional five-year period. The maintenance of existing tax rates would be achieved through a vote of the people and would support a realignment of public safety services from the state to local governments and fund K-12 education.

The Budget Conference Committee version of the budget adopts the Governor's general framework for balancing the budget.

**General Budget Framework.** The Conference version of the budget proposes to solve the shortfall with solutions that fall into the following categories – dollars based on preliminary scoring:

- Expenditure Reductions: \$12.5 billion
- Revenues: \$12.0 billion
- Other Solutions: \$ 3.0 billion
- Total Solutions: \$27.5 billion

This budget package produces a reserve of around \$1 billion.

## Major Expenditure Reductions

Overall, the Conference Committee budget prioritizes K-12 education and public safety. Significant reductions were made in the Health and Human Services areas, but in many cases, alternative cuts were found that mitigate the harshest of these reductions. Most areas of the budget saw significant expenditure reductions.

**K-12 Education.** Adopted the Governor's Proposition 98 funding framework, which includes \$2 billion in expenditures attributable to the maintenance of certain temporary taxes. Overall, the Proposition 98 funding level would be \$49.4 billion, which is similar to the 2010-11 level. The Prop 98 funding level exceeds the Governor's level by about \$100 million mainly due to certain shifts of existing special fund revenue that bumped up the minimum guarantee. The K-12 package includes the following major actions:

- **Deferrals:** Adopts the governor's proposal to defer \$2.1 billion in K-12 funds from 2011-12 to 2012-13.
- **Student Mental Health Services:** Augmented 2010-11 funding by \$80 million to partially backfill for a funding shortfall created when Governor Schwarzenegger vetoed funding for the AB 3632 mandate.
- **Mandates:** Approved the Governor's proposal to provide \$90 million for mandates.
- **Emergency Repair Program:** Rejected the Governor's proposal to provide \$53 million for the Emergency Repair Program.
- **Basic Aid Districts:** Included a technical adjustment to reflect the 8.9-percent "fair share" reduction to basic aid school districts for 2010-11 and 2011-12. This reduction is intended to be ongoing and comparable to the ongoing revenue limit reductions, but was restored in the Governor's budget in error.
- **Class Size Reduction:** Approved a one-year extension of the continuous appropriation for the class size reduction categorical program.
- **Economic Impact Aid:** Restored \$56 million to the Economic Impact Aid (EIA) program.

- **Categorical Flexibility:** Approved the Governor’s proposal to extend various flexibility options to school districts for an additional two years.
- **Secretary of Education Elimination:** Approved the Governor’s proposal to eliminate the Office of the Secretary of Education.

**Childcare.** Rejected the Governor’s 35 percent subsidy reduction for providers, but found other solutions to achieve the Governor’s savings level of \$716 million. The childcare package includes the following major actions.

- **Contract Reduction:** Reduced contracts, or slots, including preschool, by 15 percent to achieve savings of \$267 million.
- **Standard Reimbursement Rate Reduction:** Reduced funding for these Title V contracts by 10 percent for savings of \$109 million.
- **License-Exempt Providers:** Reduced licensed-exempt provider rates from 80 percent to 60 percent for savings of \$44 million.
- **11 and 12 Year-Olds:** Deprioritize services for 11 and 12 year-olds except those with non-traditional hours for savings of \$39 million.

**Higher Education.** Adopted the Governor’s Higher Education budget proposals including a \$500 million reduction to the University of California, a \$500 million reduction to the California State University, and a \$400 million reduction to the California Community Colleges. Some of these cuts in each segment will be offset with student fees.

**Health and Human Services.** Achieved total expenditure cuts of over \$6.0 billion in the Health and Human Services area. The Conference version of the budget retains many of the painful cuts proposed by the Governor, but in many instances found alternative solutions that mitigate or reduce impacts to children, the disabled, and the elderly. The major reductions include the following:

- **Medi-Cal:** Achieved over \$1.6 billion in GF expenditure cuts in the Medi-Cal program. Reinstates the previously enacted 10-percent provider payment reductions for savings of \$547 million. Approved many of the Governor’s “co-pays” and “hard caps” on services, but rejected the hard-cap on physician and clinic visits, medical supplies,

equipment, and prescriptions. Found other savings not identified by the Governor.

