COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
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SENATOR MARK LENO, CHAIR

Quick Summary

Proposed 2011-12 Budget

January 10, 2011

The purpose of this Quick Summary is to provide members and staff of the Legislature with an overview of the Governor's proposed budget for 2011-12. More detailed reviews of the proposals will be developed as the Committee reviews the proposals in public hearings. If you have questions, please contact the committee at (916) 651-4103.

Definition of the Overall Budget Problem

The Governor defines the General Fund budget shortfall as $25.4 billion through the period ending June 30, 2012. Of this budget shortfall, $8.2 billion is attributed to 2010-11, and $17.2 billion is attributed to 2011-12. In addition, the Governor proposes a budget reserve of $1.0 billion, which increases the overall budget problem to $26.4 billion. The Governor's budget assumes revised expenditures in the current year of $92.2 billion and projects expenditures of $84.6 billion in 2011-12. To provide some context, state budget expenditures peaked in 2007-08 with expenditures of about $103 billion General Fund.

The budget shortfall in the current year is a result of a variety of factors. However, the single largest factor is that approximately $3.6 billion in federal funding is not likely to materialize in the current year. Erosions in other budget solutions are also contributing to the current year deficit, such as reduced saving from corrections medical care.

A budget shortfall in 2011-12 was predicted at the time the 2010-11 budget was adopted, but it has increased in size due to various factors, including the passage of Proposition 22 and 26 that limited the State's ability to use transportation funding for debt service payments, and action by the federal government to extend the estate tax cut.

Origins of the Budget Problem

The state has had a persistent operating deficit since 2001. An "operating deficit" occurs when annual projections of expenditures exceed projected revenues. Each November, the Legislative Analyst's Office (LAO) presents the Fiscal Outlook, which includes a five-year projection of the General Fund condition. In November of 2000, the LAO projected an ongoing operating *surplus* of about $3 billion. However, since then, the LAO has annually projected operating *deficits*, with current projections of the ongoing deficit in the range of $20 billion.

The large swings in the state budget condition have primarily been the result of two asset bubbles, the resulting economic recessions, and budget actions taken in response. The first asset bubble was the dot-com boom that resulted in technology shares quickly tripling in value before quickly declining – the NASDAQ stock market index climbed from 1,500 in the fall of 1998, to over 5,000 in the spring of 2000, before falling below 1,500 again in late 2001. The second asset bubble was the housing bubble that increased median resale values for single-family homes from $262,000 in 2001 to $560,000 in 2007, before falling dramatically to $275,000 in 2009.

1999-2001

Prior to the dot-com bubble, it could be argued that the state budget was in balance. During the dot-com bubble, the state adopted permanent tax cuts and expenditure increases to address the perceived operating surplus at that time. The largest among these actions in cost, was the vehicle license fee (VLF) tax cut that reduced that local tax from 2.0 percent of vehicle value to 0.65 percent. Due to the way the state backfills the loss of local revenue, this resulted in a new state expenditure in the range of $6 billion. Other permanent actions included a tax cut via an increase in the child tax credit, more generous pension benefits for state employees, and an expansion of the Healthy Family program to provide health insurance to additional children.

2002-2004

As the dot-com bubble burst, large operating deficits materialized – the November 2002 LAO Fiscal Outlook projected an operating deficit of over $12 billion at the end of the five-year forecast period, and the following year, the LAO pegged the number at $15 billion. The state responded with some permanent and temporary spending reductions, and some temporary revenues, but a large part of the problem was resolved through budgetary borrowing. In 2004, under Governor Schwarzenegger, voters approved up to $15 billion in Economic Recovery Bonds (ERBs) to address the short-term crisis and provide the state more time to address the long-term operating deficit.

2005-2007

During the housing bubble, the state continued to face budgetary shortfalls, but the projected size of the operating deficit began to shrink. In November 2004, the LAO projected the operating deficit at about $6 billion at the end of the five-year forecast period, and in the November 2005 Fiscal Outlook, the LAO pegged the number at under $1 billion. While the state continued to take action to balance budgets in this period, the outlook for reduced operating shortfalls reduced the level of permanent solutions that might have otherwise occurred.

2008-2010

As the housing bubble burst, even larger budget shortfalls and operating deficits materialized – the last three LAO Fiscal Outlook projections have all shown operating deficits of about $20 billion at the end of the five-year forecast period. Due to these persistent forecasts of large and ongoing operating deficits, the state has begun the process of adopting more permanent budget solutions. For example, the 2009-10 budget eliminated dental benefits for Medi-Cal recipients. The 2010-11 budget rolled-back many of the state-employee pension enhancements adopted during the dot-com bubble.

While there have been some permanent spending reductions, the revenue increases have been temporary and new permanent tax breaks for corporations have been enacted. For example, the VLF that was lowered from 2.0 percent to 0.65 percent at the start of the decade, was increased to 1.15 percent for only the 2009-10 and 2010-11 fiscal years, and under current law, will again fall to 0.65 percent in 2011-12. In addition, the state adopted new permanent tax cuts that benefit large corporations, including an optional single-sales-factor apportionment for multi-state corporations.

Current Problem: 2011 and beyond

As indicated above, permanent spending reductions have begun the process of addressing the operating deficit, but action on revenues have actually made the out-year operating deficit worse. Additionally, while the national recession has ended, the pace of the economic recovery has not been strong and the unemployment rate remains high. The budget shortfall projected in the upcoming year is further exacerbated by the loss of billions in federal stimulus funds that have been relied upon over the last several years to support ongoing spending.

Furthermore, the current budget shortfall is coupled with over 30 years of laws and voter initiatives, starting with Proposition 13, that have more often than not confused the lines of funding and responsibility across the divisions of state and local government. This has contributed to general perception in the public that government is not responsive to problems and needs of communities.

When the state has experienced large and persistent budget shortfalls in the past, it has responded with permanent solutions that include both cuts and revenues. However, specifically in the early 1990s under Governor Wilson, it also responded by restructuring government to bring finance and accountability of some government programs closer to the public at the local government level. If the past is a guide, permanent and difficult expenditure cuts and tax increases, as well as government restructuring, will be necessary to again put the state budget in long-term balance.

Overview of Governor's Budget Proposal

The Governor's budget proposal includes $86.3 billion in General Fund resources available and $84.6 billion in total expenditures, providing for a $1 billion reserve. The expenditures in 2011-12 are proposed to be $7.6 million less, or 8.2 percent less, than revised 2010-11 expenditures. The Governor has proposed enacting significant ballot initiatives to help balance the budget in the next 60 days for a special election in June. The General Fund budget details are summarized in the table below.

2011-12
General Fund Summary
(Dollars in Millions)

	Revised 2010-11	Proposed 2011-12
PRIOR YEAR BALANCE	**-$5,342**	**-$3,357**
Revenues and transfers	94,194	89,696
TOTAL RESOURCES AVAILABLE	**$88,852**	**$86,339**
Non-Proposition 98 Expenditures	$56,000	$48,593
Proposition 98 Expenditures	36,209	36,021
TOTAL EXPENDITURES	**$92,209**	**$84,614**
FUND BALANCE	**-$3,357**	**$1,725**
Encumbrances	$770	$770
Special Fund for Economic Uncertainties	-$4,127	$955
BUDGET STABILIZATION ACCOUNT (BSA)	**--**	**--**
TOTAL AVAILABLE RESERVE	**-$4,127**	**$955**

Proposed Expenditures by Program Area

The table below summarizes the Governor's proposed expenditures by program area. The largest change in expenditure by program area are in health and human services where the Governor's budget proposes reducing expenditures by $5.8 billion. The Governor's budget also proposes to spend approximately $1.8 billion less on higher education in the budget year.

