



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
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MAY REVISION HIGHLIGHTS

May 14, 2010

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision. (More detailed program information follows these Highlights – please see the Table of Contents on page 11.)

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings that are scheduled for the weeks of May 17 and May 24.

OVERVIEW OF GOVERNOR'S MAY REVISION

The Problem Definition:

On May 14, the Governor released his May Revision for budget year 2010-11. The Governor indicates the adjusted General Fund (GF) deficit is \$19.1 billion for the two-year period ending June 30, 2011.

In January, the estimated GF shortfall was \$19.9 billion. In February, during the 8th Extraordinary Special Session of the Legislature, the Legislature passed \$3.5 billion in solutions to work towards solving this problem. The Governor vetoed \$2.1 billion of these solutions, leaving only \$1.4 billion in enacted solutions.

Since January, the State received \$700 million in additional federal funds from the Medicare “clawback”. In the May Revision, the Governor is assuming the budgetary gap has grown by an additional \$1.1 billion, including reduced revenues of \$600 million and increased expenditures of \$500 million. The Governor has also proposed increasing the GF reserve by \$200 million to \$1.2 billion. The problem definition is summarized below (in billions).

	Adjustment	General Fund Deficit Running Total
Governor’s January Budget		-\$19.9
Special Session Solutions Enacted by the Legislature	\$3.5	-\$16.4
Special Session Solutions Vetoed by the Governor	-\$2.0	-\$18.4
Additional federal funds	\$0.7	-\$17.7
Reduced revenues	-\$0.6	-\$18.3
Increased expenditures	-\$0.5	-\$18.8
Increase in reserve	-\$0.2	-\$19.1
Governor’s May Revision		-\$19.1

Changes in Revenues and Expenditures:

The revenue and expenditure adjustments in the May Revision are summarized at a high level below:

- **Revenue Changes:** The Governor assumes that on net, GF revenues are \$600 million below January estimates, comprised primarily of reduced personal income tax revenue (about \$3.2 billion over two years), which is partially offset by increased sales tax revenue (about \$1.9 billion). The Governor’s revenue solutions also include \$1.6 billion in new transfers and loans (including a loan from the fuel swap passed by the Legislature in February). The May Revision also includes reduced revenue assumptions related to the withdrawal of the Governor’s proposal to allow oil drilling at Tranquillion Ridge and the implementation of a housing tax credit that the Governor proposed (and the Legislature passed in February), but was not included in the Governor’s revenue estimate in January. More detail on the revenue projections in the May Revision are on page 9.
- **Expenditure Changes:** The Governor’s May Revision includes an increase in expenditures of about \$500 million. There are numerous changes to the Governor’s January expenditure proposal and the May Revision contains additional budget solutions since many of the Governor’s January budget proposals were not achievable. Furthermore, the Governor has proposed restoring \$500 million to higher education, public safety, and state parks, thereby needing additional GF solutions in other areas of the budget. More detail on the expenditures proposed in the Governor’s May Revision are on page 10.

Reduced Federal Revenues, No Tax Stance Result in Program Eliminations:

The May Revision reduces the assumption of federal revenue from \$6.9 billion to \$3.4 billion (excluding the \$700 million from the Medicare “clawback” already scored). The Governor is proposing to delete the “federal trigger” he included in the January budget that would have implemented additional program cuts and eliminations as well the delay of \$2.5 billion in corporate tax breaks if less than \$6.9 billion in federal funds were received.

However, instead of the “trigger” proposals, the Governor’s May Revision includes the complete elimination of the CalWORKs program and child care programs (excluding preschool). The CalWORKs elimination will result in the loss of approximately \$4 billion in federal funds. The Governor is no longer proposing the elimination of the In-Home Supportive Services (IHSS) program and the Healthy Families program, which were both part of his trigger proposal in January.

Furthermore, the Governor's May Revision contains no new tax revenues. The Governor is no longer proposing to delay several corporate tax breaks that were part of the federal funds trigger in January. This will cost the state approximately \$2.5 billion in the budget year.

Governor's Solutions – Overview: At a high level, the Governor is proposing to close the budget gap mainly through expenditure reductions. The Governor assumes no new revenues in his May Revision. The proposed solutions fall into the following four categories:

➤ Expenditure Cuts:	\$12.4 billion
➤ Federal Funds:	\$3.4 billion
➤ Alternative Funding:	\$1.3 billion
➤ Fund Shifts & Loans:	\$2.1 billion
➤ <u>Revenues:</u>	<u>\$0.0 billion</u>
Total Solutions:	\$19.1 billion

Governor's Major New Program Cuts/Eliminations: The Governor has proposed major new cuts and eliminations. These cuts are generally in addition to cuts proposed in the January budget, but in some cases take the place of reductions proposed in January:

- \$1.2 billion to eliminate the CalWORKS program.
- \$1.5 billion to eliminate child care funding except for pre-school and after school programs.
- \$0.8 billion to reduce the In-Home Supportive Services program through a stakeholder process.
- \$0.7 billion to delay funding to schools that would hold harmless Proposition 98 under the Gas Tax Swap enacted by the Legislature in February.
- \$0.6 billion to significantly reduce county mental health realignment funding and shift this funding to support food stamps and child welfare services programs to be realigned to the counties.
- \$0.5 billion to implement a mandatory personal leave program for all state employees.
- \$0.3 billion in additional cuts to county administration funding to implement various social services programs.

Overall General Fund: The May Revision expects GF revenues of \$91.5 billion for 2010-11, but after adjusting for the 2009-10 deficit of \$5.3 billion, the revenue available for expenditure in 2010-11 is only \$86.1 billion. General Fund expenditures are proposed at \$83.4 billion, with a reserve for liquidation of encumbrances of \$1.5 billion. This is detailed in the chart on page 8.

General Fund Reserve: The May Revision proposes a \$1.2 billion GF reserve for 2010-11. This reserve has been increased by \$200 million relative to the January Budget.

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

- K-14 Education funding. The May Revision provides, under the Proposition 98 guarantee, total funding (combination of GF and local property taxes) of \$49.9 billion in 2009-10 and \$48.4 billion in 2010-11. This level of funding reflects elimination of Proposition 98 funding for child care. As a result, Proposition 98 is rebenched downward by \$1.54 billion.
- Transportation. The May Revision proposes additional General Fund relief of \$1.1 billion from transportation-fund loans. Part of the amount comes from deferring repayment of a 2008-09 loan from the State Highway Account that is statutorily due in 2010-11, but is not constitutionally due until 2011-12. Two new loans are proposed for 2010-11: (1) a \$650 million loan from the "fuel swap" highway funds – this would remove any net gain to highway funding from the fuel swap in 2010-11, but leave the base Proposition 42 funding whole; and (2) a \$250 million loan from the Motor Vehicle Account. Both of these new loans would be constitutionally due for repayment in 2013-14.
- Higher Education. Withdraws the Governor's January proposal to suspend the Competitive CalGrant program, for a General Fund cost of \$45.5 million. Retains January Budget funding augmentation for higher education.
- Health Services. Decimates County Mental Health funding by shifting \$602 million (County Realignment Funds/Mental Health Subaccount), or 60 percent of funds, to administer Food Stamps and Child Welfare Services which would be shifted from the State to counties under the

Governor's proposal. The Governor assumes a General Fund savings from this reduction and shift of State responsibilities.

