



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

SENATOR DENISE MORENO DUCHENY, CHAIR

MAY REVISION HIGHLIGHTS

May 14, 2008

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision which includes a summary of the General Fund. (Additional information follows these Highlights – please see the Table of Contents on page 9.)

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings that are scheduled to be concluded the week of May 30.

OVERVIEW OF GOVERNOR'S MAY REVISION

On May 14, the Governor released his May Revision for budget year 2008-09. The Governor indicates the General Fund (GF) deficit is \$24.3 billion for the two-year period ending June 30, 2009. This figure is comprised of January's estimated GF shortfall of \$14.5 billion; a proposed \$2 billion GF reserve; various revenue and expenditure changes of \$7.6 billion; and miscellaneous adjustments of approximately \$200 million.

To put in perspective, in January, the Governor estimated a General Fund (GF) shortfall of \$14.5 billion for the two-year period ending June 30, 2009. A special session of the Legislature was called and on February 15, the Legislature took a variety of actions which reduced the overall shortfall to approximately \$7.5 billion.

May Revision, based on new revenue and expenditure information (and adjusting for special session actions), estimates the remaining GF budget gap at \$17.2 billion. The other major factors contributing to the growing deficit are (1) a decrease in estimated GF revenues of \$6 billion; (2) expenditure adjustments of \$1.6 billion; and (3) a \$2 billion reserve.

The \$17.2 billion shortfall is closed with the following approximate solutions:

- \$4.3 billion in cuts to education, similar to what was proposed in the January budget.
- \$3.7 billion (approximately) in other cuts contained in the January proposed budget.
- \$828 million diversion of sales tax on gasoline and other public transit funds to General Fund purposes.
- \$627 million in major new cuts to health and human services.
- \$5.1 billion in borrowing by securitizing state lottery payments.
- \$2 billion in accounting changes.
- \$1 billion (approximately) in various other one-time revenues, including special funds loans and transfers and the acceleration of the LLC fee.

Total budget expenditures proposed in the May Revision, from all sources (General Fund, special funds, and bond funds), are approximately \$144.4 billion. Total revised General Fund (GF) expenditures for 2008-09 are anticipated to be approximately \$101.8 billion.

Overall General Fund. The May Revision expects GF revenues of \$102.9 billion for 2008-09, when combined with a prior-year carryover balance of a little under \$1.7 billion, this provides a total of \$104.7 billion in available resources. General Fund expenditures are estimated at \$101.8 billion.

General Fund Reserve. The May Revision proposes a \$2 billion GF reserve. In January, the General Fund reserve was estimated at \$2.8 billion for fiscal year 2008-09.

The Governor's May Revision proposes a number of significant changes to January's proposals including, but not limited to:

- K-14 Education funding. The May Revision provides, under the Proposition 98 guarantee, total funding (combination of GF and local property taxes) of \$56.6 billion in 2007-08 and \$56.8 billion in 2008-09. The May Revision does not include any cost-of-living adjustments and maintains categorical programs reductions as proposed in January.
- Transportation. The May Revision proposes additional General Fund relief of \$828 million from transportation funds. Part of the amount is new revenue, since the January budget, due to higher fuel prices (the spillover revenue is up about \$268 million and the diesel fuel / Prop 111 revenue is up about \$124 million). The allocation of the \$828 million (primarily "spillover" funds) is as follows: \$593 million for the home-to-schools transportation program in the education budget and \$235 million for prior-years transportation-related general obligation bond debt.
- Higher Education. Provides an additional \$196.1 million General Fund for UC and CSU in order to retain 2008-09 spending at current-year levels (\$98.5 million for UC and \$97.6 million for CSU). The May Revision explicitly will raise fees no higher than the 7.4 and 10 percent increases proposed by the UC Board of Regents and the CSU Board of Trustees, respectively.
- Health Services. Restricts Medi-Cal benefits for newly qualified legal immigrants. Benefits would include emergency services, pregnancy-related services, long-term care in a nursing facility, and breast and cervical cancer treatment. This action would result in a reduction of \$86.7 million (General Fund) due to reduced benefits.

The May Revision requires undocumented individuals who are receiving emergency services, under the Medi-Cal Program, to report on a monthly basis in order to retain any emergency services. The Governor assumes savings of \$42 million (General Fund) from people not receiving medically necessary, emergency services.

- Human Services. The Administration proposes to reduce \$187 million from the IHSS program by limiting state participation in the wages of IHSS workers to minimum wage.

The administration proposes to retain the 2009 federal SSI/SSP COLA, rather than pass it through to recipients for a GF savings of \$109 million. The SSI/SSP provides cash assistance to eligible aged, blind, and disabled persons.

In addition, the May Revision maintains all proposed reductions to CalWORKs programs initially proposed in January, including: (1) imposition of graduated family sanctions; (2) elimination of safety net grants; and (3) elimination of grants for children due to parental ineligibility. The Governor also proposes to eliminate the COLA for CalWORKs grants for a savings of \$111 million General Fund in 2008-09.

- Natural Resources and Environmental Protection. The May Revision proposes \$13.3 million (\$11.8 million General Fund and \$1.5 million in increased state park fees) to keep open the 48 state parks that were proposed for closure in the January 10 Budget.
- Office of Emergency Services. Creates the Emergency Response Initiative (formerly the Wildland Firefighting Initiative). The Administration proposes a revised plan for a statewide emergency services surcharge on commercial and residential property insurance policies to be administered by the Office of Emergency Services (OES) instead of the Department of Insurance. The fee would replace General Fund with funding from the Emergency Response Account to pay for fire protection in state responsibility areas.

