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April 7, 2011
Upon adjournment of Session
State Capitol, Room 4203

Budget and Fiscal Review Hearing

- I. Review of 2011-12 Budget Actions
- II. Overview of Remaining 2011-12 Budget Deficit
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COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR MARK LENO, CHAIR

Major Action Report

Updated April 6, 2011

The purpose of this Major Action Report is to provide a review of the budget actions adopted by the Budget Conference Committee and enacted by the Legislature to date.

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

Legislature Adopts Major Cuts – Moves State Towards a Budget Solution

On March 16 and 17 of 2011, the Legislature passed \$14 billion in budget solutions to move the State forward towards a budget solution. The vast majority of the actions taken were expenditure reductions, approximately \$11 billion. The remainders of the solutions adopted were enhanced revenues through tax enforcement (\$335 million) and other solutions, mainly one-time fund shifts and borrowing (\$3 billion).

Thus far, the Governor has signed over \$11 billion of the solutions, but has not signed the main budget bill. There were no substantive vetoes by the Governor.

Governor's General Budget Framework. 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.

Legislature's Budget Framework. The Legislature adopted the vast majority of the Governor's proposed expenditure reductions and a statute to start the realignment of public safety programs, but the Governor's constitutional amendment which raises \$11 billion for the budget year and \$4 billion in additional solutions requiring two-thirds vote were not passed.

The Governor's general framework and the Conference version of the budget both propose to solve the shortfall with solutions that fall into the following:

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

This budget package would produce a reserve of around \$1 billion. However, to date, the Legislature has not been able to pass certain components of the budget that require a two-thirds vote, including \$12 billion in revenues and \$1.7 billion in expenditure reductions related to ending redevelopment agencies. This has left a budget gap of approximately \$14 billion that remains to be closed.

Major Expenditure Reductions

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

K-12 Education. Adopted the Governor's Proposition 98 funding framework, which includes \$2 billion in expenditures attributable to the maintenance of certain temporary taxes. However, these taxes have not been passed by the Legislature so this additional funding would not be realized. Overall, the Proposition 98 funding level with the temporary tax extension would be \$49.4 billion, which is similar to the 2010-11 level. Without the tax extension, the guarantee would drop to \$47.4 billion. The K-12 package currently includes the following major actions; however, at least \$2 billion in additional solutions would have to be adopted if the taxes are not extended:

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

- **Economic Impact Aid:** Restored \$56 million to the Economic Impact Aid (EIA) program.
- **Categorical Flexibility:** Approved the Governor’s proposal to extend various flexibility options to school districts for an additional two years.
- **Secretary of Education Elimination:** Approved the Governor’s proposal to eliminate the Office of the Secretary of Education.

Childcare. Rejected the Governor’s 35 percent subsidy reduction for providers, but found other solutions to achieve the Governor’s savings level of \$716 million, including \$500 million in ongoing savings. The childcare package includes the following major actions.

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

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

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

- **Medi-Cal:** Achieved over \$1.6 billion in GF expenditure cuts in the Medi-Cal program. Reinstates the previously enacted 10 percent provider payment reductions for savings of \$547 million. Approved

many of the Governor's "co-pays" and "hard caps" on services, but rejected the hard-cap on physician and clinic visits, medical supplies, equipment, and prescriptions. Found other savings not identified by the Governor.

- **Adult Day Health Care (ADHC):** Rejected the Governor's proposal to eliminate this activity permanently, but instead eliminated the benefit and provided \$85 million to provide a "bridge" to a new optional benefit that will serve a higher acuity patient.
- **Multipurpose Senior Service Program (MSSP):** Rejected the full elimination of this program and instead reduced funding by \$2.5 million or 13 percent.
- **Proposition 10:** Approved the 2011-12 shift of \$1.0 billion of Proposition 10 funds from State and local reserves to Medi-Cal.
- **Proposition 63:** Approved the shift of about \$860 million in Proposition 63 funds from counties on a one-time basis to backfill for General Fund support for three mental health programs the Governor proposes to realign to counties.
- **Developmental Services:** Achieved over \$500 million in expenditure savings in Developmental Services. Approved implementation of statewide purchase of service standards at a reduction level of \$174 million, in lieu of the Governor's \$424 million reduction.
- **SSI/SSP:** Approved the Governor's proposal to reduce Supplemental Security Income/State Supplementary Payment (SSI/SSP) to the minimum allowed by a federal maintenance of effort requirement for savings of \$192 million.
- **CalWORKS:** Achieved about \$1.1 billion in expenditure cuts in the CalWORKS program. Approved an eight percent grant cut to save \$300 million. Approved the Governor's proposal to reduce the time-limit for adults to receive assistance from 60 months to 48 months, but rejected the Governor's proposal to apply a 48-month time limit to safety net and child-only cases. Instead adopted additional grant cuts for safety net and child-only cases that exceed 60 months to generate savings of \$100 million. Increased the Governor's cut to the county single allocation from \$377 million to \$427 million. Added savings of \$100 million from adjusting the earned-income disregard.