Revises the January Budget Medi-Cal non-specific cost containment proposal with specific measures. Among these cuts that sum to \$523 million GF, are the elimination of certain over-the-counter drugs, annual dollar caps on certain medical equipment, increased co-payments for medical visits, and provider rate reductions.

- Human Services. The May Revision proposes to completely eliminate, effective October 1, 2010, the CalWORKs program. The proposal would result in approximately \$1.1 billion GF savings, as well as a loss of \$4.2 billion in federal Temporary Assistance to Needy Families (TANF) and stimulus funds in 2010-11.

In lieu of the Governor's January proposals to 1) limit the provision of IHSS services to 87 percent of the program's consumers and 2) reduce state participation in wages to the minimum wage of \$8.00 per hour, plus \$.60 per hour for benefits, the May Revision proposes \$637.1 million GF savings in the IHSS program. The Administration intends to develop more specific plans for this "cost containment" in consultation with stakeholders and in time for legislative enactment by July 1. The total budget for the IHSS program in 2009-10 is \$5.5 billion (\$1.2 billion GF).

- Natural Resources and Environmental Protection. The May Revision proposes to fully fund state parks with \$140 million from the General Fund. The Governor's Budget originally proposed to provide \$140 million to the Department of Parks and Recreation from oil lease revenues (from proposed drilling at Tranquillon Ridge); however, the Governor withdrew this proposal following the recent oil spill in the Gulf of Mexico.
- Public Employment. Adds a self-directed furlough day per month [or a Personal Leave Program (PLP)] to the existing employee compensation cuts proposed in the January Budget. The PLP would apply to both special fund and GF departments, and is estimated to save the state \$446 million GF. The January proposals retained by the Governor are a five percent pay cut, a five percent increase in employee retirement

contributions, and a five percent “workforce cap” or increase in departments’ salary savings.

- Corrections and Rehabilitation. The Governor’s January budget proposal provided the California Department of Corrections and Rehabilitation (CDCR) additional General Fund authority of \$74 million in the current year and \$664 million in the budget year compared to the 2009-10 Budget Act. Much of these increased costs were related to unachieved savings from correctional reforms assumed in the current year budget. The May Revision provides CDCR an additional \$112 million and \$78 million in the current and budget years, respectively.

**2010-11 Governor's May Revision
General Fund Summary
(in millions)**

	Revised	Proposed
	<u>2009-10</u>	<u>2010-11</u>
PRIOR YEAR BALANCE	-\$5,361	-\$5,305
Revenues and transfers	<u>\$86,521</u>	<u>\$91,451</u>
TOTAL RESOURCES AVAILABLE	\$81,160	\$86,146
Non-Proposition 98 Expenditures	\$50,629	\$48,397
Proposition 98 Expenditures	<u>35,836</u>	<u>35,007</u>
TOTAL EXPENDITURES	\$86,465	\$83,404
FUND BALANCE	-\$5,305	\$2,742
Encumbrances	\$1,537	\$1,537
Special Fund for Economic Uncertainties	-\$6,842	\$1,205
Budget Stabilization Account (BSA)	--	--
TOTAL AVAILABLE RESERVE	-\$6,842	\$1,205

**2010-11 May Revision
General Fund Revenue
By Source
(in millions)**

Source	Gov. Budget Jan. 10 Amount	May Revision Amount	Difference	% Change
Personal Income Tax	\$46,862	\$46,245	-\$617	-1.3
Sales Tax	\$25,851	\$26,967	\$1,116	4.3
Corporation Tax	\$10,052	\$9,779	-\$273	-2.7
Transfers / Loans	-\$526	\$1,116	\$1,642	-312.2
Other	\$5,294	\$10,854	\$5,560	105.0
<i>Total</i>	\$89,322	\$91,451	\$7,428	8.5

**2010-11 May Revision
General Fund Expenditures
By Major Program Area
(in millions)**

Major Program Area	Jan. 10 Amount	May Revision Amount	Difference	% Change
K-12 Education	\$36,004	\$35,133	-\$871	-2.4%
Health and Human Services	\$21,000	\$22,859	\$1,859	8.9%
Higher Education	\$11,836	\$11,794	-\$42	-0.4%
Corrections and Rehabilitation	\$7,983	\$8,981	\$998	12.5%
Resources	\$1,732	\$2,037	\$305	17.6%
Environmental Protection	\$68	\$65	-\$3	-4.4%
Business, Transportation & Housing	\$902	\$765	-\$137	-15.2%
Legislative, Judicial, Executive	\$2,825	\$2,905	\$80	2.8%
General Government				
Non-Agency Departments	\$578	\$588	\$10	1.7%
Tax Relief / Local Government	\$534	\$534	\$0	0.0%
Statewide Expenditures	-\$1,207	-\$2,914	-\$1,707	141.4%
State and Consumer Affairs	\$587	\$599	\$12	2.0%
Labor and Workforce Development	\$59	\$58	-\$1	-1.7%
<i>Total</i>	\$82,901	\$83,404	\$503	0.6%

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CORRECTIONS

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

Overall Summary. The Governor's January budget proposal provided the California Department of Corrections and Rehabilitation (CDCR) additional General Fund authority of \$74 million in the current year and \$664 million in the budget year compared to the 2009-10 Budget Act. Much of these increased costs were related to unachieved savings from correctional reforms assumed in the current year budget. The May Revision provides CDCR an additional \$112 million and \$78 million in the current and budget years, respectively.

Adult Inmate and Parolee Population Estimates. The May Revision projects that the average daily population and adult parolee population in the current year is lower than anticipated in the January budget proposal. The Governor estimates that this will result in reducing General Fund expenditures in the current year by \$9.8 million.

Estimates for the adult inmate and parolee populations in the budget year are projected to decline to levels below the estimates in the current year. The Governor estimates that this will reduce costs to the General Fund by \$50.4 million in the budget year.

The 2010-11 average daily adult inmate population is anticipated to be 163,681 and the average daily adult parolee population is anticipated to be 119,200, which is 2.8 percent and 0.7 percent lower than estimated in the current year, respectively.

Felony Term Reform Proposal Withdrawn. The May Revision proposes to withdraw the Governor's proposal to require that specified offenders receiving felony convictions for "wobbler" crimes – offenses that can be prosecuted as felonies or misdemeanors – be housed in local jails instead of state prison. The withdrawal of this proposal eliminates savings and increases expenditures by \$25 million and \$292 million in the current and budget years, respectively.

Short Term Inmates to Stay in Local Jails; Local Block Grant Established. The May Revision includes a proposal that would require that offenders convicted of non-serious, non-violent, non-sex felonies and who receive a sentence of three years or less must serve that sentence in local jails instead of state prison. The

May Revision further proposes that a block grant be established from a share of the state General Fund savings that would be achieved from this proposal. Specifically, \$11,500 per offender would be allocated at the local level that could be used for incarceration, supervision, programs, and services including for probation, drug courts, and alternative custody. This proposal results in net General Fund savings of \$244 million in the budget year.

Revised Savings for Current Year Corrections Reforms. The May Revision proposal updates the estimated savings related to implementing various corrections reforms enacted as part of the current year budget. The reduced savings estimates result in increased General Fund expenditures of \$37 million in the current year and \$101 million in the budget year.