- Budget Reform and Securitization of the State Lottery. The May Revision proposes various changes requiring voter approval. First, the administration wants to create an additional GF reserve known as the Revenue Stabilization Fund (RSF), which is an account for excess revenues taken in by California during a prosperous year. This will allow the state to transfer the difference from the RSF into the General Fund in years when tax revenues are below average and California cannot meet its spending obligations. “Excess revenues” are defined as state tax revenues above a reasonable, long-term average rate of growth. The Department of Finance will calculate and release this revenue projection two times each year. Additional reform components would provide the Administration authority to automatically reduce spending when necessary. This overall proposal shifts Legislative authority to the Governor.

Second, the May Revision proposes to improve the performance of state lottery by providing operational flexibility similar to other states. The administration then proposes to securitize future revenues of the lottery to yield \$15 billion over a three-year period ending 2010-11. This proposal is expected to yield \$5.1 billion in 2008-09. These funds would then be used to fund the RSF. The May Revision then proposes to transfer the \$5.1 billion to the GF in 2008-09. No additional revenue is anticipated for education. Voter approval of this proposal is also required.

- Corrections and Rehabilitation. The Governor’s January budget proposal included policy proposals (summary parole and early release) that would reduce CDCR’s budget by \$379 million in the budget year. The Governor’s May Revision now includes a policy proposal (summary parole) and other budget proposals that would result in \$285 million in savings in the budget year. Therefore, the Governor is proposing that less savings be achieved in corrections by about \$94 million. In addition, expenditures driven by the federal court-appointed Receiver over CDCR medical care have increased budget year expenditures by \$212 million since the January budget was released. Therefore, the Governor’s May Revision proposal contains approximately \$300 million more for corrections than the January proposal.

**2008-09 Governor's May Revision
General Fund Summary
(in millions)**

	Revised <u>2007-08</u>	Proposed <u>2008-09</u>
PRIOR YEAR BALANCE	\$4,096	\$1,743
Revenues and transfers	101,190	102,987
TOTAL RESOURCES AVAILABLE	\$105,286	\$104,730
Non-Proposition 98 Expenditures	\$61,716	\$60,436
Proposition 98 Expenditures	<u>41,827</u>	<u>41,400</u>
TOTAL EXPENDITURES	\$103,543	\$101,836
FUND BALANCE	\$1,743	\$2,894
Encumbrances	\$885	\$885
Special Fund for Economic Uncertainties	\$858	\$2,009
Budget Stabilization Account (BSA)	--	--
TOTAL AVAILABLE RESERVE	\$858	\$2,009

In 2007-08, includes the transfer of \$1.5 billion from the Budget Stabilization Account back to the General Fund under Control Section 35.60. In 2008-09, reflects the suspension of the Proposition 58 transfer to the Budget Stabilization Account.

**2008-09 May Revision
General Fund Revenue
By Source
(in millions)**

Source	Gov. Budget Jan. 10 Amount	Jan. 10 % of Total	May Revision Amount	May Revision % of Total
Personal Income Tax	\$56,458	54.9%	\$53,733	52.2%
Sales Tax	\$29,215	28.3%	\$27,361	26.6%
Corporation Tax	\$11,937	11.6%	\$11,039	10.7%
Other	\$5,294	5.1%	\$10,854	10.5%
<i>Total</i>	\$102,904	100%	\$102,987	100%

**2008-09 May Revision
General Fund Expenditures
By Major Program Area
(in millions)**

Major Program Area	Jan. 10 Amount	Jan. 10 % of Total	May Revision Amount	May Revision % of Total
K-12 Education	\$39,411	39.0 %	\$41,145	40.4 %
Health and Human Services	\$29,298	29.0 %	\$29,800	29.3 %
Higher Education	\$11,699	11.6 %	\$11,758	11.5 %
Corrections and Rehabilitation	\$10,268	10.2 %	\$10,139	9.9 %
Resources	\$1,656	1.6 %	\$1,624	1.6 %
Environmental Protection	\$86	0.1 %	\$88	0.1 %
Business, Transportation & Housing	\$1,680	1.7 %	\$1,635	1.6 %
Legislative, Judicial, Executive	\$3,787	3.7 %	\$3,792	3.7 %
General Government	\$2,407	2.4 %	\$1,192	1.2 %
State and Consumer Affairs	\$608	0.6 %	\$566	0.6 %
Labor and Workforce Development	\$98	0.1 %	\$97	0.1 %
<i>Total</i>	\$100,998	100%	\$101,836	100%

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CORRECTIONS

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

Overall Summary. The Governor's January budget proposal included policy proposals (summary parole and early release) that would reduce California Department of Corrections and Rehabilitation's (CDCR) budget by \$379 million in the budget year. The Governor's May Revision now includes a policy proposal (summary parole) and other budget proposals that would result in \$285 million in savings in the budget year. Therefore, the Governor is proposing, in the May Revision, that less savings be achieved in CDCR by about \$94 million. In addition, expenditures driven by the federal court-appointed Receiver over CDCR medical care have increased budget year expenditures by about \$212 million since the January budget was released. Therefore, the Governor's May Revision proposal contains approximately \$300 million more for CDCR than the January budget proposal.

Adult Inmate and Parolee Population Estimates. The May Revision projects that the average daily population and adult parolee population in the current year is lower than anticipated in the January budget proposal. The Governor estimates that this will result in reducing General Fund expenditures in the current year by \$27.9 million.

Estimates for the adult inmate and parolee populations in the budget year are projected to decline to levels below the estimates in the current year. The Governor estimates that this will reduce costs to the General Fund by \$78 million in the budget year.

The 2008-09 average daily adult inmate population is anticipated to be 170,641 and the average daily adult parolee population is anticipated to be 122,872, which is 1 percent and 2.8 percent lower than estimated in the current year, respectively.