General Fund Expenditures
(Dollars in Millions)

Program Area	**Revised 2010-11**	**Proposed 2011-12**	**Change**	**% Change**
K-12 Education	$36,353	$36,211	-$142	-0.4%
Higher Education	$11,651	$9,814	-$1,837	-15.8%
Health and Human Services	$26,961	$21,175	-$5,786	-21.5%
Corrections and Rehabilitation	$9,257	$9,165	-$92	-1.0%
Business, Transportation and Housing	$507	$691	$184	36.3%
Natural Resources	$2,032	$2,066	$34	1.7%
Environmental Protection	$75	$63	-$12	-16.0%
State and Consumer Services	$585	$597	$12	2.1%
Labor and Workforce Development	$42	$414	$372	885.7%
General Government				
Non-Agency Departments	$547	$541	-$6	-1.1%
Tax Relief / Local Government	$977	$1,003	$26	2.7%
Statewide Expenditures	$54	$367	$313	579.6%
Legislative, Judicial and Executive	$3,167	$2,507	-$660	-20.8%
Total	**$92,209**	**$84,614**	**-$7,594**	**-8.2%**

Proposed Budget Solutions

The Governor has proposed budget solutions that total approximately $26.4 billion over the two-year period ending with June 30, 2012. Of these solutions, the largest category is expenditure reductions of $12.5 billion and next is revenue increases of $12.0 billion. Most of the expenditure solutions are permanent and if adopted would not only address the current budget problem but would also help to address the out-year operating deficits. Most of the revenue solutions expire after five years. The Governor also includes "other" budget solutions totaling $1.9 billion. The table below summarizes the different categories of solutions included in the Governor's budget.

Proposed Budget Solutions
By Category
2010-11 and 2011-12
(Dollars in Millions)

Category	2010-11	2011-12	Totals
Expenditure Reductions	$422	$12,075	$12,497
Revenues	$3,163	$8,864	$12,027
Other	$506	$1,379	$1,885
Total	**$4,091**	**$22,318**	**$26,409**

Many of the Governor's budget proposals are solutions the Legislature has considered in the past. The extension of some of the temporary taxes was also considered by the Senate last year, but was ultimately negotiated out of the final budget. However, this year the Governor has proposed a major realignment of government programs from the State to local government.

Expenditure Reductions

As indicated on the above table, expenditure reductions are the largest category of budget solution at $12.5 billion or 47 percent of the overall solution. Where applicable, the savings include both 2010-11 and 2011-12 amounts. General Fund expenditure reductions are discussed in more detail later in this summary, but the following are some of the most significant proposals:

- $1.7 billion cut to the Medi-Cal program.

- $1.7 billion cut associated with the elimination of Redevelopment Agencies.
- $1.5 billion cut to California Work Opportunities and Responsibility to Kids Program (CalWORKS).
- $1.0 billion cut to mental health program from a one-time redirection of Proposition 63 funds.
- $1.0 billion cut to the University of California (UC) and California State University (CSU).
- $1.0 billion reduction in General Fund spending on transportation debt service, which will be paid by transportation weight fees instead.
- $750 million cut to the Department of Developmental Services (DDS)
- $500 million cut to In-Home Supportive Services (IHSS)
- $190 million cut to Social Security Income/State Supplemental Program (SSI/SSP).
- $308 million in savings from state employee compensation reductions for those six bargaining units with expired contracts.
- $200 million from government efficiencies.
- No cut is proposed for K-12 education – Proposition 98 funding would remain at the adjusted 2010-11 level of $49.7 billion. This is funded, in part, by reductions to community colleges and child care.

Revenues

As indicated on the table on the prior page, revenue is the second largest category of budget solution at $12.0 billion or 45 percent of the overall solution. Most of the revenue solutions are from maintaining the existing tax rates, which were raised in 2009 for a two-year period. The following are the most significant proposals:

- $1.4 billion from maintaining the vehicle license fee (VLF) at current levels.
- $4.5 billion from maintaining the sales tax rate at current levels.
- $5.3 billion from maintaining the personal income tax (PIT) surcharge ($3.3 billion) and dependent exemption credit ($2.0 billion) at current levels.
- $1.4 billion from making the current single-sales factor corporate tax multi-state apportionment mandatory instead of elective.
- $924 million from the elimination of the Enterprise Zone tax credits.
- $360 million from tax enforcement and tax amnesty proposals.

The first two revenues listed above – the VLF and the sales tax – would be dedicated to local governments to fund realigned government programs. The remainder of the revenues would remain as state revenue to fund K-12 education. These revenues provide $2.0 billion for K-12 education, which would not otherwise be provided under the Proposition 98 minimum guarantee funding formula. Hence, $2.0 billion of the revenue raised funds schools above the baseline minimum guarantee and is appropriately not scored as a budget solution. The first three revenues listed above – the VLF, the sales tax, and the PIT – would be maintained for an additional period of five years. The remaining revenues changes would be permanent.

Alternative Funding / Fund Shifts / Other

These final categories of budget solution total $1.9 billion or 7 percent of the overall solution. The following are the most significant proposals:

- $1.4 billion from loans and transfers from special funds to the General Fund, including deferrals of loan repayments. Part of this amount ($660 million) is related to the truck weight fee proposal that adjusts planned transportation loans to conform with the requirements of Proposition 22.
- $362 million in solutions from using the Disability Insurance (DI) funds to make interest payments to the federal government for Unemployment Insurance (UI) benefits. The General Fund will have to repay the DI fund for this payment in the out-years.

Government Realignment is Part of the Budget Solution

The Governor has proposed a major realignment of state programs to local governments. The Governor's proposal brings services closer to the people, allows for more integrated service delivery, and allows the services to be tailored to local situations and conditions. In total, the realignment proposal would dedicate $5.9 billion in revenues in 2011-12 to fund a menu of programs shifted from the State to the locals. The following bullets show the programs and funding in the Governor's, Phase I – Public Safety, realignment proposal. Funding for this phase would grow to $7.3 billion by 2014-15.

- Low-Level Offenders - $1.9 billion.
- Child Welfare Services / Child Protective Services - $1.6 billion.

- Parole - $841 million.
- Court Security - $530 million.
- Law Enforcement Grant Programs - $506 million.
- Juvenile Justice - $257 million.
- CalFIRE - $250 million.
- Alcohol and Drug Programs - $184 million.
- Adult Protective Services - $55 million.

The restructuring proposals would be funded by maintaining the vehicle license fee and sales tax at current levels and dedicating this funding to local government.

The Governor's Budget Summary also indicates a "Phase II" realignment, for future consideration. This phase would relate to the implementation of national health care reform.

This realignment proposal is discussed in more detail in the program areas of this Quick Summary.

Major Budget Solutions – Summary by Program Area

K-14 -- Proposition 98 Funding

Overall K-14 Funding Levels. The Governor provides $49.3 billion in ongoing Proposition 98 funding for K-14 education in 2011-12, which provides funding at the minimum guarantee level. This level of funding provides a decrease of approximately $358 million compared to the $49.7 billion provided in 2010-11.

