



COMMITTEE ON BUDGET & FISCAL REVIEW
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Quick Summary

The Governor's Special Session Reduction Proposals And Proposed 2008-09 Budget

January 10, 2008

The purpose of this Quick Summary is to provide members and staff of the Legislature with a review of the Governor's Special Session Budget reduction proposals, as well as the Governor's proposed Budget for 2008-09. In some instances, this document also includes brief staff comments concerning issues that may be important during budget discussions. Staff is preparing a more detailed review of the budget, to be released in late January. If you have questions, please contact the committee at (916) 651-4103.

Definition of the Overall Problem

The Department of Finance projects a General Fund (GF) shortfall of approximately \$14.5 billion for the two-year period ending June 30, 2009. This

shortfall is the result of a combination of lower-than-expected revenues (major revenues are down \$4.2 billion from anticipated 2007 Budget Act levels and a reduction in the estimate for the sale of EdFund from \$1 billion to \$500 million) and higher-than-anticipated expenditures (including \$600 million for Proposition 98 due to lower-than-anticipated property taxes and \$261 million for the current year costs of the CCPOA contract).

Proposed Overall Solutions - \$17.3 billion

As defined by the DOF, the size of the budget problem is approximately \$14.5 billion over the two-year period. In addition, in order to end 2008-09 with a positive General Fund reserve of approximately \$2.8 billion, a total of \$17.3 billion in GF solutions over the two-year period is required. The overall solutions include:

- Sale of the remaining Economic Recovery Bonds (ERBs) \$3.3 billion
- 10 percent reductions (current year) \$0.2 billion
- 10 percent reductions (budget year) \$9.1 billion
- No additional ERB payment \$1.5 billion
- Proposition 98 current year adjustment \$0.4 billion
- Additional tax collections \$0.4 billion
- Other special session reductions \$0.3 billion
- Accrual shift of 2009 tax payments \$2.0 billion
- \$17.3 billion

Governor's Special Session Budget Reduction Proposal

To recap, when the 2007-08 Budget was passed on August 21, 2007, it was predicated on total available resources of \$105.6 billion and total expenditures of \$102.3 billion, with an anticipated General Fund reserve of \$4.1 billion. However, for various reasons, the receipt of General Fund revenues have not materialized as projected and, according to the Administration, the current-year budget is anticipated to incur a budget shortfall of \$3.3 billion; a swing of \$7.4 billion.

On January 10, the Governor proclaimed a "fiscal emergency" utilizing the authority provided within the State Constitution (passed as Proposition 58 by the electorate in early 2004). Under the Constitution, the Governor can call the Legislature into a special session to deal with substantial revenue declines or expenditure increases, accompanied by proposed legislation to address the fiscal

emergency. If the Legislature fails to pass and send to the Governor a bill or bills by the 45th day following this type of proclamation, the Legislature may not act on any other bill.

Broadly, the Governor is proposing 10 percent across-the-board reductions in most, but not all areas of the current budget. When pro-rated over the remainder of the current year, these reductions provide \$217 million toward the current year solution.

**Allocation of 10 Percent Reductions
2007-08
(in millions)**

Program Area	Proposed Reduction Amount 2008-09	Percent of Total Reduction
Education (K-12)	\$0	0%
Health and Human Services	\$181.1	83.5%
Higher Education	\$0	0%
Business, Transportation and Housing	\$0.2	0.01%
Legislative, Judicial, Executive	\$6.6	3.0%
General Government	\$3.8	1.8%
Corrections and Rehabilitation	\$17.9	8.2%
Resources	\$4.2	1.9%
Environmental Protection	\$1.6	0.7%
State and Consumer Services	\$1.2	0.5%
Labor and Workforce Development	\$0.2	0.01%
Total	\$216.8	100%

Major General Fund Special Session Reductions include the following:

- Office of Emergency Services, \$6.5 million; of this amount the largest reduction is \$2.4 million in the area of Disaster Assistance.

- Department of Health Care Services, \$47.6 million. The largest program reductions include a 10 percent reduction in provider payments (\$33.4 million) and reducing adult dental benefits to the federal minimum (\$9.5 million).
- Department of Mental Health, \$17.5 million. The two largest program reductions include mental health managed care (\$8.1 million) and EPSDT (\$6.7 million).
- Department of Alcohol and Drug Programs, \$6.5 million. The largest program area reductions include Drug courts (\$1 million) and in the Substance Abuse and Crime Prevention Act (\$3.3 million).
- Department of Social Services, \$107.4 million. The largest program areas of reduction include CalWorks (\$73.7 million) and suspension of the June 2008 and June 2009 state portion of the SSI/SSP COLA (\$23.3 million).
- Department of Corrections and Rehabilitation, \$17.9 million.
- Department of Veteran Affairs, \$1.7 million.

PROPOSED 2008-09 BUDGET

The proposed 2008-09 Budget is predicated on the passage of the Governor's current year budget reductions. Therefore, changes to the Special Session proposals will ripple through the proposed 2008 Budget.

2008-09 General Fund Summary

- **Revenues:** The Governor's budget estimates General Fund revenues and transfers to be \$102.9 billion, an increase of \$1.7 billion or 1.7 percent, above the revised 2007-08 estimate of \$101.2 billion. Total resources available, in 2008-09, from all sources (including a carry forward balance of \$1.9 billion from 2007-08) are estimated at \$104.7 billion.
- **Expenditures:** The budget proposes General Fund expenditures of approximately \$101 billion in 2008-09. This is a decrease of \$2.4 billion, or 2.3 percent, below the revised 2007-08 figure of \$103.4 billion.

**2008-09
General Fund Summary
(in millions)**

	Revised Proposed <u>2007-08</u>	Proposed <u>2008-09</u>
PRIOR YEAR BALANCE	\$3,900	\$1,757
Revenues and transfers	101,230	102,904
TOTAL RESOURCES AVAILABLE	\$105,130	\$104,661
Non-Proposition 98 Expenditures	\$61,666	\$61,405
Proposition 98 Expenditures	<u>41,707</u>	<u>39,593</u>
TOTAL EXPENDITURES	\$103,373	\$100,998
FUND BALANCE	\$1,757	\$3,663
Encumbrances	\$885	\$885
Special Fund for Economic Uncertainties	\$872	\$2,778
BUDGET STABILIZATION ACCOUNT (BSA)¹	--	--
TOTAL AVAILABLE RESERVE	\$672	\$2,778

¹ In 2007-08, includes transfer of \$1.5 billion from the BSA back to the GF under Control Section 35.50. In 2008-09, reflects the suspension of Proposition 58 transfer to the BSA.

Proposed 2008-09 Budget

- **Overall Economic Condition.** According to the Department of Finance, real estate markets, along with higher energy and gasoline prices continue to be a drain on state and local revenues. As mortgages are reset to higher interest rates, homeowners are unable to carry on with the higher payments, coupled with mortgage financiers tightening lending practices, precluding many distressed owners from refinancing or having access to home equity – all of

which likely slow consumer spending. DOF believes the housing market will bottom out in 2008 and will not fully rebound to previous high levels until 2010.

- As part of solving the overall \$14.5 billion shortfall, the Administration proposes both current year and budget year 10 percent across the board reductions. Below, by program area, is a list of reductions proposed by the Administration for the budget year.

**Allocation of 10 Percent Reductions
2008-09
(in millions)**

Program Area	Proposed Reduction Amount 2008-09	Percent of Total Reduction
Education (K-12)	\$4,357.3	47.7%
Health and Human Services	\$2,661.2	29.1%
Higher Education	\$1,132.9	12.4%
Business, Transportation and Housing	\$2.0	0.02%
Legislative, Judicial, Executive	\$362.8	4.0%
General Government	\$131.9	1.4%
Corrections and Rehabilitation	\$378.9	4.1%
Resources	\$89.3	1.0%
Environmental Protection	\$8.3	0.1%
State and Consumer Services	\$5.3	0.1%
Labor and Workforce Development	\$2.1	0.02%
Total	\$9,132.1	100%

- **General Fund Expenditures.** The table below lists, by major program area, the anticipated GF expenditures for 2007-08 and the proposed 2008-09 budget year. Overall GF expenditures in 2008-09 are approximately \$100 billion. This is a decrease of \$2.4 billion, or 2.7 percent, below adjusted 2007-08 GF expenditure levels.

**General Fund Expenditures
(in millions)**

Program Area	2007-08	2008-09	Change	% Change
Education (K-12)	\$42,045	\$39,411	-\$2,634	-6.3%
Health and Human Services	\$29,577,	\$29,298	-\$279	-.9%
Higher Education	\$11,803	\$11,699	-\$104	-.9%
Business, Transportation and Housing	\$1,526	\$1,680	\$154	10.1%
Legislative, Judicial, Executive	\$3,914	\$3,787	-\$127	-3.2%
General Government	\$1,816	\$2,407	\$591	32.5%
Corrections and Rehabilitation	\$10,096	\$10,268	\$172	1.7%
Resources	\$1,804	\$1,656	-\$148	-8.2%
Environmental Protection	\$91	\$86	-\$5	-5.5%
State and Consumer Services	\$597	\$608	\$11	1.8%
Labor and Workforce Development	\$104	\$98	-\$6	-5.8%
<i>Total</i>	\$103,373	\$100,998	-\$2,375	-2.3%

- **General Fund Revenues.** Below is a table that reflects GF revenues and transfers for the 2007-08 and 2008-09 fiscal years.

**Proposed 2008-09
General Fund Revenue and Transfers
By Source
(in millions)**

<u>Source</u>	<u>Revised 2007-08</u>	<u>Proposed 2008-09</u>	<u>Year-to-Year % Change</u>
Personal Income Tax	\$52,681	\$56,458	7.2%
Sales Tax	27,689	29,215	5.5%
Corporation Tax	10,675	11,937	11.8%
Other	<u>10,185</u>	<u>5,294</u>	<u>-48.0%</u>
TOTAL	\$101,230	\$102,904	1.7%

Budget Reform – The Budget Stabilization Act

On January 8, as part of his State of the State message, the Governor proposed a constitutional amendment to reform the state budget process. This proposal would need the ratification of the voting electorate. This proposal is not part of the Governor’s Special Session.

At the time this document was prepared, no formal language was available for review; however, based on information provided by the administration, The Budget Stabilization Act:

- Establishes a Revenue Stabilization Fund (RSF), which is an account for excess revenues taken in by California during a prosperous year. This will allow the state to transfer the difference from the RSF into the General Fund in years when tax revenues are below average and California cannot meet its spending obligations. “Excess revenues” are defined as state tax revenues above a reasonable, long-term average rate of growth. The Department of Finance will calculate and release this revenue projection two times each year: in January and May.