- **Adult Day Health Care (ADHC):** Rejected the Governor's proposal to eliminate this activity. Instead achieved half the savings, or \$93 million by eliminating the Medi-Cal program with the intent to create a new more focused program.
- **Multipurpose Senior Service Program (MSSP):** Rejected the full elimination of this program and instead reduced funding by \$2.5 million or 13 percent.
- **Proposition 10:** Approved the 2011-12 shift of \$1.0 billion of Proposition 10 funds from State and local reserves to Medi-Cal.
- **Proposition 63:** Approved the shift of about \$860 million in Proposition 63 funds from counties on a one-time basis to backfill for General Fund support for three mental health programs the Governor proposes to realign to counties.
- **Developmental Services:** Achieved over \$500 million in expenditure savings in Developmental Services. Approved implementation of statewide purchase of service standards at a reduction level of \$174 million, in lieu of the Governor's \$424 million reduction.
- **SSI/SSP:** Approved the Governor's proposal to reduce Supplemental Security Income/State Supplementary Payment (SSI/SSP) to the minimum allowed by a federal maintenance of effort requirement for savings of \$192 million.
- **CalWORKS:** Achieved about \$1.1 billion in expenditure cuts in the CalWORKS program. Approved an eight percent grant cut to save \$300 million. Approved the Governor's proposal to reduce the time-limit for adults to receive assistance from 60 months to 48 months, but rejected the Governor's proposal to apply a 48-month time limit to safety net and child-only cases. Instead adopted additional grant cuts for safety net and child-only cases that exceed 60 months to generate savings of \$100 million. Increased the Governor's cut to the county single allocation from \$377 million to \$427 million. Added savings of \$100 million from adjusting the earned-income disregard.
- **IHSS:** Achieved the Governor's saving number of \$486 million in In-Home Supportive Services (IHSS) program, but reduced the proposed across-the-board service cut and the proposed domestic and

related cut. Found other savings not proposed by the Governor, such as the Community First Choice Option to obtain \$121 million in additional federal funds.

**Corrections:** Achieved expenditure reductions of about \$1.0 billion in Corrections that are scored outside the realignment proposal. Among the cuts are \$245 million to the receiver's medical services budget and \$391 million related to local jurisdiction for lower-level adult offenders and rehabilitation programs.

**Courts:** Approved the Governor's proposal to reduce the courts funding by \$200 million.

**Transportation:** Approved the Governor's proposal to use truck weight fees to pay about \$1.0 billion in transportation-related general obligation bond debt. Approved re-enactment of the 2010 Tax Fuel Swap to conform to the requirements of Proposition 26.

**Redevelopment:** Approved the Governor's proposal to eliminate redevelopment agencies (RDA) for expenditure savings of \$1.7 billion. Funding for RDAs would continue as necessary to retire outstanding debt. In 2011-12, \$1.7 billion in RDA funds would be directed to offset state costs for Trial Courts and Medi-Cal. In the out-years, the RDA property tax increment would supplement funding for schools, cities, and counties.

**Local Government:** Approved the Governor's proposal to suspend the Williamson Act / Open Space Subvention for two-year savings of \$20 million. Rejected the Governor's proposal to suspend the Brown Act / Open Meeting mandate.

**Natural Resources and Energy:** Approved a cut of \$155 million in energy efficiency programs funded by the Gas Consumption Surcharge tax. Approved cuts of \$11 million to State Parks and \$10 million to Off-Highway Vehicle Parks.

**Government Efficiency and Employee Compensation:** Approved expenditure cuts of about \$700 million in areas such as: employee compensation (\$308 million); employee healthcare (\$80 million); and other state operations related governmental efficiencies (\$250 million).

## Revenues

The Conference version of the budget includes the Governor's revenue package, which generates \$12 billion after accounting for the increased Proposition 98 expenditures. Most of the revenue solutions are from maintaining 2010 tax rates, which were raised in 2009 for a two-year period. The Governor has proposed a constitutional amendment that must be approved by the voters to maintain the 2010 tax rates. The following summarizes the major revenue components included in the conference budget package:

### **Maintenance of 2010 tax rates for five years that will go to the voters for approval:**

- \$1.4 billion from maintaining the vehicle license fee (VLF) at current levels for local public safety programs.
- \$4.5 billion from maintaining the sales tax rate at current levels for local public safety programs.
- \$5.3 billion from maintaining the personal income tax (PIT) surcharge. (\$3.3 billion) and dependent exemption credit (\$2.0 billion) at 2010 levels for K-12 education.

### **Tax policy changes:**

- \$1.4 billion from making the current single-sales factor corporate tax multi-state apportionment mandatory instead of elective.
- \$924 million from the elimination of the Enterprise Zone tax credits.
- \$360 million from tax enforcement and tax amnesty proposals.

