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# California State Senate

COMMITTEE  
ON  
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL  
SACRAMENTO, CA 95814

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## Agenda June 12, 2012 Room 4203 Upon Call of the Chair

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**0840 State Controller's Office**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**0840-001-0001 State Controller's Office - RDA Workload Reporting Requirements**

**Governor:** The Administration has proposed budget bill language (BBL) that would require the State Controller's Office to report on Redevelopment Agency (RDA) dissolution related activities and allow the Department of Finance (DOF) to reduce reimbursement expenditure authority beginning in 2014-15.

Senate Budget and Fiscal Review Subcommittee No. 4 has already approved the requested positions required for the dissolution as limited-term instead of permanent.

The Assembly took a similar action, but chose to adopt revised budget bill language that would require the State Controller's Office to report in 2013 instead of 2014.

**BBL Staff Recommendation:** Approve revised budget bill language to conform to Assembly.

**Add modified budget bill language to Item 0840-001-0001.**

**Provision 17:**

*"The Controller shall report to the Department of Finance, not later than mid-September of each year, starting with September 2013, on the level of activity and workload associated with Controller's responsibility on Redevelopment Agency asset transfers, recognized obligation payment schedules, and oversight of auditor-controller actions, per Chapter 5, First Extraordinary Session, Statutes of 2011, (ABX1 26), including all necessary justification to continue positions and funding for the remainder of fiscal year 2013-14 and ongoing. Based on the information, Department of Finance may reduce reimbursement expenditure authority and related positions to reflect a lower level of activity and workload starting in 2013-14. No adjustments shall be made pursuant to this provision prior to a 30-day notification in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees of each house of the legislature that consider appropriations."*



**0860 Board of Equalization**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**0860 Board of Equalization**

**Mandatory Use Tax Reporting**

Proposal: This proposal would require that purchasers of tangible personal property upon which the use tax is owed and who do not report that amount to the Board of Equalization by the end of the prior year, must report and remit that amount in conjunction with the filing of an income tax return.

Prior Legislative Action: Senate Budget Subcommittee 2 adopted the proposal. The Assembly has taken no action.

**Staff Recommendation. Rescind prior action to adopt the proposal.**

**4150 Department of Managed Health Care**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4150-001-0933 Department of Managed Health Care**

**Implementation of Coordinated Care Initiative  
(DOF Issue 103)** 1,100 SF

Governor proposes 13 positions to implement the Coordinated Care Initiative, which will shift seniors and persons with disabilities who are dual eligibles (Medicare and Medi-Cal) into managed care.

The positions will provide oversight of the managed care plans that will participate in this initiative.

**Staff Recommendation: Conform to action taken under 4260-101-0001 – Coordinated Care Initiative.**

**4260 Department of Health Care Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4260-001-0001 Department of Health Care Services (DHCS) – State Support**

**Transition Department of Alcohol and Drug Programs Functions to DHCS (DOF Issue 113)**

The Administration proposes to eliminate the Department of Alcohol and Drug Programs and transfer functions and positions to DHCS.

**Staff Recommendation: Conform to action taken under 4200-001-0001 - Eliminate the Department of Alcohol and Drug Programs.**

**4265**

**Department of Public Health**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Transition Department of Alcohol and Drug Programs Functions to DPH (DOF Issue 301)**

The Administration proposes to eliminate the Department of Alcohol and Drug Programs and transfer functions and positions to the Department of Public Health.

**Staff Recommendation: Conform to action taken under 4200-001-0001 - Eliminate the Department of Alcohol and Drug Programs.**

**4265 Department of Public Health**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**4265-011-0080**

**Childhood Lead Poisoning Prevention Fund  
Loan to General Fund**

The Senate and Assembly approved a \$15 million loan from the Childhood Lead Poisoning Prevention Fund to the General Fund.

**Staff Recommendation: Repeal action to loan \$15 million from the Childhood Lead Poisoning Prevention Fund to the General Fund.**

Governor had no proposal for a loan from this fund.

**4440 Department of Mental Health**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4440-001-0001 Department of Mental Health**

**State Hospitals**

Governor: Proposed the elimination of the Department of Mental Health and creation of a Department of State Hospitals (DSH) to focus exclusively on the challenges and deficiencies of the state's system of mental hospitals.

Senate: Approved Governor's proposal with a requirement that the Office of Statewide Audits and Evaluations (OSAE) perform an audit of the state hospitals.

Assembly: Adopted trailer bill language to establish the Legislature's intent that: a) changes in staffing ratios at the state's mental hospitals address adequate staff and patient safety standards and may vary based on patient acuity, and b) adult education in the state hospitals is not to be eliminated or substantially reduced (adopted budget bill language to reflect this action). Adopted budget bill language to require the OSAE audit and reporting by each state hospital.

TBL The Assembly's action to maintain adult education  
 BBL included re-establishing 37.6 positions and redirecting \$3.6 million from operating expenses and equipment, resulting in no net cost.

**Staff Recommendation: Assembly.**

**5180 Department of Social Services (DSS)**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**IHSS: Sales Tax on Supportive Services**

95,400  
(2012-13)

The 2010-11 budget established a sales tax on specified supportive services, which include IHSS, and assumed General Fund (GF) savings due to enhanced federal funding from matching the use of revenues obtained pursuant to the tax. Related statutory provisions established supplementary payments for IHSS providers that would equal the portion of their gross receipts that is subject to state and federal taxation as a result of the tax on supportive services. These provisions are scheduled to take effect when the federal Centers for Medicare and Medicaid Services (CMS) approves implementation of the state's related Medicaid plan amendment (which may also allow for some retroactive implementation).

&  
57,300  
(2011-12)

Because the state is still awaiting a response from the federal government regarding its proposed plan amendment, the May Revision proposed to stop recognizing \$153 million GF in savings (\$57.3 in 2011-12 and \$95.4 in 2012-13).

**Staff Recommendation: Approve the May Revision estimate adjustment.**

**5225 Department of Corrections and Rehabilitation**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**5225-001-0001 Corrections and Rehabilitation**

**County Inmate Transfer Authority**

Governor: Proposed trailer bill language to allow a county to enter into an agreement with another county or multiple counties for the purpose of housing any adult offenders serving a term in a county jail.

Senate: Approved the trailer bill language.

Assembly: Approved the trailer bill language.

TBL Under existing law counties can only contract with nearby counties for the housing of adult misdemeanants and any persons required to serve a term of imprisonment in county adult detention facilities as a condition of probation.

**Staff Recommendation: Reject the proposed trailer bill language.**



**5227 Board of State and Community Corrections**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**5227-101-0001 Board of State and Community Corrections**

**County Data Language**

Governor: No Action.

Senate: Proposes trailer bill language for the Board of State and Community Corrections (BSCC) and the courts to annually report to the Legislature on the impacts of Public Safety Realignment.

Assembly: No action.

TBL Per a trailer bill associated with the Budget Act of 2011 (SB 92), effective July 1, 2012, the BSCC is established. The BSCC's mission is to 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, including providing technical assistance and coordination to local governments related to realignment.

**Staff Recommendation: Senate.**

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6110-194-0001**

**Caseload and Growth Adjustments –Child Care**

The May Revision proposes various workload adjustments including growth and adjustments to caseload. This includes \$17.7 million to reflect baseline caseload projections to the CalWORKs Stage 2 and Stage 3 program. Stage 2 is an entitlement program. Stage 3 has been run like an entitlement program in the past, but in the current fiscal year it was capped and some participants were dis-enrolled from the program.

**Staff Recommendation: Approve baseline caseload and growth adjustments.**

**6110-194-0890**

**Child Care: Quality Improvement Projects**

The Governor's budget proposed to shift management of the mandated federal funds on quality improvement activities from the Department of Education to the Department of Social Services. The May Revision reversed this proposal since we are in the middle of a two-year funding cycle with the federal government.

**Staff Recommendation. Approve May Revision proposal to make no changes to the administration of the quality improvement projects in the budget year. Approve BBL earmarks to ensure CDE continues expenditures in accordance with plan.**

**8885 Commission on State Mandates**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**8885 Commission on State Mandates**

**Repeal Perinatal Services Mandate**

The Administration proposed to repeal the Perinatal Services Mandate. This mandate has been suspended since 2009 and requires counties to establish protocols regarding substance-exposed infants.

The Assembly rejected the Administration's proposal to repeal mandates.

Prior Senate Action: The Senate approved the Administration's request given that counties have broad authority already to establish such protocols.

**Staff Recommendation. Conform to the Assembly action.**

**9900 / 9910 Statewide General Administrative Expenditures**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**9900 / 9910 Statewide General Administrative Expenditures**

**Inclusion of Amounts expended by Financial Information System for California**

**Staff Recommendation. Approve the budget trailer bill language.**

Governor's Proposal: This proposal would modify the definition of administrative costs to include amounts expended by the Financial Information System for California (FI\$CAL). Existing law requires the Department of Finance to determine, and the Controller to notify, a state agency of the amount deemed to be the fair share of administrative costs due and payable from each state agency. Administrative costs are defined as amounts required for supervision and administration of state government for services to state agencies.

**CS 3.60 Contributions to Public Employees' Retirement Benefits**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**Control Section 3.60 Contributions to Public Employees' Retirement Benefits**

**2012-13 State's Employer Retirement Contribution Rates for CalPERS.**

The CalPERS Board voted on May 16, 2012, to set the state's required 2012-13 employer contribution at a level over the January budget that necessitates an increase of \$117.786 million GF. This level reflects the CalPERS Board action to phase-in the impact of the change in the discount rate on the employer contribution rate by amortizing over a 20-year period the increase in the actuarial liabilities resulting from the change in assumptions. The CalPERS Board indicates the phase-in was adopted to provide employers with more time to adjust to the higher contribution rates.

Prior Legislative Action: Both houses adopted the final 2012-13 rates as required by the CalPERS Board.

Governor: The May Revision proposes to pay more than is required by the CalPERS Board; i.e., to not phase-in the impact of the change in the discount rate. This payment is estimated at \$202.063 million GF over the January budget, a difference of \$84.277 million.