- Provides the Administration authority to reduce spending when necessary. Under this act, automatic reductions in state spending will be triggered by the Governor if the Department of Finance predicts a year-end budget deficit. The Department of Finance will calculate and release this projection three times each year: in November, January and June. If a deficit is predicted, state agencies must reduce their spending by either two percent or five percent, depending on the deficit's projected size.
 - If the deficit is projected at one percent or less, agencies will reduce spending by two percent.
 - If the deficit is projected at greater than one percent, agencies will reduce spending by five percent.
- Requires the Legislature to enact a statute specifying how the state will reduce spending to meet Budget Stabilization Act requirements as soon as a deficit is projected. If the Legislature does not specify the reductions, or if the reductions are insufficient, the amendment allows the Governor to waive state law and regulations in order to achieve the savings needed to bring California's budget into balance. Debt service, contracts, and other constitutionally-protected payments are exempt.

According to the Administration, The Budget Stabilization Act does not change the Proposition 98 guarantee level. Proposition 98 funding could be impacted in some deficit years, but this will be determined by the laws passed by California's Legislature.

- Spending changes enacted by The Budget Stabilization Act remain in effect until a new budget or other statutory change is enacted by the Legislature.

Strategic Growth Plan

The Governor's Budget Summary lays out his proposal to complete the Strategic Growth Plan (SGP) originally presented in 2006. The plan lays out the initial 10 years of a 20-year objective to focus on the state's infrastructure needs in the areas of transportation, K-12 and higher education, flood control and water supply, public safety, the courts, and other miscellaneous program areas.

The Strategic Growth Plan calls for new bond proposals as follows:

- \$38.3 billion on the November 2008 ballot:
 - ✓ \$6.4 billion for K-12 education;

- ✓ \$7.7 billion for higher education;
 - ✓ \$11.9 billion for water;
 - ✓ \$10.0 billion for high speed rail (with some changes to bond measure);
 - ✓ \$2.0 billion for judiciary;
 - ✓ \$0.3 billion for seismic renovation of 29 state facilities.
- \$9.8 billion on the November 2010 ballot:
 - ✓ \$5.2 billion for K-12 education;
 - ✓ \$4.6 billion for higher education.

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Education

Proposition 98 – K-14 Education

Current Year Adjustments. The Governor proposes to reduce overall Proposition 98 funding by **\$400 million** in 2007-08 for K-14 education to address the state's budget shortfall. This reflects reductions of \$360 million for K-12 school revenue limits and \$40 million for community college apportionments. The Governor estimates that the Proposition 98 minimum funding guarantee is overappropriated by approximately \$1.46 billion in 2007-08. The Governor proposes to reduce the overappropriation by \$400 million in 2007-08, bringing total Proposition 98 funding to \$56.7 billion.

Budget Year Adjustments. The Governor proposes to suspend the Proposition 98 minimum funding guarantee in 2008-09 and reduce overall Proposition 98 funding by **\$4 billion** less than the Governor estimates the minimum guarantee would have required in 2008-09 for K-14 education. This reduction would bring total Proposition 98 funding to **\$55.6 billion** in 2008-09. In order to meet this reduction, the Governor proposes Budget Balancing Reductions -- primarily across-the-board reductions -- for K-12 schools and community colleges.

Deferral Payments. The Governor proposes to further delay \$1.3 billion in Proposition 98 program payments for K-12 schools and community colleges in order to improve the state's cash reserves. Current law allows these June apportionment payments to be delayed until July. The Governor seeks to defer these payments to September of each year beginning in 2007-08.

K-12 Education

Budget Balancing Reductions – Current Year. The Governor proposes a \$360 million reduction to revenue limit apportionments in 2007-08 as a part of the Budget Balancing Reductions.

Budget Balancing Reductions – Budget Year. The Governor proposes reductions totaling \$4.4 billion for K-12 education in 2008-09. In general, the Governor proposes across-the-board reductions to all K-12 revenue limit and categorical programs. The Governor did not exempt any programs from these reductions. These changes equate approximately to a 10.8 percent reduction in K-12 General

Funds compared to what funding would have been if current law adjustments had been provided.

Changes to Cost-of-Living Adjustment (COLA) Calculations. The Governor proposes to permanently change the method of calculating COLA for K-12 education programs. Specifically, the Governor proposes to change the COLA factor to the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). The Governor believes the CPI-W reflects educational expenditures of schools better than the State and Local Price Deflator required by current statute. This proposal would change the COLA estimate from 4.94 percent to 3.65 percent in 2008-09. The Governor states that savings from this proposed change are subsumed in across-the-board reductions for K-12 programs.

Growth Adjustments – Decrease in Students Budgeted. The Governor’s Budget assumes an actual decline of K-12 students in 2008-09. Specifically, the budget estimates K-12 average daily attendance (ADA) of 5,892,000 in 2008-09, which reflects an additional decrease of 31,000 ADA from the revised 2007-08 budget. This ADA decline translates into a negative growth adjustment of -0.5 percent for education programs in 2008-09.

Education Mandate Payments Deferred. The Governor proposes to continue the practice of deferring payments for education mandate claims in 2008-09 in order to achieve short-term budget savings. The annual cost of education mandates for K-12 education is estimated at approximately \$180 million.

Child Care Programs

- No reductions are proposed for the current (2007-08) fiscal year.
- For 2008-09, the Governor's proposal reduces funding for general child development and preschool programs by \$198 million from the level programs would have been provided under a usual (growth and COLA) budget scenario. This results in a reduction of approximately \$135 million from the 2007-08 base budget. CalWORKS Child Care programs are excluded from this cut.
- Retains funding for CalWORKS Stage 2 and Stage 3 Child Care services, without providing increases for growth or COLA.
- Freezes State Median Income (SMI) to limit further growth in child care programs to the neediest families.

Public Libraries

- No reductions are proposed for 2007-08.
- For 2008-09, the Governor's Budget implements a ten percent across the board reduction for all state library administered programs including the Interlibrary Loan Program and the Public Library Foundation. Under the Governor's proposal, both programs are slated to receive \$1.4 million reductions, respectively, bringing funding to approximately \$12.9 million for each in 2008-09.

Higher Education

- No current year reductions are proposed for UC or CSU.
- In 2008-09, the Governor fails to provide full funding for his *Compacts* with UC and CSU. If funded, the Compacts would have provided approximately \$200 million in additional General Fund, respectively.
- In addition to the above-noted foregone increases, the Governor cuts an additional approximately \$100 million from the base (2007-08) budgets of both the UC and the CSU. These reductions are implemented primarily as "unallocated" reductions.
- Governor reduces the budget of the *California Community Colleges* by \$40 million in the current year (2007-08) as part of an overall \$400 million Proposition 98 reduction. This reduction is currently slated to be allocated to the "apportionments" line item of the Community Colleges budget.
- For 2008-09, the Community Colleges budget is proposed to be reduced by approximately \$480 million from the level that would theoretically have been provided to the system under the Proposition 98 guarantee. This reduction is part of the total \$4 billion plus cut to Proposition 98 spending proposed for 2008-09.
- A relatively small amount of funding (approximately \$60.8 million) appears to be included in the Community Colleges budget to provide for 1.05 percent enrollment growth.

Financial Aid

- The Governor provides an additional \$26.7 General Fund for the *Cal Grant Entitlement Program*. This increase is due both to the growth in the number of students eligible for the program, and the increase in the cost of the Cal Grant award due to the proposed fee increases at both UC and CSU. In addition, the Governor's budget sets aside an additional \$80 million in the program in the event that UC and CSU elect to increase student fees beyond the levels initially expected.

- The Governor proposes eliminating new awards for the *Competitive Cal Grant Program* due to a lack of funding (thus saving \$57.4 million in 2008-09). Under his proposal, students currently receiving an award would continue to receive the grant as long as they remain eligible, however, no new students would be admitted into the program.

Employee Compensation

The Administration is proposing a reduction in the teachers' retirement contribution – similar to a change proposed and rejected last year, but is not otherwise proposing any comprehensive civil service or pension changes with this budget.

State Employee Compensation. Base-level employee-compensation funding is included in individual department budgets. Budget Item 9800, which is proposed at \$646 million (\$392 million General Fund), covers 2008-09 cost increases associated with existing bargaining agreements and cost increases for excluded employees. This funding is distributed to individual departments after the budget is adopted. No increased costs are budgeted for bargaining units with expired or expiring agreements. Most units have contracts that expire on June 30, 2008; therefore, the budget does not include any new costs that would be associated with future contracts. Budget Item 9800 includes funding of \$230 million GF for Unit 6 (the California Correctional Peace Officers Association) even though that unit rejected the state's "last, best and final offer" on September 17, 2007, - the Administration plans to seek Legislative approval to implement that final offer. Note, the Unit 6 augmentation has been reduced by \$30 million to conform to a budget cut proposal that reduces California Department of Corrections and Rehabilitation staff by 4,132 positions.

State Employee Retirement. The California Public Employees' Retirement System (CalPERS) provides defined benefit retirement plans for State employees. The Governor's Budget includes \$2.8 billion (\$1.6 billion General Fund) for 2008-09 to fund retirement for current state employees. This is an increase of \$80 million over the state's contributions in 2007-08. Additionally, Budget Item 9650 includes \$1.3 billion General Fund for Health and Dental Benefits for Annuitants – an increase of \$142 million (note, the General Fund is partially reimbursed by special funds after the budget is enacted). This funding covers 2008-09 costs, and does *not* provide money to begin pre-funding retirement health costs for current State employees. The Public Employee Post-Employment Benefits Commission released its final report on January 7, 2008, and recommended that the state make the pre-funding of retirement health benefits a budget priority.

Teachers Retirement. The State Teachers' Retirement System (CalSTRS) provides defined benefit retirement plans for public-school teachers. The Governor's Budget includes \$1.2 billion General Fund for 2008-09. The budget

reduces the purchasing-power-protection state contribution from 2.5 percent of salary to 2.2 percent – for a savings of \$80 million. The Administration indicates this contribution level is sufficient to maintain the existing benefit based on a 2005 actuarial analysis. Note, a similar proposal was rejected by the Legislature last year. Both the 2007-08 and 2008-09 budgets reflect costs from litigation the state lost. The state cut the contribution to CalSTRS by \$500 million in 2003; however, an appeals court ruled against the state in 2007. The state paid the \$500 million in September 2007. The Governor proposes to pay about \$80 million of the total \$210 million interest penalty in 2008-09, with the remainder paid over the following two fiscal years.