K-14 Deferrals. While year-to-year changes in the level of ongoing Proposition 98 funding decline under the Governor's budget, the Governor proposes to maintain Proposition 98 programmatic funding for K-12 education by deferring additional program payments from 2011-12 to 2012-13. In total, the Governor proposes $2.2 billion in new payment deferrals in 2011-12, including $2.1 billion for K-12 education and $129 million for community colleges.

K-14 Mandates. The Governor proposes ongoing funding of $89.9 million for reimbursement of K-14 mandates in 2011-12. This action continues reimbursements for all K-14 mandates that were funded in 2010-11. In addition, the Governor continues to suspend those mandates suspended in 2010-11. The Administration intends to continue to participate in the working group on mandate reform established pursuant to Chapter 724, Statutes of 2010.

K-12 Education

Proposition 98 - Major Budget Year Funding Adjustments. The Governor proposes the following major program adjustments for K-12 education as a part of the 2011-12 Proposition 98 budget.

- **Attendance Growth Funded.** The Governor's budget funds positive growth based upon average daily attendance (ADA) for K-12 programs. These adjustments provide an additional $470 million for revenue limits and additional funding for a few categorical programs -- including $16.1 million for charter school block grants and $7.4 million for special education -- in 2011-12.

- **No Funding for Cost-of-Living Adjustments (COLA).** The Governor's budget does not provide a COLA for any K-12 programs in 2011-12. The estimated statutory COLA for 2011-12 is 1.67 percent, which would have provided an increase of $964.5 million for K-12 revenue limits and categorical programs that traditionally receive the adjustment. The Governor proposes to establish deficit factors for revenue limit programs in order to restore funds in future years.

- **Emergency Repair Program Increase**. The Governor proposes $53.6 in new Proposition 98 funding for the Emergency Repair Program in 2011-12. This amount includes $42.8 million in ongoing Proposition 98 funding and $10.8 million in one-time Proposition 98 Reversion Account funds. [This program provides funding for school facility repairs pursuant to the Williams settlement agreement.]

Program and Funding Flexibility: The Governor proposes to extend various program and funding flexibility options for local educational agencies (LEAs) authorized in 2009 by two additional years, as follows:

- **Most Categorical Programs**. Gives LEAs the option to use funding from approximately 40 K-12 categorical programs for any education purpose through 2014-15, instead of 2012-13, as currently authorized.

- **Routine Maintenance Contributions.** Allows LEAs to reduce contributions for routine maintenance of school facilities from three percent to one percent of General Funds through 2014-15.

- **Deferred Maintenance Program Matching Requirements.** Suspends previously required General Fund set-asides for LEAs receiving Deferred Maintenance funds for school facilities through 2014-15.

- **Instructional Materials.** Allows LEAs to use standards-aligned instructional materials adopted prior to July 1, 2008, instead of purchasing new materials, through 2014-15.

- **K-3 Class Size Reduction (CSR).** Continues the existing reduction in penalties for not meeting the K-3 CSR requirements through 2013-14. Existing penalty reductions are currently authorized through 2011-12.

- **School District Budget Reserves.** Continues the authorization for districts to reduce their minimum budget reserves for economic uncertainty from previously required levels through 2012-13. Current law restores previously required reserves in 2011-12.

Federal Funds.

- **Student Data System Vetoes.** The Governor does not restore approximately $6.5 million in federal funds vetoed by the last Administration in 2010-11 for support of the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Longitudinal Teacher Integrated Date Education System (CALTIDES). Instead, the Governor proposes to establish an interagency working group convened by the Governor's Office to review any further funding for CALPADS and CALTIDES.

- **Child Nutrition Programs.** The Governor authorizes an increase of $36.1 million in 2011-12 for the Child Nutrition program to reflect the increasing growth of school nutrition programs in local schools and other provider agencies.

General Fund Reductions - State Operations. The Governor proposes to immediately eliminate the Office of the Secretary of Education (OSE) by decreasing funding by $1.9 million in 2011-12. The Governor further proposes to shift $274,000 of this savings to the State Board of Education in 2011-12. These adjustments result in General Fund savings of $1.6 million in General Fund in 2011-12 and $400,000 in savings in 2010-11.

Higher Education

University of California (UC)

- Reduces the UC General Fund budget by $388.5 million to $2.524 billion. This General Fund reduction includes a $500 million unallocated reduction, and a $106 million increase to backfill for one-time American Recovery and Reinvestment Act (ARRA) funds.

- Assumes $183.1 million in increased student fee revenue from the fee increases approved by the UC Regents in November 2010. The Budget does not propose further student fee increases in 2011-12.

- Provides $7.1 million General Fund for increased retired annuitant health and dental benefits.

- Increases the Umbilical Cord Blood Collection Program by $4.6 million from special funds.

- Reduces funding for breast cancer research by $1.3 million to reflect decreased tobacco tax revenue.

California State University (CSU)

- Reduces the CSU General Fund budget by $326.1 million to $2.291 billion. This General Fund reduction includes a $500 million unallocated reduction, and a $106 million increase to backfill for one-time ARRA funds.

- Assumes $221.6 million in increased student fee revenue from the fee increases approved by the Board of Trustees in November 2010. Also, decreases the student fee revenue estimate for 2010-11 by $6.5 million to reflect enrollment. The Budget does not propose further student fee increases in 2011-12.

- Increase of $75.2 million in 2010-11 and 2011-12 to reflect a higher employer share of retirement costs for CalPERS.

- Increase of $1 million for additional retired annuitant dental costs.

California Community Colleges (CCC)

- Provides CCC with a total of $3.599 billion in Proposition 98 General Fund in 2011-12, which is $394.9 million less than in 2010-11.

- Reduces apportionments by $400 million to reflect reforms in census accounting practices.

- Increases apportionments by $110 million for enrollment growth, sufficient for about 22,700 FTES.

- Increases student fees at the community colleges from $26 per unit to $36 per unit. This increases the annual full-time tuition to $1,080. (The average full-time student takes 30 units annually.) Total new revenue is estimated at $110 million, and apportionments are reduced by the same amount.

- Proposes a policy change to decouple fee waiver increase from fee waiver administrative funding, so that administrative funding does not increase when fees increase. This policy change would provide $2.9 million in savings.

- Increases deferrals by $129 million to a total of $961 million in year-to-year CCC deferrals.

- Increase of $20 million in 2010-11 from the Proposition 98 Reversion Account for Career Technical Education.

Student Financial Aid

- Provides the California Student Aid Commission (CSAC) with $577.6 million General Fund, which is a reduction of $646.7 million from 2010-11 (from $1,224.3 million to $577.6 million). This reduction reflects a shift from General Fund support to Federal Temporary Assistance to Needy Families (TANF) reimbursements of approximately $946.8 million. Also, the Cal Grant program is expected to increase by $369.5 million due to increased participation and increased tuition at UC and CSU.

- Decreases CalGrants General Fund support by $30 million be backfilled by a transfer from the Student Loan Operating Fund (SLOF).

- Increase of $52,000 for state operations and $889,000 for local assistance from reimbursements for both 2010-11 and 2011-12 from an interagency agreement with CalEMA to recruit and retain qualified individuals to serve as public defenders and prosecutors.

Hastings College of the Law

- The proposed budget provides Hastings College of the Law with $6.9 million General Fund, a reduction of $1.4 million from 2010-11.