Early Release Proposal Withdrawn. The May Revision proposes to withdraw a proposal to release inmates up to 20 months early that was included in the Governor's January budget proposal. This eliminates savings and increases expenditures by \$18 million and \$256 million in the current and budget years, respectively.

Revised Savings for Summary Parole Proposal. The May Revision proposal updates the estimated savings related to implementing the summary parole proposal contained in the Governor's January budget proposal. The revised savings is approximately \$76 million more than was estimated in January. This increase in savings is related to operational and programmatic savings that previously were not identified. The Governor estimates that the summary parole proposal will now reduce the inmate population by 4,774 and the parolee population by 13,517 in the budget year. This is fewer inmates and parolees given the projected declines in the population.

Reentry Facility Activation. The May Revision proposal includes \$12 million General Fund to activate a new reentry facility in San Joaquin County by June 2009. This will be the first reentry facility activated that was authorized by Chapter 7, Statutes of 2007 (AB 900, Solorio).

Prison Medical Receiver. The May Revision proposal includes \$8.6 million General Fund to augment the funding directed by the Receiver. The increase is driven by the need to establish nurse supervisor positions to improve the effectiveness of nursing care within the prisons.

Juvenile Offenders and Parolee Population Estimates. The May Revision projects a very small decline in the juvenile offender population and a very small increase in the juvenile parolee population in the current year relative to the January budget proposal. The juvenile offender and parolee population is projected to be slightly higher in the budget year than projected in the January budget proposal. These changes result in marginal savings in the current and budget years, mainly due to delays in securing a contract to provide services for female offenders outside the state's juvenile facilities.

The 2008-09 average daily population in state juvenile facilities is expected to be 1,847 and the average daily juvenile parole population is expected to be 1,971, which are both 19 percent lower than projected for the current year.

Juvenile Probation Funding. May Revision proposes to replace \$152 million General Fund currently supporting juvenile probation programs with federal Temporary Assistance for Needy Families (TANF) block grant funds. This proposal would reduce General Fund expenditures by \$152 million.

GENERAL GOVERNMENT

CALIFORNIA STATE LOTTERY COMMISSION

Modernize the Lottery and Securitize Future Revenues. Contingent upon voter approval, the Governor proposes to improve the performance of the state lottery by providing greater operational flexibility similar to lotteries in other states (which, on average, outperform the California lottery). Future revenue gains generated by this proposal would be securitized in a manner similar to the Tobacco Securitization Act (which authorizes the issuance of bonds against future tobacco settlement revenues). The proceeds from lottery revenue bond sales, estimated at \$15.0 billion over the next three years, would be used to capitalize the Governor's proposed Revenue Stabilization Fund (RSF—also referred to by the Governor as a “rainy day fund”). These funds would be available for transfer from the RSF to the General Fund, beginning with \$5.1 billion in 2008-09, and followed by \$6.9 billion in 2009-10, and \$1.4 billion in 2010-11. The Governor's proposal assumes education would continue to receive \$1.2 billion annually from the lottery.

Should the voters refuse to pass the Governor's lottery modernization proposal, or in the event that the lottery fails to generate the anticipated revenue, the Governor proposes a mechanism that would trigger a temporary one-cent sales tax increase to ensure that the RSF has a balance sufficient to make the transfers outlined above. The triggered increase would remain in effect until the RSF reaches the targeted fund balance (15 percent of General Fund tax revenues) or until June 30, 2011, whichever comes first. After the temporary mechanism is no longer in effect, Californians would receive tax rebates that, in the aggregate, would be equal to the amount of revenue collected under the tax increase.

SECRETARY OF STATE

Early Presidential Primary. The Administration requests \$89.6 million General Fund for costs incurred by the counties for the Presidential Primary Election held in February 2008 pursuant to Chapter 2, Statutes of 2007 (SB 113).

OFFICE OF EMERGENCY SERVICES

Emergency Response Initiative (formerly the Wildland Firefighting Initiative). The Administration proposes a revised plan for a statewide emergency services surcharge on commercial and residential property insurance policies, to be administered by the Office of Emergency Services (OES), instead of the Department of Insurance. The fee would replace General Fund with funding from

the Emergency Response Account to pay for fire protection in state responsibility areas. This proposal was not adopted by the Legislature in its previous form.

The May Revision proposal would (1) establish a two-tiered fee structure paid by those who hold insurance on all residential and commercial property statewide, based on hazard zone designations; (2) mandate the fee would be paid by insurance policyholders, not insurance companies; (3) the fee would backfill various OES and CAL FIRE budget-balancing reductions; (4) provide for increase firefighting staff levels; and (5) provide a \$30 million loan from the Restitution Fund to the Emergency Response Account, to begin General Fund backfill immediately.

MILITARY DEPARTMENT

Funding for Wildland Firefighting Initiative Unavailable in 2008-09. The Administration proposes to delete \$9.2 million contained in the Governor's Budget for enhanced firefighting capabilities, including purchase of aerial firefighting equipment. Instead, the Governor's new Emergency Response Initiative (which replaces the Wildland Firefighting Initiative) would provide funding for these activities in 2009-10.

PUBLIC EMPLOYMENT ISSUES

- **Employee Compensation.** The Administration proposes to reduce budget expenditures by \$420 million across 2007-08 and 2008-09 by deleting funding in the 9800 Budget Item for the Administration's Last, Best, and Final Offer (LBFO) to Bargaining Unit 6, California Correctional Peace Officers Association. The Administration indicates it still intends to implement the LBFO, but that the funding would be shifted to the reserve.
- **Teachers' Supplemental Benefit Maintenance Account (SBMA).** The Administration proposes to modify its January proposal related to SBMA by reducing the current-law contribution from 2.5 percent of teachers' salaries to 2.25 percent (versus 2.2 percent as previously proposed). Also, the Administration requests to increase the benefit payment to retired teachers from 80 percent purchasing power protection to 85 percent.
- **Health and Dental Benefits for Annuitants.** The Administration proposes to reduce budget funding for annuitant healthcare by a total of \$30.9 million (General Fund) to reflect lower estimates of healthcare inflation and higher estimates of federal Medicare Part-D reimbursements.