Energy and Telecommunications

Current Year Budget. The Governor is not proposing any budget-balancing reductions to energy and telecommunications budgets for the current year, as these programs are not supported by the General Fund.

Total Proposed Expenditures for Energy. The Governor proposes a total of \$1.61 billion in special funds for energy and telecommunications for 2008-09. The Public Utilities Commission (PUC) would receive \$1.25 billion. This is a decrease of \$150 million for the PUC over current year, mainly due to a reduction in the Universal Service Telephone Programs. The Governor's proposal includes \$363.5 million for the Energy Commission. This is a decrease of \$330 million for the Energy Commission, mainly due to a reduction from the Renewable Resource Trust Fund.

Alternative and Renewable Fuel and Vehicle Technology Program. The Governor proposes \$100.9 million and 5.7 positions for the Energy Commission's Alternative and Renewable Fuel and Vehicle Technology Fund. The Energy Commission would prepare guidelines and provide grants, loans, and other appropriate measures to public agencies, public-private partnerships, and other entities to develop alternative fuels and related technologies, including electricity, ethanol, renewable diesel, natural gas, hydrogen, and biomethane, among others. The development of these fuels is intended to help reduce California's dependence on petroleum-based fuels.

Building Efficiency. The Governor proposes \$2 million for the Energy Commission to expand the California Building Energy Efficiency Standards.

Electricity Oversight Board. The Governor vetoed partial year funding for the board in the current year with the purpose of eliminating the board without Legislative consent. The Governor has not proposed any funding for the board for 2008-09.

Health & Human Services

Significant Reductions Proposed for Health and Human Services. The Governor proposes substantial reductions in both the current year and budget year for health and human services provided to low-income Californians. For the current year, a reduction of \$181.1 million (General Fund) is proposed for these vital services. This proposed reduction amount equates to 84 percent of the Governor's overall current year reduction proposal.

With respect to the budget year, the Governor proposes a total reduction of \$2.7 billion (General Fund) for health and human services which represents 29 percent of his proposed overall reductions for the budget year. Most of these proposed reductions will require statutory changes.

Key reductions proposed by the Governor include the following:

- ✓ ***Substantial Reductions Proposed for the Medi-Cal Program.*** The Governor proposes substantial reductions to the Medi-Cal Program for both the current year and budget year. For the current year, a reduction of \$95.2 million (\$47.6 million General Fund) is proposed; this represents 22 percent of the Governor's overall proposed General Fund reduction for the Special Session. With respect to the budget year, a reduction of \$2.2 billion (\$1.1 billion General Fund) in health care services is proposed. Most of these proposed reductions will require statutory changes.
- ✓ ***Significant Reductions to the Healthy Families Program.*** The Governor proposes a total reduction of \$118 million (\$41.9 million General Fund) to the Healthy Families Program in 2008-09 through a series of proposals, including increasing the premiums and co-payments of subscribers, capping dental benefits provided to children, and reducing the rates paid to health plans participating in the program.
- ✓ ***Significant Changes to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program.*** The Governor's proposed changes to the CalWORKs program would result in a decrease of \$73.7 million General Fund in 2007-08 and 398.8 million General Fund in 2008-09. The main components of these changes are the same as or similar to those proposed by the Governor and rejected by the Legislature for 2007-08 and include restricting safety net grants, imposing graduated full family sanctions, and eliminating grants for children of CalWORKs ineligible

parents. The Governor does propose to provide \$131.1 million for the 4.25 percent statutory CalWORKs COLA for 2008-09.

- ✓ ***Significant Reductions to Children's Services.*** The Governor proposes to reduce funding for Children's Services by a total of \$6.8 million General Fund (\$10.9 million total funds) in 2007-08 and \$168.1 million General Fund (\$264.5 million total funds) in 2008-09. These reductions include reducing foster care rates by 10 percent and allocations to Child Welfare Services by 11.4 percent.
- ✓ ***Significant Reductions to Non-Medical In-Home Supportive Services (IHSS) Hours.*** The Governor proposes to reduce non-medical domestic and related services hours in IHSS by 18 percent resulting in \$109.4 million General Fund savings beginning in 2008-09.
- ✓ ***Suspension of the State Supplemental Program (SSP) Cost-of-Living-Adjustment (COLA).*** The Governor proposes to suspend the SSP COLAs for 2008 and 2009 resulting in current year savings of \$23.3 million General Fund and \$300.3 million General Fund savings in 2008-09.
- ✓ ***Continued Reductions to the Regional Center System for Persons with Developmental Disabilities.*** The Governor proposes a total reduction of \$380.8 million (\$261.6 million General Fund) in 2008-09 to community-based services provided through the Regional Centers to persons with developmental disabilities, including continuation of previous cost-containment measures, increased costs for family contributions, and certain provider rate reductions.
- ✓ ***Reductions to Substance Abuse Treatment.*** The Governor proposes to cut funding for the Department of Alcohol and Drug Program by \$2.5 million General Fund in 2007-08 and \$16.1 million General Fund. These cuts include 10 percent reductions to Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA), the Substance Abuse Offender Treatment Program (OTP), and drug courts.

Department of Health Care Services

The Governor proposes a total of \$39.4 billion (\$15 billion General Fund) for the Department of Health Care Services (DHCS). Of this total amount, \$36 billion is for health care services provided under the Medi-Cal Program.

The Governor is proposing substantial reductions in health care services administered by the DHCS. For the current year, a reduction of \$47.6 million (General Fund) is proposed. For the budget year, a reduction of \$1.1 billion (General Fund) is identified. Major reductions are discussed below.

Reductions to the Medi-Cal Program

Substantial Reductions Proposed for the Medi-Cal Program. The Governor proposes substantial reductions to the Medi-Cal Program for both the current year and budget year. For the current year, a reduction of \$95.2 million (\$47.6 million General Fund) is proposed; this represents 22 percent of the Governor's overall proposed General Fund reduction for the Special Session. With respect to the budget year, a reduction of \$2.2 billion (\$1.1 billion General Fund) in health care services is proposed. Most of these proposed reductions will require statutory changes.

The Governor proposes total expenditures of \$31.9 billion (\$11.1 billion General Fund) for 2008-09. This reflects an overall reduction of \$3.2 billion (\$2.2 billion General Fund) as compared to the Budget Act of 2007 due to the Governor's proposed reductions.

The Governor's reduction proposals impact all the major components of the Medi-Cal Program, including reducing provider rates and payments, eliminating certain optional benefits, requiring quarterly status reports for children and adults, ceasing payment of Part B premiums for certain Medi-Cal enrollees, and reducing payments to counties. These are discussed in more detail below.

10 Percent Reduction to Medi-Cal Fee-for-Service Rates and Managed Care Plans. A reduction of \$66.8 million (\$33.4 million General Fund) is proposed for the current year, and a reduction of \$1.2 billion (\$602.4 million General Fund) is proposed for the budget year by reducing reimbursement rates by 10 percent for both Fee-for-Service providers and all health care plans participating in the Medi-

Cal Managed Care Program. This reduction would require statutory changes, public notification and federal Centers for Medicare and Medicaid (CMS) approval.

Certain Medi-Cal providers are exempt from this payment reduction, including freestanding nursing homes, acute care hospitals, certain clinic providers, Intermediate Care Facilities for the Developmentally Disabled, sub-acute nursing homes and special treatment programs.

Reduction for Specified Long-Term Care Facilities. The Governor proposes a reduction of \$113.5 million (\$56.7 million General Fund) by reducing Medi-Cal reimbursement by 10 percent for Distinct-Part Nursing Homes (affiliated with acute care hospitals), Nursing Home (Level A), Adult Day Health Care providers, and certain other facility types. This payment reduction would also reduce Medi-Cal Managed Care Program rates by an actuarial equivalent amount. This proposal requires statutory changes and federal CMS approval.

Elimination of Certain Medi-Cal Benefits. A reduction of \$20 million (\$10 million General Fund) is proposed in the current year, and a reduction of \$119.9 million (\$20 million General Fund) in the budget year through the elimination of the following benefits: (1) Chiropractor Services; (2) Incontinence Creams and Washes; (3) Acupuncture Services; (4) Adult Dental Services; (5) Speech and Audiology Services; (6) Optometry Services; (7) Optician/Optical Laboratory Services; (8) Podiatry Services; and (9) Psychology Services. This proposal requires statutory changes. The Administration's dollar figures assume that Adult Dental Services, Incontinence Creams and Washes, and Acupuncture Services would be eliminated in the current year.

Eliminates Annual Eligibility Enrollment for Children and Reinstates Quarterly Status Reporting. The Governor proposes a total reduction of \$184.3 million (\$92.2 million General Fund) by requiring quarterly status reporting for children and adults in order to maintain their Medi-Cal eligibility. Of the total reduction, \$167.1 million (\$83.5 million General Fund) of the amount is attributable to children losing Medi-Cal coverage.

Presently, children are enrolled in Medi-Cal on an annual basis and adults are enrolled on a six-month basis. Under the Governor's proposal, children and adults would be required to submit quarterly status reports (i.e., three times a year) or be dropped from the Medi-Cal Program. It is unknown at this time what increased

administrative costs would result from this proposal, but it is likely to be significant.

Elimination of Part B Premiums for Certain Low-Income Individuals. The Governor proposes to eliminate the payments made under the Medi-Cal Program for certain low-income individuals to maintain their enrollment in the federal Medicare Program. Savings of \$8.4 million (General Fund) are assumed for the current year and \$100.2 million (General Fund) are assumed for the budget year from this action.

Specifically, the state presently pays premiums of \$93.50 per month for 44,000 dual eligible individuals (Medi-Cal and federal Medicare eligible) in order for them to receive Medicare Part B benefits. This has historically been done because it has been cost-beneficial for the state (i.e., it saves Medi-Cal expenditures by using Medicare benefits when applicable). Without these state paid premiums, these individuals who are primarily aged, blind and disabled will need to pay the monthly premium.