California State Library

- Reduces the State Library budget by $30.4 million, reflecting an elimination of GF local assistance for the Public Library Foundation, California Library

Literacy and English Acquisition Services, and The California Library Services Act.

Child Development

- Creates $716 million in program savings in all child care programs except preschool by:
    - Eliminating child care services for 11- and 12-year-olds, for a savings of $59 million.
    - Reducing program eligibility criteria to 60 percent of the State Median Income (SMI) from 75 percent of SMI, for a savings of $79 million.
    - Reducing the level of subsidies by 35 percent across the board for a savings of $577 million.

- In 2010-11 CalWORKs Stage 2 and Stage 3 child care was funded with one-time funds and one-time ARRA federal funds. The Governor's budget fully restores these programs in the budget year, including the restoration of Stage 3 funds vetoed by Governor Schwarzenegger. This is before the programmatic reductions described above.

- Proposes that subsidized families pay a co-payment directly to the child care provider in lieu of the current family fees. The co-payment will be the difference between what the provider charges and the state subsidy.

Proposals to Address Current Year Shortfall in Stage 3 Child Care:

- Increase CalWORKs Stage 3 child care by $58 million in 2010-11 from federal funds to comply with the court order to fund Stage 3 child care through December 31, 2010.
- Increase CalWORKs Stage 3 child care by $52.6 million in 2010-11 from Proposition 98 funds to provide Stage 3 services beginning April 1, 2011, at a reduced subsidy rate.

Health Care, Public Health, Developmental Services and Mental Health

- **Healthy Families Program.** The budget proposes total expenditures of $1.054 billion (total funds) for this program to serve about 900,000 children up to age 19 with incomes up to 250 percent of poverty who are not eligible for Medi-Cal enrollment. The budget proposes the following cost-containment strategies:

  - *Eliminates Vision Benefit.* A reduction of $900,000 (General Fund) in 2010-11 and $11.3 million (General Fund) in 2011-12 is assumed by eliminating vision coverage, including access to eye examinations and glasses. Only medically necessary vision-related services, such as eye surgery and treatment for eye injuries would be covered.

  - *Increases to Premiums Paid by Families.* The budget proposes to increase the monthly premiums paid by families for their children's health care coverage for a decrease of $1.9 million (General Fund) in 2010-11 and $22.2 million (General Fund) in 2011-12. This requires trailer bill legislation and assumes an implementation date of June 1, 2011. Specifically, the proposal would do the following:

    - Increases monthly premiums for families from 151 percent to 200 percent of poverty by $14 per child (from $16 to $30) and increases the family monthly maximum by $42 for a total of $90 for a family of three or more.

    - Increases monthly premiums for families from 200 percent to 250 percent of poverty by $18 per child (from $24 to $42) and increases the family monthly maximum by $54 for a total of $126 for a family of three or more.

  - *Increases Copayments Paid by Families.* This proposal would increase co-payments for emergency room visits from $15 to $50 and inpatient stays from $0 to $100 per day with a $200 maximum to conform to a similar Medi-Cal cost-containment proposal discussed below. A reduction of $5.5 million (General Fund) is assumed in 2011-12 from this action.

  - *Continuation of Managed Care Plan Provider Tax.* A savings of $97.2 million (General Fund) is assumed by making the existing provider tax on managed care organizations permanent. It is presently set to expire as of June 30, 2011.

- **Medi-Cal Program.** The budget proposes total expenditures of $41.6 billion ($13 billion General Fund) for 2011-12 to serve about 7.7 million Medi-Cal eligible individuals. The significant General Fund policy issue adjustments are as follows:

  - *Require Mandatory Co-Payments of Medi-Cal Enrollees.* The budget assumes a reduction of $557.1 million (General Fund) through the implementation of mandatory co-payments for Medi-Cal enrollees to receive health care services. All Medi-Cal enrollees, including children, pregnant women and people living in Long-Term Care facilities would be required to pay or be denied medical services. This proposal was denied by the Legislature last year.

    The proposal requires trailer bill legislation and a federal Waiver for implementation. The proposed mandatory co-payments are as follows:

Mandatory Copayments	2011-12 GF Reduction
$5 Copayment for Physician and clinic visits, including Federally Qualified Health Centers (All ages)	$152.8 million
$5 Copayment for Dental Office Visits (Adults)	$1.3 million
$3 and $5 Pharmacy Copayments (All ages)	$140.3 million
$50 Copayments for Non-emergency Emergency Room Visits (All ages)	$73.2 million
$50 Copayments for Emergency Room Visits (All ages)	$38.4 million
$100 Copayment per Hospital Inpatient Day with a Maximum of $200 per Admission (All ages)	$151.2 million

  - *Shifts Proposition 10-- the California Children and Families First Act of 1998—Reserves to Medi-Cal.* A redirection of $1 billion in unexpended reserves from Proposition 10 Funds is proposed to backfill for General Fund support within Medi-Cal for health care services provided to children aged 5 and under. Subject to voter approval, this proposal would take effect July 1, 2011.

- *Reduces Medi-Cal Rates by 10 percent.* The budget proposes to reduce Medi-Cal provider payment rates by 10 percent for Physicians, Pharmacy, Clinics, Medical Transportation, Home Health, Adult Day Health Care, certain Hospitals, and Nursing Homes. A reduction of $709.4 million (General Fund) is assumed from this action. This proposal requires federal approval.

  It should be noted that State and federal court rulings have prevented Medi-Cal rate reductions in the past and that the Administration is seeking a review of the litigation by the United States Supreme Court. The Administration anticipates a decision to hear the State's case by the Court by mid-January.

- *Limits Utilization of Services ("Hard Cap").* The budget proposes a reduction of $217.4 million (General Fund) by establishing maximum annual benefits for certain services. This proposal was previously denied by the Legislature. Specifically, it would limit the following services:

  - Hard cap of 10 visits for outpatient primary and specialty care provided by Physicians ($196.5 million GF reduction).
  - Hard cap of 6 prescriptions (adults) ($11 million GF reduction).
  - Hard cap on durable medical equipment (adults) ($7.4 million GF reduction).
  - Hard cap on medical supplies, including incontinence supplies, urological supplies and wound care ($2 million GF reduction).
  - Hard cap on hearing aids ($1,510 dollar cap) ($506,000 GF reduction).

  The DHCS states that this proposal establishes utilization controls at a level that ensures 90 percent of Medi-Cal enrollees who utilize a particular service would remain unaffected.

- *Eliminates Adult Day Health Care.* A reduction of $176.6 million (General Fund) is assumed by eliminating this program that serves about 34,000 elderly individuals.

- *Limit Enteral Nutrition.* This proposal would limit enteral nutrition to Medi-Cal enrollees who utilize tube feeding.

- *Eliminate Over*-the-Counter Drugs. The budget assumes a reduction of $2.2 million (General Fund) by eliminating Medi-Cal reimbursement for certain cough and cold drugs for Adults.
- *Medi*-Cal *Managed Care Plans*. The budget proposes an increase of $160 million (General Fund) to provide rate adjustments to Managed Care Plans pending actuary analysis and approval as required by federal law.
- *Hospital Fee Extension.* The budget assumes passage of legislation in the current-year to extend the existing Hospital Fee which sunset as of December 2010. A savings of $160 million (General Fund) is assumed for 2010-11 by extending the fee for six-months (January to June 2011).