- **IHSS:** Achieved the Governor’s savings number of \$486 million in the In-Home Supportive Services (IHSS) program, but reduced the proposed across-the-board service cut and the proposed domestic and related cut. Found other savings not proposed by the Governor, such as the Community First Choice Option to obtain \$121 million in additional federal funds.

Corrections: Achieved expenditure reductions of about \$1.0 billion in Corrections that are scored outside the realignment proposal. Among the cuts are \$245 million to the receiver’s medical services budget and \$391 million related to shifting lower-level adult offenders to local jurisdictions and reductions to rehabilitation programs. These savings may be unachievable if the taxes are not extended and the realignment does not occur.

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

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

Redevelopment: The Legislature has not passed the Governor’s proposal to eliminate redevelopment agencies (RDA) for expenditure savings of \$1.7 billion. Under this proposal funding for RDAs would continue as necessary to retire outstanding debt. This proposal provides \$1.7 billion in solutions in the budget year by shifting RDA funds to offset state costs for Trial Courts and Medi-Cal. Furthermore, in the out-years, this proposal would provide the RDA property tax increment to supplement funding for schools, cities, and counties. This will not occur without the passage of this proposal.

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

Natural Resources and Energy: Approved a cut of \$155 million in energy efficiency programs funded by the Gas Consumption Surcharge Tax.

Approved cuts of \$11 million to State Parks and \$10 million to Off-Highway Vehicle Parks.

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

Revenues

Current Status of Revenue Package. The constitutional amendment has not been passed by the Legislature. Therefore, additional funding for schools and public safety are not certain. Only the \$360 million from tax enforcement and tax amnesty have gained passage by the Legislature as these proposals required only a majority vote. The other tax policies have not been passed by the Legislature and leave a \$2.4 billion additional gap in the 2011-12 budget framework.

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

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

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

Tax policy changes:

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

Other Solutions

The budget passed by the Legislature also contains \$3.0 billion of other solutions. 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

Current Status of Realignment. As discussed earlier in this document, the constitutional amendment that raises \$5.9 billion in the budget year for public safety realignment is a major piece of the Governor's budget framework that was adopted by the Conference Committee. The constitutional amendment has not gained passage by the Legislature because it requires a two-thirds vote and, therefore, the public safety realignment described in detail below remains in flux.

The Legislature passed and the Governor signed a major piece of statute that starts to implement the realignment of lower level offenders from the state to the county. However, the legislation directs that this realignment will not be implemented until an appropriation is made for the realignment.

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

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

The table below shows the Governor’s February 25 revised realignment proposal compared to the original proposal included in the January budget. The Conference Committee approved the revised framework. The Conference Committee also indicated that there would need to be significant follow-up legislation related to implementing the realignment that would be developed subsequent to placing the constitutional amendment before voters.

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

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

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

Summary Table

Below is a summary of the Governor's proposed solutions adopted by the Legislature and the remaining solutions that are still required to balance the budget for 2011-12.

(dollars in millions*)

	Conference
Cuts:	
Higher Education	\$1,230.5
Health and Human Services	5,883.6
Corrections	802.6
Resources and Environmental Protection	45.3
Transportation	1,039.9
General Government	1,662.0
Total, Cuts	\$10,663.8
 Revenues:	
Tax enforcement	334.7
Total, Revenues	\$334.7
Other	\$3,030.8
Total Solutions Adopted to Date	
\$14,029.3	
 Cuts:	
Redevelopment Agencies	\$1,700.0
Total, Cuts	\$1,700.0
 Revenues:	
<i>For Realignment</i>	\$5,931.0
<i>For Education</i>	5,237.0
Tax policy changes	2,404.0
Education, Proposition 98 Interaction	-2,092.1
Total, Revenues	\$11,479.9
Total Remaining Solutions to Balance Budget	
\$13,179.9	

February 10, 2011

Hon. Mark Leno
Senator, 3rd District
Room 5100, State Capitol
Sacramento, California 95814

Dear Senator Leno:

This letter responds to your request that our office develop a list of alternative actions to balance the 2011-12 state budget assuming that the Legislature or the voters reject the Governor's major tax increase and tax extension proposals. Consistent with your staff's directions to us, the alternatives described in this letter include only the following:

- Expenditure reductions.
- Shifts, or transfers, of existing state or local funds to benefit the General Fund.
- Increases of non-tax revenues.

We were informed that we were to include neither additional proposals that needed voter approval to achieve savings nor additional borrowing from special funds.

BACKGROUND

Our Overall Approach. We were asked to assume that *all* of the Governor's non-tax-related budget proposals—which principally consist of spending reductions—are adopted and achieve their full intended savings in 2011-12. These proposals already involve significant reductions in virtually all state program areas. In coming up with additional solutions of roughly the same magnitude, we have had to identify alternatives involving major reductions in service and benefit levels and dramatic changes in the way that many programs would be delivered by the state and local governments. While we have recommended in recent years some variation of many of the alternatives provided in this letter, we have had to go far beyond our normal comfort level in order to meet the requested solutions target. Some of the listed actions would have serious impacts on individuals, programs, and local governments. As such, our alternatives described below should be viewed as an illustration of the types of solutions that would be needed under your given scenario.