**Staff Recommendation: Rescind the prior Subcommittee action and adopt the Governor's May Revision proposal.**

**0250                      Judicial Branch**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**0250-101-0932    Judicial Branch**

**Restructure Trial Court Funding**

Governor: Proposed a one-time decrease of \$300 million General Fund to reflect the use of local trial court reserves to support trial court operations and trailer bill language to eliminate trial court reserves at the local level and authorize the Judicial Council to retain three percent of total estimated trial court expenditures for emergencies. Ongoing General Fund support for trial courts will be reduced by \$71 million.

The Administration also proposes to establish a working group to conduct an evaluation of the state's progress in achieving the goals outlined in the legislation that realigned responsibility for trial court funding from locals to the state, including the ability of trial courts to provide equal access to justice.

Neither house took action.

-300,000    At the end of 2010-11, trial courts held reserves of TBL approximately \$562 million. However, the level of BBL reserves by court varies significantly. In addition to the proposed \$300 million reduction, trial court reserves are assumed to cover \$100 million of previous reductions to trial court funding.

Although requiring trial courts to use their reserves provides GF relief, eliminating these reserves is a significant shift in policy.

**0250                      Judicial Branch**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**0250-301-3138    Judicial Branch**

**Use of Trial Court Construction Funds**

Governor: Proposed a decrease of \$240 million General Fund to reflect the one-time (\$50 million ongoing) redirection of court construction funds, from the Immediate and Critical Needs Account, for trial court operations. Trailer bill language is proposed to allow for this redirection.

-240,000  
TBL

To achieve this redirection, design activities will be delayed for up to 38 court construction projects while the Judicial Council reviews local trial court operations, court construction standards, and the pace of future court construction to ensure operational efficiencies can be reflected in the design of new trial courts.

Senate: No action.

Assembly: No action.

**0690 California Emergency Management Agency**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**0690 California Emergency Management Agency**

**CEQA exemption for the Los Angeles Regional Interoperable Communications System**

**Governor:** Proposed Trailer Bill Language that would exempt the Los Angeles Regional Interoperable Communications Systems (LA-RICS) from the environmental requirements of the California Environmental Quality Act (CEQA) if certain criteria are met including: sites would be located primarily on police, sheriff, or fire station sites which already contain existing antenna support structures and related infrastructure and sites would not be located in environmentally sensitive areas.

The U.S. Department of Commerce awarded the LA-RICS Authority a Broadband Technology Opportunities Program grant of \$154.6 million to cover infrastructure costs in deploying a broadband public safety network for the project. Under the grant, the LA-RICS project must be substantially complete by September 2012, and operational no later than September 2013.

The LA-RICS project consists of development, construction, and operation of the Long Term Evolution (LTE) broadband mobile data system and Land Mobile Radio (LMR) system, and its components, consisting of antennas, including microwave dishes and arrays, and antenna support structures.

However, staff has been notified that the Department of Commerce is considering extending the project timeline to account for the CEQA certification process. It may be prudent to adopt revised trailer bill language that would allow for the CEQA exemption in the instance of the Department of Commerce not extending the grant funding timeline.



**0820 Department of Justice**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**0820 Department of Justice**

**National Mortgage Settlement Proceeds (DOF Issue 344)**

On February 9, 2012, the federal government and 49 states reached a settlement with a number of national banks with respect to certain practices implemented by these banks regarding mortgage servicing and home foreclosures, the agreement was signed off by a federal judge on April 6, 2012. The settlement provides for relief for borrowers in the form of modifications, mortgage loan servicing reforms, increased compliance monitoring, and enforcement. In joining the national servicing settlement agreement the state was able to reach an agreement that could amount to \$18 billion dollars in support for homeowners in the state.

The Governor's May Revise includes a request via trailer bill language that identifies where a portion of the \$410.6 million in discretionary funds will be spent in Budget Year 2012-13.

292,000

According to the Administration, approximately \$292 million will be utilized to offset housing related programs for 2011-12 and 2012-13. Specifically, the administration has proposed funding the following programs:

- \$41.1 million paid into the Unfair Competition Law fund within the DOJ.
- \$44.9 million to support the DOJ's Public Rights and Law Enforcement programs.
- \$8.2 million to the Department of Fair Employment and Housing.
- \$198 million will be set aside to offset General Fund Costs for housing bond debt service for those programs funded with Proposition 46 and Proposition 1C housing bonds that assist homeowners.

**0911 Citizens Redistricting Commission**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**0911-001-0001 Citizens Redistricting Commission (CRC)**

**Citizens Redistricting Commission 2012-13  
Budget Appropriation (New Item).**

The CRC has certified final district maps and is not currently funded beyond 2011-12. However, there exists: (1) a need for a minimal level of staffing in 2012-13 and (2) a finite set of contingencies, due to current statutory or constitutional provisions, for which a 2012-13 budget accommodation should be made in case these contingencies become reality and necessitate Commission activity and related expenditures in 2012-13.

To address this, the Administration has proposed to augment the CRC item in 2012-13 with \$69,000 for a minimal level of staffing (one-half of a Staff Services Manager I position) and provisional budget bill language that identifies the specific contingencies and a process whereby the DOF can authorize a GF augmentation for the associated expenses of the Commission’s meeting should it be determined as necessary in 2012-13.

- 69 Existing law, as approved by the voters, provides that the
- GF Commission is charged with various duties and responsibilities in connection with redistricting Assembly, Senate, Board of Equalization, and congressional districts.
- 1/2 Position
- BBL The specific contingencies addressed by the BBL are: (1) a response to litigation in defense of a certified final map pursuant to Section 3 (a) of Article XXI of the California Constitution; (2) a response to Senate Bill 1096 of 2012 per Subdivision (c)(1) of Section 8251 of the Government Code; (3) a vacancy, removal, resignation, or absence of a Commissioner pursuant to Section 8252.5 of the Government Code; or (4) a response to litigation for issues non-map related. The BBL provides for JLBC notification should DOF authorize an augmentation in 2012-13.
- The minimal staffing will ensure that any Public Records Acts requests are handled, as well as other requests for public information. The CRC will “reside” within the State and Consumer Services Agency via an interagency agreement.

**1690 Seismic Safety Commission**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**1690-001-0217 Seismic Safety Commission**

**Continued Funding Budget Bill Language**

Proposal: The Administration has requested that Budget Bill Language be added to ensure the continued existence of the Seismic Safety Commission.

Senate Budget and Fiscal Review adopted trailer bill language that would allow a continued source of funding from the Insurance Fund. However, the adopted trailer bill language is subject to a supermajority vote. The requested Budget Bill Language would be an alternative funding mechanism in the event the proposed trailer bill does not pass the Legislature.

On Page 88, at line 20, Item 1690-001-0217 insert the following provision

1. *Notwithstanding any other provision of law, upon the request of the Alfred E. Alquist Seismic Safety Commission, the Department of Finance may augment this item by up to \$923,000 from the General Fund to cover any shortfalls that may occur in the event fee revenue is no longer available to cover the costs for support of the commission. Any augmentation shall be authorized no sooner than 30 days after notification in writing to the chairpersons of the committees and appropriate subcommittees in each house of the Legislature that consider the State Budget and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee may determine.*

**1730 Franchise Tax Board**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**1730-001-0001 Franchise Tax Board**

**Clarification of Apportionment Formula for Corporation Income**

Proposal: California is a member of the Multistate Tax Compact—an agreement that addresses the apportionment of income of multi-state corporations. California adopted a four-factor apportionment formula (property, payroll, and 2x sales) in 1993, and in so doing, California explicitly overrode the compact's three factor apportionment formula (property, payroll, and sales). Despite the explicit adoption of a four factor formula, current litigation questions the validity of California's apportionment method that was in place from 1993 to 2010. Trailer bill language would clarify existing law regarding the apportionment methodology and address requirements regarding apportionment on original, as opposed to amended, tax returns.

TBL The trailer bill would serve to clarify existing law regarding the apportionment of income of multi-state corporations.

**2660 and 2665 High-Speed Rail Authority and Department of Transportation**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**2660 / 2665 High Speed Rail Authority and Department of Transportation**

**Funding for High Speed Rail Project**

-15,900

The funding of the Authority and Caltrans funding related to the High-Speed Rail project will be addressed in separate and subsequent legislation.

Governor's Proposal: The Administration has proposed funding of \$15.9 million for the High Speed Rail Project through the High-Speed Rail Authority and activities related to the High-Speed Rail project undertaken by the Department of Transportation (Caltrans).

**3790 Department of Parks and Recreation**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**3790-001-0392, 0444 Fund Shift from Motor Vehicle Funds**

**Motor Vehicle Fund Shift—Sustainable Parks Proposal**

Governor’s Proposal: The Governor’s January budget had no proposal.

Prior Senate Action: The Senate approved a fund shift from the Motor Vehicle Account of \$10 million per year for three years as part of the Sustainable Parks Proposal. These funds are derived from vehicle registration fees, driver’s license fees and other vehicle related fees. The Assembly did not approve this fund shift, though did approve the remainder of the parks proposal.

Fees from these sources may be used for roads, road maintenance and law enforcement in accordance with Article XIX of the State Constitution.

10,000 Compromise Action: As an alternative to the Senate and Assembly actions, propose to shift \$10 million from the Alternative and Renewable Fuel and Vehicle Technology Fund. There is a fund balance of over \$100 million in this fund. These funds are derived directly from existing vehicle registration fees and are subject to the same rules as the Motor Vehicle Account.

**3900 California Air Resources Board**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**3900-001-0115 Greenhouse Gas Emission Reduction Programs**

**Cap and Trade Funding**

Governor's Proposal: The Governor's January budget proposed to appropriate \$1 billion from proceeds of the Cap and Trade auction including a General Fund offset of \$500 million for greenhouse gas emission reduction related activities. The Governor also proposed budget bill and trailer bill language for this proposal.