- **AIDS Drug Assistance Program (ADAP)**. The budget proposes total expenditures of $518.5 million ($163.9 million General Fund) for over 42,000 low-income individuals living with HIV and AIDS.

  An increase in client cost-sharing is proposed to obtain a net General Fund savings of $16.8 million. Under this proposal, a client's share of cost would increase to the maximum percentages allowable under federal law for specified ADAP clients (representing about 45 percent of all ADAP clients), but would limit ADAP clients with private insurance to a lower cost sharing percentage. The proposed maximum amounts are as follows:

  - Clients with incomes of up to 100 percent of poverty: No cost sharing
  - Clients with incomes of 101 percent to 200 percent: 5% of gross income
  - Clients with incomes of 201 percent to 300 percent: 7% of gross income
  - Clients with incomes greater than 300 percent: 10% of gross income

- **Every Women Counts Program (EWC).** Shifts $10.6 million (General Fund) provided in 2010-11 to 2011-12 due to the later enactment of the Budget Act of 2010 and a five-month delay in implementing program changes. This program provides breast cancer screenings, cervical cancer screenings, and referral for cancer treatment.

- **Developmental Services**. The budget proposes to reduce by $750 million (General Fund) the developmental services system through receipt of additional federal revenues, expenditure reductions and cost-containment measures, with the intent of maintaining the Lanterman entitlement to community-based services for individuals. Key aspects of this proposal include the following:

- *Implement Statewide Standards.* This proposal would establish statewide service standards at the State-level that set parameters and the array of services available through the Regional Centers. In developing these standards, the DDS would consider eligibility for the service, duration, frequency and efficacy of the service, qualification of service providers, service rates, and parental and consumer responsibilities. No specific dollar reduction amount is provided for this sweeping proposal; however, it is stated that implementation of these standards will achieve significant General Fund savings to obtain when combined with the other reductions listed below, an overall system reduction of $750 million (General Fund). Considerable legislation would be necessary for implementation.

- *Continuation of Regional Center Operations & Service Provider Payment Reductions.* A reduction of $91.5 million (General Fund) in 2011-12 is assumed by continuing the 4.25 percent reduction to Regional Center Operations and to various service providers which was enacted last year and scheduled to sunset as of June 30, 2011.

- *Increase of Federal Funds.* A savings of at least $65 million (General Fund) is to be achieved through maximizing available federal funds associated with the State's Home and Community-Based Waiver. The proposal would focus on additional consumer enrollment into the Waiver and measures related to the federal Patient Protection Act of 2009.

- *Continuation of Proposition 10 Funds.* The budget assumes $50 million in General Fund savings by continuing to use $50 million in funds from the California Children and Families Commission for the Early Start Program.

- *Increases Accountability and Transparency.* The Administration states that a proposal will be forthcoming to set parameters on the use of State funds for administrative expenditures of Regional Centers and services providers, increasing audit requirements and disclosure requirements, and maximizing recoveries from other responsible parties. No specific dollar reduction amount is yet available for this proposal.

- **Mental Health Services—Redirection of Proposition 63 Funds and Realignment.** First, the budget proposes to redirect a total of $861 million in Mental Health Services Act (MHSA) Funds as established under Proposition 63 of 2004 to backfill for General Fund support in 2011-12. This redirection would be a one-time use of Proposition 63 funds and would be coming from existing, currently unexpended reserves. Statutory changes would be necessary.

These redirected funds would be used to support the following programs in 2011-12:

- *Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.* A total of $579 million (MHSA Funds) would be provided for EPSDT in lieu of General Fund support. This federally mandated program under Medicaid (Medi-Cal) provides mental health services to low-income children under the age of 21.

- *Mental Health Managed Care.* A total of $183.6 million (MHSA Funds) would be provided in lieu of General Fund support. This Medicaid program provides psychiatric inpatient hospital services and outpatient treatment services through County Mental Health Plans.

- *Mental Health Services to Special Education Students ("AB 3632").* A total of $98.6 million (MHSA Funds) would be provided in lieu of General Fund support. Under this mandated program, mental health services for special education students, as specified in their Individual Education Plan (IEP), are provided by County Mental Health Plans.

Second, the budget proposes that commencing in 2012-13 for the above listed programs, along with *existing* community mental health services provided to county-eligible low-income individuals (currently funded with 1991 County Realignment Funds), would be the responsibility of County Government.

Human Services

- ***California Work Opportunity and Responsibility to Kids (CalWORKs).*** The Governor's Budget proposes a reduction of $1.5 billion GF ($567 million GF savings are achieved in the budget for the Department of Social Services and remaining $947 million in savings results from the transfer of federal Temporary Assistance to Needy Families funding to offset GF costs in the Student Aid Commission) in the CalWORKs welfare-to-work program due to the proposals summarized below. As a result, 122,000 families would lose all CalWORKs assistance, including cash aid and supportive services. The estimated program caseload would drop from 580,000 families to 458,000 families (a 21 percent decrease).

- Effective July 1, 2011 and subject to some exceptions, the Governor's budget would lower the total length of time that families can receive CalWORKs assistance from 60 months to 48 months. After this time limit, most children would continue to receive assistance only if their parents meet work participation requirements. This proposal is estimated to save $698 million GF in 2011-12.

- Effective June 1, 2011, the Governor's budget would reduce monthly grant payments by 13 percent. As a result, the maximum grant for a family of three in a high-cost county would be reduced from $694 to $604 per month. This grant level would place families who receive maximum CalWORKs and CalFresh (formerly called food stamps) benefits at 71 percent of the federal poverty level (FPL), instead of roughly 76 percent under current grant levels. This proposal is estimated to result in $405 million GF savings.

- Effective July 1, 2011, the Governor's budget would extend a reduction of approximately $377 million GF to county funding for welfare-to-work services, administration, and child care costs [known as the "single county allocation"]. This level of reduction was previously approved on a temporary basis for the 2009-10 and 2010-11 budget years. However, in 2009-10 and 2010-11, a number of families with very young children were correspondingly granted exemptions from welfare-to-work requirements. No similar exemptions are proposed in the Governor's 2011-12 budget.

- Effective July 1, 2011, the Governor's budget would also eliminate eligibility for subsidized child care services for 11 and 12-year-olds. This proposal is estimated to impact 2,500 families receiving Stage 1 child care under CalWORKs and to result in $34 million GF savings under the Department of Social Services. See the Education section of this report for additional details on this and other child care-related proposals.

- ***In-Home Supportive Services (IHSS).*** The Governor's budget proposes $486.1 million GF savings in the IHSS program as a result of the following proposals, effective July 1, 2011:

  - The Governor's budget would eliminate Domestic & Related services for most IHSS recipients who reside in shared living, as opposed to living alone.

The proposal is estimated to impact approximately 300,000 of the 456,000 IHSS recipients and to result in $237 million GF savings.

- The Governor's budget would reduce by 8.4 percent the hours of service that IHSS recipients would receive (based on the hours a social worker has assessed that they would need in order to accomplish the critical activities of daily living without entering into out-of-home care). This reduction would be on top of a 3.6 percent reduction enacted in 2010-11. Recipients who would be at risk of placement in out-of-home care as a result of the reduction would be eligible to request supplemental hours. As a result, the proposal assumes that 21,000 recipients would continue to receive all of their hours as assessed prior to the reduction, and another 62,000 would receive a partial restoration of their hours. The proposal is estimated to result in $128 million GF savings.