Amount of Alternative Actions Required. The Governor's budget includes \$14 billion of proposed revenue increases. Consistent with your staff's instructions, we assume that only four of these revenue proposals are approved: the tax amnesty, the Financial Institutions Records Match system, the extension of the existing Medi-Cal hospital fee, and the continued collection of charges assessed on managed care plans. The administration estimated that the net revenue

increase from these proposals in 2010-11 and 2011-12 would equal \$515 million. We also assume the accuracy of the administration's 2010-11 and 2011-12 forecasts for revenues, the economy, caseloads, and other "baseline" program costs. Finally, we assume that the Legislature's final budget package includes a state budget reserve of around \$955 million at the end of 2011-12 (consistent with the Governor's budget proposal). We would also note that the Governor's recent decision not to proceed with the sale/lease-back of state buildings and to offer alternative actions may lead to some diminution of our suggested solutions.

Given these assumptions, alternative actions needed to balance the 2011-12 budget must produce General Fund savings of \$13.5 billion. Accordingly, this letter identifies \$13.5 billion of alternate budget-balancing options for the Legislature. The General Fund benefits listed for some of the options represent our initial estimates. Should the Legislature wish to pursue any of these options, refinement of these savings estimates would be required.

Full-Year 2011-12 Savings Still Require Early Legislative Action. We attempted to identify alternate budget actions with a realistic chance of achieving budgeted savings for 2011-12. While cuts of this magnitude inherently carry significant legal and implementation risks, we have tried to minimize these risks and incorporate our best understanding of current case law and other limitations on spending reductions. In general, our alternatives assume a full year of savings in 2011-12. Given federal notice requirements regarding many programs, implementation planning time needed for both the state and local governments, and the need for voter approval for a few of our alternatives, the Legislature would need to adopt many proposals by early March 2011.

ALTERNATIVE BUDGET ACTIONS

Figure 1 (next page) provides a summary of the alternative budget actions we have identified and their estimated General Fund benefit in 2011-12. (A more detailed list is included in this letter's appendix.) The \$13.5 billion of budget-balancing alternatives are displayed by major policy area: K-14 education (\$5.2 billion), higher education (\$1.1 billion), health and social services (\$1.2 billion), criminal justice and the judiciary (\$2.6 billion), general government and local government (\$1.8 billion), and resources and transportation (\$1.6 billion).

Alternatives for Education. The K-14 and higher education budgets present some unique issues in arriving at our alternative budget actions. We discuss these issues in more detail below.

K-14 Education

The result of removing the Governor's tax proposals is an approximately \$2 billion decline in the Proposition 98 minimum guarantee for 2011-12. Balancing the budget with the constraints you have given us, however, would require even larger reductions in K-14 funding. As such, our list of alternatives includes a total of \$4.8 billion in Proposition 98 reductions—\$2 billion due to the assumed rejection of the Governor's tax proposals, plus an additional \$2.8 billion to help bring the budget into balance. In this scenario, a suspension of Proposition 98 in 2011-12 would be required. (When Proposition 98 is suspended, a "maintenance factor" obligation is created that requires funding eventually to be returned to the higher long-term level that would have resulted absent the suspension.)

Figure 1	
Additional Actions to Balance the 2011-12 Budget^a	
<i>General Fund Benefit (In Millions)</i>	
K-14 Education (see Figure 2)	
Suspend Proposition 98	
Reduce K-12 funding	\$4,103
Reduce community college funding	685
Suspend or eliminate Quality Education Investment Act and other K-14 actions	451
Subtotal	(\$5,239)
Higher Education (see Figure 3)	
Reduce UC and CSU appropriations further	\$847
Reduce financial aid	209
Subtotal	(\$1,056)
Health and Social Services	
Reduce state participation in IHSS provider wages to minimum wage	\$300
Eliminate California Food Assistance Program and Cash Assistance Program for Immigrants for legal noncitizens	190
Reduce CalWORKs earned income disregard	180
Eliminate full-scope Medi-Cal benefits for certain immigrants	120
Other health and social services actions	360
Subtotal	(\$1,150)
Criminal Justice and Judiciary	
End support for various public safety grant programs (such as Citizens' Option for Public Safety and booking fees)	\$506
Reject various proposed prison system augmentations	425
Delay court construction projects for one year and transfer funds from Immediate and Critical Needs Account	250
Shift funding and responsibility for adult parole and parole violators to local governments	240
Achieve additional judicial branch savings (in addition to Governor's proposed \$200 million unallocated reduction)	156
Implement automated speed enforcement (LAO version)	150
Other criminal justice and judiciary actions	887
Subtotal	(\$2,612)
General Government and Local Government	
Reduce state employee pay an additional 9.24 percent (equivalent to two furlough days) through legislation	\$700
Reduce state contributions to employee health care by 30 percent through legislation	330
Count all redevelopment revenues to K-14 agencies as local property taxes	275
Halt all bond sales and pay-as-you-go infrastructure projects	227
Other actions, such as eliminating state agencies and scaling back some IT projects	264
Subtotal	(\$1,796)
Transportation and Resources	
Reduce tax-funded special fund programs and redirect funding to General Fund	\$752
Eliminate sales tax on diesel, increase vehicle weight fees, and redirect funding for local transit and intercity rail to provide General Fund relief	400
Reduce General Fund costs for wildland firefighting	300
Allow drilling at Tranquillon Ridge	100
Other transportation and resources actions	98
Subtotal	(\$1,650)
Total, All Actions	\$13,505

^a The appendix to this letter includes a more detailed listing of these actions.