Reestablish General Fund Support for Local Criminal Justice Programs. The May Revision proposes to provide a continuous appropriation of \$503 million General Fund to local jurisdictions for criminal justice programs that are currently funded using a portion of the revenue from vehicle license fees (VLF). This proposal would not be implemented until 2011-12 when the current VLF increase expires.

Juvenile Offenders and Parolee Population Estimates. The May Revision projects a decline in the juvenile offender and parolee populations in the current and budget years relative to the January budget proposal. The juvenile ward population is projected to decrease by 107 in the current year and 227 in the budget year as compared to the projected populations assumed in the January budget proposal. These changes result in General Fund savings of \$6 million in the current year and \$22 million in the budget year.

The 2010-11 average daily population in state juvenile facilities is expected to be 1,520 and the average daily juvenile parole population is expected to be 1,399, which are 8 and 12 percent lower, respectively, than projected for the current year.

Proposal to Reduce DJJ Age of Jurisdiction Withdrawn. The May Revision proposes to withdraw the Governor's January proposal to reduce the age of jurisdiction for the Department of Juvenile Justice (DJJ) from 25 to 21 years old. The withdrawal of this proposal increases General Fund costs by \$36 million (and \$6 million from Proposition 98 General Fund) in the budget year. The Governor continues to pursue his proposal related to transferring more eligible wards from DJJ facilities to state prison, and his budget assumes that reduced use of time-adds will continue to occur.

Juvenile Parole Realignment. The May Revision proposes to transfer responsibility for supervising wards released from DJJ facilities from state parole to county probation departments. The state would provide a block grant of \$15,000 per ward per year to the locals, funded from the state General Fund, to support their supervision. This proposal would save a net \$5 million General Fund.

Lease-Revenue Bond for Local Juvenile Justice Facilities. The May Revision proposes \$300 million lease-revenue bond authority for local youthful offender rehabilitative facilities to expand the local capacity to implement a continuum of out-of-home placement options for juvenile offenders.

Design-Build Authority for Local Facilities. The May Revision includes trailer bill language that would allow counties to use the design-build project delivery method in the construction of local jail and juvenile rehabilitation facilities as established in Chapters 7 and 125, Statutes of 2007, respectively, in order to expedite the completion of authorized projects.

Federal Funds Assumption Lowered. The May Revision removes the January budget assumption that the state would receive an additional \$880 million in federal State Criminal Alien Assistance Program (SCAAP) funding in 2010-11. The May Revision does assume that the state will receive a total of \$1.7 billion in additional federal funds for SCAAP and health and human services programs but does not specify the amount specific to SCAAP. The SCAAP reimburses state and local governments for costs related to incarcerating illegal immigrants convicted of criminal offenses.

GENERAL GOVERNMENT

OFFICE OF THE STATE CHIEF INFORMATION OFFICER

Increase of \$3.3 million (Technology Services Revolving Fund) to purchase public safety equipment for existing communications towers which are part of the Sacramento Public Safety Communications Decentralization Project (Project). The Project will relocate a “communications ring” from the top floor of the Resources Building in Sacramento to various outlying sites in northern California. The Project costs will be recovered through existing user rates. This request complements a May 1 Finance Letter capital outlay request to reappropriate \$3.2 million (variety of bond and special funds) for working drawings on the Project.

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

Increase of \$2.1 million (reimbursements) to reflect the creation of, and provide six months of funding for, the Governor's Office of Economic Development (Office). The Office was established by Governor's Executive Order S-05-10, which was signed on April 8, 2010. This May Revision request represents the funding received from other state entities necessary for the operation of the Office.

OFFICE OF ADMINISTRATIVE LAW

The January Governor's Budget proposes to shift the Office of Administrative Law (OAL) to a fee-for-service model in which OAL would directly bill regulation-issuing departments for its costs, thereby saving \$1.7 million General Fund. While the May Revision continues to propose shifting OAL to a fee-for-service model for the same GF savings, in order to provide administrative, fiscal, and accounting support during the transition to a new administration and conversion of the new billing system, OAL would be moved to the State and Consumer Services Agency effective January 1, 2011.

BOARD OF EQUALIZATION

The May Revision proposal includes \$197,000 to fund 1.8 positions to create a collection cost recover fee program at the Board of Equalization. This fee will be imposed on delinquent accounts receivable to cover the actual costs of collection. This is similar to a fee in place at the Franchise Tax Board. The fee is expected to generate \$4 million in GF revenues in the budget year that will increase to \$13 million in subsequent years.

CALIFORNIA SCIENCE CENTER

The May Revision proposal withdraws the Governor's January proposal to reduce the California Science Center by \$12 million General Fund and charge an admissions fee.

CONTROL SECTION 4.75: STATEWIDE SURCHARGE

Add Control Section 4.75 to provide authority to the Department of Finance to make adjustments to the Statewide Surcharge amounts in departmental appropriations for 2010-11. The Statewide Surcharge, originally established in 2005, provides a method for the Department of General Services to recover costs for services not directly tied to a service offering and is based on the total number of positions authorized for an affected department. The Statewide Surcharge has not been reallocated since initial implementation.

SPECIAL FUND LOANS AND TRANSFERS TO THE GENERAL FUND

\$160 million in new special fund loans to the General Fund. Included are \$10 million in loans from the Victims of Corporate Fraud Compensation Fund with the Secretary of State's Office; \$50 million in loans from the California Tax Credit Allocation Committee; \$10 million from the Department of Consumer Affairs, Accountancy Fund; and \$90 million from Resource Agency funds. The May Revision also proposes to extend loan repayment dates for existing special fund loans to the General Fund. These repayment extensions impact loans in a number of areas, including resources, health, and general government.

PUBLIC WORKS BOARD: PROPOSED TRAILER BILL LANGUAGE

The January Governor's Budget requested proposed trailer bill language to enact technical, clarifying, and streamlining statutory changes related to the State Public Works Board (PWB) oversight of capital outlay projects. The May Revision adds to the January proposal to address the PWB's need to provide interim project financing which has been challenging since the Pooled Money Investment Board stopped providing interim financing loans to lease-revenue financed projects. The proposed solution is asset transfers, which is an existing practice that was restricted to higher education and used only in very limited situations.

LEASE-REVENUE BOND DEBT SERVICE ADJUSTMENTS

Increase of \$4.6 million General Fund, and an increase of \$10.7 million in other funds, to pay for the lease-revenue bonds that were sold to finance the Department of General Services, Central Plant Renovation project. Upon enactment of the budget, an executive order will be processed per Control Section 4.30 to allocate

the adjustments to the various departments that occupy the 23 state office buildings which benefit from the operations and maintenance of the Central Plant.

PUBLIC EMPLOYMENT ISSUES

- **Employee Compensation/Personal Leave Program.** Decrease of \$795 million (\$446 million General Fund) in state expenditures associated with implementation of a mandatory one-day-per-month Personal Leave Program (PLP) for all state civil service employees from July 1, 2010 until June 30, 2011. Employees would be required to take PLP leave hours before other types of leave and could not cash out any unused leave. The PLP applies to all employees, regardless of fund source and represents a 4.62 percent reduction in employee pay.
- **Federal Temporary Reinsurance Program for “Early Retirees.”** Decrease of \$200 million General Fund associated with anticipated savings from partial reimbursement for reinsurance costs for early retirees included in the Federal Health Care Reform Act, approved in March 2010. The Temporary Reinsurance Program is intended to encourage employers to provide health coverage to early retirees until state health exchanges and federal subsidies for health coverage are implemented. An early retiree is a plan participant who is age 55-64, enrolled in health benefits under the employer sponsored plan, not eligible for coverage under Medicare, and not an active employee of the plan sponsor. The program is scheduled to begin on June 1, 2010, and will end on January 1, 2014, or until the \$5 billion in federal funding allocated to the Program is exhausted.