- The Governor's budget would eliminate IHSS services for recipients who do not obtain a written physician certification that in-home services are needed to prevent their placement in out-of-home care. As a result, the Governor's budget estimates that 42,000 IHSS recipients would lose all services under the program, for savings of $120.5 million GF in 2011-12 (growing to approximately $192 million GF and an additional 4,000 recipients in 2012-13).

- The Governor's budget would eliminate state funding for Public Authority Advisory Committees for savings of $1.6 million GF.

- ***Supplemental Security Income/State Supplementary Program (SSI/SSP).*** Effective June 1, 2011, the Governor's Budget proposes savings of $15 million GF in 2010-11 and $177 million GF in 2011-12 by reducing the maximum SSI/SSP grants for approximately one million individuals who are aged, blind, or disabled by $15 per month (from $845 to $830, which is the minimum federally required). As a result, these individuals' incomes would be equal to roughly 92 percent of the Federal Poverty Level.

- ***Multi-Purpose Senior Services Program (MSSP).*** The Governor's budget proposes to eliminate MSSP, for savings of $19.9 million GF. As a result, approximately 12,000 individuals over the age of 65 who are eligible for Medi-Cal and have been certified as eligible for placement in a nursing home would lose MSSP case management services.

- ***Transitional Housing Program-Plus (THP-Plus) Program.*** The Governor's budget proposes a reduction of $19 million GF (or 57 percent of the total $36 million in funding) for THP-Plus, which provides housing and supportive services to former foster youth between the ages of 18 and 24. The proposal assumes that some 18 and 19-year-old youth who may otherwise have participated in THP-Plus programs would be served by programs that are newly funded under the implementation of Chapter 559, Statutes of 2010 (AB 12).

- ***Child Support Services.*** The Governor's budget proposes to suspend counties' receipt of a share of child support collections that are used to offset the costs of public assistance provided to custodial parents (known as "assistance cases"). As a result, the state would save $24.4 million GF.

- ***Realignment of Substance Abuse Treatment Programs.*** The Governor's Budget proposes to give counties more direct funding and responsibility for providing inpatient and outpatient drug treatment services. The approximately $440 million ($184 million GF) in realigned treatment programs would include drug court programs and Narcotic Treatment Program, Outpatient Drug Free and Perinatal Drug Medi-Cal services.

- ***Realignment of Foster Care and Child Welfare Services (CWS).*** The Governor's budget proposes to transfer primary responsibility for approximately $4.1 billion ($1.6 billion GF) of CWS, including foster care, adoptions, and child abuse prevention, programs to the counties. Under the Governor's proposal, the counties would be given additional flexibility to operate these programs. This flexibility would, however, be subject to overarching programmatic requirements imposed by the federal government as a condition of its funding of CWS programs.

- ***Realignment of Adult Protective Services (APS).*** The Governor's budget proposes to transfer $122 million ($55 million GF), or all of the funding for APS, to the counties. Under this proposal, the counties would have complete flexibility to administer and manage APS programs.

Resources and the Environment

- ***Fire Protection Realignment*** – Proposes the Board of Forestry redefine State Responsibility Areas (SRA) to shift responsibility for fire protection and medical emergency response in populated wildland areas from the Department of Forestry and Fire Protection (DFFP) to local government. An estimated total realignment of up to $250 million would not be realized until the Board of Forestry's reclassification of SRA is complete. There is no funding proposal associated with this realignment and the DFFP would continue to provide fire service in SRA until the process is finalized.

- ***Fire Protection Staffing Reduction*** – Deletes $3.6 million GF in the CY and $30.7 million GF ongoing by eliminating the 4th firefighter per engine staffing during peak fire season in summer and early fall. This restores firefighter engine staffing to pre-2003 policy levels.

- ***Reductions to State Parks*** – Reduces $11 million GF in the BY and $22 million GF ongoing in the Department of Parks and Recreation (Parks) by implementing a process to partially or fully close state parks. The administration proposes to create a plan to identify park closures that would minimize impacts by closing parks on weekdays and off-peak seasons, as well as closing low-attendance park units.

- ***Reductions to Food and Agriculture Programs*** – Deletes $32 million GF in the Department of Food and Agriculture by eliminating state funding for support of the Network of California Fairs (in 2009-10, legislation shifted funding for the network from horse-racing revenue to General Fund). Additionally, the budget proposes unallocated reductions of $15 million GF in the BY and $30 million GF ongoing from the Department of Food and Agriculture. The reduction plan will be created by a Secretary of Food and Agriculture convened group that will review the long-term viability of state programs requiring General Fund support.

- ***Increase Water Board Program Fees*** – Deletes $12.8 million GF for various water quality regulatory programs—including Water Rights, Irrigated Lands, and National Pollutant Discharge Elimination Systems programs—and backfills with an equal amount of revenue from increases to existing fees. The proposal also includes a $6.1 million shift to authorize fees for basin planning activities required by the Federal Clean Water Act.

General Government

- ***Governor's Office*** – reduces the Governor's Office by $4.5 million ($3.7 million GF), achieved by eliminating positions within the Office. In addition, greater current year savings will be achieved by eliminating the office of the American Recovery and Reinvestment Act Inspector General (ARRA IG) six months early [the 2010-11 budget provided a total of $2.8 million ($1.7 million GF) on a one-time limited-term basis for the ARRA IG].

- ***California Technology Agency (formerly Office of the Chief Information Officer)*** – reflects an increase of $19.7 million (special fund) and 23 positions in 2011-12 as a result of data center workload growth, including $10.6 million to support migration of state agencies to a shared e-mail system. In addition, the January budget reflects an increase of $966,000 (special fund) and nine positions in 2011-12 to transition independent oversight of state information technology projects from vendors to the Agency.

- ***Secretary of State*** – reflects an increase of $81.6 million (federal funds) in spending authority in 2011-12 to continue the implementation of statewide mandates of the federal Help America Vote Act of 2002, including VoteCal, the federally required centralized, interactive, computerized voter registration database.

- ***California Science Center*** – reflects an unallocated reduction of $3.7 million General Fund to the Science Center budget.

- ***Department of Housing and Community Development*** – proposes a decrease of $99 million (special fund) in 2011-12 to reflect a one-time pause in the issuance of state bonds for new loans and grants for housing projects. This does not affect projects that are already underway.

- ***Unemployment Insurance Fund Deficit*** – proposes an increase of $362.3 million GF to make the first interest payment due to the federal government for the quarterly loans the Employment Development Department (EDD) has been obtaining from the federal government since January 2009 to cover the Unemployment Insurance (UI) fund deficit. The January budget proposes that this expenditure be offset by a transfer from the Disability Insurance (DI) Fund to the GF, resulting in no GF cost in 2011-12. The January budget proposes that the loan from the DI Fund to the GF will be repaid by the GF over the next four years. The January budget does not include a proposal to address the underlying insolvency of the UI fund.

The UI fund deficit was $10.3 billion at the end of 2010 and is expected to increase to $13.4 billion at the end of 2011. The federal loans have permitted California to make payments to UI claimants without interruption. Generally, loans lasting more than one year require interest payments; the federal American Recovery and Reinvestment Act (ARRA) of 2009 provided temporary relief to states from making interest payments on UI loans through December 31, 2010. With the expiration of the ARRA provisions, the first interest payment to the federal government is due in September 2011 with growing interest obligations in the out years. Federal law requires that the interest payment come from state funds.