1,000,000 A compromise has been reached on both budget bill language and trailer bill language and the funding proposal. These provide greater oversight and accountability while allowing the program to move forward in California with the anticipated auction in November 2012. As part of the compromise, trailer bill and supplemental reporting language will require additional oversight and accounting measures in lieu of the audit proposed by the Senate.

Prior Senate Action: The Senate approved *up to* \$500 million for a General Fund offset including modified budget bill language, and trailer bill language to provide greater oversight over Cap and Trade revenues, the AB 32 Cost of Implementation Fee (COI), as well as an audit of the COI.

Prior Assembly Action: The Assembly approved *at least* a \$500 million General Fund offset and language to provide administrative oversight.

**4200 Department of Alcohol and Drug Programs**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4200-001-0001 Department of Alcohol and Drug Programs**

**Eliminate the Department of Alcohol and Drug Programs**

Governor: The Governor's Budget proposed trailer bill language to eliminate the Department of Alcohol and Drug Programs (ADP) and transfer its functions to the Department of Health Care Services (DHCS), the Department of Social Services (DSS), and the Department of Public Health (DPH). The May Revise makes technical changes to this proposal.

Senate: No Action.

Assembly: Rejected the Administration's proposal.

TBL 2011 Realignment transferred community-based substance use treatment programs from ADP to the counties. In addition, Chapter 32, Statutes of 2011 (AB 106), approved the transfer of administrative responsibility for the Drug Medi-Cal (DMC) program from ADP to DHCS. Transferring ADP's remaining Non-DMC functions to DHCS, DPH, and DSS is consistent with the already approved transfer of the DMC program to DHCS.



**4260 Department of Health Care Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)  
Coordinated Care Initiative**

Budget proposes \$611.5 million in General Fund savings from the Coordinated Care Initiative which would:

-611,500 See handout.  
+ TBL

- Expand enrollment of seniors and persons with disabilities who are dual eligibles (Medicare and Medi-Cal) into managed care in up to eight counties in 2013 and statewide by 2015. (DHCS has authority to expand to up to four counties currently.)
- Integrate home- and community-based long-term supports and services into Medi-Cal managed care in up to eight counties in 2013 and statewide by 2015.

**4260 Department of Health Care Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)**

**Hospital Savings (DOF Issues 131, 132, 133)**

Governor proposes General Fund savings of \$325 million through a series of fund shifts and methodology changes across three hospital sectors relating to safety net hospitals. These changes include:

**1. Unexpended Public Hospital Waiver Funds**

Allow the state to retain 50 percent of unexpended federal waiver funds that are designated for Public Hospitals.

**2. Non-Designated Public Hospitals (NDPH)**

**Payment Methodology Changes**

Required NDPHs to use their expenditures to draw down federal funds instead of being reimbursed with 50 percent General Fund and 50 percent federal funds.

**3. Redirect Hospital Quality Assurance Fee**

Redirect hospital quality assurance fee revenue that was intended to fund supplemental payments to Private Hospitals.

-344,500  
+ TBL

The Medi-Cal program currently spends approximately \$15 billion (\$3.4 billion General Fund) on hospitals. Hospitals are the largest expenditure category for the Medi-Cal program.

Compared to the Governor's May Revision:

- An additional \$19.5 million General Fund savings has been identified related to the NDPH changes, for a total savings of \$344.5 million General Fund.
- A reduction of the net impact to NDPHs by over \$10 million over two years.

See handout.

**4260 Department of Health Care Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)**

**Nursing Home Rate Adjustments (DOF Issue 130)**

The Governor and the nursing home industry have reached a compromise to achieve \$16.9 million more in General Fund savings than what was proposed at May Revision for a total savings of \$87.8 million General Fund.

-87,848 + TBL The Medi-Cal program currently spends approximately \$4 billion (\$2 billion General Fund) on nursing homes.

Existing methodology requires DHCS to implement a facility-specific rate system for nursing homes and it established a Quality Assurance Fee (QAF). Revenue generated from the QAF is used to obtain federal funds and provide additional reimbursement to Nursing Homes for quality improvement efforts.

This compromise includes:

1. Rescind 2 percent rate increase.
2. Defer payment of the Quality and Accountability Supplemental Payment System (QASP).
3. Provide for 3 percent rate increase in 2013-14 and 2014-15.

Presently the QAF provides about \$550 million in funding for these homes.

**4260 Department of Health Care Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)**

**Healthy Families Program Transfer to Medi-Cal**

The Administration proposed to shift all Healthy Families Program (HFP) children to Medi-Cal beginning October 2012.

-7,300 Assembly and Senate action is consistent with federal  
+ TBL health care reform as these HFP children would become  
Medi-Cal enrollees on January 1, 2014.

The Assembly and Senate approved the transfer of only children in families with income under 133 percent of the federal poverty level (FPL). The shift of this population would achieve \$7.3 million General Fund Savings.

**Dental.** The Senate adopted placeholder trailer bill language to not expand Medi-Cal Dental Managed Care as part of this transition. The Assembly did not take action on this component.

**Transition Plan.** The Assembly adopted placeholder trailer bill language to require DHCS to submit a transition plan for this transfer.

**4260 Department of Health Care Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)**

**Laboratory Services Rate Reduction**

Governor proposes to reduce rates for laboratory services by 10 percent until a new methodology for reimbursing for lab services is developed.

(This proposal was included as part of the Governor's Value Based Purchasing

-7,700  
+ TBL  
Analysis conducted by DHCS indicates that the Medi-Cal fee-for-service rate schedule for laboratory services is higher than rates paid by commercial payers, Medicare, and other state Medicaid providers, for the same or similar services.

**4440 Department of Mental Health**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**4440-001-0001 Department of Mental Health**

**Medi-Cal - Specialty Mental Health Services and EPSDT**

With the elimination of DMH, the Governor proposes to transfer Medi-Cal State Administrative functions for Medi-Cal Specialty Mental Health Services and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program to the Department of Health Care Services (DHCS).

Additionally, the Governor proposes trailer bill language to implement the realignment of Medi-Cal Specialty Mental Health Services and EPSDT.

TBL The Administration's proposals are consistent with current law and Legislative intent.

**5175 Department of Child Support Services**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**5175 Department of Child Support Services**

**Proposal to Suspend County Share of Child Support Collections**

The Governor's budget proposes to suspend the county share of child support collections, estimated to be \$31.9 million in 2012-13. Instead, the amount would benefit the General Fund. The Administration also proposes trailer bill language to implement the proposal.

Collections made on behalf of families who have received public assistance are retained by the government to repay past welfare costs. These assistance collections are shared by the federal, state, and county governments.

Based on a department survey of counties, most counties transfer their share of collections to the local welfare agency to offset the county share of welfare costs. Los Angeles and San Diego Counties reinvest the collections into their local child support programs. Other counties transfer the funds to their county general funds.

**5180 Department of Social Services (DSS)**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**California Work Opportunities and Responsibilities to Kids (CalWORKs)**

-879,900

CalWORKs provides cash aid and welfare-to-work services to 587,000 needy families with 1.2 million children. Absent these proposals, the program would include \$5.6 billion in combined funds. In just under half of cases, families receive cash assistance for an adult in addition to children. Adult eligibility is subject to a lifetime limit of 48 months. Two-thirds of recipient households are headed by single women, nearly half of whom have 11<sup>th</sup> grade or less education.

The May Revision includes significant reductions (further detailed on the next pages) in benefits and services under the state’s welfare-to-work program. The Governor also proposes restructuring the program into two new subprograms--CalWORKs Basic and CalWORKs Plus--and a third Child Maintenance Program outside of CalWORKs.

**CalWORKs Basic** would continue much of the current program for 24 months of adult eligibility, but narrow allowable work-related activities in the second 24 months. **CalWORKs Plus** would enhance benefits when adults fully meet work requirements through unsubsidized employment. **Child Maintenance** would include families now in the child-only caseload, as well as those in which the adult loses eligibility. Child maintenance grants would be reduced by 27 percent.

The Governor also relies on a program in existing law, the Work Incentive Nutritional Supplement (WINS) program, (and an expansion of it) to improve the state’s federally defined work participation rate (WPR).

These proposals come when Californians, especially in low-income families, face **high unemployment and rising poverty**. Available 2011 data shows unemployment of over 11 percent in June and November. Further, research indicates that it takes several years for employment and income to rebound to pre-recession levels. Low-income families and single mothers are even more likely to be unemployed, and during downturns less educated workers sustain bigger job losses.

According to the Census Bureau, nearly one in four children in California was impoverished in 2010. Los Angeles County also documented a 110 percent increase since 2006 (from 5,500 to 11,500) in the number of homeless families receiving CalWORKs there. Children in poverty are at significantly higher risk for health problems, lower educational attainment, and other negative outcomes.



Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**CalWORKs: Proposed Grant Cuts**

The Governor proposes to cut by 27 percent the maximum grants for 303,700 families in which only children would be aided under the May Revision. As a result, the grant for a family of three with no other income would drop from \$516 to \$375 monthly. Further, 26,700 families with 54,500 children would no longer have incomes low enough to qualify.

The policy changes in the Governor’s CalWORKs package interact, so the individual value of each is difficult to calculate. If this grant cut were instead isolated, it would result in roughly \$420 million TANF/GF savings in 2012-13 (growing to \$530 million annually).

The Governor’s budget also assumes \$50.1 million GF/TANF savings from reducing grants for 105,000 families with unaided, non-parent caretaker relatives or aided adults who receive disability-related benefits through the IHSS program. Under existing law, these families are eligible for a higher maximum aid payment (with a higher average grant of \$54).

Relative to measurements of poverty and to the level of support the state has historically provided to needy families with children, the proposed reductions would result in a dramatic shrinkage of benefits and services. For a family of three with no other income, the proposed maximum Child Maintenance grant of \$375 per month (\$4,500 annually) would result in income equivalent to **24 percent of the federal poverty line\*** (which is currently \$1,591 per month or \$19,090 annually for a family of three).