CASH MANAGEMENT

The Administration indicates that the state is realizing significant General Fund savings in the area of interest costs, relative to January estimates. General Fund interest costs for cash flow borrowing and budgetary borrowing are proposed to be reduced by a two-year total of \$362 million. Additionally, the General Fund cost of general obligation bond debt service is increased by \$69 million in 2009-10 (after adjusting for special session solutions) and decreased by \$197 million in 2010-11, for net two-year savings of \$128 million.

HEALTH

MENTAL HEALTH

- **Eliminates Community Mental Health Services.** Decimates County Mental Health funding by shifting \$602 million (County Realignment Funds/Mental Health Subaccount), or 60 percent of funds, to administer Food Stamps and Child Welfare Services which would be *shifted* from the State to counties under the Governor's proposal. The Governor assumes a General Fund savings from this reduction and shift of State responsibilities.

Mental Health Services provided under the Medi-Cal Program would be radically scaled back to *only* include in-patient treatment and medications for adults, and Early and Periodic Screening, Diagnosis and Treatment Program services for seriously emotionally disturbed children. Only \$435 million in County Realignment Funds (Mental Health Subaccount) would be available for this purpose, along with federal funds.

All other Mental Health Services, such as clinic outpatient services, crisis management services, psychiatric therapies, and related *medically necessary* services would not be funded under this proposal.

This proposal is severely flawed for numerous reasons from a public policy perspective, legal perspective, fiscal perspective and most importantly, from a human consequence on individuals and our society perspective. Specifically, it does the following:

- Likely violates federal Medicaid (Medi-Cal in California) law which requires mental health parity;
- Likely violates the federal Americans with Disabilities Act and the federal Supreme Court ruling in *Olmstead* regarding access to medically necessary services for individuals with disabilities and the need to provide services in the least restrictive environment—in outpatient arrangements, not institutions;
- Violates maintenance of effort language under the Mental Health Services Act (Proposition 63) which requires continued financial support for mental health programs as provided in 2003-04 [Section 5891 (a) of Welfare and Institutions Code];

- Likely violates existing County Realignment Statute enacted in 1991 by redirecting revenues which are County Funds for other purposes.
- Likely violates our existing Medi-Cal Mental Health Waiver in which the state obtains over \$1 billion in matching federal funds.

The Administration knows that individuals with severe mental illness experience significant health disparities. Nearly 50 percent of the Medi-Cal population who have a chronic illness have a psychiatric condition. With this proposal, the mental health system will be in complete disarray and there would be significant consequences to our society from this action.

- **Mental Health Services Act (Proposition 63).** The Governor rescinds his January proposal, which had already been rejected by the Senate, to redirect \$452.3 million (Mental Health Services Act Funds) to backfill for General Fund support in the Mental Health Managed Care Program. This would have required a vote of the people and a similar proposal was rejected by California voters just last year in March 2009. The May Revision restores General Fund support accordingly.
- **Suspends Chapter 1747, Statutes of 1984 (AB 3632).** The Governor reduces by \$52 million (General Fund) this mandate program which provides special education students with federally required mental health services per the federal Individuals with Disabilities Education Act (IDEA).

MEDI-CAL PROGRAM

- **Federal Flexibility.** Assumes a reduction of \$1.6 billion from receipt of additional federal funds or support in targeted areas, including federal reimbursement for monies owed the State for Medicare disability determinations, recalculation of State Medicare Part D “clawback” payments, *possible* General Fund relief through the pending, new comprehensive 1115 Medi-Cal Financing Waiver, and federal reimbursement for the cost of incarcerating undocumented immigrant felons.
- **Substantial Increase to Cost-Sharing.** Proposes a reduction of \$218.8 million (General Fund) by substantially increasing Medi-Cal co-payments on extremely low-income individuals. This includes the following: (1) \$5 copayment on physicians, clinics, dental and pharmacy (\$118.2 million); (2) \$50 copayment

on emergency room visits (\$41.5 million); and (3) \$100 per day copayment and \$200 maximum for hospital stays (\$59.1 million).

- **Reduction for Mandatory Enrollment in Managed Care.** Assumes a reduction of \$137.3 million (General Fund) by enrolling seniors and people with disabilities into Medi-Cal Managed Care arrangements.
- **Limits Access to Physician Services.** Proposes to limit the number of physician or clinic visits to 10 per year for a reduction of \$69.2 million General Fund. This proposed cap on services is based on the aggregate utilization of services at the 90 percent level of Medi-Cal enrollees.
- **Limits Access to Durable Medical Equipment.** Limits the annual benefit for hearing aids (at \$1,510), durable medical equipment (at \$1,604), incontinence supplies (at \$1,659), urological supplies (at \$6,435), and wound care supplies (at \$391). This would result in a reduction of \$3.8 million (General Fund).
- **Limits Prescription Drugs.** Limits prescription drugs to six per month for a reduction of \$4.2 million (General Fund), except for “life-saving” drugs.
- **Over-the-Counter Drugs.** Eliminates most Over-the-Counter drugs, such as cough and cold products, aspirin, and selected nonprescription acetaminophen (Tylenol) from Medi-Cal for a reduction of \$13 million General Fund.
- **Freeze on Hospital Rates.** Reflects a reduction of \$64.9 million (General Fund) by freezing certain Medi-Cal reimbursement to Hospitals.
- **Long-Term Care Nursing Facilities.** Increases by \$80 million (in Quality Assurance Fees) to provide a 3.9 percent rate increase to nursing facilities (AB 1629 designated facilities). Additional fees are to be generated by: (1) assessing fees on currently exempted multi-level retirement communities; (2) decreasing licensing and certification fees; and (3) using more recent data on which to base the fee.
- **Adjustment to Medi-Cal Managed Care Rates.** Increases by \$174 million (General Fund) to provide an estimated 3.7 percent rate increase for Medi-Cal Managed Care plans.

- **Restores Optometry Services For Adults.** Increases by \$1.3 million (General Fund) to restore Optometry services for adults to comply with federal law (42 U.S.C. 1396d (e)).
- **Rescinds Assumption of Base Medicaid Federal Assistance.** Reflects an increase of \$1.8 billion (General Fund) by rescinding the Governor's prior proposal to raise California's base federal medical assistance percentage (FMAP) from 50 percent to 57 percent.
- **State Staff for 1115 Medi-Cal Financing Waiver.** Increases by \$4.1 million (General Fund) to support 53 new State positions within the Department of Health Care Services to implement the pending federal 1115 Medi-Cal Financing Waiver.

HEALTHY FAMILIES

- **Proposes Premium Increase in September.** Increases premiums in families with incomes from 200 to 250 percent of poverty by \$18 per child for a reduction of \$13.3 million (General Fund), effective as of September 1, 2010. This would increase the premium from \$24 per child to \$42 per child per month with a \$54 maximum per family per month with three or more children. This would be the third premium increase in two years if adopted.
- **Proposes Copayment Increase.** Increases copayments for emergency room visits from \$15 to \$50 (\$2.5 million General Fund) and adds copayments on hospital in-patient services \$100 per day with a \$200 maximum (\$700,000 General Fund) for an overall reduction of \$3.2 million (General Fund). These proposed copayments are extremely high and may not meet federal cost-sharing arrangements when coupled with the proposed premium increases (must be below 5 percent).