- ***Employment Development Department/Automated Collection Enhancement System (ACES)*** – reflects $19.5 million GF for continuation of ACES, an information technology project intended to improve EDD's ability to track, collect, and audit the payment of employer payroll taxes, including UI and personal income taxes. The ACES solution is expected to increase GF revenue by $27 million in 2011-12 by improving collection capabilities for delinquent accounts.

- ***Veterans Homes of California (VHCs)*** – reflects a net increase of $39.8 million GF for the VHCs, including an augmentation of $32.1 million for full-year and one-time adjustments to phase-in staffing and residents at veteran's homes in Greater Los Angeles Ventura County (GLAVC), Redding, and Fresno; $4.7 million for furlough and personnel leave program reductions which are only reflected in the 2010-11 budget; and $9.3 million in increased lease revenue bond payments for VHC-GLAVC. The Redding and Fresno facilities are expected to open in early calendar year 2012. The expenditures are offset by an increase of $5.8 million in GF revenues.

- ***County Veteran Service Offices (CVSOs)*** – proposes a decrease of $9.9 million GF ($7.6 million local assistance and $2.3 million state operations) for CVSOs, effectively eliminating GF support for CVSOs as well as Operation Welcome Home. Operation Welcome Home was established and funded in the 2010-11 budget, increasing CVSO support by $5 million GF.

- ***State Operations*** – reflects $200 million in savings associated with identification of efficiencies in state operations, such as reorganization to eliminate duplication and unnecessary functions; review of state peace officer and safety classifications; and reductions in other areas such as contracting, fleet management, and cell phone use.

- ***Sale Leaseback of 11 State Facilities*** – continues to score the $1.2 billion in revenue included in the 2010-11 Budget attributable to the sale and leaseback of 11 state facilities (Chapter 20, Statutes of 2009-10 Fourth Ex Session). The January budget notes, however, that a lawsuit has been filed challenging the sale and that, at this time, the completion of the transaction is uncertain.

- ***Small Business Loan Guarantee Program*** – reverts $20 million provided to the program in the 2010 Budget Act, but indicates $84.4 million in federal funds are available to the program under the Small Business Jobs and Credit Act of 2010.

Employee Compensation

- ***Bargaining Units With Expired Contracts/Salary Reductions*** – reflects savings of $308.4 million GF, representing a ten percent salary decrease for employees represented by the six bargaining units that do not currently have contracts with the state. These savings will be achieved through collective bargaining or other administrative actions. The six bargaining units represent 25.4 percent of executive branch employees and include the following: Attorneys (CASE); Correctional Peace Officers (CCPOA); Protective Services and Public Safety (CSLEA); Professional Engineers (PECG); Professional Scientific (CAPS); and Stationary Engineers (IUOE).

- ***Bargaining Units Under Contract/Personal Leave Program*** – reflects carryover savings of $71.6 million GF resulting from the collectively bargained 12-month personal leave program which began in fall 2010 and therefore carries over into, and will end in, 2011‑12. The 13 bargaining units that signed contracts in 2010, as well as the compensation package in place for most excluded employees, included this 12-month, one-day-per-month, unpaid personal leave program.

- ***Health Care Savings*** – reflects savings of $72 million GF from the creation of a core health care plan option to augment existing plans and provide fundamental coverage at a lower premium. The savings would be achieved through budget trailer bill language that directs the California Public Employees' Retirement System to: (1) negotiate and add a core health plan option to the existing portfolio of health plans and (2) include a state representative in the health contract negotiations for the purpose of shaping the core health plan option and identifying and advocating for more economical options within existing plans.

- ***CalPERS Contributions*** – reflects an increase of $235.6 million over 2010‑11 contributions for a total of $2.4 billion in 2011‑12. The net changes in 2011‑12 are a result of various factors that include anticipated changes in CalPERS' actuarial assumptions and past investment performance which are partially offset by increased employee contributions.

Local Government

- ***Realignment*** – provides $5.9 billion in revenue to local governments for a realignment proposal. This proposal is discussed in the introduction and in the subject matter sections of this summary.

- ***Redevelopment*** – eliminates redevelopment agencies (RDAs) by prohibiting the issuance of new debt. Funding for RDAs would continue as necessary to retire outstanding debt. In 2011-12, $1.7 billion in RDA funds would be directed to offset state costs in the RDA areas. For example, RDA funds could be directed to offset the state cost of Trial Courts. In the out-years, the RDA property tax increment would supplement funding for schools, cities, and counties. In the case of schools, the redirected RDA funds would not be included in the Proposition 98 calculation, and therefore would be a net new funding source for education.

- ***Local Mandates*** – suspends and defers payment on local mandates for total GF savings of $322 million. Specifically, the Governor proposes to defer annual payment to local governments for mandate costs incurred prior to 2004-05 for GF savings of $94 million – a similar deferral was adopted with the 2010 Budget Act. The Governor proposes to continue the suspension of most mandates into 2011-12 for savings of $228 million. In general, the only mandates funded and in effect would be those related to law enforcement, property tax, and In-Home Supportive Services (IHSS). The "AB 3632" student mental health mandate would be funded with Proposition 63 funds, and later, part of the realignment proposal.

- ***Williamson Act*** – suspends funding for the Williamson Act open space subventions. Specifically, reverts the $10 million provided in 2010-11 and provides no funding for 2011-12. No funding was provided in 2009-10 due to a Governor's veto. Full program funding would require about $40 million.

- ***Payment Deferrals*** – indicates that payment deferrals to local government for state cashflow purposes will be needed for 2011-12. The Governor's Budget summary says it is highly likely the deferrals enacted for 2010-11 will need to be continued in 2011-12.

Revenue

Revenues Dedicated to Support Education

- Proposes $3.3 billion over the current and budget years from maintaining the existing 0.25 percent Personal Income Tax (PIT) surcharge for five years. The annual revenue generated from maintaining this surcharge is approximately $2 billion. The Governor proposes to extend this tax via a voter approved ballot initiative in June. These funds would be dedicated to K-12 education.

- Proposes $2 billion over the current and budget years from maintaining the current dependent exemption credit, which is aligned to be equal to the personal exemption credit ($99) for five years. The annual revenue from maintaining the current dependent credit is $1.2 billion. The Governor proposes to extend this tax via a voter approved ballot initiative in June. These funds would be dedicated to K-12 education.

- The $5.3 billion in additional state revenues listed above increases the Proposition 98 guarantee to fund K-14 education by $2 billion.

Revenues Dedicated to Realignment

- Proposes $5.9 billion in revenues be dedicated to the realignment of government services from state government to local governments. The Governor proposes to maintain the following tax rates via a voter approved ballot initiative in June:
    - Maintaining the current 6 percent state sales tax and dedicating 1 percent to local governments ($4.5 billion); and

- o Maintaining the current 1.15 percent VLF rate, with 0.5 percent dedicated to local governments ($1.4 billion).

Tax Policy Changes

- Proposes $1.4 billion over the current and budget years from changing current law to make the multi-state corporate income apportionment method mandatory instead of elective. The annual revenue from this policy change is approximately $950 million.

- Proposes $924 million over the current and budget years by eliminating the income tax incentives currently available for certain expenditures made in designated enterprise zones. The annual revenue from this policy change is approximately $580 million.