At \$638 per month for a family of three with an aided adult, maximum CalWORKs grants (the grant available for families with no other income) are the same in actual dollars today as in 1987. After adjusting for inflation, the California Budget Project calculates that their purchasing power is already less than half of what it was in 1989-90.

\* The Administration combines this with CalFresh benefits to instead calculate income at 64 percent of the poverty level. However, including those non-cash benefits is not a generally accepted stand-alone calculation adjustment.

**5180 Department of Social Services (DSS)**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**CalWORKs: Proposed Phase-Out of Temporary Exemptions**

Beginning in 2009-10 and 2010-11, and then extended into 2011-12, the state has saved approximately \$375 million GF annually from granting welfare-to-work exemptions to parents of young children (i.e., a child aged 12 to 24 months or two children under the age of six). During this time, these parents have continued to receive their portion of the families’ cash aid.

The May Revision proposes to extend these exemptions until October 1, 2012, and then to phase these parents who were exempted back into work participation requirements by October 1, 2013. During this 12-month period, the affected adults maintain their welfare-to-work exemption-status until their counties re-engage them in welfare-to-work services (although their time in exemption status after October 1, 2012 would newly count against their lifetime 48-month time limit).

Adults aided by the CalWORKs program are required to participate for a specified number of hours in work-related activities (e.g., subsidized or unsubsidized work, education, training, and/or barrier-removal services, such as mental health or substance abuse treatment) outlined in their welfare-to-work case plans. In some cases, these requirements are waived as a result of an exemption. The exempt adult can receive his or her share of the family’s aid, but does not receive welfare-to-work services. In addition to the exemptions described at left, the state allows exemptions for adults with disabilities or who are ill, who are over age 60, who are caring for an ill or incapacitated family member, and in other specified circumstances.

**5180 Department of Social Services (DSS)**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**CalWORKs: Cal-Learn Program**

With the exception of bonuses, Cal-Learn was suspended in 2011-12 (by SB 72, a human services budget trailer bill). Teens who would otherwise have participated during that time instead became eligible for regular welfare-to-work services and supports. At least one county (Los Angeles) partially continued the program with other one-time funding this year. The County Welfare Directors Association indicates, however, that few counties would likely be able to continue the program long-term if state funding is eliminated as proposed.

DSS estimates that a full-year of 2012-13 funding for implementation of Cal-Learn’s case management services would require approximately \$26 million GF.

Cal-Learn provides intensive case management, support services, and fiscal incentives (bonuses) and disincentives (sanctions) to eligible teen recipients who are pregnant or parenting. The Governor proposes to eliminate the program, with the exception of bonuses paid for satisfactory educational progress and high school graduation. The Department projects that the Cal-Learn caseload for 2012-13 will include approximately 9,000 teens.

Cal-Learn was evaluated by the University of California, Berkeley in 2000 and found to increase the number of teens who graduated (from 24 to 32 percent for 18-19 year olds and 33 to 47 percent by their 20<sup>th</sup> birthday).

**5180 Department of Social Services (DSS)**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**In-Home Supportive Services (IHSS): 7 Percent  
Across-the-Board Reduction Proposal**

-99,417

With a 2011-12 budget of \$5.0 billion (\$1.4 billion GF), the IHSS program provides personal care services to approximately 450,000 qualified low-income individuals who are blind, aged (over 65), or who have disabilities. IHSS services include tasks like feeding, bathing, bowel and bladder care, meal preparation and clean-up, laundry, and paramedical care. These services frequently help program recipients to avoid or delay more expensive and less desirable institutional care settings.

The May Revision newly proposes \$114.6 million GF savings (and an associated larger federal fund loss) 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 would otherwise sunset July 1. The proposal does not include any exceptions. The average loss of hours per recipient is anticipated to be approximately 6 hours per month.

The proposed reduction could also compound with an existing 20 percent across-the-board reduction (which was triggered under the 2011-12 budget, and which does allow for exceptions). That 20 percent reduction has thus far, however, been enjoined by the courts from taking effect.

**5180 Department of Social Services (DSS)**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**IHSS: Proposed Elimination of Domestic & Related Services for Recipients in Shared Living Arrangements**

-125,000

The proposed elimination of these services would include exceptions when: a) all other household members are IHSS recipients (estimated to be one percent of cases), b) all other household members have physical or mental impairments, or c) the need in question is not considered to be met in common (e.g., cleaning the recipient's private bathroom). No exceptions would be made if the need would go unmet for other reasons (e.g., that the recipient's housemate is otherwise unable or unwilling to provide this care).

Domestic and related services include housework, meal preparation, meal clean-up, laundry, shopping, and errands. Currently, if IHSS recipients share their homes with other individuals and have some of these needs met in common, the social worker who determines eligibility for IHSS can pro-rate or reduce authorized hours related to those activities.

According to the LAO, Washington State recently enacted a restriction on domestic and related services for individuals who lived with their IHSS providers. The state's Supreme Court determined, however, that the policy violated federal law.

The Governor proposes to eliminate domestic and related IHSS services for approximately 245,000 recipients who reside in shared living arrangements and currently receive these services on a pro-rated basis and 80,000 who reside in shared living arrangements and currently receive these services without prorating (with some duplication between these groups). There would also be corresponding losses of greater federal funds. The Administration made a similar proposal last year, which was rejected by the Legislature.

**5225 Department of Corrections and Rehabilitation**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**5225-001-0001 Corrections and Rehabilitation**

**Division of Juvenile Justice Fee**

Governor: Proposed the establishment of a fee of \$24,000, for each offender committed by a juvenile court to the Division of Juvenile Justice (DJJ), which would increase General Fund revenues by \$19.9 million per year beginning in 2012-13.

Senate: No action.

Assembly: No action.

-19,900 TBL Prior to this year, counties paid a sliding scale fee that charged counties based on the level of juvenile commitment. Counties were charged more for lower level juvenile offenders than they were charged for serious and violent juvenile offenders. Due to a realignment of lower level juvenile offenders in 2007, sliding scale revenues have significantly decreased. This proposal would establish a flat fee to recoup a greater share of the cost of housing youth in the DJJ, which, currently, is approximately \$189,000.

**5225 Department of Corrections and Rehabilitation**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**5225-001-0001 Corrections and Rehabilitation**

**Division of Juvenile Justice Time-Adds**

Governor: No action.

Senate: No action.

Assembly: Adopted trailer bill language that would prohibit the DJJ from extending a ward's parole consideration date.

TBL Currently, DJJ staff have the ability to extend the date that a juvenile offender, under their care, appears before the Juvenile Parole Board for consideration of parole. This language would eliminate that authority, thus standardizing the process for parole consideration for DJJ commitments.

**5225 Department of Corrections and Rehabilitation**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**5225-002-0001 Corrections and Rehabilitation**

**Medical Parole**

Governor: No action.

Senate: No action.

Assembly: Adopted trailer bill language to expand the Medical Parole Program in order to reduce the cost associated with housing incapacitated inmates.

TBL SB 1399 (Leno), provided that, as specified, any prisoner who the head physician for the institution where the prisoner is located determines, as provided, is permanently medically incapacitated with a medical condition that renders the prisoner permanently unable to perform activities of basic daily living, and results in the prisoner requiring 24-hour care, and that incapacitation did not exist at the time of sentencing, shall be granted medical parole, if the Board of Parole Hearings determines that the conditions under which the prisoner would be released would not reasonably pose a threat to public safety.



**5227 Board of State and Community Corrections**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**5227-101-0001 Board of State and Community Corrections**

**Police Grants**

20,000 BBL Provides \$20.0 million for three years (\$60.0 million in total) for grants to city police departments to help mitigate the impact on cities resulting from current economic conditions.

Governor: Proposed \$20.0 million General Fund and budget bill language to provide grants to city police departments.

Senate: No action.

Assembly: No action.

**5227 Board of State and Community Corrections**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**5227-101-0001 Board of State and Community Corrections**

**County Jail Funding**

Governor: Proposed trailer bill language to provide \$500 million of lease-revenue bond financing authority for the acquisition, design, and construction of local facilities to help counties manage their offender population.

Senate: No action.

Assembly: No action.

500,000 Funding is in addition to the \$1.2 billion lease-revenue (lease bond financing authority authorized in AB 900 (Solorio, revenue) 2007) for a two phased Local Jail Construction TBL Financing Program.

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6110-161-0001/0890 & 6110-488**

**Federal Special Education Funding for Occupational and Physical Therapy Services – Conforming Action**

The Governor proposed a \$21.9 million reduction to the California Children's Services program administered by the Department of Health Services.

\$24.6  
BBL

Subcommittee #3 rejected the Governor's proposal and instead took action to approve \$24.6 million in federal special education funds to cover educationally related occupational (OT) and physical therapy (PT) services for students that are required pursuant to federal law and student's IEPs.

The Legislature proposes several conforming actions in the education budget to appropriate \$24.6 million in federal IDEA funds made available by redirecting other special education savings in 2012-13.

**6110 Department of Education**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Trailer Bill Language – Special Education**

**Workability Grant Program.**

The Governor's budget proposes to continue \$39.6 million in Proposition 98 funding in 2012-13 for the Workability Program, which is a competitive grant program to support work transition services to students with disabilities. Grant funding is provided to local educational agencies to offer work preparation, on-the-job training, and other work related services to students with disabilities.

The Legislature proposes trailer bill language to clarify that eligible grant applicants include local educational agencies – specifically school districts, county offices of education, state special schools, and charter schools – and nonpublic, nonsectarian schools.

**6110 Department of Education**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**6110-005-0001**

**Funding for the State Special Schools**

The Governor proposes a \$1.8 million reduction in Non-98 General Fund for the three State Special Schools in 2012-13.

The Legislature proposes \$1.8 million in federal special education carryover funds to offset the Governor's proposed reduction in 2012-13.

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6110-161- 0001 & 6110-161-0890**

**Special Education Mental Health Funding Allocations**

The Governor's budget provides \$69 million in federal funding allocated to Special Education Local Planning Areas (SELPA's) for educationally related mental health services. The Governor proposes to change the allocation of these funds from a service count basis to an equal, per pupil basis in 2012-13. This change was signaled in the 2011-12 budget act, which stated intent to use a service count allocation on a one-time basis in 2011-12 and move to a per pupil allocation in 2012-13.