HIGHER EDUCATION

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

- Withdraws Governor's January proposal for a federal funds "trigger" cut to eliminate \$111.8 million General Fund for UC and CSU enrollment growth funding. Maintains the enrollment growth funding for 2010-11.
- Continues to provide an additional \$305 million for UC and \$305 million for CSU to restore a cut made in 2009-10.
- Increase of \$2.7 million in reimbursements to UC from the Workforce Investment Act (WIA) from the Employment Development Department (EDD) for the second phase of the Nursing Initiative to support 185 nursing graduates through 2013-14.
- Decrease of \$431,000 to UC for the Tobacco Research program due to revised available funding estimates.
- Increase in lottery revenues of \$855,000 for CSU and \$525,000 for UC.
- For 2009-10: Increase in lottery revenues of \$639,000 for CSU and \$391,000 for UC.

California Community Colleges (CCC)

- Decrease of \$6 million in TANF reimbursements for the Special Services to CalWORKs recipients as a result of the Governor's proposal to eliminate CalWORKs during the second quarter of the 2010-11 fiscal year. \$2 million would remain for the program for the first quarter of the fiscal year.
- Increase of \$249,000 in 2009-10 and \$727,000 in 2010-11 from federal funds for the Solar Training Collaborative to develop standardized curriculum for programs in the photovoltaic and solar heating and cooling industry. The total increase is \$976,000, of which \$880,000 is for local assistance.

Overview of the May Revision of the 2010-11 Governor's Budget

- Increase of \$266,000 in reimbursements to the Energy Sustainability Program funded by a grant from the California Energy Commission.
- Increase of \$4.4 million in reimbursements in 2009-10 from WIA from the EDD to further incentives for sustaining recent enrollment increases in nursing courses and increasing enrollments in allied health related training programs. Of this amount, \$3 million is the initial increment of a five year funding commitment for the second phase of WIA funding for the Nursing Initiative. The second phase of \$3 million for 2010-11 was proposed in an April Finance Letter.
- Increase in lottery revenues of \$3 million in 2010-11 and \$3.3 million in 2009-10.
- Increase of \$8.4 million in local revenue for apportionments from property taxes.
- Increase of \$3.1 million in local revenue from oil and mineral revenue which will decrease apportionment resources by the same amount.
- For 2009-10: Department of Finance estimates that property taxes for 2009-10 available to offset apportionments will be \$1.946 billion. The Chancellor's Office reported property taxes of \$1.961 billion, an increase of \$15.4 million.

Financial Aid

- Withdraws Governor's January proposal to suspend the Competitive CalGrant program, for a General Fund cost of \$45.5 million.
- Withdraws Governor's January proposal for a federal funds "trigger" cut to freeze CalGrants income eligibility and award levels. This would have been a \$79 million General Fund cut if the trigger cut had been taken.
- Shifts \$28.6 million in CalGrant costs *from* the General Fund *to* the federal Temporary Assistance for Needy Families Program (TANF) fund, thus reducing General Fund by a like amount. This is an increase of \$10.3 million from the January proposal, which was a \$18.3 million shift.

Overview of the May Revision of the 2010-11 Governor's Budget

- Increases \$10.6 million General Fund for updated CalGrant entitlement awards and loan assumption programs, including the Assumption Program of Loans for Education (APLE).
- Increases \$676,000 General Fund and 8.7 PY for CSAC to replace the shared services currently performed by EdFund, which is anticipated to be sold during 2010-11. This increase brings the appropriation for the reestablishment of the mail room, printing, information technology, and other shared services to \$1.2 million.
- Funding Shift: Decrease of \$7.2 million General Fund and an increase of \$7.3 million in federal funds for the Federal College Access Challenge Grant since January.
- Funding Shift: A one-time decrease of \$75 million General Fund and an increase of the same amount from the Student Loan Operating Fund.
- For 2009-10: An increase of \$11.1 million General Fund to reflect increased CalGrant and loan assumption costs.

HUMAN SERVICES

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

- **Proposed Elimination.** The May Revision proposes to completely eliminate, effective October 1, 2010, the CalWORKs program. The proposal would result in approximately \$1.1 billion GF savings, as well as a loss of \$4.2 billion in federal Temporary Assistance to Needy Families (TANF) and stimulus funds in 2010-11. These reductions are on top of the impacts of January proposals to 1) reduce monthly grant payments by 15.7 percent, 2) reduce the level at which the state reimburses child care providers, and 3) eliminate the Recent Non-citizen Entrants program for legal immigrants. If this proposal is enacted, California would be the only state in the nation without a welfare-to-work program to help families with children meet their most basic needs (i.e., shelter, food, clothing).

Anticipated Impacts. The proposal would eliminate benefits to more than 500,000 families (including more than one million children) who receive temporary cash aid, as well as education, training, child care, and employment assistance. Dramatic increases in poverty and homelessness in California, as well as significant costs in other state and local services (e.g., child welfare, foster care, and education programs) would likely result. Counties have previously estimated potential overall costs of \$1.9 billion if all former CalWORKs recipients became eligible for local General Assistance programs. They have also estimated that the elimination of CalWORKs would result in a loss of roughly 140,000 private and public sector jobs statewide.

(Also see the Education section of this report for impacts on the availability of child care for low-income families.)

In-Home Supportive Services (IHSS)

- **Cost Containment.** In lieu of the Governor's January proposals to 1) limit the provision of IHSS services to 87 percent of the program's consumers and 2) reduce state participation in wages to the minimum wage of \$8.00 per hour, plus \$.60 per hour for benefits, the May Revision proposes \$637.1 million GF savings (growing to \$750 million annually after the expiration of stimulus funds) in the IHSS program. The Administration intends to develop more specific plans for this "cost containment" in consultation with stakeholders and in time for legislative enactment by July 1. The total budget for the IHSS program in 2009-10 is \$5.5 billion (\$1.2 billion GF).

The IHSS program provides in-home personal care services to roughly 460,000 qualified individuals who are blind, aged (over 65), or who have disabilities. These individuals usually have income at or below the SSI/SSP grant level (\$845 per month for an individual as of October 2009) and assets, except their homes or cars, worth less than \$2,000. County social workers determine eligibility for the program after conducting in-home assessments.

Drug Medi-Cal (DMC) Services

- **Proposed Elimination of Most Services.** With the exception of Perinatal and Minor Consent programs, the May Revision proposes a reduction of approximately \$125 million (\$53 million GF) to eliminate, effective October 1, 2010, funding for DMC programs. Since 1980, the DMC program has provided medically necessary drug and alcohol-related treatment services to Medi-Cal beneficiaries who meet income eligibility requirements (up to 250 percent of the Federal Poverty Level (FPL)). DMC services include Outpatient Drug-Free, Naltrexone (medication used to treat alcohol or opioid dependence), Narcotic Treatment, and Day Care Rehabilitative programs.

Other Significant Proposals

The May Revision also proposes to:

- **Shift county realignment funding from mental health to food stamp and child welfare services.** (See Health section for more information.)
- **Increase Foster Care Group Home Rates.** The proposed increase of \$79.1 million GF and corresponding federal funds results from a court decision regarding the rates paid to group home providers.