Many Options Could Be Coupled With Policy Changes to Reduce Costs. Figure 2 illustrates the manner in which Proposition 98 reductions could be allocated. In several cases, we identify policy changes intended to help school districts cope with the loss of funding. For example, the state could eliminate the K-3 Class Size Reduction (CSR) program and allow classes in the early grades to exceed 20 students. The state also could modify recent statute to require children to be five years of age prior to enrolling in kindergarten beginning in 2011-12. As a result of this policy change, we estimate approximately 135,000 students (as measured by average daily attendance) would no longer enroll. This, in turn, would allow many districts to reduce the number of kindergarten classes they offer and kindergarten teachers they hire—potentially

Figure 2	
Additional K-14 Education Budget Actions	
<i>General Fund Benefit (In Millions)</i>	
	2011-12
Proposition 98	
K-12 Education	
Eliminate K-3 Class Size Reduction	\$1,275
Reduce K-12 general purpose funding by 2.2 percent	813
Change kindergarten start date beginning in 2011-12	700
Eliminate state support for Home-to-School Transportation	500
Require use of Economic Impact Aid (EIA) reserves	350
Reduce state categorical funding for basic aid districts and counties	200
Reduce EIA by 20 percent	190
Adopt LAO K-14 mandate package	50
Eliminate 2011-12 overbudgeting for Charter School Facility Program	25
Subtotal—K-12 Education	(\$4,103)
California Community Colleges (CCC)	
Establish a 90-unit cap on each student's taxpayer-subsidized credits	\$250
Adopt additional fee increase (taking fees to \$66 per unit)	170
Reduce funding for credit basic skills instruction to the rate provided for noncredit basic skills	125
Eliminate state subsidy for intercollegiate athletics	55
Eliminate state funding for repetition of credit physical education (PE) and fine-arts ("activity") classes	55
Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes	30
Subtotal—CCC	(\$685)
Total Proposition 98	\$4,788
Non-Proposition 98	
Suspend or eliminate Quality Education Investment Act	\$450
Eliminate General Fund support for the Summer School for the Arts	1
Total Non-Proposition 98	\$451
Total, K-14 Education	\$5,239

reducing costs statewide by roughly \$700 million. Similarly, the state could stop requiring home-to-school transportation services (though schools would not be prohibited from offering such services) as well as eliminate certain mandated education activities. For community colleges, the state could allow individuals possessing a bachelor's degree or higher (and perhaps a high-school teaching credential or other coursework) to teach credit basic-skills courses (rather than requiring a master's degree). Colleges also could be permitted to contract out basic-skills instruction to a third party, such as a community-based organization or local library.

We have included in our Proposition 98 alternative a 2.2 percent reduction in K-12 general purpose funding. While not shown in Figure 2, we would recommend that the state take various actions to help districts deal with this reduction. For example, the state could amend statute to allow school districts to shorten the school year. For every one-day reduction in instruction, we estimate costs are reduced statewide by roughly \$200 million (with a reduction of one week yielding roughly \$1 billion in savings). To further reduce school district costs, the state could remove restrictions on contracting out for noninstructional services and eliminate priority and pay rules for substitute teaching positions. We think these are better alternatives than making large unallocated reductions that are not linked to cost-reduction measures.

A Few Reductions Offset by Other Revenue Streams. In a few cases, options exist to mitigate the impact of K-14 reductions by relying on other revenue streams. For example, the state could give school districts access to existing restricted reserves and allow them to offset the reductions (to the extent possible). For example, the state could give districts access to about \$300 million in reserves associated with certain restricted programs. We also think the state could reduce the amount of categorical funding it provides to basic aid districts. Specifically, if a basic aid district has "excess" local property tax revenue to cover categorical program costs, then the state could stop providing the categorical payments in excess of the constitutionally required \$120 per student. It is unclear why the state traditionally has offered these state payments to districts that have sufficient local funds to cover associated costs. For community colleges, the state could authorize higher fee increases to offset reductions to apportionments.

Higher Education

Unlike most other areas of the budget, the Governor's proposal would eliminate a sizable percentage of the universities' General Fund support without specifying how those reductions would be accommodated. Specifically, the Governor has proposed unallocated reductions totaling \$1 billion for the two universities. Rather than build upon these unallocated reductions, we have identified a total of \$2.1 billion in allocated reductions for higher education (excluding community colleges), as summarized in Figure 3 (next page). In other words, we identify ways that the Governor's \$1 billion in savings could be achieved, plus an additional \$1.1 billion to help balance the budget under your scenario.