FRANCHISE TAX BOARD

The Administration requests \$1.1 million (General Fund) and 16.2 new positions for the Franchise Tax Board to contact additional individuals who failed to file

Personal Income Tax returns. This effort is expected to generate additional General Fund revenue of \$9.0 million in 2008-09 and \$28.0 million in 2009-10.

TAX MODERNIZATION COMMISSION

The Administration indicates that the Governor will issue an executive order to establish a bipartisan commission of legislative and gubernatorial appointees to modernize the state's tax laws and better reflect the current economy.

SPECIAL FUND LOANS AND TRANSFERS TO THE GENERAL FUND

The Administration proposes \$574 million in new special fund loans to the General Fund. Included are \$126.5 million in loans from Department of Consumer Affairs Boards and Bureaus; \$60 million from the Department of General Services; \$238.1 million from transportation funds, \$50.6 million from other Business Transportation and Housing Agency funds; and \$30.4 million from Resource Agency funds. Transfers totaling about \$75 million are also proposed.

CASH MANAGEMENT

The Administration requests approval to defer certain payments to generate General Fund savings of \$54.8 million through reduced borrowing and interest costs.

HEALTH

MEDI-CAL PROGRAM

- Assumes total Medi-Cal Program expenditures of \$37.2 billion (\$13.9 billion General Fund), or a net increase of \$315.7 million General Fund from the Governor's January budget proposal. General Fund expenditures are expected to decrease by \$169.1 million, or 1.2 percent, over the revised 2007-08 level. The average monthly caseload is estimated to be 6,587,000 enrollees that represents an increase of about 23,000 enrollees, or 0.3 percent, over the current year. Key issues as proposed by the Governor in his May Revision are included below and primarily pertain to reducing Medi-Cal eligibility and providing certain providers with rate increases.
- Requires undocumented individuals who are receiving emergency services under the Medi-Cal Program to report on a monthly basis in order to retain any emergency services under Medi-Cal. The Governor assumes savings of \$42 million (General Fund) from people not receiving medically necessary, emergency services.
- Restricts Medi-Cal benefits for newly qualified legal immigrants and immigrants who permanently reside under the color of law to the same level as currently provided for undocumented immigrants. Benefits would include emergency services, pregnancy-related services, long-term care in a nursing facility, and breast and cervical cancer treatment. This action would result in a reduction of \$86.7 million (General Fund) due to reduced benefits.
- Rolls back the Section 1931(b) Medi-Cal eligibility category for working families to the federal minimum level which will eliminate many families, including children, from enrollment in the Medi-Cal Program. The Governor assumes a reduction of \$31.2 million (General Fund) in 2008-09 from this action, with the reduction increasing to \$342.5 million (General Fund) by 2011-2012 (due to phasing-in).

Specifically, it would roll back the allowable income level for enrollment in Medi-Cal for these families to 61 percent of the federal poverty level (versus 100 percent of poverty as now provided) and employment would be defined as the principal wage earner working less than 100 hours a month.

Under the Governor's proposal, parents in the families who are disenrolled *may* qualify for Medi-Cal enrollment but would need to pay a share-of-cost of their medical expenses every month to maintain enrollment. Children would need to be re-enrolled in Medi-Cal under other poverty level programs or they would not be covered.

- Eliminates SB 437, Statutes of 2006 pilot projects to simplify Medi-Cal enrollment for children for a reduction of \$13 million (General Fund).
- Provides an increase of about \$170 million (General Fund) to fund rate adjustments for health care plans participating in the Medi-Cal Managed Care Program. This rate increase is based on utilization, and a plan-specific methodology implemented in 2007-08.
- Provides an increase of \$22.4 million (General Fund) to reflect an increase in the rates paid to Skilled Nursing Facilities (cost-of-living-adjustment of 4.9 percent).
- Increases by \$173.1 million (General Fund) due to an erosion of savings from various Governor's budget reductions which were not enacted. The Administration states that this adjustment also reflects updated caseload, technical corrections, and other factors.
- Reduces non-contract hospital rates paid to General Acute Care Hospitals for inpatient services by reimbursing to the lower of the average regional rate or the rate established by the CA Medical Assistance Commission minus five percent or to the non-contracted hospital's interim rate minus ten percent. The Administration states their proposal is intended to remove the disincentive that exists for contracting with Medi-Cal and to provide cost avoidance related to hospital rates.
- Increases by \$1.5 million (General Fund) to hire more state staff to establish a "Beneficiary Utilization Review" unit to review the use of prescription drugs by Medi-Cal enrollees.
- Proposes to implement a competitive bid procurement process to contract with an organization on a pay-for-performance basis in an effort to reduce durable medical equipment costs within the Medi-Cal Program. The vendor would be paid only if cost savings are achieved.

- Proposes statutory change to implement the Public Assistance Reporting Information System (PARIS) pilot project to improve the identification of the subset of Medi-Cal enrollees who are also veterans and who may be eligible for duplicative medical services.

HEALTHY FAMILIES PROGRAM

- Assumes total Healthy Families Program (HFP) expenditures of \$1.1 billion (\$389.9 million General Fund) which reflects an increase of \$5.8 million (\$2.1 million General Fund) as compared to the Governor's January budget. Key issues as proposed by the Governor are referenced below.
- Continues the Governor's cost containment and reduction proposals from January, including increases in co-payments and premiums which families pay for their children, as well as decreases in the rates paid to health plans, dental plans and vision plans participating in the HFP. This also includes the Governor's proposal to limit dental benefits to \$1,000 per child annually.
- Increases by \$4.8 million (General Fund) due to not enacting the Governor's reduction proposals by March.
- Eliminates funding for the SB 437, Statutes of 2006 pilot projects, as referenced under the Medi-Cal Program.