Substantial Reductions to Medi-Cal Eligibility Processing by Cutting Counties. The Governor proposes several reductions to counties who provide direct assistance to the state by administering enrollment and disenrollment functions for the Medi-Cal Program. These reductions include the following:

- ✓ \$44.8 million (\$22.4 million General Fund) in savings by not providing adjustments for the cost of doing business to maintain eligibility processing. This would be effective as of July 1, 2008 and requires statutory change.
- ✓ \$66.8 million (\$33.4 million General Fund) in savings which is attributable to changes in the methodology used to fund the counties for administration of Medi-Cal Program eligibility processing. This would be effective as of July 1, 2008 and requires statutory change.
- ✓ \$30.6 million (\$18.3 million General Fund) in savings by reducing the baseline funding level provided to counties to administer Medi-Cal eligibility processing by 2.5 percent. This would be effective as of July 1, 2008 and requires statutory change.

Reductions in Payments to Hospitals. The Governor proposes several reductions to hospitals participating in the Medi-Cal Program. These reductions include the following:

- ✓ \$60.1 million (\$30 million General Fund) in savings by reducing Medi-Cal reimbursement rates paid to non-contracting hospitals effective as of July 1, 2008. This requires statutory change.
- ✓ \$47.3 million (\$24 million General Fund) in savings by reducing Medi-Cal payments made to District Hospitals and Private Hospitals through the state's Hospital Financing Waiver. This requires statutory change.
- ✓ \$7.8 million General Fund savings by reducing Medi-Cal payments made to Public Hospitals through the state's Hospital Financing Waiver. This requires statutory change.

Department of Public Health

The Governor proposes a total of \$3.1 billion (\$400.6 million General Fund) for the Department of Public Health (DPH) in 2008-09. No current year special session dollar reductions are proposed for the DPH.

With respect to the budget year, the Governor proposes a total reduction of \$31.7 million General Fund. Key reductions include the following proposals.

- ✓ ***Office of AIDS Programs.*** Reduces by a total of \$11 million General Fund several programs administered by the Office of AIDS, including the AIDS Drug Assistance Program, HIV/AIDS counseling and testing, education and prevention efforts, early intervention services and surveillance activities.
- ✓ ***Domestic Violence Program.*** Reduces the Domestic Violence Program by \$2.3 million General Fund. An estimated 13,000 women would not receive services due to this reduction.
- ✓ ***Immunizations for Children.*** Reduces by \$1.8 million General Fund immunization services for children.
- ✓ ***Adolescent Family Life Program.*** Reduces the Adolescent Family Life Program by \$1.2 million General Fund for a 10 percent reduction. The number of pregnant and parenting teens accessing services would be reduced by 1,100 individuals.
- ✓ ***Black Infant Health Program.*** Reduces the Black Infant Health Program by \$390,000 General Fund. An estimated 556 individuals would not receive services due to this reduction.

Managed Risk Medical Insurance Board

The Healthy Families Program

The Governor proposes a total of \$1.1 billion (\$387.8 million General Fund) for the Healthy Families Program in 2008-09. No current year special session reductions are proposed for the Healthy Families Program.

With respect to the budget year, the Governor proposes a total reduction of \$118 million (\$41.9 million General Fund) to the program. Key reductions include the following proposals.

- ✓ ***Increases Premiums Charged to Subscribers.*** Reduces by \$31.3 million (\$11.1 million General Fund) by increasing the premiums paid by subscribers by an average of \$3. The Administration states that in order to remain in compliance with federal cost-sharing requirements, the proposed increase in premiums would be applied on a family basis and those with higher incomes would bear a larger portion of the premium increase.
- ✓ ***Increases Co-Payments Paid by Subscribers.*** Reduces by \$9.6 million (\$3.4 million General Fund) by increasing the co-payments for non-preventive services to be paid by subscribers. The proposed co-payment would increase from \$5 to \$7.50 for non-preventive services for families. The Administration would reduce the rates paid to health plans by 1.25 percent to reflect this increase in co-payments made to the plans by the subscribers.
- ✓ ***Reduces the Rates Paid to Health Care Plans.*** Reduces by \$40.7 million (\$22.4 million General Fund), or 5 percent, the rates paid to health plans participating in Healthy Families.
- ✓ ***Capitates Dental Benefits for Children.*** Reduces by \$17.7 million (\$6.3 million General Fund) by capping the dental benefit coverage provided under Healthy Families to be \$1,000 per child annually. This proposal reduces the total benefits provided to children and would reduce plans costs, thereby allowing for a reduction in the rates paid to the plans.

Department of Developmental Services

Community Services and Regional Centers

The Governor proposes a total of \$3.8 billion (\$2.3 billion General Fund) in 2008-09 for community-based services provided to persons with developmental disabilities through the Regional Center system. This budget year amount reflects a total reduction of \$380.8 million (\$261.6 million General Fund) to these services.

Key reductions include the following proposals.

- ✓ ***Continues Temporary Cost Containment Measures.*** Reduces by \$329.7 million (\$228.8 million General Fund) by extending existing cost containment measures as enacted in previous Budget Acts (commencing in 2003). These cost containment measures include rate freezes, contract services rate freezes, elimination of the SSI/SSP pass-through to Community Care Facilities, and no new program start-ups.
- ✓ ***Reduces Regional Center Operations.*** Reduces by \$36.9 million (\$20.5 million General Fund) the operations budget of the Regional Centers by extending existing cost containment measures as enacted in previous Budget Acts (commencing in 2002). These measures include continuing the delay in assessments (from 60 to 120 days) and having a Service Coordinator caseload ratio of one staff for every 66 consumers.
- ✓ ***Reduces the Rate Paid to Supported Employment Programs.*** Reduces by \$9.6 million (\$7.7 million General Fund), or 10 percent, the rate paid to supported employment programs.
- ✓ ***Reduces Community Placement Plan Operations.*** Reduces by \$2 million General Fund the amount made available to Regional Centers to administer their Community Placement Plans, including building resource capacity in the community for consumers to receive services near their homes.
- ✓ ***Eliminates Supplemental Rate for Devereux Contract.*** Reduces by \$1.2 million General Fund to reflect an elimination of a supplemental rate paid to the Devereux facility, located in Santa Barbara, which is under contract with the Department of Developmental Services (DDS).
- ✓ ***Increased Costs for Parents Under the Family Cost Participation Program.*** Reflects savings of \$773,000 General Fund by requiring: (1) parents who have a child under 3 years of age living at home to pay a share

of cost for daycare, respite and camping services; and (2) parents who have a child ages 3 to 17 living at home to pay a higher share of cost if their income is 400 percent to 500 percent of the federal poverty level.

Developmental Centers

The Governor proposes a total of \$714.3 million (total funds) in 2008-09 for the Developmental Centers. This budget year amount reflects a total reduction of \$29.4 million (\$22.1 million General Fund) to these services.

Key reductions include the following proposals.

- ✓ ***Modifies Porterville DC Secured Treatment Program.*** Reduces by \$11.7 million General Fund by modifying implementation of the Secured Treatment Program.
- ✓ ***Reduce Operating Expenses.*** Reduces by \$10.2 million (\$5.9 million General Fund) the operating equipment and expenses at the Developmental Centers, including reductions to travel, deferring purchases, and related matters.

Department of Mental Health

The Governor is proposing considerable reductions in mental health services administered by the Department of Mental Health (DMH). The overwhelming majority of these reductions are proposed in community mental health services.

Specifically, a reduction of \$24.5 million (\$16.8 million General Fund) is proposed in community mental health services in the current year special session, and a reduction of \$144.3 million (\$73.3 million General Fund) is proposed for 2008-09.

Key reductions include the following proposals.

- ✓ ***Reductions in the Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT).*** Reduces by \$92.7 million (\$46.3 million General Fund) the EPSDT Program which provides mental health services to children with severe mental health needs. These reductions would be taken through a series of various adjustments.
- ✓ ***Reductions in Mental Health Managed Care.*** Reduces by \$46.7 million (\$23.8 million General Fund), or 10 percent, the amount funded by the state

for this jointly operated program which is supported using County Realignment funds, State General Fund, and federal Medicaid dollars. This program provides vital mental health services to Medi-Cal enrollees.

- ✓ ***Mental Health Services to Legal Immigrants Enrolled in Healthy Families.*** Reduces by \$203,000 (\$71,000 General Fund), or 10 percent, the amount used to fund mental health services provided to legal immigrants enrolled in the Healthy Families Program.
- ✓ ***Early Mental Health Initiative.*** Reduces by \$1.6 million (Proposition 98/General Fund) for this initiative which is used to provide mental health assistance to school-aged children.
- ✓ ***Reduction to the Caregiver Resource Centers.*** Reduces by \$1.2 million, or 10 percent, the amount appropriated for these centers. This proposal would decrease support services to over 1,300 caregivers.
- ✓ ***Reduction to Rates Paid for Community Treatment Facilities.*** Reduces by \$2.4 million (\$1.2 million General Fund) the rate paid to these facilities.

Department of Social Services

California Work Opportunity and Responsibility to Kids (CalWORKs). The Governor proposes significant changes to the CalWORKs program resulting in net General Fund savings of \$73.7 million in 2007-08 and \$389.8 million in 2008-09 and annually thereafter. Many of these changes are the same as or similar to proposals made during the 2007-08 budget development process last year by the Governor and rejected by the Legislature. These changes include the following elements:

- ***Restrict Safety Net Grants.*** Under current law, CalWORKs adult recipients are limited to 60 cumulative months of cash assistance, but children continue to receive cash aid as long as the family meets CalWORKs eligibility guidelines, regardless of how many hours their parents work after “timing-out.” The Governor proposes to restrict safety net grants only to children whose parents work sufficient hours to meet federal work participation requirements after timing-out. This change is proposed to be effective June 2008 and would result in General Fund savings of \$17.8 million in 2007-08 and \$253.4 million in 2008-09. An estimated 33,500 families would be removed from the CalWORKs safety net. This proposal was made by the Governor and rejected by the Legislature last year.

