



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

SENATOR MARK LENO, CHAIR

Quick Summary

February 18, 2011

The purpose of this Quick Summary is to provide members and staff of the State Senate with a review of the actions adopted by the Senate Budget and Fiscal Review Committee in February 2011. If you have questions, please contact the committee at (916) 651-4103.

Senate Approves Balanced Budget

On February 18, 2011, the Senate Budget and Fiscal Review Committee completed its work on the Senate version of the 2011-12 Budget. This concludes 30 subcommittee meetings and 4 full committee hearings where extensive testimony and public input was taken on the Governor's budget proposals and other alternatives.

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

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

The Senate version of the budget adopts the Governor's general framework for balancing the budget.

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

- Expenditure Reductions: \$12.7 billion
- Revenues: \$12.0 billion
- Other Solutions: \$ 3.0 billion
- Total Solutions: \$27.6 billion

Major Expenditure Reductions

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

K-14 Education. Adopted the Governor’s Proposition 98 funding level, which includes \$2 billion in expenditures attributable to the extension of certain temporary taxes. Overall, the Proposition 98 funding level would be \$49.3 billion, which is similar to the 2010-11 level. Approved the Governor’s proposal to extend the categorical flexibility for school funding by an additional two years – through 2014-15.

Childcare. Rejected the deep cuts that the governor proposed in childcare, by rejecting the 35 percent subsidy reduction for providers, but found other solutions to achieve the Governor’s savings level of \$716 million. The Senate adopted a 13-percent across-the-board reduction (instead of the 35-percent reduction and excluding preschool) and reduced license-exempt payments from 80 percent to 60 percent of the market survey.

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

Health and Human Services. Achieved total expenditure cuts of \$6.0 billion in the Health and Human Services area. The Senate’s version of the budget retains many of the painful cuts proposed by the Governor, but in many instances found alternative solutions that mitigate or reduce impacts to children, the disabled, and the elderly.

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

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

- **Proposition 10:** Approved the 2011-12 shift of \$1.0 billion of Proposition 10 funds from State and local reserves to Medi-Cal.
- **Proposition 63:** Approved the shift of about \$900 million in Proposition 63 funds from counties on a one-time basis to backfill for General Fund support for three mental health programs the Governor proposes to realign to counties in 2011-12.
- **Developmental Services:** Achieved over \$500 million in expenditure savings in Developmental Services. Approved implementation of statewide purchase of service standards at a reduction level of \$150 million, in lieu of the Governor's \$424 million reduction. Found other savings not proposed by the Governor.
- **SSI/SSP:** Approved the Governor's proposal to reduce Supplemental Security Income/State Supplementary Payment (SSI/SSP) to the minimum allowed by a federal maintenance of effort requirement for savings of \$192 million.
- **CalWORKS:** Achieved about \$1.2 billion in expenditure cuts in the CalWORKs program. Approved the Governor's proposal to reduce the time-limit for adults to receive assistance from 60 months to 48 months, but rejects the Governor's proposal to apply a 48-month time limit to safety net and child-only cases – for savings of \$171 million. Increased the Governor's cut to the county single allocation from \$377 million to \$476 million.
- **IHSS:** Achieved the Governor's saving number of \$486 million in In-Home Supportive Services (IHSS) program, but reduced the proposed across-the-board service cut and the proposed domestic and related cut. Found other savings not proposed by the Governor.

Corrections. Achieved expenditure reductions of about \$1.0 billion in Corrections that are scored outside the realignment proposal. Among the cuts are \$245 million to the receiver's medical services budget.

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

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

Natural Resources and Energy: Approved a cut of \$162 million in energy efficiency programs funded by the Gas Consumption Surcharge tax. Approved cuts of \$11 million to State Parks.

Government Efficiency and Employee Compensation: Approved expenditure cuts of about \$700 million in areas such as: employee compensation (\$308 million); employee healthcare (\$80 million); and governmental efficiencies such as the Governor's executive order to reduce cell phone usage (\$275 million).

Revenues

The Senate approved the Governor's revenue package without modification, which generates \$12 billion after accounting for the increased Proposition 98 expenditures. 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:

Maintenance of existing taxes for five years that will go to the voters for approval:

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

Tax policy changes:

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

Other Solutions

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

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

Public Safety Realignment

The Senate approved the Governor's realignment framework, acknowledging that additional modifications will be necessary to address stakeholder concerns, and that work will continue in the Budget Conference Committee. 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 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.

Summary Table

(dollars in thousands*)

	Governor	Senate	Diff.
Cuts:			
Higher Education	\$1,031.5	\$1,132.1	\$100.6
Health and Human Services	6,701.0	6,006.8	-694.2
Corrections	1,127.0	1,195.2	68.2
Resources and Environmental Protection	58.1	97.1	39.0
Redevelopment	1,700.0	1,700.0	0.0
Transportation	1,039.9	1,039.9	0.0
General Government	1,101.9	1,497.2	395.3
Total, Cuts	\$12,759.4	\$12,668.3	\$-91.1
Revenues:			
Tax extension:			
<i>For Realignment</i>	\$5,931.0	\$5,931.0	\$0.0
<i>For Education</i>	3,246.9	3,246.9	0.0
Tax policy changes	2,334.0	2,334.0	0.0
Tax enforcement	258.2	258.2	0.0
Special fund revenues	257.2	257.2	0.0
Total, Revenues	\$12,027.3	\$12,027.3	0.0
Other	\$2,799.8	\$2,950.9	\$151.1
Total Solutions	\$27,586.5	\$27,646.5	\$60.0

*Based on preliminary scoring.