PUBLIC HEALTH

- Provides \$325.3 million (total funds) for the AIDS Drug Assistance Program (ADAP) which is 16.2 percent above the \$280 million (total funds) proposed in the Governor's January budget. The ADAP is estimated to serve about 34,300 clients, or about 1,400, above the current-year level.

**DEVELOPMENTAL SERVICES:
REGIONAL CENTERS & DEVELOPMENTAL CENTERS**

- Reflects total expenditures of \$3.9 billion (\$2.4 billion General Fund) for services and supports provided through the Regional Center system. This reflects a *net* increase of \$150.5 million (\$45.9 million General Fund) as compared to the Governor's January budget.
- Increases by a net of \$124.5 million (\$8.2 million General Fund) the Purchase of Services within the Regional Centers budget to fund residential services and other services, such as Community Care Facilities, Health Facilities, In-Home Respite, and Day Programs.

The Administration states that utilization and costs for services are estimated to increase by 3.8 percent over the Governor's January budget. This is due to funding adjustments and factors such as an increase in consumers dually diagnosed with mental health conditions, an increase in persons diagnosed with autism spectrum disorders, and an increase in need for support services.

- Assumes receipt of \$13.9 million (Early Start Part C federal grant funds), and a corresponding decrease in General Fund support, in the Regional Center budget by accelerating the draw down of Early Start federal grant funds.
- Increases by \$21.1 million (\$14.9 million General Fund) in the Regional Center budget to account for reductions within the Department of Health Care Services (Medi-Cal Program) and Department of Social Services. This is because under California law individuals with developmental disabilities are entitled to certain services, including Adult Dental services and In-Home Supportive Services, which the Governor is proposing to eliminate or reduce in other departments.
- Increases by \$22.2 million in Title XX TANF funds received from the Department of Social Services which is used to offset a like amount of General Fund support.
- Requests to add reappropriation language to fund the cost of consumers that will remain at the Agnews Developmental Center past the June 30, 2008 closure date.

MENTAL HEALTH

- Proposes a series of adjustments to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program which result in a net increase of \$31.1 million (\$3.5 million General Fund) as compared to the Governor's January budget.
- Assumes a reduction of \$13.3 million (General Fund) to reflect a lower than projected caseload for the Sexually Violent Predator population within the State Hospitals.
- Includes an increase of \$6.7 million (General Fund) to support a 64-bed expansion at the Salinas Valley Psychiatric Program to meet the Coleman Court expectation that the facility be fully staffed within four months of the first admission, which is to take place on November 30, 2008.

HIGHER EDUCATION

University of California (UC) / California State University (CSU)

- Provides an additional \$196.1 million General Fund for UC and CSU in order to retain 2008-09 spending at current-year levels (\$98.5 million for UC and \$97.6 million for CSU). The May Revision explicitly will raise fees no higher than the 7.4 and 10 percent increases proposed by the UC Board of Regents and the CSU Board of Trustees, respectively.

California Community Colleges (CCC)

The funding proposals for the current fiscal year are one-time in nature and are designed primarily to "backfill" for the shortfall of property tax revenues currently plaguing colleges. To meet this end, the Governor proposes to:

- Reduce the amount of revenue that CCC's will be receiving from property taxes by \$74.9 million. This amount is less than the shortfall identified by the Community Colleges Chancellor's Office, which is closer to \$90 million.
- Provide \$74.9 million in one-time funding to offset the above-noted loss of current-year property tax revenues (\$47.3 million from prior-year community college unspent funds; \$21.7 million from unspent current- and prior-year funds; and \$5.9 million in increased student fee revenue).

Funding proposals for the budget year include a *net* increase of \$167.2 million to:

- Increase the funding for enrollment growth from the one percent provided in the Governor's Budget to 1.67 percent (\$35.5 million augmentation).
- Augment by \$138.7 million General Fund to account for newly revised property tax estimates for 2008-09, which anticipate a decline in property tax revenues available to the community colleges of a like amount.
- Provide categorical program flexibility within the confines of several different programmatic areas.

Financial Aid

- Shifts \$223 million in Cal Grant costs from the General Fund to the federal Temporary Assistance for Needy Families Program (TANF) fund in order to meet federal Maintenance of Effort requirements, thus reducing General Fund by a like amount.
- Eliminates \$80 million General Fund that had initially been included in the Governor's Budget as an augmentation to the Cal Grant program (in the event that UC and CSU raised fees above the projected levels).
- Makes a variety of changes to the state operations budget of the Student Aid Commission in order to account for a delay in the sale of EdFUND to the 2009-2010 fiscal year.
- Proposes statutory changes necessary to ensure operations of the loan program can continue appropriately while the sale continues to be negotiated.