- ***Impose Graduated Full Family Sanctions.*** Under current law, when an adult fails to meet CalWORKs requirements, the family's grant is reduced by the amount attributable to the adult, but cash aid continues to the children in the family. The Governor proposes to continue this partial family sanction and impose a graduated full family sanction whereby the child-only grant would be reduced by 50 percent when an adult remains in sanction status for a cumulative total of six months and the entire grant (both the adult and child-only portions) would be eliminated after an adult does not comply with CalWORKs requirements for a second accumulated total for six months. This change is proposed to be effective June 2008 and would result in a General Fund cost of \$1.7 million in 2007-08 and \$22.6 million in 2008-09 because it assumes sanctioned cases would begin working as a result of the change. California's work participation rate is also estimated to increase by 0.44 percent in federal fiscal year (FFY) 2008, 3.7 percent in FFY 2009, and 5.7 percent annually thereafter. This proposal is similar to that made by the Governor and rejected by the Legislature last year.
- ***Eliminate Grants for Children of CalWORKs Ineligible Parents.*** Under current law, California provides CalWORKs grants to children whose parents are not eligible for CalWORKs, including US citizen children of undocumented immigrants. These grants to children are not subject to a time limit. The Governor proposes to eliminate grants to these children after 60 months. This change would take effect June 2008 and result in General Fund savings of \$17.8 million in 2007-08 and \$235.8 million in 2008-09. An estimated 36,700 families would be removed from CalWORKs. This proposal was made by the Governor and rejected by the Legislature last year.
- ***Provide a Work Incentive Nutritional Supplement.*** The Governor proposes to provide additional support in the form of a supplemental food stamp benefit to eligible working families. Working families who are receiving Food Stamps, but not receiving CalWORKs assistance, may be eligible for the Work Incentive Nutritional Supplement (WINS) if they work sufficient hours to meet federal work participation requirements. The benefit would be set at a flat \$40 per month per household. This change would take effect in 2008-09 and result in General Fund costs for the benefit of \$8.4 million in 2008-09 and \$18.6 million in 2009-10. California's work participation rate is estimated to increase by 0.87 in FFY 2008 and 9.0 percent in FFY 2009. This is a new proposal.

Other CalWORKs Changes. The Governor proposes the following additional CalWORKs changes.

- **Provide the CalWORKs Cost-of-Living Adjustment (COLA).** The Governor proposes to provide \$134.4 million General Fund to fully fund the 4.25 percent statutory COLA for CalWORKs in 2008-09. This would increase the maximum aid payment for a family of three from \$723 per month to \$754 per month.
- **Eliminate Pay for Performance Funding for 2007-08.** The Governor proposes to eliminate the \$40 million General Fund in Pay for Performance incentive funds available to counties that meet specified program outcomes in 2007-08. However, the Governor proposes to reinstate the \$40 million Pay for Performance funding in 2008-09.

Reduce Funding for Children's Services. The Governor proposes to reduce funding for Children's Services by a total of \$6.8 million General Fund (\$10.9 million total funds) in 2007-08 and \$168.1 million General Fund (\$264.5 million total funds) in 2008-09. These include the following significant reductions:

- **Reduce Foster Care Rates by Ten Percent.** The Governor proposes to reduce the basic care rate, specialized care rate and clothing allowance rates for children in foster care, including those children who are seriously emotionally disturbed, the Kin-Gap program, and the Adoptions Assistance Program by ten percent. Rates paid to Foster Family Agencies (FFAs) would only be reduced by five percent because FFAs did not receive the five percent rate increase provided to Foster Family Homes and Group Homes in the 2007-08 budget. These reductions would result in savings of \$6.8 million General Fund (\$10.9 million total funds) in 2007-08 and \$81.5 million General Fund (\$130.8 million total funds) in 2008-09.
- **Reduce Child Welfare Services (CWS) Funding.** Child Welfare Services provides emergency response and in-home services for abused and neglected children and their families. The Governor proposes to reduce the General Fund allocation to CWS by 11.4 percent beginning in 2008-09, resulting in savings of \$83.7 million General Fund (\$129.6 million total funds). County human services departments would determine how to implement the reduction in their individual counties.

Reduce In-Home Supportive Services (IHSS) Service Hours. The Governor proposes to reduce non-medical domestic and related services hours in IHSS by 18 percent resulting in \$109.4 million General Fund savings beginning in 2008-09. Hours are proposed to be reduced in the following service categories: domestic services; meal preparation; meal clean-up; laundry; food shopping; and shopping errands. The proposal would also extend the variable reassessment period for all non IHSS Plus Waiver (IPW), Personal Care Services Program (PCSP) and Residual recipient reassessments from 12 months to up to 18 months. The six month extension would result in a ten percent budget reduction to county administration funding for the IHSS program of \$24.4 million (\$10.2 million General Fund) beginning in 2008-09.

Suspend June 2008 and June 2009 State Supplemental Program (SSP) Cost-of-Living Adjustments (COLAs). The Governor proposes to suspend the SSP COLAs for 2008 and 2009 resulting in current year savings of \$23.3 million General Fund and \$300.3 million General Fund savings in 2008-09. Beginning in 2009-10, suspension of the June 2008 and June 2009 COLAs will result in savings of \$610 million General Fund annually. The proposal continues to pass on additional federal funds to fully fund the federal January 2008 Supplemental Security Income (SSI) COLA and proposes to fund the January 2009 SSI COLA. Beginning January 2009, the maximum SSI/SSP grant would increase from \$870 to \$881 for individuals and from \$1,524 to \$1,540 for couples. The proposed January 2009 maximum SSI/SSP grant levels are 4.9 percent lower for individuals and 5.2 percent lower for couples than they would have been if the June 2008 and June 2009 SSP COLAs were provided.

Ten Percent Reduction for Community Care Licensing (CCL). The Governor proposes to reduce the number of annual random inspections from the current 30 percent of community care facilities to 14 percent of facilities to achieve a 10 percent reduction in licensing costs. This will result in \$2.3 million General Fund savings and 33.0 positions lost in 2008-09 and \$4.7 million General Fund savings and 66.0 positions lost in 2009-10 when the 10 percent target is fully achieved. No reductions are expected to result in complaint investigations or follow-up investigation schedules for facilities that have previously been found to be out of compliance with licensing standards.

Ten Percent Reduction for Adult Protective Services (APS). The APS program provides services, without regard to income, to elders aged 65 and older, and dependent adults aged 18 to 24 years who are functionally impaired, unable to

meet their own needs, and who are victims of abuse, neglect or exploitation. The Governor proposes to reduce the APS program funding by ten percent, resulting in General Fund savings of \$6.1 million beginning in 2008-09. County human services departments will continue to need to evaluate and prioritize cases for services.

Ten Percent Reduction for the California Food Assistance Program (CFAP). The CFAP provides state-funded food stamp benefits to low income noncitizens between the ages of 18 and 65, who have resided in the United States for less than five years. The Governor proposes to reduce CFAP benefit levels by ten percent commencing June 1, 2008, for a savings of \$200,000 General Fund in 2007-08 and \$2.5 million General Fund in 2008-09. This would reduce the average CFAP monthly benefit per person from approximately \$91 to \$82. The Governor also proposes to reduce county allocations for the administration of the Food Stamp Program by approximately four percent beginning in 2008-09, resulting in \$14.4 million General Fund savings (\$34.9 million total funds).

Eliminate the Interim Statewide Automated Welfare System (ISAWS) Migration Project. The Governor proposes to eliminate the ISAWS Migration project effective April 30, 2008, resulting in General Fund savings of \$3.4 million in 2007-08 and \$44.0 million in 2008-09.

Department of Alcohol and Drug Programs

Department of Alcohol and Drug Programs (DADP) Reductions. The Governor proposes to reduce funding for DADP programs by \$2.5 million General Fund (\$2.9 million total funds) in 2007-08 and \$16.1 million General Fund (\$24.6 million total funds) in 2008-09. The State would likely fail to meet the federally required maintenance of effort General Fund spending in DADP if it were not for an increase of \$25 million General Fund in Substance Abuse Services Coordinating Agencies contract funding placed in DADP's budget for pass-through to the Department of Corrections and Rehabilitation. The major reductions include:

- ***Reduce Proposition 36 Funding and the Substance Abuse Offender Treatment Program (OTP) by Ten Percent.*** The Governor proposes to reduce both Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 (SACPA), and the OTP by 10 percent beginning March 1, 2008. For Proposition 36, this would result in savings of \$3.3 million in 2007-08

and \$10.0 million in 2008-09. In OTP, the savings would be \$667,000 General Fund in 2007-08 and \$2.0 million General Fund in 2008-09. The resulting reductions in treatment services and supervision could mean increased recidivism and associated General Fund costs for the Department of Corrections and Rehabilitation.

- ***Reduce Drug Court Funding by Ten Percent.*** The Governor proposes to reduce funding for the three drug court programs, Comprehensive Drug Court Implementation, Drug Court Partnership, and Dependency Drug Court, beginning March 1, 2008. This would result in General Fund savings of \$1.0 million in 2007-08 and \$3.1 million in 2008-09. The drug court programs have proven successful in reducing drug usage and recidivism and the number of children in the Child Welfare System.
- ***Reduce Drug Medi-Cal (DMC) Rates by Ten Percent.*** The Governor proposes an across-the-board ten percent reduction to all DMC modalities beginning March 1, 2008, resulting in General Fund savings of \$100,000 in 2007-08 and \$8.8 million in 2008-09. The Governor also proposes a reduction to the non-DMC perinatal program of \$782,000 General Fund in 2007-08 and \$2.3 million General Fund in 2008-09.

Department of Child Support Services

Reduce the Department of Child Support Services (DCSS) Budget. The Governor proposes to reduce the DCSS budget by \$200,000 General Fund in 2007-08 and \$4.3 million General Fund in 2008-09, including cuts to the following areas: direct customer service, support to counties for quality assurance and performance improvement, the number of staff available for various information technology related activities such as interfaces and application support, and administrative overhead.

Department of Community Services and Development

Ten Percent Reduction for the Naturalization Services Program. The Naturalization Services Program assists legal permanent residents in obtaining citizenship. The Governor proposes to reduce the program by ten percent beginning in 2008-09, resulting in \$300,000 General Fund savings.

California Department of Aging

California Department of Aging (CDA) Reductions. The Governor proposes a ten percent reduction to the CDA budget in 2008-09, resulting in General Fund savings of \$6.3 million. The reductions would be taken from supportive services programs including adult day health care, Alzheimer's day care, Multipurpose Senior Services Programs and the Linkages program, senior nutrition programs, senior community employment, and administration.

Judicial Branch

Total Proposed Expenditures for the Judicial Branch. The Governor proposes \$3.7 billion (\$2.2 billion General Fund) for the Judicial Branch. This is \$14 million (\$20 million General Fund) less than estimated expenditures in the current year primarily due to a 10 percent General Fund reduction proposed by the Governor.

Budget Balancing Special Session Reduction Proposal. The Governor proposes that the Judicial Branch take a 10 percent reduction in the budget year. This would amount to a reduction of \$246 million General Fund in the budget year. The Governor has not proposed legislation to suspend the statute that adjusts trial court funding by an annual growth factor based on the State Appropriation Limit. However, the budget does assume that an amount equivalent to 10 percent of the funding for the trial courts be reduced in the budget year.