**Comment:** Legislative agreement to provide one additional year of transition to allow SELPA's to phase out of the one-year service count allocation and into a per pupil allocation for \$69 million in mental health related services funding.

**6110 Department of Education**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**New Item – Early Mental Health Initiative**

**Local Assistance & State Operations Funding.**

The Governor’s budget proposes to eliminate \$15 million in Proposition 98 funding for the EMHI grant program in 2012-13. The EMHI program provides three-year, competitive grants to state and local education agencies to support prevention and early intervention services for students experiencing mild-to-moderate school adjustment difficulty. Services are targeted to students in Kindergarten through third grade in public elementary schools.

**Comment:** Legislative agreement to restore \$15 million in funding for the EMHI program in 2012-13, but add budget language to specify that first priority for new grants be given to school districts that have not participated in the program before.

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6110-001-0001/0890**

**Federal Migrant Education Program Audit**

The Governor proposes \$800,000 in federal Title I (Part C) carryover funds for an independent audit or review of the federal Migrant Education program in 2012-13. The Governor proposed that funding be provided to the California Department of Education (CDE) to contract with the Department of Finance's Office of State Audits and Evaluation.

A recent federal audit raised serious issues with the Migrant Education Program at the state and local level.

\$800 **Comment:** The Legislature -- working with DOF and BBL LAO, and with input from CDE -- has developed an alternative proposal that provides a more independent audit of the Migrant Education Program at the state and local level.



**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**New Item**

**General Fund for Military Base School Repair Program**

The Governor does not have a proposal to provide General Fund to military base schools in California so they can qualify for federal repair and replacement program funding.

The federal government has appropriated \$500 million for the repair or replacement of military base schools across the country. Seven military base schools in California have been identified by the Department of Defense to be in critical need of repair or replacement. The DOD will contribute 80 percent of the cost for repair or replacement; the other 20 percent must be matched by each district.

Three school districts in California are unable to meet the federal match requirement -- which amounts to \$23.1 million for these schools. If local matches were provided, these schools would benefit from a total of \$116.2 million in repairs and replacements.

**Comments:** The three school districts that are unable to meet the federal match requirement for the repair and replacement program are Muroc Unified, Fallbrook Union Elementary and Travis Unified.

**6110 Department of Education**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Trailer Bill Language – Charter Schools**

**Funding for Non-Classroom Based Charter Schools**

The Governor proposes trailer bill language to eliminate the current law funding determination process for non-classroom-based instruction and instead provide full funding for all non-classroom based charter schools.

The Governor proposes trailer bill language to make non-classroom-based instruction eligible for the Charter Schools Facilities Grant program.

**6110 Department of Education**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Trailer Bill Language – Charter Schools**

**Conveyance and Sale of Surplus Property to Charter Schools.**

The Governor proposes trailer bill language to require school districts to convey its surplus property to any interested charter school. The Governor also proposes trailer bill language to allow school districts to sell property to a charter school and maintain eligibility for various educational facility programs.

**6110 Department of Education**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Trailer Bill Language – Charter Schools**

**Payment Deferral Exemptions for Charter Schools**

The Governor proposes trailer bill language to allow charter schools to seek a hardship deferral waiver from their governing bodies, rather than through their charter authorizers, as currently required.

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**Trailer Bill Language – Charter Schools**

**Access to External Borrowing - TRANS**

The Governor also proposes trailer bill language to make charter schools a public agency and allows for county offices of education to borrow funds or issue Tax and Revenue Anticipation Notes (TRANS) for the purpose of providing temporary revenue backed loans to charter schools.

**Prior Senate Action:** The Subcommittee approved the Governor's proposal.

**Comments:** According to the Administration, this change will allow charter schools to reduce financing costs and may save the state costs associated with deferral exemptions being requested by charter schools.

**6110 Department of Education**

<b>Governor’s Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Trailer Bill Language – Charter Schools**

**Access to External Borrowing – County Office Loans to Charter Schools**

The Governor proposes trailer bill language to allow county offices of education and county boards of supervisors to make short term loans to charter schools from any funds not immediately needed.

**Prior Senate Action:** The Subcommittee approved the Governor’s budget proposal, per the LAO recommendation.

**Comments:** The LAO feels this proposal provides additional borrowing options to charter schools without “requiring” county offices of education to issue high-risk loans.

**6110 Department of Education**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**Trailer Bill Language – Charter Schools**

**Access to External Financing – Charter Loans from County Treasurers**

**Comments:** The LAO supports the Governor’s May Revise proposal.

The Governor’s May Revise proposes trailer bill language to allow County Treasurers to provide charter schools with loans if the charter school is unable to meet its financial obligations.

**Prior Senate Action:** The Subcommittee approved the Governor’s January trailer bill proposal, with modifications to “allow” rather than “require” County Treasurer’s to make loans to charter schools that are unable to make their financial obligations. The Governor’s May Revise proposal reflects the Subcommittee action.

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**Trailer Bill Language – School Facilities Program**

**Regulation of Remaining Bond Authority to Avoid Trigger of Level III Developer Fees.**

The Governor proposes trailer bill language to require the State Allocation Board (SAB), upon enactment of the Budget Act of 2012, to apportion up to **\$8.5 million** for new construction projects, and up to **\$9 million** for modernization projects, per month at a board meeting. This provision shall not apply to new construction and modernization projects that receive unfunded approval by the board before enactment of the Budget Act of 2012.

**Comments:** The Governor's proposal is intended to "meter" remaining bond funds to make the school facility program viable and avoid the trigger of Level III developer fees.



**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**Trailer Bill Language – School Facilities Program**

**Shift Funds for Overcrowded Relief Grants to New Construction.**

The Governor proposes trailer bill language to transfer **\$251.25 million** in remaining funds from Overcrowded Relief Grants to New Construction in 2012-13. This proposal adjusts amounts allocated under Proposition 1D by:

- Reducing the amount authorized for Overcrowded Relief Grants from \$1.0 billion to \$748.75 million.
- Increasing the amount authorized for New Construction from \$1.9 billion to \$2.15 billion.

The Governor also proposes trailer bill language to prohibit the State Allocation Board from approving any projects pursuant to the Overcrowding Relief Grant program on or after June 30, 2012.

**Comments:** The Governor's proposal is intended to keep the school facility program viable and allocate remaining bond funds that may not be expended in the short term.

**6110 Department of Education**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**State Preschool - Budget Adjustments**

The Governor proposed several adjustments to the part-day part-year State Preschool program funded within the Proposition 98 guarantee. The budget adjustments proposed are as follows:

- Reduce the income eligibility from 70 percent of State Median Income to 200 percent of the federal poverty level (62.5 percent of SMI) – \$24 million in savings.
- Eliminate the Cost of Living Adjustment (COLA) - \$11.9 million in savings.
- The May Revision restored the Standard Reimbursement Rate (SRR) cut of 10 percent to State Preschool programs funded within Proposition 98 – resulting in \$34.1 million in additional expenditures above the January budget.
- The May Revision also proposed an expansion of the State Preschool program by 15,500 slots funded within Proposition 98 – resulting in \$57.5 million in additional expenditures above the January budget.

21,600 The budget reductions made to the part-day part-year State Preschool program are consistent with budget reductions proposed for remaining child care programs, including eliminating the COLA, reducing income eligibility, and reducing the SRR. The May Revision proposed to eliminate the new Transitional Kindergarten program and with the savings created from that action fund an expansion of the State Preschool program, which is targeted to low-income three to five-year old children. (Transitional Kindergarten funds all children no longer eligible for Kindergarten due to moving the Kindergarten start date from December 2 to September 1.)

**6110 Department of Education**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**State Preschool - Consolidate Part-Day Part-Year Program**

Last year the vast majority of the child care and early childhood education programs were removed from the Proposition 98 guarantee. These programs are now funded outside of Proposition 98 by the General Fund. The part-day part-year State Preschool Program is the only early childhood education program currently funded within Proposition 98. This program serves three to five-year old children from low-income families.

In 2008 the Legislature passed AB 2759 (Jones) that allowed for consolidation of the funding previously allocated to the State Preschool program and funding provided to center-based Title 5 centers (funded in the General Child Care Program) that were also serving three to five-year old children. After the removal of the vast majority of child care programs out of the Proposition 98 guarantee last year, this resulted in a significant number of part-day part-year state Preschool slots being funded in the General Child Care Program.

-165,000 Part-day part-year State Preschool is currently being funded with both Proposition 98 funding and General Child Care funding (General Fund). These programs have identical educational requirements and serve the same children (low-income three to five-year old children). This program also has an important distinction in that the State Preschool program does not require parents of the child participating in the program to “need” the care because of work or other qualifying activities. Therefore, the State Preschool program is being operated much more like an educational program than other child care programs.

**6110 Department of Education**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**Child Care - Budget Reductions**

The Governor has proposed total budget reductions to non-Proposition 98 funded child care programs of \$452.5 million General Fund. This total includes \$61 million from CalWORKs Stage 1 child care funded in the Department of Social Services’ budget. Reductions at the Department of Education programs are as follows:

- Limit eligibility for child care programs to work or two years of education - \$114 million in savings.
- Reduce the income eligibility for child care programs from 70 percent of State Median Income to 200 percent of the federal poverty level (62.5 percent of SMI) – \$39.8 million in savings.
- Eliminate Cost-of-Living Adjustment (COLA) – \$30.4 million in savings.
- Reduce the Regional Market Rate to the 40<sup>th</sup> percentile of the 2005 survey – \$140.3 million in savings.
- Reduce the Standard Reimbursement Rate by 10 percent - \$67.5 million in savings.

-392,000 The Governor has estimated that the cuts proposed would result in the loss of 37,000 slots. Some estimates are much higher than this given the significant reduction proposed to the Regional Market Rate (30 percent reduction), which is the rate paid private providers for care.