HUMAN SERVICES

Supplemental Security Income/State Supplementary Payment (SSI/SSP) and Cash Assistance Program for Immigrants (CAPI)

- **Rescind Pass-Through of SSI/SSP Federal Cost-of-Living-Adjustment.** The Governor has rescinded the January budget proposal to provide the 2009 federal SSI/SSP COLA, resulting in General Fund savings of \$108.8 million in 2008-09. The Governor continues to propose eliminating the June 2008 and June 2009 SSI/SSP state COLAs, resulting in total General Fund savings of \$235.4 million. The maximum SSI/SSP grant would remain flat in 2008-09 at \$870 per month for individuals, and \$1,524 per month for a couple.
- **Eliminate CAPI.** The Governor proposes to eliminate the CAPI program, which provides income assistance to low-income aged, blind, and disabled legal immigrants who do not qualify for SSI/SSP. Elimination of this program would result in General Fund savings of \$111.2 million in 2008-09.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The Governor proposes significant changes to the CalWORKs program resulting in net General Fund savings and an overall caseload reduction of 16 percent in 2008-09. The May Revision continues to reflect the CalWORKs proposals made by the Governor in his January budget and includes several new elements designed to save additional General Fund, cover a shortfall in the State's maintenance of effort (MOE) funding requirement for CalWORKs, and increase the work participation rate. These changes include the following:

- **Continue CalWORKs Proposals From the Governor's Budget.** The Governor continues changes to the CalWORKs program originally proposed in the Governor's Budget in January including:
 - > Restricting safety net grants only to children whose parents work sufficient hours to meet federal work participation requirements.
 - > Imposing graduated full-family sanctions whereby the child-only grant would be reduced by 50 percent when an adult remains in sanction status for a cumulative total of six months and the entire grant would be eliminated after an adult does not comply with CalWORKs requirements for a second accumulated total of six months.

- > Eliminating grants for children of CalWORKs ineligible parents after 60 months.
- > Providing a Work Incentive Nutrition Supplement of \$40 per month to working families who are receiving food stamps, but not receiving CalWORKs assistance, and who are working sufficient hours to meet federal work participation requirements.
- **Establish a Pre-Assistance Employment Readiness System (PAERS).** The Governor proposes to establish a four-month pre-CalWORKs program of all new or returning CalWORKs participants. The program would be designed to accelerate efforts in assisting applicants to secure employment and avoid entry into CalWORKs and develop a work plan as a condition of eligibility for CalWORKs for those applicants who are unable to secure employment during the PAERS program. This proposal is similar to one put forth by the Legislative Analyst's Office in their 2008-09 Analysis.
- **Reduce CalWORKs Grant Levels by Five Percent.** The Governor proposes to cut CalWORKs grants by five percent for a savings of \$108.2 million General Fund in 2008-09.
- **Rescind the CalWORKs Cost-of-Living Adjustment (COLA).** The Governor proposes to eliminate the COLA for CalWORKs grants for a savings of \$111 million General Fund in 2008-09. This is in addition to the General Fund savings achieved during the special session due to the delay in the effective date of the 2008-09 CalWORKs COLA from June 2008 to October 2008.
- **Institute Self-Sufficiency Reviews.** The Governor proposes to require CalWORKs recipients who are not meeting work requirements to undergo a face-to-face meeting with a county worker every six months or lose eligibility for aid. The review is intended to assess what services or resources may be necessary to address barriers that are preventing participation. This proposal would result in net General Fund savings of \$59.7 million in 2008-09.
- **Eliminate CalWORKs Pay for Performance.** The Governor has rescinded the January budget proposal to fund the Pay for Performance program, resulting in General Fund savings of \$40 million in 2008-09. This program is intended to

provide incentive funds to counties to support improvement in three outcome measures.

- **Implement the Regional Market Rate (RMR) for 2009, but Limit Reimbursement Rates.** The Governor proposes to implement the RMR for CalWORKs child care in January 2009 and limit reimbursement rates to the 75th percentile (down from the 80th percentile) for savings of \$19.4 million General Fund in 2008-09.
- **Exchange TANF for General Fund in Various Programs.** The final federal TANF regulations issued in February 2008 disallowed many of the expenditures that California had been counting towards its MOE requirement. The Governor proposes to swap federal TANF funds for General Fund in various TANF-qualifying programs. This frees up a total of \$447.4 million General Fund to offset the disallowance resulting from the federal regulations. The following programs participate in the TANF-General Fund exchange: CalGrants (\$223 million); Probation (\$151.8 million); Emergency Assistance Foster Care (\$50.4 million); and increased Title XX transfer to the Department of Developmental Services (\$22.2 million).
- **Provide TANF Funding to the Boys and Girls Club.** The Governor proposes to provide \$5 million in TANF funds to the Boys and Girls Club in order to count an estimated \$88 million as excess MOE.
- **Eliminate the TANF Reserve.** This will result in General Fund savings of \$13.0 million General Fund in 2008-09.

In-Home Supportive Services (IHSS)

The Governor has rescinded the proposal made in the January budget to reduce IHSS non-medical domestic and related services hours by 18 percent. In lieu of that proposal, the Governor now proposes the following changes to the IHSS program:

- **Reduce State Participation in IHSS Wages.** The Governor proposes to reduce state participation in the wages of IHSS workers to the state minimum wage plus \$0.60 per hour for benefits. Currently, the state participates in wages up to \$12.10 per hour. This proposal would result in General Fund savings of \$186.6 million.

- **Eliminate Domestic and Related Services for Some Recipients.** The Governor proposes to provide domestic and related services only to IHSS recipients with average functional index scores of four or higher. The provision of other IHSS services to all eligible consumers regardless of their functional index score would not be impacted. This proposal is estimated to save \$52.0 million in 2008-09.
- **Eliminate IHSS Share of Cost for Some Recipients.** The Governor proposes to eliminate the state payment of the difference between the share of cost for IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost and who have average functional index scores below four. This proposal will result in General Fund savings of \$27.7 million in 2008-09.

Education

PROPOSITION 98 (K-14)

Proposition 98 – Current Year Funding Level Relatively Unchanged. The Governor's May Revision maintains K-14 Proposition 98 spending at \$56.6 billion, in 2007-08, which is essentially the same level of funding provided by the revised special session budget. This spending level exceeds the Proposition 98 minimum funding guarantee by approximately \$800 million in 2007-08, according to the Governor's latest estimates.

Proposition 98 – Budget Year Funding Increased Over January Budget. The Governor proposes \$56.8 billion in Proposition 98 funding for K-14 education in 2008-09, which increases funding by approximately \$1.1 billion above the January budget.