In addition, the May Revision continues to include the impacts of other significant reductions proposed in the Governor's January budget, including the:

- **Reduction of Supplemental Security Income/ State Supplementary Payment SSI/SSP benefits and elimination of the Cash Assistance Program for Immigrants (CAPI).** The Governor proposes \$177.8 million GF savings from reducing SSI/SSP grants to individual recipients. The proposed SSP grant would be set at the federally required minimum level. As a result, the maximum grants for around one million aged, blind or disabled individual

SSI/SSP recipients would be reduced from \$845 to \$830 monthly [or 92 percent of Federal Poverty Level (FPL)] and 8,776 recipients would become ineligible.

The Governor also proposes elimination of CAPI, which provides the equivalent of SSI/SSP program benefits to low-income, legal non-citizens (less \$10 per individual and \$20 per couple). The average monthly number of CAPI recipients in 2009-10 is 9,029. Some CAPI recipients would become eligible for local General Assistance programs.

- **Elimination of the California Food Assistance Program (CFAP).** Under this proposal for \$56.2 million GF savings, an estimated 32,278 low-income, legal non-citizen recipients between 18 and 65 years of age (12,617 households) would lose all nutritional benefits. The average monthly benefit is \$112 per person.
- **Elimination of Funding for Offender Treatment Program (OTP).** In recent years prior to 2009-10, the state provided funding for community-based diversion programs for drug offenders through the Substance Abuse and Crime Prevention Act (SACPA or Proposition 36) and the Offender Treatment Program (OTP). In 2009-10, funding for Proposition 36 was eliminated. The Governor's January budget proposes to eliminate the remaining \$18.0 million GF for OTP, which was created to serve the same individuals as Proposition 36 (but with some programmatic changes to improve treatment outcomes).
- **Redirection of County Savings.** This proposal would "redirect" county savings from other proposals, including reductions in IHSS and CalWORKs. A revised estimate includes \$359.5 million GF savings in 2010-11 as a result.

JUDICIARY AND JUSTICE

JUDICIAL BRANCH

Automated Speed Enforcement Estimate Updated. The May Revision provides an additional \$91 million General Fund for the Judicial Branch to backfill revenue not achieved because the Automated Speed Enforcement proposal was not adopted in Special Session. The May Revision continues to assume adoption of this policy change and assumes \$206 million in revenues in the budget year.

Electronic Court Reporting. The May Revision proposes increased use of electronic court reporting statewide on a phased-in basis resulting in reduced General Fund costs of \$13 million in the budget year. The annual savings is estimated to grow to \$100 million once this proposal is fully implemented in five years.

Increase in Court Security Fee. The Governor's budget assumes increased revenues of \$60 million to the Trial Court Trust Fund from a \$15 increase in the court security fee. The fee increase is proposed to sunset in 2016. The May Revision continues to propose an augmentation of \$41 million for court security as in the January budget, but now proposes to fund that augmentation from the court security fee revenue rather than the revenue from Automated Speed Enforcement.

Trigger Cut Removed. The May Revision does not include the \$100 million cut that was proposed in the January budget to be "triggered" if a specified amount of federal funds was not achieved.

DEPARTMENT OF JUSTICE

Legal Services Fund Swap Proposal Modified. The May Revision includes changes to the Governor's January proposal to require General Fund departments to reimburse the Department of Justice (DOJ) for its legal services. Currently, DOJ gets a direct General Fund appropriation for its legal services work. Among other changes to the proposal, the May Revision more clearly outlines the distribution methodology among General Fund departments, requires a fund condition statement from DOJ, maintains land law client funding in DOJ's budget, and requires DOJ to review and approve increases in DOJ billing rates.

DNA Identification Fund Shift. The May Revision includes a proposed fund shift in the current year to capture \$14 million General Fund in available savings resulting from passage of the special session bill ABx8 3. This bill increased the state penalty assessment to provide additional special fund revenues for the operation of the DOJ's forensic laboratories, offsetting General Fund expenditures for this program. The May Revision captures current year savings associated with this change.

EDUCATION

K-14 -- Proposition 98 Overall

Prior Year. The Governor no longer proposes to change the **\$49.1 billion** certified for Proposition 98 in 2008-09 as a part of the July 2009 budget agreements. This provides \$74 million above the Governor's January level. According to the Administration, Proposition 98 is over-appropriated by **\$2 billion** in 2008-09. The Governor's May Revision continues to use a portion of this over appropriation to satisfy **\$1.3 billion** in outstanding constitutional maintenance factor through 2007-08.

Current Year. The Governor proposes **\$49.9 billion** in Proposition 98 funding for K-14 education in 2009-10, which essentially provides the same level of funding as the Governor's January proposal. This level of funding will require a reduction of **\$507 million** – somewhat less than January – compared to the 2009-10 Budget Act, which provided \$50.4 billion in Proposition 98 funding for K-14 education.

Due to a decline in revenues, the \$49.9 billion in Proposition 98 funding proposed by the Governor in 2009-10 is **\$502 million** above the Proposition 98 minimum guarantee. The Governor proposes to apply this over-appropriation toward an early payment of the **\$11.2 billion** in statutory maintenance factor obligations per the July 2009 budget agreement.

Budget Year. The Governor provides **\$48.4 billion** in Proposition 98 funding for K-14 education in 2010-11. This level of funding reflects elimination of Proposition 98 funding for child care. As a result Proposition 98 is rebenched downward by **\$1.54 billion**. This proposal does not reduce Proposition 98 funding for other K-14 education programs and maintains funding at the minimum guarantee for Test 1, as rebenched. The Governor continues to delay “in lieu” maintenance factor obligations, but by only one year – from 2010-11 to 2011-12 – instead of two years as proposed in January. This statutory funding obligation was negotiated as part of the July 2009 budget agreement.

K-12 Education

Current Year Proposals: The Governor's May Revision continues the following mid-year adjustments for K-12 education funding in 2009-10 as proposed in January.

Overview of the May Revision of the 2010-11 Governor's Budget

- Reduces the K-3 Class Size Reduction program by **\$340 million** to reflect projected savings for this program.
- Captures **\$176 million** in savings from various technical adjustments to other programs, primarily revenue limit savings tied to a decline in student attendance.

Budget Year Proposals: The Governor's May Revision proposes elimination of Proposition 98 funding for child care, captures some additional one-time funds to offset programmatic reductions, and continues most other January reductions for K-12 programs in 2010-11, with some modifications, as follows:

- Eliminates Proposition 98 funding for the Child Care Program for a savings of **\$1.2 billion** in 2010-11. (The Governor does not eliminate funding for the State Preschool Program.)
- Continues to reduce school district and county office of education revenue limits by approximately **\$1.5 billion**, but **withdraws** proposals to link these cuts to school district central administration cuts, school district authority to contract out for non-instructional services, and county office of education consolidation. This change is intended to give school districts and county offices greater authority in allocating these reductions based upon local needs. (May Revision restores **\$16.8 million** of the \$45 million revenue limit reduction for county offices proposed in January. This adjustment makes county office revenue limit reductions proportionate to school district reductions.)
- Continues to reduce the K-3 Class Size Reduction program by **\$550 million** due to projected savings in the program. (This reflects additional savings of \$210 million beyond those proposed for 2009-10.)
- Captures **\$336 million** in one-time Proposition savings to offset ongoing K-12 program costs in 2010-11 and thereby mitigate programmatic reductions;
- Continues to reduce school district and county offices of education revenue limit and categorical programs for a negative Cost-of-Living Adjustment for K-12 education -- now estimated at -0.39 percent -- for a savings of **\$206.3 million**.