Reductions of this magnitude would negatively affect the availability and cost of educational opportunities for students. However, we believe that effects on higher educational access, affordability, and quality could be mitigated by targeting noninstructional areas of the higher education budget. As we outline in Figure 3, our identified savings could be achieved with no reduction to the University of California's (UC's) budgeted enrollment levels, and a 5 percent

reduction to the California State University’s (CSU’s) budgeted level. (The effect on actual CSU enrollment would be somewhat less, because CSU’s current-year enrollment is already below this budgeted level.) Under our scenario, tuition at the universities would increase by about \$400 to \$450 per university student (beyond already-approved fee increases). However, the state’s financial aid entitlement programs would be preserved, although qualifying income thresholds would be reduced somewhat to match federal eligibility criteria.

A significant percentage of the programmatic savings we identify comes from reductions to spending on personnel (\$408 million). The effect of such reductions on core instructional activities could be minimized by focusing on noninstructional activities. For example, the Legislature could direct a modest shift in the allocation of UC faculty time from research to teaching. By increasing the average UC faculty teaching load by one additional course every three years, the university could realize savings of almost \$100 million annually. If desired, reductions in research could be targeted at certain campuses in order to retain a strong research focus at UC’s flagship campuses. Given that CSU faculty do not spend a large share of their time on research, savings in CSU personnel costs could instead be achieved by reducing faculty release time for sabbaticals and other noninstructional activities.

Figure 3	
Higher Education Budget Actions^a	
<i>General Fund Benefit (In Millions)</i>	
	2011-12
UC and CSU Reductions	
Reduce personnel costs by 10 percent at UC and 5 percent at CSU	\$408
Reduce UC and CSU current-year augmentations by one-half (one-time savings)	361
Increase tuition another 7 percent for UC and 10 percent for CSU ^b	270
Score approved tuition increases: 8 percent for UC and 10 percent for CSU	263
Reduce UC and CSU operating expense and equipment funding by 5 percent	215
Reduce General Fund support for UC and CSU organized research by one-half	134
Reduce CSU enrollment by 5 percent	124
Reduce nonfederal support for UC and CSU public service by one-half	58
Eliminate UC General Fund support for Drew University	9
Eliminate supplemental funding for UC Merced	5
Subtotal	(\$1,847)
Financial Aid Reductions	
Reduce UC and CSU institutional financial aid by 5 percent	\$74
Limit Cal Grant income eligibility (using federal formula)	60
Limit competitive awards to stipends only	30
Eliminate non-need-based fee waivers	25
Raise minimum Cal Grant grade point average	20
Subtotal	(\$209)
Total	\$2,056

^a Amounts listed include an allocation of the Governor’s \$1 billion reduction for the universities, as well as \$1.1 billion of additional reductions (as listed under the “Higher Education” section of Figure 1) to balance the budget under the parameters of this Member request.

^b General Fund savings are net of increased Cal Grant costs and institutional aid set-aside.

IMPLICATIONS FOR 2011-12 AND BEYOND

General Fund Surplus at End of 2011-12, if All Assumptions Hold. If the Legislature were to adopt these additional alternatives in combination with the non-tax proposals in the Governor's budget, the 2011-12 budget would be balanced with an approximately \$1 billion reserve—based on all of the various assumptions described above. In reality, of course, many of the Governor's proposals and the alternatives described in this letter carry significant implementation risk. Accordingly, the chances are very high that some of the assumptions incorporated in this analysis would not hold. In other words, even if the state adopted *all* of the Governor's non-tax budget proposals and *all* of this letter's alternatives, there is a chance that 2011-12 would end in deficit.

Many Permanent Solutions Help the Out-Year Problem. The majority of the budget-balancing options described in this letter could be enacted as permanent solutions, thereby helping the state to address its stubborn out-year budget problem. (In fact, as ongoing solutions, these alternatives provide solutions lasting beyond the tax extensions' five-year time period.) Nevertheless, both the Governor's proposals and this list of alternatives include some one-time budget options, such as borrowing from other state funds in the Governor's budget. To fully address the out-year budget problem, the Legislature likely would need to take additional actions beyond those addressed in this letter.

Other Non-Tax Revenue Budget Actions Available. In identifying the budget actions that would be required to balance the 2011-12 budget, we worked within the parameters specified by your staff described at the start of this letter. There are a number of other, non-tax revenue budget actions that the Legislature could consider as alternatives to some of the program reductions included—such as additional borrowing from special funds and returning to the voters to change provisions of existing voter-approved programs. We estimate that these alternatives would generate on the order of several billions of dollars. (Additional borrowing from special funds alone could create \$1.2 billion in benefit to the General Fund in 2011-12.) Such actions could be used in place of some of the more difficult actions included on our list.

For more information, please contact Jason Sisney (916-319-8361, jason.sisney@lao.ca.gov) or Caroline Godkin (916-319-8326, caroline.godkin@lao.ca.gov) of my staff. They can direct you to the LAO analysts who are able to answer questions about specific items in our alternatives list.