Proposition 98 Spending Meets Minimum Funding Guarantee. According to the Governor's updated estimates, the \$56.8 billion in proposed Proposition 98 expenditures in 2008-09 will meet the minimum funding guarantee; no suspension is required. The Governor's January budget proposed suspension of the minimum funding guarantee in 2008-09 by \$4 billion.

Proposition 98 - Year-to-Year Funding Comparisons. The Governor proposes to spend \$56.8 billion for Proposition 98 in 2008-09, which provides essentially flat funding (an increase of \$194 million) when compared to the 2007-08 revised budget. However, when compared against *programmatic* spending included in the 2007-08 revised budget -- which relies upon significant one-time funds for ongoing programs -- the Governor's 2008-09 proposal represents a reduction of almost \$900 million.

Cost-of-Living Adjustments Not Funded. The Governor proposes no cost-of-living adjustments (COLAs) for K-14 education programs in 2008-09, which is consistent with his January proposal. The Governor's May Revision estimates the K-14 COLA rate at 5.66 percent in 2008-09, an increase above the January estimate of 4.94 percent. The cost of providing a full COLA to all K-14 programs that would typically receive them would be roughly \$3.2 billion in 2008-09.

Maintains Most Budget-Year Reductions: In addition to not providing a COLA, the May Revision maintains the same level of across-the-board cuts for most K-14

programs that were proposed in January, with the exception of K-12 revenue limits and special education.

Utilizes Public Transportation Account Funding for General Fund Savings. The Governor proposes to utilize \$592.9 million in funds from the Public Transportation Account to reimburse the General Fund for K-12 school transportation expenditures – including expenditures from the Home-to-School Transportation program and State Special Schools transportation in 2008-09. This action is similar to action taken in the special session for the 2007-08 budget and has no effect on Proposition 98 spending or the minimum guarantee.

Budget Reform Package Includes Proposition 98 Changes. The Governor's budget reform package would have several interactions with the Proposition 98 formulas.

K-12 EDUCATION

Restores Base Funding Cuts for Revenue Limits and Special Education. The Governor proposes to restore \$841 million in funding cuts for revenue limits and \$238 million for special education programs in 2008-09. The Governor proposed these cuts in January as a part of across-the-board reductions for virtually all K-12 programs. Restoration of these funds will maintain program funding for these two programs at nearly 2007-08 levels.

Dramatically Reduces Funding for Deferred Maintenance. The Governor proposes to reduce funding for the Deferred Maintenance program by \$223 million in 2008-09. The Governor proposes to direct the \$40 million in remaining funds for Deferred Maintenance in 2008-09 to financial hardships projects.

Provides Funding for Emergency Repair Program. The Governor proposes to appropriate \$100 million in one-time funds from the Proposition 98 Reversion Account for the Emergency Repair Program in 2008-09. The Governor's January budget did not provide any funding for the program in 2008-09.

Proposes Package of Local Flexibility Options. The Governor proposes to allow school districts to utilize a number of flexibility options to mitigate budget constraints in 2008-09. Some of these options include access to restricted fund balances from prior years for general purposes, reduction of specific reserve requirements, and increased categorical block grant transfer authority.

Estimates Lesser Decline in ADA in Current Year. The Governor has increased estimates for the rate of change in 2007-08 K-12 average daily attendance (ADA)

from -0.49 percent to -0.11 percent, or roughly 24,000 additional students. However, the Governor's estimate of enrollment decline for 2008-09 remains the same (-0.52 percent), when calculated off this higher 2007-08 estimate.

Child Development Programs

- Delays implementation of the new child care provider rate increases (the Regional Market Rate survey) until January 1, 2009 and limits provider reimbursements to 75 percent of the new market rates. Current law reimburses providers at 85 percent of the private market rates for the same type of child care in the same region.
- Augments the CalWORKs Stage 2 child care program by \$25.5 million (Proposition 98) by eliminating the traditional federal Temporary Assistance for Needy Families (TANF) reserve, shifting all Stage 2 child care funding to Proposition 98, and providing all of the budgeted funds up front.
- Further augments Stage 2 and Stage 3 child care programs by \$336 million (\$296 million one-time; \$40 million ongoing) to reflect revised caseload adjustments and keep the programs "whole" after actions taken by the Legislature in Special Session eliminated one-time funds which were used to fund the programs in 2008-09.

LABOR

EMPLOYMENT DEVELOPMENT DEPARTMENT

- Various budget adjustments are proposed based on updated projections of claims (special funds) and federal fund availability:
 - Projected Disability Insurance Program benefit payments are increased by \$441.5 million. Operations expenditures are increased by \$3.5 million and 53.2 personnel years based on revised workload estimates.
 - Projected School Employees Fund benefit payments are increased by \$79.2 million.
 - Decrease state operations for: (1) the Unemployment Insurance Program by \$29.0 million and 352.4 personnel years (PYs); and (2) the California Unemployment Insurance Appeals Board by \$10.7 million and 100.9 PYs based on a revised estimate of available federal funding. Additionally, increase by \$8.5 million the total contribution of the Contingent Fund and the federal Reed Act funds to the Unemployment Insurance Program Administration to backfill a shortfall in federal Unemployment Administration funding. Because Contingent Fund balances are transferred to the General Fund each year, this increase would result in decreased General Fund revenue of \$5.3 million.

- Two adjustments are requested for the Workforce Investment Act (WIA) Program (federal funds).
 - Increase state operations by \$15.0 million for the Consolidated Workers Program.
 - Increase budget authority by \$33.7 million to reflect an increase in local assistance for the Consolidated Workers Program under the WIA.