**6110 Department of Education**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**Child Care - Program Redesign and Restructuring**

The Governor proposed redesign and restructuring of the CalWORKs program and child care system. The Governor proposed to restructure administration of child care over a two-year period. The Administration proposes to replace the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents and centralize eligibility with county welfare departments starting in 2013-14. The Governor proposes to consolidate some programs in the budget year and then shift administration in 2013-14. The Governor has also proposed the following:

- Create a separate block grant to the counties that would be dedicated for child care.
- Require that counties contract with Title 5 centers for the same number of slots as funded in the budget year for at least three years.
- Create a stakeholder workgroup to address various issues related to restructuring by January 15, 2013.
- Approve \$26 million in TANF to aid county transition to management of child care programs.

There has been considerable opposition to the Governor’s proposal to restructure child care to county-centered administration of the program. Currently 27 counties contract with the local Alternative Payment agency to manage the CalWORKs Stage 1 contract for child care, which is currently allocated to the counties. Furthermore, there are also five counties that operate as Alternative Payment agencies. County-centered administration of the child care program may ultimately be more responsive to local needs and local conditions.

**6110 Department of Education**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**6110-202-0001**

**Child Nutrition – State Meal Supplement for Non-LEA Providers**

The Governor proposes to eliminate \$10.4 million in Non-98 General Fund for state supplemental reimbursements for free- and reduced-price breakfast and lunch meals served at private schools, private child care centers, and other entities. The state meal supplement provides \$0.16 per meal.

These non-LEA programs would continue to receive federal meal funding, which provides \$2.79 per lunch and \$1.80 for breakfasts.

The Governor's has recommended elimination of several other small education programs funded with Non-98 General Fund in 2012-13.

**6110 / 6870 Department of Education and California Community Colleges**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6110/6870 Department of Education and California Community Colleges**

**K-14 Proposition 98 Budget Package.**

The attached spreadsheets identify the major components of the Governor's K-14 Proposition budget, the LAO's recommendations, and the Legislature's recommendations for a Final Budget. As recommended, the Final Budget presents a spending plan that closely resembles the Governor's plan for K-12 schools and community colleges in the budget year, and includes several current year adjustments proposed by the Governor as well.

**K-14 P-98 Budget** **Highlights of Plan:** For K-12 schools and community colleges more than **\$2.3 billion** in new funding is directed to paying down inter-year payment deferrals, also the Governor's highest priority; **\$110 million** is added for a modified version of the Governor's K-14 mandate block grant proposal; and **\$361 million** for the QEIA program is funded within Proposition 98 to achieve General Fund savings in 2012-13.

The final budget package also includes **\$165 million** to recognize the part-day, part-year State Preschool Program within Proposition 98 and ensure continued early education programs for low-income children in the face of other cutbacks.

Notably, the final budget package does not endorse the Governor's larger education finance reforms, in the form of the K-12 Weighted Pupil Formula and Community Colleges. While these are bold measures intended to provide greater equity, simplicity, and transparency of our education funding systems, ongoing budget cutbacks coupled with continuing economic uncertainty have undermined these proposals for the moment. However, we hope these proposals remain on the front burner moving forward.

**6110 / 6870 Department of Education and California Community Colleges**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**K-14 Mandate Reform (Issue 105).**

Governor: The January budget proposed to: (1) eliminate a number of existing K-14 mandates and (2) provide \$200 million for a new optional block grant to fund the remaining mandated activities. Of the total block grant funding provided, \$178 million is for K-12 schools and \$22 million is for CCC districts, providing participating districts with an estimated \$20 per student. The January budget proposal allows districts to choose either to participate in the block grant or to submit mandate claims through the reimbursement process (districts would be prohibited from doing both.)

The May Revision modified the January proposal to: (1) retain some activities as formal mandates but eliminate the formal mandate reimbursement process and (2) provide a uniform per-student block grant rate for all local educational agencies (LEAs). The May Revision also addresses three newly identified community college mandates.

Prior Legislative Action: Both houses heard these proposals and held them open.

33,355 TBL In 1979 voters passed Proposition 4, which added a requirement to the California Constitution that local governments be reimbursed for new programs or higher levels of service the state imposes on them. Currently, the state has about 50 K-14 education mandates, with each mandate requiring school districts and/or community colleges to perform as many as a dozen specific activities. The 2011-12 budget included \$90 million for these claims.

There are currently about 42 K-12 mandates and 24 CCC mandates, 11 of which are shared K-14 mandates. The three new CCC mandates include (1) Discrimination Complaint Procedures, (2) Community College Construction, and (3) Minimum Conditions for State Aid.



**6120 California State Library**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6120-211-0001 California State Library  
6120-213-0001**

**Federal Match and Maintenance of Effort (MOE) Requirements.**

Governor: No proposal.

Prior Legislative Action: Both houses heard and held this issue open.

The 2011 Budget Act triggers zeroed out over \$12 million GF for a number of local assistance library programs, including three programs that enabled the state to meet federal match and MOE requirements for expenditure of federal library funds.

The match and MOE calculations overlap. The most immediate problem is with the match. Should the state fail to identify \$5 million more in qualifying 2012-13 state expenditures, the state will only be able to spend \$5.37 million of the total \$15.03 million in federal library funds available to the state. The State Library has identified an additional \$300,000 in existing expenditures that can count towards the match requirement, leaving a gap of \$4.7 million.

Federal library funds are available for expenditure for two years; state eligibility is based on federal match and MOE requirements. The match requirement determines what percentage of federal funds the state can spend (66 percent federal funds matched by 34 percent state funds). The MOE requirement determines the state's allotment of federal funds for the next federal fiscal year.

The 2011 Budget Act triggers eliminated funding for the following local assistance programs that counted towards the match and MOE requirements: (1) California Library Literacy Services, provides support to literacy programs; (2) California Library Services, promotes resource sharing through cooperative library systems; and (3) California Newspaper Project, identifies, describes, and preserves California newspapers.

**6360 Commission on Teacher Credentialing**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**6360-001-0407 Commission on Teacher Credentialing**

**State Operations Reduction**

The Governor proposes to reduce state operations by \$1.5 million and 17 positions to address a structural deficit in the two special funds that support the CTC.

**Prior Senate Action:** The Subcommittee approved the Governor's budget proposal, with language that assures the CTC has flexibility in selecting final positions for reduction.

**6440 University of California**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6440-001-0001 University of California**

**Budget Augmentation (Issue 428).**

Governor: The January budget proposed a \$90 million base budget augmentation that could be used to address costs related to retirement program contributions. The Governor's Budget also proposed that UC's budget no longer be adjusted for retirement costs in the future.

The May Revision reduced the augmentation by \$38 million, to a total of \$52 million.

UC (and Hastings) employees are members of the UC Retirement Plan. This plan is separate from CalPERS and under the control of UC; UC not only controls its pension costs but also sets benefits levels for its employees.

Prior Legislative Action: Both houses heard and held this item open.

52,000

BBL

Prior to 1990, the state adjusted UC's GF appropriation to reflect increases and decreases in the employer's share of retirement contributions for state-funded UC employees. Starting in 1990, however, UC halted both employer and employee contributions because the plan had become super-funded. This funding holiday lasted nearly 20 years until the plan's assets had declined considerably and contributions became necessary. In April 2010, both UC and its employees resumed contributions. The state, however, has not provided UC with any additional funding specifically for that purpose. UC projects that annual total state costs would peak at around \$450 million GF.

It is not clear to what extent the state should be expected to pay for retirement benefits that are defined by UC and not by the state. There are also questions about what legal obligations the state could incur by restarting contributions. The LAO has advised the Legislature proceed with caution and not simply pay whatever bill UC presents; i.e., the state may choose to re-start state contributions to UC under the right conditions.

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**State Audit Report 2010-015: Supplemental Report Language.**

In July 2011, the State Auditor released Report 2010-15, which examined the UC's budgeting process. The Auditor found: (1) that UC's budget process results in higher-than-average amounts budgeted per student for certain campuses while other campuses received much lower levels per student and (2) although the UC maintains extensive financial information, it could improve transparency by providing additional financial information and providing it more consistently.

The Auditor made several recommendations to UC regarding its budgeting process to address the variations in per-student funding of its campuses, including that it continue to reexamine the base budget to campuses and implement changes that consider other factors. The Auditor also recommended that UC take additional steps to increase the transparency of its detailed financial information and its budget process, update its budget manual by including relevant formulas and methodologies, and make such information available on its Web site.

SRL According to the Auditor's 60-day report summarizing UC's work to implement the audit recommendation, UC convened a working group to examine variation in funding across the system and provide recommendations to the President in spring 2012.

Also in response to the Report, UC is revising its budget process. Fiscal year 2012-13 is the first fiscal year after implementation of the audit.

UC's work to revise and refine its budget process is of interest to the Legislature. The adoption of supplemental reporting language would ensure the Legislature is properly informed of these changes.

**6440 University of California**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**Contract Services Budget Bill Language.**

BBL

Current law permits the state and California community college districts to contract for services to achieve costs savings when certain requirements are met, including a demonstration of actual overall savings for the duration of the contract as compared to the actual costs of providing the same services. The state requirements are found in Government Code Section 19130; the community college requirements are found in Education Code Section 88003.1.

Current law (Education Code Section 92611.9) expresses legislative intent that the UC carefully monitor the use and effects of the contracting of services at newly developed facilities. UC is further requested to report annually on certain metrics related to contract services at new facilities.

**6870 California Community Colleges**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6870-101-0001 California Community Colleges**  
**6870-601-0001**  
**6870-601-0986**

**2011-12 GF Offset from Dissolution of  
 Redevelopment Agencies (RDAs) (Issues 867,  
 866, 868, 870, 871).**

116,000 Apportionment funding, which CCC districts use for general purposes, comes from three main sources: (1) enrollment fee revenues; (2) local property taxes; and (3) the GF, with local property taxes and the GF accounting for CCC's funding under Proposition 98.