Overview of the May Revision of the 2010-11 Governor's Budget

- Provides **\$15.7 million** in one-time reappropriations for advance apportionments to schools that will experience a cash flow deficit in June as a result of education payment deferrals.
- Decreases one-time funding for new school categorical program funding from \$20 million to **\$11 million** to align funding with projected costs.
- Restores the 4th Grade Writing Assessment by redirecting approximately **\$2.0 million** in existing funding for the Standardized Testing and Reporting (STAR) program.
- Sets aside **\$3.7 million** in existing STAR funds to commence development of a longitudinal academic growth model. Funds will allow local educational agencies to partner with the state on implementation of growth models.
- Proposes elimination of the Alternative Schools Accountability Model (ASAM) for savings of **\$775,000**.
- Continues to suspend all K-12 education mandates except costs associated with behavioral intervention plans (**\$65 million**), inter/intra district transfers (**\$7.7 million**), and the California High School Exit Exam (**\$6.8 million**).

General Funds Adjustments:

- Reverses the shift of **\$250 million** in funding from 2010-11 to 2009-10 proposed by the Governor in January for the Quality Education Investment Act (QEIA) program.

Federal Funds Adjustments:

- Eliminates federal fund reimbursements of **\$1 billion** to the General Fund in 2010-11 for the unfunded federal share-of-cost for special education services since it appears unlikely that the federal government will reimburse the state for these costs in the near future. These funds would have been provided as reimbursements to the General Fund and would not have been dedicated to special education services.
- Increases federal funds by **\$1.1 million** to the California Department of Education (CDE) for additional implementation costs associated with the

California Longitudinal Pupil Achievement Data System (CALPADS). This brings total funding for CALPADS to \$5.9 million in 2010-11. These proposed funds are contingent upon resolution of performance difficulties with CALPADS. If not resolved, the Administration will seek to contract these projects out to a consortium of local school districts that, in collaboration with the higher education segments, will work together to meet the requirements specified for federal Race to the Top Funding.

- Provides an increase of **\$3.9 million** in federal funds and 2.8 positions to CDE and an increase of **\$84,000** in Teacher Credentialing Funds and 0.9 positions to the Commission on Teacher Credentialing for development of the California Teacher Information Data System (CALTIDES). The same contingencies proposed for CALPADS funding, as noted above, also apply to proposed CALTIDES funding.

Child Development Programs

- Governor's May Revision eliminates all CalWORKs child care services except preschool and after school programs for a savings of \$1.2 billion in Proposition 98 funds. These eliminations would become effective after the first quarter of 2010-11. As a result of this elimination, 185,000 CalWORKs children would lose child care services, impacting over 62,000 child care providers and taking away the child care from over 85,000 working parents who cannot afford child care on their minimum-wage income. The Governor's proposal assumes that the state will continue to receive \$594 million in federal funds for child care, which would be used to continue the Alternative Payment (AP) Program on a reduced scale. The CalWORKs families would be shifted to the AP Program on a space-available basis. However, the federal funds require a state match; the Governor proposes to use preschool General Fund as the match but it is not clear if these funds would qualify as an AP matching requirement.
- Decrease of \$35.4 million based on adjusted caseload estimates for CalWORKs Stages 2 and 3.
- Reduces the Stage 3 CalWORKs statutory income eligibility limit from 75 percent of median family income to 60 percent for all subsidized child care programs except the State Preschool program.

Overview of the May Revision of the 2010-11 Governor's Budget

- Increase of \$118,000 in reimbursements and one position to CDE from the First 5 Commission for the State Advisory Council on Early Childhood Education and Care (ELAC) to develop a proposal for \$10.6 million in federal ARRA funds.
- Decrease of \$5.2 million in reimbursements from the Department of Social Services to CDE for Adult Education and ROCPs to train CalWORKs recipients to reflect the elimination of CalWORKs. \$2.5 million would remain budgeted for the first quarter of 2010-11.
- Decrease of \$3 million for revised caseload estimates for CalWORKs Stage 2 and 3, for a total of \$15.4 million that is proposed for reappropriation for other K-12 purposes.
- Fund Shift: Decrease of \$3.9 million General Fund and an increase in ongoing and one-time federal Child Care and Development Fund (CCDF) resources.
- May Revise Trailer Bill Language to implement more aggressive actions to seek collection overpayments in child care programs. Currently, the CDE does not require Alternative Payment (AP) agencies to seek repayment when overpayments are discovered, regardless of the reason, be it provider or recipient error, either intentional or inadvertent in nature. The proposed statutory changes will provide contractual expectations for APs to prevent and correct errors and collect overpayments from families that benefit from the errors. CDE would be authorized to impose appropriate consequences on APs that do not reduce the incidence of overpayments sufficiently and to providers and families involved in providing inaccurate information relative to eligibility, hours of care, or miscalculation of fees and reimbursement rates. All programs administered by CDE and the Department of Social Services, including state direct funded centers and family care homes, are included in this proposal.

LABOR

EMPLOYMENT DEVELOPMENT DEPARTMENT

- Requests various budget adjustments based on updated projections of claims (special funds) and federal fund availability:
 - Projected Disability Insurance Program benefit payments decreased by \$28.7 million.
 - Employment Development Department operations expenditures are decreased by \$9.1 million and 124.2 personnel years based on revised workload estimates.
 - California Unemployment Insurance Appeals Board operations expenditures are decreased by \$208,000 and 2.0 personnel years based on revised workload estimates.

- Two adjustments are requested for the Workforce Investment Act (WIA) Program (federal funds):
 - Decrease of \$9.9 million to reflect an adjustment in state operations for WIA. Of this net reduction, \$5.1 million is for the 15 percent Discretionary Allotment, \$4.9 million is for the 25 percent Rapid Response activities, and an increase of \$170,000 is for the American Recovery and Reinvestment Act Grant – State Energy Sector Partnership Grant.
 - Decrease of \$13.9 million local assistance due to changes in the WIA Federal Allotments.

LOCAL GOVERNMENT

MANDATE PAYMENTS TO LOCAL GOVERNMENTS

- **Suspension of Additional Non-Education Local Mandates.** The Administration proposes to suspend an additional four mandates: (1) Mandate Reimbursement Process I; (2) Mandate Reimbursement Process II; (3) Open Meeting Act/Brown Act Reform; and (4) Handicapped and Disabled Student I & II, and Seriously Emotional Disabled Pupils. These mandates are neither funded nor suspended in the January budget, but subsequent court decisions and/or Commission on State Mandate decisions require them to either be funded or suspended now.