LOCAL GOVERNMENT

MANDATE PAYMENTS TO LOCAL GOVERNMENTS

- **Defer payment of Pre-2004 Mandate Claims.** The Administration proposes to defer payment of \$75 million in pre-July 2004 mandate claims to reduce General Fund expenditures by that same amount in 2008-09. The Constitution requires payment of these claims, but does not specify a deadline or repayment schedule.

NATURAL RESOURCES

- **Department of Parks and Recreation.** The May Revision proposes \$13.3 million (\$11.8 million General Fund and \$1.5 million in increased state park fees) to keep open the 48 state parks that were proposed for closure in the January 10 Budget.
- **Wildlife Conservation Board.** The May Revision proposes to shift \$20.4 million of the mandatory transfer to the Habitat Conservation Fund from General Fund to Proposition 1E bond funds.
- **Department of Water Resources.** The May Revision proposes to shift \$13.5 million from the General Fund to Proposition 84 bond funds for Colorado River water management projects.
- **Forestry and Fire Protection.** The May Revision proposes a two-tiered fee structure on residential and commercial insurance policies to pay for state firefighting efforts. The fee is estimated to generate \$78 million in new revenue, which would be used to backfill the January 10 General Fund cut, as well as pay for an additional 1,100 seasonal firefighters. The May Revision also proposes a loan of \$30 million from the Restitution Fund to enhance emergency response capabilities beginning in fiscal year 2008-09.
- **Loans.** The May Revision proposes the following loans from special funds to the General Fund:
 - Renewable Resources Trust Fund – \$10.9 million
 - Oil Spill Prevention and Administration Fund – \$13 million
 - Hatchery and Inland Fisheries Fund – \$4 million
 - California Waterfowl Habitat Preservation Account – \$2.5 million
- **Transfers.** The May Revision proposes the following transfers from special funds to the General Fund:
 - Coastal Wetlands Account – \$4.7 million
 - Environmental Water Fund – \$2.4 million
 - California Water Fund – \$1.1 million

ENVIRONMENTAL PROTECTION

- **Air Resources Board.** The May Revision proposes \$48.7 million one-time funds from the Air Quality Improvement Fund for a Surplus Emission Reductions Financial Incentive Program. This program would provide loans and loan guarantees to assist heavy-duty mobile pollution source fleets affected by the Air Board's new emission control rules.
- **Department of Toxic Substances Control.** The May Revision proposes an additional \$1 million from special funds for cost recovery litigation and enforcement of cases related to hazardous waste sites and illegal disposal.

AGRICULTURE

- **Light Brown Apple Moth.** The May Revision proposes \$6.6 million in federal funds for Light Brown Apple Moth and Asian Gypsy Moth eradication efforts.

TRANSPORTATION

TRANSPORTATION FUNDING

- **General Fund Relief – Retained from the January Budget:** The January Governor's Budget included about \$600 million in General Fund relief from the "spillover" portion of sales tax on gasoline. This level of General Fund relief is consistent with ongoing statutory provisions adopted with the 2007 Budget Act. The allocation of the \$600 million is as follows:
 - \$372 million for 2008-09 transportation-related general obligation bond debt.
 - \$141 million for transportation services budgeted in the Department of Developmental Services.
 - \$83 million to reimburse the General Fund for the 2008-09 Proposition 42 loan repayment.

- **General Fund Relief – New with the May Revision:** The May Revision proposes additional General Fund relief of \$828 million from transportation funds. Part of the amount is new revenue since the January budget due to higher fuel prices (the spillover revenue is up about \$268 million and the diesel fuel / Prop 111 revenue is up about \$124 million). The allocation of the \$828 million (primarily "spillover" funds) is as follows:
 - \$593 million for the home-to-schools transportation program in the education budget.
 - \$235 million for prior-years transportation-related general obligation bond debt.

- **General Fund Relief – New Borrowing:** The May Revision proposes additional General Fund relief of \$238.1 million from new loans of transportation funds to the General Fund. Included is a \$200 million loan from the State Highway Account. The Administration indicates that these loans will be repaid as needed for program activities; and, therefore, will not affect program activities.

- **Proposition 42:** Continues to support full funding for Proposition 42. Adjusts the estimate for 2008-09 revenue down by \$53.2 million – to a total of \$1.432 billion. The decrease is primarily due to the forecast reduction in overall sales tax revenue.

SPECIAL TRANSPORTATION PROGRAMS

- Requests a decrease in funding for transit operators to bring 2008-09 funding to the level of revised funding for 2007-08, which is \$306 million. This represents a reduction of \$437 million relative to the January Budget and a reduction of \$580 million relative to what current statute would provide (using the May Revision revenue estimates). Note, this budget reduction partially supports the increased General Fund relief outlined on the prior page.

DEPARTMENT OF TRANSPORTATION

- Requests a decrease in personal services and operating expenses to deliver planned Capital Outlay Support (COS) workload. The May Revision proposes a net reduction of \$26.1 million and 465 position equivalents, including 247 personnel years (PYs) of state staff positions, 196 PY-equivalents of cash overtime, and 22 PY-equivalents of contract staff.
- Requests a reduction of \$125 million in the State Highway Operations and Protection Program (SHOPP) due to the revised estimates of gasoline excise taxes. The amount of excise tax revenue is down because higher gasoline prices are reducing consumption.

HIGH SPEED RAIL AUTHORITY

- Requests \$10 million from the Public Transportation Account and \$8.2 million from Proposition 116 bond funds to sustain current engineering and project management work up to the November 2008 election. The November 2008 ballot includes a \$10 billion rail bond. Additionally, \$23 million is proposed to be appropriated from the bond funds, which would only be available if the bond is approved by voters.

VETERANS AFFAIRS

- **Various Adjustments.** The Administration proposes to decrease the Department of Veterans Affairs budget by \$2.3 million General Fund in order to reflect various corrections to the Governor's Budget.