Annual Growth Factor for the Judicial Branch. The Governor's budget calculates the annual growth factor for the Judicial Branch based on the year-over-year change in the State Appropriations Limit at a cost of \$126.2 million General Fund.

Trial Court Facilities. The Governor proposes \$2 billion in general obligation bond authority to build new trial court facilities.

New Judgeships. The Governor proposes \$46.5 million in the budget year to support 50 new judgeships. The expenditure of these funds is restricted until legislation authorizing new judgeships is enacted.

Information Technology System. The Governor proposes \$6 million General Fund to implement a statewide human resource and financial system that is consistent for all trial courts.

Labor

Labor and Workforce Development Agency

The Governor's Budget proposes \$2.9 million for the Labor and Workforce Agency, which represents an approximately \$300,000 increase over the adjusted 2007-08 level. Major budget changes include the following.

Underground Economy. The Governor's Budget includes \$141,000 (Reimbursements) and 0.9 positions for the Agency to provide oversight and policy development for the Economic and Employment Enforcement Coalition, which identifies the worst offenders for targeted workplace enforcement actions throughout the state.

Reduction. The Governor proposes 10 percent reductions to Agency expenditures (\$226,000 special fund and 1.0 position.)

Employment Development Department

The Governor's Budget proposes a \$11.7 billion appropriation for the Employment Development Department (EDD), which represents an approximately \$400 million increase over the adjusted 2007-08 level. The Governor proposes the following major changes.

Reductions. The Governor's Budget includes a \$246,000 reduction, \$190,000 of which is derived by shifting the tax-sharing ratio from the General Fund to the Unemployment Insurance, Disability Insurance, and Employment Training funds. The US Department of Labor has requested that the Department update the cost sharing agreement for this ratio, and this reduction will further put the ratio out of federal compliance. Additionally, the Governor proposes a \$56,000 (General Fund) reduction to the Unemployment Insurance Board, which has recently been found out of compliance with Federal Standards for timeliness of deciding unemployment appeals cases.

Automated Collection Enhancement System (ACES). The Governor's Budget includes \$2.8 million (\$2.6 million General Fund) for continuation of the EDD's ACES project, which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes.

Benefit Payments. The Governor's Budget reflects an increase in benefit payments of \$753 million (various special funds) and a state operations increase of \$35.9 million for the various employment assistance payments that EDD administers.

Department of Industrial Relations

The Governor's Budget proposes \$392 million for the Department of Industrial Relations, which represents an approximately \$7 million increase over the adjusted 2007-08 level. Major budget changes include the following:

Reductions. The Governor's Budget includes reductions of \$1.2 million (General Fund, primarily through cuts to the Administrative Support division (\$553,000), as well as \$222,000 from the Appeals Board and Occupational Safety and Health Standards Board). The Appeals Board will lose one hearing officer, which could result in over 1,000 fewer appeals heard, with a backlog of 3,000 cases already existing.

Increase Assessment on Workers' Compensation Insurance Premiums. The Governor's Budget proposes an increase in the assessment on Employers' Annual Workers Compensation Insurance Premiums (7 percent increase to total average annual assessments for 2008-09) to provide a stable funding source for the Department of Industrial Relations, Division of Occupational Safety and Health.

Veterans Affairs

Department of Veterans Affairs

The Governor's Budget proposes a \$362 million appropriation for the Department of Veterans Affairs, which represents an approximately \$4 million decrease over the adjusted 2007-08 level. Major budget changes include the following:

Resident Care Reduction. The Governor's Budget includes a 10 percent General Fund reduction, totaling \$18.7 million and 115 PYs in budget year (2008-09) and \$1.7 million in current year (2007-08), for care of residents at existing homes in Yountville, Barstow, and Chula Vista. Within this program there are additional homes scheduled for construction in Greater Los Angeles and Ventura County (GLAVC), Redding, and Fresno. The proposed cuts would eliminate 135 resident

placements, thereby reducing the numbers of eligible veterans able to receive full time medical and nursing care. In addition, the department will delay the opening of the GLAVC home and staffing of the pre-activation team for the Redding and Fresno homes until July 2009.

Various Program Reductions. The Governor proposes \$704,000 in additional General Fund reductions affecting the following programmatic areas: Veterans Claim Program; Veterans Cemetery; Local Subventions to County Veteran Service Offices; and Administrative Support.

New Homes. The Governor's Budget provides \$9.4 million General Fund and 100.7 positions for the construction and activation phases of the GLAVC home, as well as \$580,000 General Fund and 4.3 positions for the initial construction and pre-activation phases of the Redding and Fresno Veterans Homes projects.

Facilities Maintenance and Management Unit. The Governor's Budget includes \$3.2 million General Fund and 18.3 positions to establish a Facilities Maintenance and Management Unit which will be responsible for implementing a program for maintenance and repairs at the three existing veterans homes, the state cemetery for veterans, and the five veterans homes under construction.

Local Government

The Administration proposes 10 percent reductions in 2008-09 for many Local Government programs. No reductions are proposed in the current year for these programs. The major cuts are outlined below (all dollars are General Fund).

Local Detention Facilities. The Administration reduces 2008-09 funding by \$3.5 million (10 percent) – from \$35.0 million to \$31.5 million (2007-08 funding was \$35.0 million). This program provides funding for activities associated with city and county detention facilities. Chapter 1805, Statutes of 2006 (AB 1805, Committee on Budget) revised this “Booking Fee” program.

Rural and Small County Law Enforcement Grants. The Administration reduces 2008-09 funding by \$1.85 million (10 percent) – from \$18.5 million to \$16.7 million (2007-08 funding was \$18.5 million). Each of the 37 rural counties in the program would have its grant reduced from \$500,000 to \$450,000.

Juvenile Justice Crime Prevention Act (JJCPA). The Administration reduces 2008-09 funding by \$11.9 million (10 percent) – from \$119.0 million to \$107.1 million (2007-08 funding was \$119.0 million). This program provides population-based grants to local governments to support initiatives that reduce juvenile crime.

Citizen’s Option for Public Safety (COPS). The Administration reduces 2008-09 funding by \$11.9 million (10 percent) – from \$119.0 million to \$107.1 million (2007-08 funding was \$119.0 million). This program provides discretionary funding on a per capita basis for local police departments and sheriffs for front line law enforcement (with a minimum guarantee of \$100,000), sheriffs for jail services, and district attorneys for prosecution.

Williamson Act. The Administration reduces 2008-09 funding by \$3.8 million (10 percent) – from \$38.6 million to \$34.7 million (2007-08 funding was \$39.1 million). The Williamson Act allows cities and counties to enter into contracts with property owners to preserve land for agricultural or open space purposes.

Senior Citizens’ Local Property Tax Assistance. The Administration reduces 2008-09 funding by \$4.1 million (10 percent) – from \$40.6 million to \$36.5 million (2007-08 funding was \$40.8 million). This program provides income-based payments to senior homeowners with household incomes below

\$42,700. The current maximum grant is \$473 and the reduction would decrease, by 10 percent, the grants received by participants.

Senior Citizens' Renters Tax Assistance. The Administration reduces 2008-09 funding by \$15.0 million (10 percent) – from \$150.3 million to \$135.3 million (2007-08 funding was \$149.9 million). This program provides income-based payments to senior renters with household incomes below \$42,700. The current maximum grant is \$348 and the reduction would decrease, by 10 percent, the grants received by participants.

State Mandate Funding. The Governor's Budget includes savings of \$75.0 million in mandate payments to locals, by discontinuing the practice of paying *estimated* mandate claims. Under current practice, locals make mandate claims each February for past actual costs and estimated costs to be incurred for the remainder of their fiscal year. This is not a straight 10 percent reduction, but rather a savings estimate for the proposed change in methodology. This proposal does not affect 2007-08 mandate funding.

Highway Users' Tax Account (HUTA) Distribution to Local Governments. The Administration proposes to delay the disbursement to cities and counties of the gasoline excise tax HUTA distribution in late 2007-08 and early 2008-09 so up to \$500 million could be borrowed, short-term, by the GF for cash flow purposes. The Administration indicates the full amount would be distributed to local governments by the end of 2008-09; therefore, this proposal is not classified as a budget reduction.

Public Safety

California Department of Corrections and Rehabilitation

Total Proposed Funding for the California Department of Corrections and Rehabilitation (CDCR). The Governor's budget proposal includes \$11.4 billion (\$10.3 billion General Fund) for CDCR. This reflects an increase of \$647 million (\$172 million General Fund) or a six percent increase over the revised 2007-08 budget. The Governor also proposes a 3 percent increase for CDCR in the current year. This would add \$320 million (\$260 million General Fund) in the current year to the budget enacted in 2007.

Budget Balancing Special Session Reduction Proposals. The Governor has proposed budget balancing reductions for CDCR that result in savings of \$17.9 million and 200 positions in the current year and \$378 million and 5,854 positions in the budget year. The majority of the savings are resulting from two main policy changes that are outlined below.

➤ ***Summary Parole.*** The Governor is proposing that certain non-violent, non-serious, non-sex offenders not be supervised while on parole, but instead be placed on summary parole after serving their prison term. This proposal would eliminate the option of returning an individual to prison using the administrative process of parole revocation. However, individuals on summary parole would still be subject to search and seizure by any peace officer, as well as drug testing by any peace officer. Only inmates with no prior serious, violent, or strikeable offenses would be eligible for summary parole.

The Governor is requesting legislation to implement this policy change. If legislation is enacted by March 1, 2008, it would result in \$13.6 million in savings in the current year. These savings would grow to \$97.9 million in the budget year and \$231.5 million in 2009-10. The department estimates that this policy change will ultimately reduce the average daily parole population by over 28,000 and the average daily population in state prison by over 8,600.

The department estimates that there would be one-time costs of \$10 million in the current year to review case files of offenders to determine if they are eligible for summary parole. The department also estimates that \$4.1 million would be needed in the current year, and ongoing, for additional case records positions to manage the summary parole population. The Governor proposes legislation to allow the department to redirect internally to cover the costs needed to implement the summary parole proposal in the current year.