Sincerely,

Mac Taylor
Legislative Analyst

APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

Additional Actions to Balance the 2011-12 Budget^a	
<i>General Fund Benefit (In Millions)</i>	
K-14 Education	
Proposition 98	
<i>K-12 Education</i>	
Eliminate K-3 Class Size Reduction	\$1,275.0
Reduce K-12 general purpose funding by 2.2 percent	813.0
Change kindergarten start date beginning in 2011-12	700.0
Eliminate state support for Home-to-School Transportation	500.0
Require use of Economic Impact Aid (EIA) reserves before providing districts with more EIA funds	350.0
Reduce state categorical funding for basic aid districts and counties	200.0
Reduce EIA by 20 percent	190.0
Adopt Legislative Analyst's Office (LAO) K-14 mandate package	50.0
Eliminate 2011-12 overbudgeting for Charter School Facility Program	25.0
<i>California Community Colleges</i>	
Establish a 90-unit cap on each student's taxpayer-subsidized credits	250.0
Increase fees to \$66 per unit	170.0
Reduce funding for credit basic skills instruction to the rate provided for non-credit basic skills	125.0
Eliminate state subsidy for intercollegiate athletics	55.0
Eliminate state funding for repetition of credit physical education (PE) and fine-arts ("activity") classes	55.0
Eliminate state funding entirely for noncredit PE and fine-arts (activity) classes	30.0
Non-Proposition 98	
Suspend or eliminate Quality Education Investment Act	450.0
Eliminate General Fund support for Summer School for the Arts	1.4
Subtotal, K-14 Education	(\$5,239.4)
Higher Education	
Universities	
Account for Governor's unallocated university reductions (see footnote ^a of Figure 3)	-\$1,000.0
Reduce personnel costs by 10 percent at UC and 5 percent at CSU	408.3
Reduce UC and CSU current-year augmentations by one-half (one-time savings)	361.2
Increase tuition another 7 percent for UC and 10 percent for CSU	270.3
Score approved tuition increases: 8 percent for UC and 10 percent for CSU	263.0
Reduce UC and CSU operating expense and equipment funding by 5 percent	214.6
Reduce General Fund support for UC and CSU organized research by one-half	134.1
Reduce CSU enrollment by 5 percent	124.1
Reduce non-federal support for UC and CSU public service by one-half	57.7
Eliminate UC General Fund support for Drew University	8.7
Eliminate supplemental funding for UC Merced	5.0
Financial Aid	
Reduce UC and CSU institutional financial aid by 5 percent	73.6
Limit Cal Grant income eligibility	60.0
Limit competitive awards to stipends only	30.0
Eliminate non-need-based fee waivers	25.0
Raise minimum Cal Grant grade point average	20.0
Subtotal, Higher Education	(\$1,055.7)
(Continued)	

APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

Health and Social Services	
Reduce state participation of In-Home Supportive Services provider wages to minimum wage	\$300.0
Eliminate California Food Assistance Program and Cash Assistance Program for Immigrants for legal noncitizens	190.0
Reduce the California Work Opportunity and Responsibility to Kids (CalWORKs) earned income disregard ^b	180.0
Eliminate full-scope Medi-Cal benefits for newly qualified aliens and persons permanently residing under color of law	120.0
Phase in a one-third reduction in Adoption Assistance Program basic grants	20.0
Eliminate Adult Protective Services program	55.0
Eliminate Cal-Learn Program for CalWORKs teen parents ^b	50.0
Impose quality assurance fee on pharmacies and certain other providers	50.0
Eliminate CalWORKs grants for recent legal noncitizens ^b	40.0
Roll back salary increases related to the <i>Coleman</i> and <i>Perez</i> court decisions (contingent on CDCR action)	36.2
Eliminate drug court programs	26.8
Eliminate funding for perinatal and other alcohol and drug treatment programs	25.7
Roll back eligibility for the Every Woman Counts program	20.0
Eliminate balance of Transitional Housing Program Plus funds for emancipating foster youth	16.0
Rescind rate increase for Family Planning Access Care Treatment	16.0
Eliminate funding for Caregiver Resources Centers administered by the Department of Mental Health	2.9
Suspend Child Welfare Services Web Automation Project pending federal clarification	1.1
Eliminate Department of Aging and transfer some responsibilities to Department of Social Services	0.4
Subtotal, Health and Social Services	(\$1,150.1)
Criminal Justice and Judiciary	
End support for various public safety grant programs (such as Citizens' Option for Public Safety and booking fees)	\$506.0
Reject various proposed prison system augmentations	425.2
Delay court construction projects for one year and transfer funds from Immediate and Critical Needs Account to General Fund	250.0
Shift funding and responsibility for adult parole and parole violators to local governments	240.0
Achieve additional judicial branch savings (in addition to Governor's proposed \$200 million unallocated reduction)	156.0
Implement automated speed enforcement (LAO version)	150.0
Implement a two-day-per-month furlough for court employees	130.0
Use Proposition 172 funds to pay debt service for local correctional facilities, reimburse counties for public safety mandates, and make SB 678 incentive payments	127.0
Reduce parole term for existing parolees from 3 years to 18 months	125.0
Eliminate various Department of Justice (DOJ) state law enforcement programs	76.0
Revert some of the remaining balance of the AB 900 General Fund appropriation	75.0
Eliminate state support for training provided by Commission on Peace Officer Standards and Training to local law enforcement	52.0
Shift funding and responsibility for remaining juvenile offenders to counties	50.0
Require second and third "strikes" to be serious or violent for an offender to get full "Three Strikes" sentence enhancement	50.0
Reduce additional court funding to account for trial court reserves	50.0
Expand medical parole	30.0
Eliminate Restitution Fund support for mental health treatment for crime victims	28.0
Reduce funding for discretionary DOJ legal work	20.0