Tax Enforcement

- Proposes $220 million over the current and budget years from a limited tax amnesty program that allows tax shelter cases in audit and protest to settle without penalties.

- Proposes $40 million over the current and budget years to implement the Financial Institutions Records Matching (FIRM) program that would allow Franchise Tax Board access to bank records of delinquent taxpayers.

Transportation

- ***Truck Weight Fees*** – directs a portion of existing truck weight fees to transportation-related general obligation bond debt payments ($962.4 million) and loans to the General Fund (about $660.3 million). By fiscal year, $756.4 million would be shifted in 2010-11 and $866.3 million would be shifted in 2011-12. This funding replaces similar payments from fuel excise taxes and other sources, which may be prohibited under the provisions of the recently adopted Proposition 22. The excise tax revenue not directed to General Fund relief due to Proposition 22, would instead backfill the State Highway Account for the truck weight fee shift. With this proposed adjustment, transportation expenditures and General Fund solutions would remain at similar levels to what was anticipated in the “Fuel Swap” legislation enacted in 2010.

- ***Transit Funding*** – provides about $330 million for transit operations by shifting all of the new diesel sales tax revenue to transit operations. This revenue is associated with last year's "Fuel Swap" legislation, but this change is necessary to maintain transit funding at this higher level, because Proposition 22 actually lowers funding for transit operations from the base diesel sales tax (from 75 percent of revenues to 50 percent of revenues).

- ***Re-enact Fuel Swap*** **-** Proposes to reenact with a two-thirds vote the fuel excise tax increase and fuel sales tax decrease that was approved in the 2010-11 Fuel Swap. By approving it with a two-thirds vote, rather than a majority, this action will protect this revenue source for transportation funding and GF relief from being rescinded by the passage of Proposition 26.

- ***Non-Article XIX funds*** – shifts $77.5 million in "non-Article XIX" State Highway Account Funds to the Transportation Debt Service Fund to reimburse the GF for transportation-related debt service. These funds are not subject to constitutional expenditure restrictions and, in the past, have generally been direct to transit.

- ***Tribal Gaming Funds*** – continues to redirect $100.8 million in Tribal Gaming Revenues to the GF – similar amounts were redirected in 2008-09 through 2010-11. This funding would otherwise go to transportation special funds in repayment of transportation loans from 2001-02 and 2002-03.

- ***Loan Repayment Deferrals*** - repayment from 2011-12 to 2012-13 for a loan made from the State Highway Account to the GF in 2009 – this would result in a GF solution of $135 million.

- ***Caltrans Vehicle Replacement and Retrofit*** – provides $62.1 million from the State Highway Account to replace and retrofit Caltrans vehicles to meet state, federal, and local air quality requirements.

- ***High-Speed Rail*** – provides 2011-12 funding of $192 million ($89.7 million in federal funds and $102.4 million in Proposition 1A of 2008 bond funds). This is a $28.9 million decrease from the 2010-11 funding level. The State has received federal grants of $3.6 billion for the project, with direction from the Federal Railroad Administration that construction on the system should initiate in the San Joaquin Valley. No funding is provided for construction, and the Administration indicates construction would likely not start until 2012-13.

Major Budget Proposals in Corrections and Judiciary

- ***Realignment*** - Proposes total of $3.9 billion in realignment of state corrections and judiciary responsibilities to local governments by providing them with tax revenues for specified purposes. The state responsibilities proposed for realignment are (1) low level offenders, (2) adult parole, (3) juvenile justice, (4) criminal justice grants, and (5) court security. These shifts are proposed to occur prospectively. So, much of the costs will shift to local governments over several years. Therefore, the administration proposes that a share of the tax revenues not used by local governments for realignment purposes in 2011-12 be sent to the state as reimbursements for ongoing state responsibilities. The responsibilities proposed for realignment are the following:

  - Low Level Offenders ($1.8 billion) – Proposes that offenders without current or prior conviction for a serious, violent, or sex offense will no longer be sent to state prison, but instead will serve their sentences in county jail. Each year, tens of thousands of inmates are sent to prison for less than a year.

  - Adult Parole ($741 million) – Proposes that all inmates released from prison will be supervised by county probation departments rather than the state parole agency. There are currently about 110,000 parolees statewide.

  - Juvenile Justice ($257 million) – Proposes to eliminate the Division of Juvenile Justice. All juvenile offenders adjudicated for criminal offenses will be managed by county probation departments. There are currently about 1,300 offenders in state juvenile justice facilities, down from a high of over 10,000 offenders.

  - Criminal Justice Grants ($506 million) – Proposes to continue funding for various local criminal justice grant programs that are currently funded from the 0.15 percent temporary increase in the VLF. Grant programs include the Citizens Option for Public Safety (COPS), Juvenile Justice Crime Prevention Act program (JJCPA), juvenile probation and camps programs, booking fees, and the Small/Rural Sheriffs program.

- Court Security ($530 million) – Proposes to transfer funding of court security from the courts budget to the counties. In all but two counties, court security is currently provided by sheriffs.

- ***Judicial Branch*** - Proposes to use $860 million in funds that historically have gone to redevelopment agencies to offset trial court General Fund costs on a one-time basis.

- ***Judicial Branch*** - Proposes permanent $200 million reduction to state courts. The Administration intends to work with stakeholders and the Judicial Branch to identify ways to implement this reduction. Options include reducing potential duplication of some state operations and evaluating the availability of fund reserve balances for short-term savings.

- ***Judicial Branch*** - Proposes to repeal the trial courts conservatorship program - $17 million. Funding for this program has been deferred on a one-time basis annually. Elimination of the statutory requirements would relieve courts of the mandated responsibilities, while courts currently choosing to implement this program could continue to do so.

- ***California Department of Corrections and Rehabilitation*** - Provides an increase of $395 million in the California Department of Corrections and Rehabilitation (CDCR) to address structural budget shortfalls related to costs for overtime, salaries and wages, medical guarding, and legal affairs. Also increases requirements on the department to report on allotments and expenditures multiple times each year to allow for increased oversight and accountability.

- ***CDCR Inmate Health Care*** - Reflects current-year savings of only $94 million of the $820 million in reductions applied to the Receiver's Medical Services Program. Budget includes an additional $83 million (5 percent) reduction in this program in 2010-11 and $163 million (10 percent) in 2011-12. The administration believes these savings can be achieved through cost-saving measures.

- ***CDCR Programs*** - Proposes $150 million in one-time cuts to adult offender rehabilitation programs with parole, education/vocation, and substance abuse treatment programs each receiving $50 million in reductions. Cuts are proposed as temporary to allow CDCR time to redesign delivery of services to a smaller inmate and parole population as would occur under the realignment proposals.

- ***CDCR Probation Grants*** - Provides $59 million for the California Community Corrections Performance Incentive Act of 2009 (SB 678). This program provides county probation departments with a share of state savings accrued due to reductions in prison admissions of adult felony probation failures. The Act required counties to implement evidence-based supervision and treatment practices for adult probationers to receive these funds.

- ***Department of Justice*** – Proposes reduction of $50 million General Fund and an increase of $60 million Legal Services Revolving Fund in the Department of Justice (DOJ). Currently, DOJ has a General Fund appropriation for providing legal services and representation to state departments. This proposal reflects the conversion of state General Fund clients from a non-billable to billable status when using DOJ for legal representation. The budget provides General Fund allocations to the 11 largest state General Fund clients of DOJ.