- **Early Release.** The Governor is proposing releasing certain non-violent, non-serious, non-sex offenders up to 20 months early. Inmates with prior serious or violent crimes and strikes would not be eligible for early release. Inmates that had committed serious crimes in prison that were subject to administrative review, but not prosecuted would also be excluded. In addition, offenders that committed over 20 additional crimes categorized as non-violent non-serious would also be excluded. Those offenders eligible for early release would be placed on summary parole.

The Governor is requesting legislation to implement this policy change. If legislation is enacted by March 1, 2008, it would result in \$4.3 million in savings in the current year. These savings would grow to \$256.4 million in the budget year and \$526.7 million in 2009-10. The department estimates that this policy change would ultimately reduce the average daily population in state prison by over 26,000 inmates.

The department estimates that there would be one-time costs of \$600,000 to review inmate files to determine if they are eligible for early release. The department also estimates that \$1.5 million is needed in the current year and \$900,000 ongoing to augment the case records unit to process the increased numbers of inmates that will be eligible for parole. The Governor proposes legislation to allow the department to redirect internally to cover the costs needed to implement early release in the current year.

- **Local Assistance Grant Funding.** The Governor has proposed a 10 percent reduction to two local assistance grant programs administered by CDCR. The Mentally Ill Offender Crime Reduction Grant Program will be reduced by \$4.5 million from \$44.6 million to \$40.1 million. The Juvenile Probation and Camps Program will be reduced by \$20.1 million from \$201.4 million to \$181.3 million.

Adult Inmate and Parolee Population Estimates. The Governor's budget projects that the average daily population and adult parolee population in the current year is higher than anticipated in the 2007 Budget Act. The Governor proposes \$14 million General Fund to address this growth in the current year. Estimates for the adult inmate and parolee populations in the budget year are also estimated to grow beyond the current year levels. The Governor proposes \$77.2 million General Fund to fund growth in the adult inmate and parolee population for 2008-09. A

portion of this funding is proposed to activate 2,000 community correctional center beds for female inmates.

The 2008-09 average daily adult inmate population is anticipated to be 177,021 and the average daily adult parolee population is anticipated to be 133,061, which is 1.7 percent and 2.9 percent higher than in the current year, respectively.

Juvenile Offenders and Parolee Population Estimates. The Governor's budget estimates that the juvenile offender population and juvenile parolee population in the current year is slightly higher than anticipated in the 2007 Budget Act. This will increase expenditures by \$5.6 million General Fund in the current year. Population estimates are projected to decline in the budget year due to statutory changes enacted in 2007 to shift responsibility for housing the non-serious, non-violent juvenile offenders to local jurisdictions. This is projected to result in a \$51.5 million (\$50.5 million General Fund) reduction in expenditures in the budget year.

Due to the declining juvenile population, General Fund Proposition 98 funding for the Division of Juvenile Facilities (DJF) will decrease by \$2.6 million in the current year and \$6.3 million in the budget year.

The 2008-09 average daily population in DJF facilities is expected to be 1,786 and the average daily juvenile parole population is expected to be 1,963, which is 22.2 percent and 18.7 percent lower than in the current year, respectively.

Implementation of AB 900. The Governor proposes \$2.5 million in the current year and \$35.4 million in the budget year to implement the rehabilitation components of AB 900. All but \$4 million of these proposed expenditures are proposed to be funded from the \$50 million General Fund appropriation contained in AB 900 for rehabilitation programs.

- ***Case Management Demonstration Project.*** The Governor proposes \$5 million in the budget year for a comprehensive integrative case management demonstration project which will showcase the pathway of rehabilitative programming for a group of inmates. This will begin with an initial risk and needs assessment, a comprehensive assessment to determine needs-based programming, intensive programming efforts in prison and reentry centers until release, and aftercare follow-up while on parole.
- ***Risk and Needs Assessment Expansion.*** The Governor proposes \$483,000 in the current year and \$5.2 million in the budget year to continue the implementation of the risk and needs assessments at the reception centers and to

create behavior management plans for inmates identified as high risk to recidivate.

- ***Substance Abuse Treatment Expansion.*** The Governor proposes \$308,000 in the current year and \$8.1 million in the budget year to provide substance abuse treatment services to 2,000 additional inmates and continuing aftercare for 1,330 parolees.
- ***Rehabilitation Staff Skills Training.*** The Governor proposes \$1.4 million in the current year and \$5.4 million in the budget year to provide 1,900 prison staff with training on effective rehabilitation, cognitive behavioral intervention, interviewing, and other skills.
- ***Services for Mentally Ill Parolees.*** The Governor proposes \$6 million in the budget year to expand services and provide more intensive treatment services to mentally ill parolees.
- ***Rehabilitation Program Infrastructure.*** The Governor proposes \$301,000 in the current year and \$4.7 million in the budget year to provide for enhanced program infrastructure so that CDCR can meet the AB 900 mandates and more fully integrate rehabilitative programming in the correctional setting.
- ***Education Information Technology.*** The Governor proposes \$961,000 in the budget year to implement the Education for Inmates Reporting and Statewide Tracking Project (EdFIRST) that will store and track inmate educational files and data electronically.
- ***Secure Reentry Facilities.*** The Governor proposes \$727,000 in the current year and \$1.1 million in the budget year to establish a pre-activation team for the new reentry facility in Stockton. This team will identify renovation and construction needs, identify the population for the facility, design the reentry programs and services, engage in ongoing communication with local stakeholders, and establish contracts with community providers.

The Governor also proposes \$2.5 million in the budget year to contract with the San Francisco County Sheriff's Office to provide in-custody reentry programming followed by out-of-custody reentry programming for offenders committed to state prison.

New San Quentin Condemned Inmate Complex. The Governor proposes \$136 million in lease-revenue bonds to complete construction of a new facility to house the condemned inmate population at San Quentin.

Health Care Lawsuit - Plata v. Schwarzenegger. The 2007 Budget Act allocated \$125 million to fund healthcare activities at CDCR directed by the court-appointed Receiver in the *Plata* lawsuit. To date the Receiver has directed expenditure of

\$26.2 million of this amount, resulting in ongoing costs of approximately \$14.3 million, which are included in the budget proposal.

The Governor's budget includes an additional \$73.5 million to fund several of the Receiver's proposals. This includes \$1.7 million for an Office of Third Level Health Care Appeals, \$45.8 million to expand Health Care Access Units to all the institutions, and \$26 million to support the California Prison Health Care Receivership Corporation operating budget. The Governor did not include unallocated funding as in previous budgets. The Governor's proposal does not fund \$465 million of what the Receiver requested for the current and budget years.

In addition, the Receiver also put forth nine placeholder budget requests that are estimated to cost approximately \$623 million in the current and budget years combined. The majority of the requests are for capital outlay projects. The Governor proposes to redirect \$2.5 billion in lease-revenue bonds currently appropriated for phase II construction of the infill, re-entry, and medical facilities to support the construction of medical and mental health care beds by the court-appointed Receiver in *Plata*. This would redirect all of the phase II construction monies allocated for infill and reentry projects.

Dental Care Lawsuit - Perez v. Tilton. The Governor proposes \$2.6 million General Fund to continue the state's efforts to comply with the requirements of *Perez* in the budget year.

Lifer Parole Hearing Lawsuit - Lugo v. Schwarzenegger. The Governor proposes \$8.2 million General Fund in the budget year to continue the state's efforts to comply with the requirements of *Lugo*. The augmentation provides resources for additional Commissioners, psychological evaluations, and to support increased workload associated with file preparation for the lifer hearing process.

Parole Revocation Hearing Lawsuit - Valdivia v. Schwarzenegger. The Governor proposes \$1.2 million General Fund in the current year and \$5.3 million General Fund in the budget year to ensure the continued compliance with the court approved *Valdivia* Remedial Plan. This includes \$1.1 million to manage and implement 1,800 community-based substance abuse treatment beds for parolees.

Disabled Inmate Lawsuit - Armstrong v. Schwarzenegger. The Governor proposes \$15.7 million General Fund in the current year and \$43.9 million in the budget year to continue state efforts to comply with the requirements of the *Armstrong* lawsuit. Major components of this augmentation include funding for

information technology connectivity to be able to track disabled inmates and the American's with Disability Act compliance of CDCR's facilities.

Juvenile Parole Revocation Process Lawsuit - L.H. v. Schwarzenegger. The Governor proposes \$2 million General Fund in the current year and \$2.9 million General Fund in the budget year to ensure that parole revocation hearings are conducted in a timely manner, counsel is appointed to juvenile offenders, and witnesses appear at the hearings.

Juvenile Lawsuit - Farrell v. Tilton. The Governor proposes \$1.6 million General Fund in the budget year to support the development and adoption of regulation to implement policies and procedures as required by the *Farrell* lawsuit. Additional funding is also provided to enhance DJF's information technology system.

Peace Officer Selection and Training. The Governor proposes \$19.9 million General Fund in the budget year to expand the existing parole academy, run a one-time annex academy for correctional officers at a difficult-to-staff institution, and add contract staff to ease the backlog of background investigations and pre-employment medical clearances.

Human Resources Support. The Governor proposes \$4.7 million General Fund to support recruitment, selection, and hiring activities for non-peace officer staff.

Information Technology System. The Governor proposes \$3.2 million General Fund to cover the increased cost of scanning and hosting inmate files in the Discharged Offender Record Management System (DORMS). This system will enable CDCR to scan discharged inmate's central files into an electronic format, which can be stored and easily retrieved if the inmate returns to custody.

Incarceration of Undocumented Felons. The budget assumes \$102.4 million in federal State Criminal Alien Assistance Program (SCAAP) funding for 2007-08 and 2008-09.

Department of Justice

Total Proposed Funding for the Department of Justice. The Governor proposes \$616 million (\$422 million General Fund) for the Department of Justice.

Budget Balancing Reductions. The Governor proposes a 10 percent General Fund reduction to the Department of Justice's operations. This would result in a reduction of \$41.6 million General Fund.

Office of the Inspector General

Total Proposed Funding for the Office of the Inspector General (OIG). The Governor proposes \$25.6 million General Fund to support the OIG.

Budget Balancing Reductions. The Governor proposes to reduce the OIG's audits and special reviews of wardens and superintendents by \$1.7 million, thereby extending the review cycle from four years to five years.

Local Law Enforcement Subventions

Budget Balancing Reductions. The Governor has proposed to reduce local law enforcement subventions by 10 percent.