(Continued)

APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

Criminal Justice and Judiciary	
Redirect state and local asset forfeiture proceeds	\$12.0
Develop a non-peace officer "custody assistant" classification that could perform some correctional officer duties	10.0
Scale back funding for Office of Inspector General due to reduced inmate population resulting from shift to local governments	10.0
Implement uniform disciplinary confinement policies	10.0
Delay implementation of Civil Representation Pilot Program—AB 590 (Feuer)	8.0
Eliminate state support for Corrections Standards Authority inspections conducted for counties	7.0
Eliminate Board of Parole Hearings—juvenile parole	6.0
Eliminate state support from the Restitution Fund for witness relocation and protection program	5.0
Improve collection of inmate medical copayments	4.0
Replace custody positions in headquarters with non-peace officers	1.0
Require counties to reimburse state for legal work by DOJ on behalf of district attorneys who are disqualified from handling local cases	1.0
Subtotal, Criminal Justice and Judiciary	(\$2,614.2)
General Government	
Reduce state employee pay an additional 9.24 percent (equivalent to two furlough days) through legislation	\$700.0
Reduce state contributions to employee health care by 30 percent through legislation	330.0
Halt all bond sales and pay-as-you-go infrastructure projects	227.0
Scale back various information technology projects	75.0
Recognize lower-than-anticipated Unemployment Insurance loan repayment costs	60.0
End General Fund support for the Small Business Loan Guarantee Program (Business, Transportation, and Housing Agency)	24.0
Eliminate various victim services programs	23.0
Eliminate Department of Fair Employment and Housing and Fair Employment and Housing Commission and switch to civil and federal enforcement	17.2
Eliminate General Fund support of the California Science Center	14.6
Eliminate California Gang Reduction Intervention and Prevention program and Internet Crimes Against Children Task Force; transfer program funds from the Restitution Fund to the General Fund	10.0
Eliminate General Fund support for cadet corps and military school programs	7.0
Eliminate General Fund support for the Office of Migrant Services (Housing and Community Development)	6.0
Merge Agricultural Labor Relations Board and Public Employee Relations Board	4.9
Eliminate Business, Transportation, and Housing Agency, including General Fund support for the Small Business Loan Guarantee Program	4.2
Eliminate California National Guard Benefit Program	4.0
Eliminate Health and Human Services Agency	3.6
Eliminate the Office of Planning and Research, including CaliforniaVolunteers and the Office of the Secretary of Service and Volunteering	2.3
Eliminate California Environmental Protection Agency	1.9
End General Fund support for the Office of Administrative Law and convert to fee-for-service funding model	1.6
Shift Commission on State Mandates funding to reimbursements	1.5
Eliminate the Arts Council	1.1
Eliminate State and Consumer Services Agency	1.0
Eliminate the Commission on the Status of Women	0.5
Reduce staffing and funding for the American Recovery and Reinvestment Act task force	0.2
Reduce General Fund support for the Lieutenant's Governor's office to 2010-11 level	0.1
	(Continued)

APPENDIX: ADDITIONAL ACTIONS TO BALANCE THE 2011-12 BUDGET

General Government	
Eliminate Natural Resources Agency	—
Eliminate Labor and Workforce Development Agency	—
Subtotal, General Government	(\$1,520.7)
Local Government	
Count all redevelopment revenues to K-14 agencies as local property taxes	\$275.5
Subtotal, Local Government	(\$275.5)
Transportation	
Eliminate sales tax on diesel, increase vehicle weight fees commensurately, and redirect transportation funding, including monies for local transit and intercity rail, to provide General Fund relief	\$400.0
Scale back Department of Motor Vehicles capital outlay and other programs to reduce General Fund repayment of past loan from the Motor Vehicle Account	12.0
Subtotal, Transportation	(\$412.0)
Resources and Environmental Protection	
Reduce programs supported by Gas Consumption Surcharge Fund and transfer funds to General Fund	\$500.0
Reduce General Fund costs for wildland firefighting by (1) enacting a fee on residential property owners in state responsibility areas (SRAs), (2) clarifying that the state is not fiscally responsible for life and structure protection in SRAs, or (3) modifying SRA boundaries	300.0
Allow drilling at Tranquillon Ridge	100.0
Reduce programs supported by Off-Highway Vehicle Trust Fund and transfer funds and balance to the General Fund	88.0
Transfer balance of Renewable Resources Trust Fund to General Fund	60.0
Reduce programs supported by Public Interest Research, Development, and Demonstration Fund and transfer funds and balance to General Fund	52.0
Eliminate General Fund support for the California Conservation Corps	35.1
Reduce programs supported by Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund and transfer balance to General Fund	24.0
Reduce General Fund support (partially backfilled with fees) for Department of Fish and Game's Biodiversity Conservation Program	23.0
Shift funding for timber harvest plan review in multiple state agencies from General Fund to new regulatory fees	18.0
Reduce programs supported by Harbors and Watercraft Revolving Fund and transfer balance to General Fund	18.0
Reduce programs supported by Alternative and Renewable Fuel and Vehicle Technology Fund and transfer funds to the General Fund	10.0
Increase California Coastal Commission permitting fees to fully fund coastal development regulatory activities	5.0
Suspend Air Resources Board's diesel regulations for public fleets, creating General Fund savings in Department of Parks and Recreation	2.0
Provide the California Coastal Commission with the authority to levy administrative civil penalties	1.0
Eliminate Department of Conservation and shift functions to other state departments	1.0
Eliminate Native American Heritage Commission	0.7
Subtotal, Resources and Environmental Protection	(\$1,237.8)
Total, All Actions	\$13,505.2
<p>^a Based on methodology described in main text of this letter.</p> <p>^b Contingent on identifying additional programs for which Temporary Assistance for Needy Families, or TANF, federal funds can be expended in place of General Fund monies or which may be counted as maintenance-of-effort.</p>	