NATURAL RESOURCES

- **Department of Parks and Recreation.** The May Revision proposes to fully fund state parks with \$140 million from the General Fund. The Governor's Budget originally proposed to provide \$140 million to the Department of Parks and Recreation from oil lease revenues (from proposed drilling at Tranquillon Ridge); however, the Governor withdrew this proposal following the recent oil spill in the Gulf of Mexico.
- **Department of Water Resources.** The May Revision proposes \$1.1 billion in appropriations from the as-yet-to-be-approved 2010 Water Bond, including \$472 million for the Department of Water Resources (as well as \$58 million for the Natural Resources Agency; \$72.4 million for the Department of Fish and Game; and \$104 million for the Department of Public Health). *[See also State Water Resources Control Board.]*
- **Department of Forestry and Fire Protection.** The May Revision proposes a \$124 million General Fund increase to back-fill revenue lost when the Governor's Emergency Response Initiative (ERI)—which proposed a surcharge on residential and commercial property—was not approved by March 1, 2010. The May Revision assumes a new ERI enactment date of July 1, 2010.
- **Department of Fish and Game.** The May Revision proposes a \$5 million General Fund reduction to habitat conservation and restoration programs, including the protection of marine ecosystems, review of timber harvest plans, and grants for fisheries restoration projects.

Additionally, the May Revision proposes a \$2.4 million backfill from various funds (including \$1.9 million federal funds) to partially offset a \$5 million reduction to the Hunting, Fishing, and Public Use Program proposed in the Governor's (January 10) Budget.

- **Department of Conservation.** The May Revision proposes 17 positions and \$3.2 million (Oil, Gas, and Geothermal Administrative Fund) to strengthen regulatory oversight and the permitting process of underground injection wells.
- **Loans.** The May Revision proposes the following loans from special funds to the General Fund:
 - Electronic Waste Recovery and Recycling Account, Integrated Waste Management Fund – \$75 million

- Department of Food and Agriculture Fund – \$15 million

The May Revision also proposes the following loan *extensions* from special funds to the General Fund (amount previously scheduled for repayment in Fiscal Year 2010-11):

- Renewable Resource Trust Fund – \$35 million
- California Tire Recycling Management Fund – \$10 million
- California High-Cost Fund-B Administrative Committee Fund – \$75 million
- Universal Lifeline Telephone Service Trust Administrative Committee Fund – \$45 million
- Deaf and Disabled Telecommunications Program Administrative Committee Fund – \$30 million

ENVIRONMENTAL PROTECTION

- **Secretary for Environmental Protection.** The May Revision proposes six positions and \$1.3 million (various special funds) to fully staff the Office of Education and the Environment (OEE). The Governor's Budget proposed to transfer 6.5 of the original 13 OEE positions to the Department of Resources Recycling and Recovery as part of a plan to reduce expenditures from the Integrated Waste Management Account and to re-align funding following the re-organization of the former Integrated Waste Management Board (pursuant to Chapter 21, Statutes of 2009, Fourth Extraordinary Session [SB 63]).
- **State Water Resources Control Board.** The May Revision proposes \$1.1 billion in appropriations from the as-yet-to-be-approved 2010 Water Bond, including \$419 million for the Water Board. *[See also Department of Water Resources.]*

Additionally, the May revision proposes to shift \$6.1 million in General Fund expenditures for basin planning activities to the Waste Discharge Permit Fund. Updated basin plans are required by the federal Clean Water Act and used by the Water Board to develop discharge permits.

- **Department of Toxic Substances Control.** The May Revision proposes \$403,000 to create the Toxics Information Clearinghouse pursuant to Chapter 560, Statutes of 2008 (SB 509).

ENERGY

- **California Energy Commission.** The May Revision proposes establishment of a continuously appropriated fund that would enable the Clean Energy Business Financing Program to operate a revolving loan program.

Additionally, the Governor requests reappropriation of unexpended balances from the Alternative and Renewable Fuel and Vehicle Technology Fund in order to allow implementation of an Interagency Agreement with the State Treasurer's Office to provide financial assistance to innovative fuel and vehicle projects in the form of loans, loan guarantees, credit enhancements, bond funding, and sales tax rebates.

AGRICULTURE

- **European Grapevine Moth.** The May Revision proposes \$3 million in federal funds for European Grapevine Moth (EGVM) eradication efforts. The requested amount is in addition to \$12.2 million in unanticipated funds (for the same purpose) for which the Department of Food and Agriculture is requesting expenditure authority in the current fiscal year.

TRANSPORTATION

TRANSPORTATION FUNDING

- **General Fund Relief – Transportation Loans (\$1.1 billion):** The May Revision proposes additional General Fund relief of \$1.1 billion from transportation special-fund loans. The negative impact on transportation is somewhat muted because: (1) the fuel swap legislation in the 8th Extraordinary Session provided additional revenue of \$650 million for highway transportation in 2010-11; (2) because the Department of Transportation (Caltrans) has experienced construction bid savings of over \$2 billion in recent years and expects another \$1 billion in bid savings over the next few years; and (3) because all of the loans are protected by Article XIX of the State Constitution which requires repayment within three fiscal years. The loans are as follows:
 - **Defer Repayment of 2008-09 Loans (\$230 million):** The Administration proposes to defer repayment of 2008-09 transportation loans, which are statutorily due in 2010-11, but are not constitutionally due until 2011-12. An addition \$17 million would be saved in interest costs.
 - **“Fuel Swap” Highway Users’ Tax Account Loan (\$650 million):** The Administration proposes a \$650 million loan of new highway funds from the fuel swap adopted in the Special Session – this would remove any net gain to highway funding from the fuel swap in 2010-11, but leave the base Proposition 42 funding whole.
 - **Motor Vehicle Account Loan (\$250 million):** The Administration proposes a \$250 million loan from the Motor Vehicle Account. An updated analysis of the fund condition suggests this loan can be made without affecting the California Highway Patrol or Department of Motor Vehicles programs.
- **General Fund Relief – Transportation Transfer (\$72 million):** The May Revision proposes additional General Fund relief of \$72 million by transferring \$72 million from the Motor Vehicle Account to the General Fund. This is a transfer not a loan. The transfer is allowable under Article XIX of the Constitution because the underlying revenue comes from the sale of documents and data by the Department of Motor Vehicles, which is neither a fee nor Article-XIX protected.

DEPARTMENT OF TRANSPORTATION

- Requests a decrease in personal services and operating expenses to deliver planned Capital Outlay Support (COS) workload. The May Revision proposes a net reduction of \$42.3 million and 498 position equivalents. This breaks down to a reduction of 750 state staff positions by June 30, 2011, a reduction in overtime equivalent to 102 state staff positions, and an increase in contract resources equivalent to 69 positions.

VETERANS AFFAIRS

- Increase of \$8.4 million General Fund to continue implementation of the Governor's Operation Welcome Home Initiative to connect returning California veterans with the multi-agency services necessary to assist veterans in making a successful transition to civilian life. The Governor started the Initiative in January 2010, allocating \$20 million in one-time federal funds for the Employment Development Department to hire and place over 300 veterans for outreach efforts. The \$8.4 million GF May Revision augmentation is intended to support county veteran service office workload generated by the Initiative.
- Inclusion of budget authority to make available up to \$1.3 million General Fund to the Pathway Home program, which is a program at the Yountville Veterans Home to provide rehabilitative services to veterans returning from Iraq and Afghanistan, in the event alternative funding for the program cannot be identified.
- One-time increase of \$768,000 (Veteran Service Office Fund, or license plate fund) over three years to implement the Subvention Administration Information System (SAIS) a case management system to provide county veteran service offices with a modern and uniform tool for maximizing outreach efforts, monitoring outcomes, and facilitating workload related to Operation Welcome Home.