Governor: The January budget requests a reduction of \$146.9 million in 2011-12 GF apportionment funding to reflect an identical increase in offsetting local property taxes available to CCC districts due to the dissolution of RDAs.

The May Revision updates the amount of local property tax available, reducing it by \$30.8 million, or a total of \$116.1 million.

Prior Legislative Action: Both houses heard and held open this request.

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**2012-13 GF Offset from Dissolution of Redevelopment Agencies (RDAs) (Issues 860, 861, 130, 131, 872).**

Governor: The May Revision updates the 2012-13 local property tax revenue estimates from the dissolution of RDAs. For the CCCs, the Governor increases the estimate of revenues from RDAs by a net of \$191 million (and reduces proposed GF support for CCCs by a like amount). This net increase in the budget year stems not from RDA local property taxes (i.e., increment) but from one-time liquid assets that the Administration has identified.

The Governor also proposes TBL that would provide a GF backfill to the extent that the one-time recovery of liquid RDA assets falls short of the estimate.

Prior Legislative Action: Both houses heard and held open the updated proposal.

340,100

TBL

Apportionment funding, which CCC districts use for general purposes, comes from three main sources: (1) enrollment fee revenues; (2) local property taxes; and (3) the GF, with local property taxes and the GF accounting for CCC’s funding under Proposition 98. In addition to the “regular” local property tax, and due to the dissolution of RDAs, local property taxes will now include ongoing RDA property tax (i.e., increment) and one-time RDA property tax.

Unlike K-12 education, the CCCs do not have an automatic GF backfill if property tax or enrollment fee revenues fail to materialize in a given year. It is a reasonable expectation that there will be increased local property tax revenues in the budget year (and ongoing) from the dissolution of RDAs. There is still uncertainty with these estimates. When coupled with the lack of a guaranteed backfill, the CCC have legitimate concerns about the budget year estimates.

The Administration’s TBL proposes to provide a backfill related to the one-time RDA property tax. The proposal does not provide a backfill for the ongoing RDA property tax (i.e., increment).

**7980 California Student Aid Commission (CSAC)**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**7980-101-0001 California Student Aid Commission**

**Cal Grant Program Savings Proposals: GPA Changes and Award Levels (updated at May Revision as Issues 11, 12, and 13).**

**Governor:** The January budget proposed several changes to the Cal Grant program, for total savings of \$302 million. As updated by the May Revision, these savings proposals total \$253.3 million.

Effective with the 2012-13 academic year, the proposals would: (1) raise the GPA requirements for new applicants, saving \$96.6 million; (2) reduce award amounts by 43 percent for new and continuing students at independent non-profit institutions, from \$9,708 to \$5,472, saving \$99.2 million; and (3) reduce award amounts by 59 percent for new and continuing students at private for-profit institutions, from \$9,708 to \$4,000, saving \$57.5 million.

Prior Legislative Action: The Senate heard and held all proposals open. The Assembly rejected all of these proposals.

253,000

TBL  
BBL

The Cal Grant program is the primary financial aid program run directly by the state. It was modified in 2000 to become an entitlement award, thereby guaranteeing Cal Grants to high school graduates and community college transfer students who meet several eligibility requirements.

The Administration cites dramatic increases in Cal Grant costs since 2001 as the reasoning for its proposed changes. High school graduation levels have been relatively flat; therefore, the increased costs can be primarily explained by two factors: (1) tuition fee increases at public universities which have increased award amounts and (2) decreased family incomes due to the economy which have increased the number of eligible students.

Total 2012-13 Cal Grant program expenditures are estimated at roughly \$1.6 billion, with roughly 77 percent at public institutions and 16 and eight percent at independent non-profit and private for-profit institutions, respectively.



Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**Cal Grant Program Savings Proposals: New Restrictions for Institutional Eligibility (Issue 024)**

Governor: The January budget proposed to retain the current maximum student loan cohort default rate (CDR) allowable at participating institutions at 24.6 percent (under current law it was scheduled to increase to 30 percent in 2012-13).

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 CDR from 30 percent to 15 percent, which is slightly above the national average for all institution types; and (2) instituting a 30 percent minimum six year graduation rate requirement for four year programs (three year rate for two year programs) for all participating institutions. Consistent with current law, the May Revision proposal will not apply to any participating institution with 40 percent or fewer of its students borrowing federal student loans to attend college.

Prior Legislative Action. The Senate and Assembly heard this proposal and held it open.

38,400

TBL

The 2011 Budget Act instituted new restrictions on institutional eligibility for the Cal Grant program, excluding institutions if more than 24.6 percent of their former students default on federal student loans within three years of loan repayment, as defined and calculated by the federal government.

The Governor’s May Revision proposal further restricts institutional eligibility by lowering the CDR to 15 percent and instituting a 30 percent minimum graduation rate. These proposals primarily impact private for-profit institutions.

The proposed TBL continues a limited exception in current law for continuing students at institutions that become ineligible; these students may qualify for renewal awards reduced by 20 percent.

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**California Community College Transfer Entitlement Award Budget Trailer Bill Language.**

Governor: To avoid a Cal Grant program expansion, the January budget proposed budget trailer bill language reversing the recent CSAC decision to expand access to CCC transfer entitlement awards.

Under current practice, a student must attend a baccalaureate institution in the year immediately after leaving a community college to qualify for a transfer award. A recent CSAC decision would remove that restriction, potentially adding 9,000 students and \$70 million in new Cal Grant awards.

The Administration’s TBL would place the current practice in statute.

Prior Legislative Action: The Senate heard and held the TBL open. The Assembly referred the TBL to policy committee.

TBL By reversing this decision, and requiring transfer students to be enrolled in a CCC in the year prior to transfer, the Administration estimates it will avoid \$70 million in new GF costs for the Cal Grant program. Avoiding new costs makes sense in the current budget environment.

However, due to CSU’s decision to close spring 2013 admissions for most students in response to budget reductions, a CCC student awarded a transfer entitlement award in 2011-12 will have limited public four-year institution transfer options. This can be addressed by providing the 2011-12 student cohort with an additional year of award eligibility.

Governor's Proposal	2012-13 (\$ in thousands)	Comments
<p><b>Phase Out of Loan Assumption Programs (updated at May Revision as Issue 14).</b></p> <p>Governor: The January budget proposed to phase-out existing loan assumption programs by: (1) authorizing no new program participants; (2) continuing payments for students who have received at least one payment and who complete additional years of qualifying employment; and (3) authorizing no payments for participants who have been approved for the program but have not yet received their first payment. The January budget estimated 2012-13 savings of \$7 million from this proposal.</p> <p>The May Revision updated this savings total, reducing it by \$1 million, for total savings of \$6 million.</p> <p>The budget annually specifies the number of new loan assumption agreements (or "warrants") that CSAC may issue to current students. The 2011 Budget Act authorized 7,400 new warrants and includes \$40 million for payments on warrants issued in previous years.</p> <p>Prior Legislative Action: Both houses heard this proposal and held it open.</p>	<p>6,000</p> <p>TBL</p> <p>BBL</p>	<p>The loan assumption programs were developed in response to workforce shortages in certain occupations and work settings, such as teachers in low-performing public schools and nurses in state prisons. Under these programs, the state agrees to make loan payments on behalf of eligible students who borrow federal loans and work in specified occupations and settings after graduation. Payments are made for three or four years, as students complete years of qualifying employment. Teachers and college faculty can receive from \$6,000 to \$19,000 and nurses can receive from \$20,000 to \$25,000 in total loan payments, depending on a participant's subject area, position, and work setting.</p> <p>Approximately 2,600 teachers and 70 nurses would be impacted by this proposal. There is an estimated additional 14,000 APLE-eligible students in the pipeline, likely still in school but not yet started their first year of employment.</p>

**8820 Commission on the Status of Women**

<b>Governor's Proposal</b>	<b>2012-13</b> (\$ in thousands)	<b>Comments</b>
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**8820 Commission on the Status of Women**

**Elimination of the Commission on the Status of Women**

Governor: The Governor's Budget proposes to eliminate the Commission on the Status of Women for a savings of \$270,000 General Fund in 2012-13. The Administration states that many other forums address the same issues as the Commission.

The Administration first proposed eliminating the Commission in last year's May Revise. The Legislature voted to reject the proposal and refer the matter to a policy committee. In a line item veto, the Governor reduced the Commission's General Fund appropriation by \$200,000, essentially cutting the Commission's budget in half. Due to the cut, the Commission is currently out of funding and remaining staff have been laid off.

The Commission is the only state agency that looks specifically at all issues impacting women. Among its duties, the Commission holds public hearings across the state.

The Assembly has announced an agreement that will provide \$150,000 from the Assembly budget for partial funding of the Commission.

Proposed reforms include, but are not limited to, changing the name of the Commission to the Commission on the Status of Women and Girls; requiring gubernatorial appointments to be representative of the state's geographic regions if possible; and developing a strategy for attracting financial support from private groups with the intent to sustain the work of the Commission with less support from the General Fund.

**8860 Department of Finance**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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**8860-001-0001 Department of Finance**

**Hybrid Retirement Structure Development and Implementation.**

Governor: The January budget requests a \$1.5 million one-time GF augmentation to hire legal and actuarial consultants to assist with the design and implementation of a hybrid retirement structure for public employees in state and local government entities as outlined in the Governor’s 12-Point Pension Reform Plan. This request includes provisional budget bill language.

Under the Governor’s Plan, all newly hired state and local employees would be placed in a “hybrid” retirement plan that includes a lower defined-benefit pension than what workers currently receive. It also includes a defined contribution component similar to a 401(k) and Social Security where applicable. The Plan directs that the defined-benefit and defined-contribution elements be designed with the goal of providing retirement income at 75 percent of a full-career employee’s pre-retirement salary, including Social Security where applicable.

Prior Legislative Action: None.