2011-12 Budget and Trailer Bills: Passed by the Legislature Through March 17, 2011

March 17, 2011

Bill Number	Subject	Vote
SB 69	2011-12 Budget Bill <i>Budget Conference Report: Enacts 2011-12 state spending plan.</i>	Majority
SB 70	Education Omnibus Trailer Bill <i>Makes various changes related to K-12 and higher education that are necessary to enact the 2011-12 budget.</i>	Majority
AB 95	Resources Omnibus Trailer Bill <i>Makes various changes related to natural resources and environmental protection necessary to enact the 2011-12 budget.</i>	Majority
SB 72	Human Services Omnibus Trailer Bill <i>Makes various changes related to human services which are necessary to enact the 2011-12 budget. (Includes changes to CalWORKs and IHSS that result in about \$1.5 billion of budget solutions.)</i>	Two-Thirds
AB 97	Health Omnibus Trailer Bill <i>Makes various changes related to health care and the Medi-Cal and Healthy Families Programs that are necessary to enact the 2011-12 budget. (Includes changes that result in about \$2.1 billion in budget savings).</i>	Two-Thirds
SB 74	Developmental Services Omnibus Trailer Bill <i>Makes various changes related to developmental services provided under the Lanterman Act that are necessary to enact the 2011-12 budget. (Includes changes that result in about \$560 million in budget solutions.)</i>	Two-Thirds
AB 99	Proposition 10 Trailer Bill <i>Provides a one-time transfer of \$1 billion of funds from the California Children And Families Act (Prop. 10) to the state to support health and human services programs for children. (For 2011-12 only.)</i>	Two-Thirds
AB 100	Proposition 63 Trailer Bill <i>Makes various changes to the Mental Health Services Act (Prop. 63) that are necessary to implement the 2011-12 budget. (Includes changes that result in \$861 million in budget solutions.)</i>	Two-Thirds
SB 78	Judicial and Public Safety Trailer Bill (non-realignment) <i>Makes changes affecting the Office of Inspector General, Department of General Services, and Judicial Branch, that are necessary to implement the 2011-12 budget.</i>	Majority
SB 80	General Government Omnibus Trailer Bill <i>Makes various necessary changes in the area of general government and state administration that are necessary in order to enact the 2011-12 budget. (Includes changes that result in about \$140 million in budget solutions.)</i>	Two-Thirds
AB 105	Transportation Omnibus Trailer Bill <i>Makes various changes to transportation that are needed in order to implement the 2011-12 budget, including re-enactment of the 2010 fuel tax swap and directing truck weight fees to pay for bond debt. (Includes changes that result in \$1.2 billion in budget solutions.)</i>	Two-Thirds
SB 82	Cash Management Omnibus Trailer Bill <i>Makes various changes in the area of cash management and cash payment deferrals in order to ensure sufficient cash reserves during the 2011-12 fiscal year.</i>	Two-Thirds
SB 84	2010-11 Budgetary Loans and Transfers Trailer Bill	Majority

Bill Number	Subject	Vote
	<i>Amends the 2010 Budget Act to add some new special fund loan and transfer provisions. (Includes changes that result in \$545 million in budget solutions.)</i>	
AB 109	Public Safety "Realignment" Trailer Bill	Majority
	<i>Makes various changes that are necessary in order to implement provisions of the 2011-12 budget related to realignment of certain low-level offenders, adult parolees, and juvenile offenders, from state to county jurisdiction. (Includes changes that result in about \$564 million of budget solutions.)</i>	
SB 86	Tax Compliance Trailer Bill	Majority
	<i>Makes various changes to state laws regarding tax compliance and tax programs in order to implement the 2011-12 budget. (Includes changes that result in \$335 million of budget solutions.)</i>	
AB 111	Public Safety Facilities "Realignment" Trailer Bill	Majority
	<i>Makes changes necessary to implement construction of jail capacity to support the realignment of low-level offenders from state to county jurisdiction. (Separated from AB 109/SB 85, on advice of Attorney General and bond counsel.)</i>	