## Other Solutions

These final categories of budget solution total \$3.0 billion of the overall solution. The following are the most significant proposals:

- \$2.6 billion from loans and transfers from special funds to the General Fund, including deferrals of loan repayments. Part of this amount (\$850 million) is related to the truck weight fee proposal that adjusts planned transportation loans to conform to the requirements of Proposition 22.
- \$362 million in solutions from using the Disability Insurance (DI) funds to make interest payments to the federal government for Unemployment Insurance (UI) benefits. The General Fund will have to repay the DI fund for this payment in the out-years.



## Public Safety Realignment

The Conference Committee approved the Governor's revised realignment framework. In January, the Governor proposed a major realignment of state programs to local governments. On February 25, 2011, the Governor modified this proposal to address extensive discussions with stakeholders, including, among others, local governments and local law enforcement groups. The modifications significantly reduce the number of low-level offenders that would be transferred to the counties, restore \$80 million recently vetoed from the Child Welfare Services program, and add a few other small law enforcement programs to the list of programs to be realigned.

The Governor's proposal takes a significant step towards bringing services closer to the people, allows for more integrated service delivery, and allows the services to be tailored to local situations and conditions. In total, the revised realignment proposal continues to dedicate \$5.9 billion in revenues in 2011-12 to fund a menu of programs shifted from the State to the locals. However, because they have reduced the number of low-level offenders that would be transferred to the counties, they have included funding the existing county mental health services (realigned in 1991) out of this revised realignment proposal. This frees up the 1991 realignment funds to cover an increased share of CalWORKs grants. This "swap" should have no programmatic impacts.

The table on the next page shows the Governor's February 25 revised realignment proposal compared to the original proposal included in the January budget. The Conference Committee approved the revised framework, including the constitutional amendment to be placed before voters authorizing the realignment and funding and placeholder trailer bill to implement certain aspects of the realignment. The Conference Committee also indicated that there would need to be significant follow-up legislation related to implementing the realignment that would be developed subsequent to placing the constitutional amendment before voters.

As noted below, the realignment funding is expected to grow to \$7.3 billion by 2014-15.

Program	2011-12	2014-15	2011-12	2014-15
	Jan 10	Jan 10	Feb 25	Feb 25
Fire and Emergency Response	\$250.0	\$250.0	\$52.0	\$52.0
Court Security	530.0	530.0	485.0	485.0
Vehicle License Fee Public Safety	506.4	506.4	506.4	506.4
Lower-level Offenders/Parole Violators	1,802.0	908.1	1,096.0	705.1
Realign Adult Parole	741.1	409.9	421.2	183.0
Realign Remaining Juvenile Justice	257.6	242.0	156.0	234.0
Mental Health Services:				
EPSDT	0.0	579.0	0.0	636.9
Mental Health Managed Care	0.0	183.6	0.0	190.7
AB 3632 Services	0.0	104.0	0.0	150.9
Existing Community Mental Health	0.0	1,077.0	1,077.0	1,077.0
Substance Abuse Treatment	184.0	184.0	184.0	184.0
Foster Care and Child Welfare Services	1,604.9	1,604.9	1,623.9	1,703.9
Adult Protective Services	55.0	55.0	55.0	55.0
State Penalty Funds to Locals	0.0	0.0	40.5	40.5
Existing Juvenile Justice Realignment	0.0	0.0	97.1	103.3
Funded Public Safety Mandates	0.0	0.0	50.9	50.9
Growth*		621.1	0.0	888.4
<b>Total</b>	<b>\$5,931.0</b>	<b>\$7,255.0</b>	<b>\$5,931.0</b>	<b>\$7,255.0</b>

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

## Summary Table

(dollars in millions\*)

	<b>Conference</b>
<b>Cuts:</b>	
Higher Education	\$1,230.5
Health and Human Services	5,952.7
Corrections	729.9
Resources and Environmental Protection	58.1
Redevelopment	1,700.0
Transportation	1,039.9
General Government	1,751.1
<b>Total, Cuts</b>	<b>\$12,462.2</b>
 <b>Revenues:</b>	
Tax extension:	
<i>For Realignment</i>	\$5,931.0
<i>For Education</i>	5,237.0
Tax policy changes	2,404.0
Tax enforcement	264.7
Special fund revenues	257.2
Education, Proposition 98 Interaction	-2,092.1
<b>Total, Revenues</b>	<b>\$12,001.8</b>
<b>Other</b>	<b>\$3,030.8</b>
<b>Total Solutions</b>	<b>\$27,494.8</b>

\*Based on preliminary scoring.