1,500 GF BBL The total funding requested is based on market rates for legal and actuarial series and DOF’s anticipated workload which is estimated as follows: (1) approximately six months to complete the hybrid plan designs and (2) an additional six months to work with state and local government pension systems on implementation. Under the proposed BBL, any funds not encumbered would revert to the GF. Due to the short timeframe needed to complete the hybrid pension structure, the BBL would exempt the resulting contracts from the requirements under the Public Contract Code or any other provisions of law that would otherwise apply.

The Governor’s 12-Point Plan is currently pending before a legislative Conference Committee on Public Employee Pensions. The Conference Committee was convened in fall 2011, and has met five times, most recently on April 13, 2012. The Conference Committee continues its work on pension reform, including consideration of the Governor’s proposal as well as numerous other legislative reform proposals.

**8885 Commission on State Mandates**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**8885-001-0001 Commission on State Mandates**

**Repeal of Selected Mandates**

Governor's Proposal: The Administration has proposed trailer bill language that would repeal certain mandates. (These are denoted by an asterisk in the handout.) The budget year savings associated with suspension and repeal is identical. With suspension, the mandate remains in statute but is simply not funded nor is the activity required by local government. With repeal, the statutory requirement is actually removed by Legislative action. In general, the administration indicates that it has selected mandates for repeal that were suspended immediately after enactment, have been suspended for several years, or should be based on local discretion.

Prior Legislative Action: Assembly Budget Sub 4 rejected the trailer bill language.

TBL In order to determine whether a mandate is actually in effect, confirmation of both the statutory reference and the budget bill is required. Numerous mandates continue to exist in statute but have no practical effect because they are not funded. Some mandates have never been funded. Examination of the policy related to mandates would typically be part of the policy committee process rather than budget.

**8955 Department of Veterans Affairs**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**8955-001-0001 Department of Veterans Affairs**

**Further delay opening of Redding and Fresno Veterans Homes**

Governor: The Governor's 2012-13 Budget continued to delay the opening of the new Veterans Homes located in Redding and Fresno. Estimated General Fund cost savings for 2012-13 are \$25 million.

This item was first heard in Senate Budget and Fiscal Review Subcommittee No. 4 on March 15<sup>th</sup> and has been left open.

According to CDVA 257 veterans have submitted letters indicating they are interested in living at the Fresno facility, and 382 veterans have submitted letters of interest for the Redding facility. The homes will provide Residential Care for the Elderly and a Skilled Nursing Facility. Construction at both facilities has been completed.

While the Governor has proposed delaying the opening of the facilities to the next budget year, it may be worth considering a gradual ramp up given the expressed demand for the homes.

## Various Realignment Funding Superstructure

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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### Realignment Funding Superstructure

Last year the 2011 Public Safety Realignment was enacted to dedicate 1.0625% of the state sales tax (\$5.4 billion) and dedicated a portion of the vehicle license fee funds (\$455.1 million) to support various public safety programs realigned from the state to local governments. This funding (\$5.9 billion in total) is proposed to be constitutionally guaranteed to local governments (mainly the counties) in the Governor's November 2012 initiative.

Last year the funding for realignment was allocated for one year only. This year the Governor has put forth a realignment funding superstructure that allocates base funding to the various realigned programs and also provides for the allocation of any growth funding that may be earned beyond the base funding.

### 2011 Realignment Funding (Dollars in Millions)

Program	Amount
Court Security	\$496.4
Public Safety Programs	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators	581.1
Realign Adult Parole	276.4
Mental Health: Early and Periodic Screening, Diagnosis, and Treatment program	584.2
Mental Health: Managed Care	196.7
Existing Community Mental Health	1,120.6
Substance Abuse Treatment	183.6
Foster Care and Child Welfare Services	1,585.4
Adult Protective Services	55.0
Existing Juvenile Justice Realignment	98.8
Program Cost Growth	221.7
<b>Total</b>	<b>\$5,889.8</b>



## Various Budget Trigger Reductions

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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### Budget Trigger Reductions

The Governor has proposed an overall budget architecture for the 2012-13 fiscal year that relies on state revenues that would be raised only if approved by voters in November 2012. The California Constitution requires that the annual state budget be balanced, and this uncertainty requires that the Legislature adopt contingency plans for addressing the \$8.5 billion in revenue that would not be raised if the revenues are not approved by the voters. The Governor has proposed “trigger reductions” effective January 1, 2013 that would be the contingency plan if the ballot measure is not approved.

In January the Governor proposed trigger reductions that totaled \$5.4 billion. In the May Revision the trigger reductions were increased by less than \$1 billion to address the additional revenues being raised by the revised November initiative.

Governor's May Revision Budget Trigger  
2012-13 Trigger Cuts (in Millions)

Program Area	Amount
K-14 Education (Proposition 98)	\$5,493.6
University of California	250.0
California State University	250.0
Developmental Services	50.0
Local Water Safety Patrol	10.6
Department of Forestry and Fire Protection	10.0
Flood Control	6.6
Fish and Game: Non-Warden Programs	2.5
Park Lifeguards and Rangers	1.5
Fish and Game: Wardens	1.0
Department of Justice	1.0
<b>Total</b>	<b>\$6,076.8</b>

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Redevelopment

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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Redevelopment

**Redevelopment Agency Dissolution and Alternative Program**

Governor’s Proposal: The Governor has proposed trailer bill language that addresses issues related to the redevelopment agency (RDA) dissolution legislation, AB 26 X1 (Blumenfield) that was enacted as part of the 2011-12 budget. The companion measure to this bill which created an alternative redevelopment program, AB 27 X1 (Blumenfield), was the subject of a lawsuit and held to be unconstitutional by the State Supreme Court.

In its major provisions, as initially proposed, the trailer bill: defines housing assets that would be transferred to the housing successor agency (SA) upon approval of the oversight board (OB) and clarifies the powers and duties of the housing SA; specifies the conditions under which bonds may be issued to finance enforceable obligations (EOs) and addresses bond security concerns; provides for a ‘claw-back’ of funds for improperly claimed EOs from subsequent property tax payments; requires SA to contract for due diligence review and reconciliation of unobligated cash assets available in various funds for

1,700,000  
(property taxes to education)

1,400,000  
(former RDA cash assets to education)

General Fund Solutions

The Senate and Assembly are in the process of crafting an approach to the wind-down of RDA activities that incorporates certain provisions of the Governor’s proposal but address concerns that have been raised regarding the process of dissolution, uncertainty regarding unfinished projects and unused bond proceeds, disposition of physical assets held by the former RDA, and the continuation of affordable housing activities. The tentative approach represents a substantial revision to the administration’s initial proposal, and is predicated on maximizing budgetary savings while allowing for additional flexibility for local governments. The process includes ongoing discussions with the administration.

The current proposal includes the following broad features, each of which is subject to revision and fine-tuning:

- **Due Diligence Review and Reconciliation—** Provides for a process to resolve disputed issues between SA and DOF, with respect to both EOs paid from property tax increment and assets to be distributed. SAs would retain ability to go to court to dispute the findings of the review.

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Redevelopment

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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transfer to taxing entities; requires the transfer of identified unobligated cash assets to taxing entities by dates certain; and, allows for the ‘clawback’ through a property tax or sales and use tax offset for any identified fund shortfalls.

In addition, the proposed trailer bill provides additional detail to the definition, responsibilities, governance, and powers of SAs; revises various due dates for submission of documentation relating to EOs; addresses questions relating to the make-up, notification requirements, and review of decisions of the OB; adds additional detail regarding actions by Department of Finance (DOF) for review of documentation provides by SA and OB; revises due dates for certain auditor-controller duties; adds notification requirements for validation actions and state consent; and appropriates up to \$15 million for additional DOF responsibilities.

Prior Legislative Action: The Senate and Assembly held this issue open.

- **Program Benefits**—Establishes significant programs and incentives for local governments. For participating SAs that cooperate with the review and reconciliation process and accept the results (or comply with any subsequent court decision) allow for:
  - Repayment of legitimate loans to the communities based on a predetermined schedule and terms.
  - Authorize spending of pre-2011 bond proceeds to be secured by property tax increment.
  - Allow for retention of former RDA property assets by the SA to be used for appropriate redevelopment purposes.
- **Housing Activities**—Provides for affordable housing activities by directing the repayment of SERAF loans from the Low-Mod Income Housing Fund (LMIHF); allowing use of bond proceeds backed by the LMIHF; providing for the transfer to the housing SA certain mixed-use developments; granting duties, responsibilities and powers to maintain affordability requirements; establishing a set-aside from community loan repayments, and expediting the establishment of clear title.

## CS 3.90 Reduction for Employee Compensation

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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### Control Section 3.90 Reduction for Employee Compensation

#### Employee Compensation Reductions (Issue 300).

Governor: The May Revision requests to add CS 3.90 to the budget to authorize employee compensation-related reductions equivalent to a 4.62 percent reduction in pay (total of eight hours per month).

The Administration indicates its intent is to avoid a furlough program and to mitigate layoffs. To this end, the Administration will pursue implementation of a four-day, 38-hour work week for the majority of state employees to achieve the necessary savings.

For employees of departments that operate 24-7, the Administration states it will pursue commensurate reductions in work hours and pay. These will be "variations" to the four-day, 38-hour work week, as there will be no exceptions to the salary savings proposal.

At the time this agenda was written, the Administration had not yet transmitted the budget trailer bill language associated with this request.

Prior Legislative Action: Subcommittees in both houses heard and held this item open.

401,716	The total number of state employees is 341,783, including
GF	employment in the Executive, Legislative, and Judicial
437,413	Branches, University of California, California State
other funds	University, and Hastings College of the Law. Total
BBL	compensation costs are \$24.8 billion (all funds).
TBL	Compensation for salaries and benefits accounts for
	approximately 11 percent of GF costs, and includes \$7.2
	billion in salary expense and \$3.3 billion in benefit costs.
	Roughly two-thirds of total state employment (214,254
	employees) is in the Executive Branch, of which one-third is
	in the California Department of Corrections and
	Rehabilitation (CDCR). Employees of CDCR account for
	approximately 64 percent of GF compensation costs.
	The BBL attached to this request states that the savings will
	be achieved through: (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.