- ***Community Oriented Policing Services (COPS)/Juvenile Justice Crime Prevention Act (JJCPA) Grants.*** The Governor has proposed reducing the COPS and JJCPA grants by \$23.8 million General Fund.
- ***Booking Fees.*** The Governor has proposed cutting the local assistance provided by the state to reimburse local governments for booking fees by \$3.5 million. Booking fees are the assessment county sheriff departments charge to local police departments for detaining an arrested person.
- ***Small/Rural Sheriffs Grant Program.*** The Governor has proposed reducing the Small/Rural Sheriffs Grant Program by \$1.9 million General Fund.

Natural Resources

Current Year Special Session Reductions for Resources. The Governor proposes to cut the Resources Agency budget by \$4.2 million for the 2007-08 fiscal year. Combined cuts in the current year for the California Conservation Corps, Department of Fish and Game, and Department of Parks and Recreation are \$3.9 million.

Total Proposed Expenditures for Resources. The Governor's budget proposes \$13.1 billion (\$1.65 billion General Fund) for all departments, boards, and commissions under the Resources Agency. The budget includes \$612 million General Fund debt service payment for general obligation resources bonds, and a \$5.3 billion California Energy Resources Scheduling payment by the Department of Water Resources. This budget also reflects a budget-balancing reduction of \$89.3 million.

Fire Protection. The Governor's budget proposes a reduction of \$44.7 million General Fund and 361 positions for the Department of Forestry and Fire Protection (CALFIRE). This funding supports 20 one-engine fire stations, 11 conservation camps, and one helitack base. The Governor's budget proposes to replace the lost General Fund with funding from the Insurance Fund. The Insurance Fund would receive an estimated \$125 million in additional revenues from a surcharge on commercial and residential property insurance policies. In addition to the funding shift, the Governor's budget proposes to increase CALFIRE by \$28.9 million and 1,100 seasonal firefighters from the Insurance Fund.

Firefighting Equipment. The Governor's budget proposes \$4.2 million and 3.8 positions to install GPS tracking on key pieces of equipment, such as fire engines and aircraft, linked to computer-aided dispatching. The GPS would permit real-time monitoring of equipment position and movement and enables instant dispatching and faster redeployment of resources.

Fuel Reduction. The Governor's budget proposes a \$3 million General Fund and a 20.9 position reduction for CALFIRE's Resource Management Program, which conducts fuel treatment activities and reviews timber harvest plans.

Park Closures. The Governor's budget proposes a \$13.3 million General Fund reduction to the Department of Parks and Recreation. This cut would result in the closure of 48 out of 278 of the state's parks and reduce seasonal lifeguards at state

beaches in Orange, San Diego, and Santa Cruz Counties by a minimum of 50 percent.

Biodiversity Conservation. The Governor's budget proposes a \$3.6 million General Fund and 20.9 position reduction for the Department of Fish and Game's Biodiversity Conservation Program. This cut would result in reduced funding for habitat restoration projects and the review of timber harvest plans.

Fish and Game Wardens. The Governor's budget proposes a \$2.6 million General Fund reduction to the Department of Fish and Game's Enforcement Program. This cut would result in the loss of 36 fish and game warden positions out of 370 existing enforcement positions.

Conservation Corps Cut. The Governor's budget proposes a \$1.2 million General Fund reduction to the California Conservation Corps (CCC) in the current year special session and another \$3.8 million reduction for 2008-09. These cuts would eliminate 75 of the 1,310 slots in the CCC training and work program.

Flood Protection. The Governor's budget proposes \$461.1 million and 14.2 positions from bond funds for the Flood SAFE California program at the Department of Water Resources. This program would provide subventions to help local governments protect their communities from flooding, enhance emergency preparedness and flood response, and provide grants to local governments for urgent repairs and improvements of levees in the Central Valley and the Delta.

Water Supplies. The Governor's budget proposes \$350 million and 9.5 positions in bond funds for the Department of Water Resources for regional projects that increase water supplies, encourage water conservation, improve water quality, and reduce dependence on exported water.

Surface Storage. The Governor's budget proposes \$15.8 million and 10.5 positions for the Department of Water Resources to complete feasibility studies for surface storage projects, evaluate climate change impacts on the state's water supply and flood control systems, and develop a strategic plan for the sustainable management of the Sacramento-San Joaquin Delta's water supplies and ecosystem.

Coastal Protection. The Governor's budget proposes \$89.1 million in bond funds for the State Coastal Conservancy to restore coastal wetlands and watersheds and promote public access to the coast.

Conservation Corps. The Governor's budget proposes \$33.3 million in bond funds for the California Conservation Corps and local conservation corps for public safety and watershed restoration projects, as well as grants to local corps for acquisition and development factions to support local corps programs.

Environmental Protection

Current Year Special Session Reductions for Environmental Protection. The Governor's budget proposes a budget-balancing reduction of \$1.6 million General Fund in the current year for the Environmental Protection Agency. The Department of Toxic Substances control budget would be cut by \$1.3 million, mainly from the illegal drug lab removal program. In addition, the Governor's budget proposes a \$192.2 million bond fund reduction for school bus replacement.

Total Proposed Expenditures for Environmental Protection. The Governor's budget proposes \$1.8 billion (\$85.3 million General Fund) for all boards, departments, and offices under the Environmental Protection Agency. The Budget includes \$7 million General Fund for debt service for General Obligation environmental protection bonds.

Global Warming Solutions Act. The Governor's budget proposed \$5.6 million in special funds for the Air Resources Board (ARB) to continue implementation measures to reduce greenhouse gas emissions and other factors contributing to global warming. This funding would pay for an additional 25.8 positions to work on global warming solutions. AB 32 (Nunez, 2005) requires the ARB to adopt a statewide greenhouse gas emissions limit equivalent to the statewide greenhouse gas emissions levels in 1990 to be achieved by 2020.

Regulatory Implementation and Enforcement. The Governor's budget proposes \$8.5 million in special funds and 44.1 positions for the Air Resources Board to conduct implementation and enforcement efforts related to controlling toxic diesel particulates from on- and off-road mobile sources. These activities include regulations effecting in-use and off-road diesel vehicles, composite wood formaldehyde emissions, and diesel auxiliary engines for port and ocean-going vessels.

Clean Water Programs. The Governor's budget proposes \$100.5 million in Proposition 84 bond funds for the State Water Resources Control Board to provide

local assistance funding. The funding would continue existing programs, including the Clean Beaches Grant Program, the Urban Stormwater Grant Program, and the Agricultural Water Quality Grant Program. The proposed Clean Beaches Grant Program includes a funding set-aside for the Santa Monica Bay Restoration Commission.

Green Chemistry and Pollution Prevention. The Governor's budget proposes \$772,000 and 5.7 positions for the Department of Toxic Substances Control to expand the existing Green Chemistry program, which identifies more effective approaches for dealing with the hazardous effects of many industrial chemicals.

School Bus Replacement Reduction. The Governor's budget proposes a \$192.2 million one-time bond fund reduction for school bus replacement. These funds were appropriated to the ARB in 2007-08 for replacing pre-1987 school buses and retrofitting school buses with clean emissions technology.

NPDES Reduction. The Governor's budget proposes a \$3.6 million General Fund and 12 personnel year reduction to the State Water Resources Control Board National Pollutant Discharge Elimination System (NPDES). The reduction will lead to delays in issuing permits under NPDES, which regulates the discharge of wastewater to surface waters in the state. The reduction will also impact contract funding for the Total Maximum Daily Load action plans (\$1.1 million).

Office of Environmental Health Hazard Assessment. The Governor's budget proposes a special session reduction of \$1 million General Fund and 4.5 personnel to the Office of Environmental Health Hazard Assessment. This reduction will decrease the annual number of scientific evaluations of the effects of fuels on human health and the state's environment, and will reduce the number of air toxic contaminant evaluations that the department can perform each year.

Agriculture

Current Year Cuts. The Governor's budget proposes a decrease of \$500,000 General Fund for the Department of Food and Agriculture out of the department's \$107.8 million General Fund budget. The Governor also proposes a decrease of \$150,000 General Fund for the Agricultural Labor Relations Board out of the board's \$5.125 million General Fund budget.

Total Proposed Expenditures for Agriculture. The Governor's budget proposes \$309.7 million (\$108.9 General Fund) to support the California Department of Food and Agriculture for 2008-09. This is a \$2.1 million decrease from the 2007-08 budget, and includes \$8.6 million in budget-balancing General Fund reductions.

Decrease in Plant Health and Pest Prevention. The Governor's budget proposes a \$4.9 million General Fund cut for the Plant Health and Pest Prevention program. This cut would result in a reduction in survey and eradication activities for the Red Imported Fire Ant, Diaprepes Root Weevil, and Pierce's Disease Control programs.

Decrease in Animal Health and Food Safety Spending. The Governor's budget proposes \$1.3 million General Fund reduction for the Animal Health and Food Safety program. This reduction would eliminate various programs including health monitoring and reporting, Johne's Disease Research, animal care, pet food inspections, rendering inspections, and field investigations.

State Administration and General Government

Board of Equalization

The Governor's Budget does not include any budget reductions to the Board of Equalization (BOE), indicating such cuts would result in a net loss to the General Fund (GF). Instead the Administration proposes budget augmentations at the BOE that will result in a net GF benefit. Among the proposals are the following:

Tax Gap: The Administration requests 129.4 positions and \$9 million to implement certain tax gap initiatives that are estimated to increase GF revenues by \$20 million in 2008-09, and increasing amounts thereafter.

Statewide Compliance and Outreach Program: The Administration requests 106.4 positions and \$8 million for initiatives that are estimated to increase GF revenues by \$38 million in 2008-09, and increasing amounts thereafter.

Vehicle, Vessel, and Aircraft Use Tax Payments. The Administration proposes to restore the requirement that use tax be paid if a vehicle, vessel, or aircraft is brought into the state within 12 months of purchase. Under current law, any vessel or aircraft purchased outside California and brought into the state 90 days after purchase is not subject to the tax. This proposal would increase GF revenues by \$5 million in 2007-08 and \$21 million in 2008-09.

Franchise Tax Board

The Governor's Budget does not include any budget reductions to the Franchise Tax Board (FTB), indicating such cuts could result in a net loss to the GF. Instead, the Administration proposes budget augmentations at the FTB that will result in a net GF benefit. Among the proposals are the following:

Tax Gap: The Administration requests 65.1 positions and \$6 million to implement certain tax gap initiatives that are estimated to increase GF revenues by \$22 million in 2008-09, and increasing amounts thereafter.

Statewide Compliance Enhancement Programs: The Administration requests 131.5 positions and \$10 million for initiatives that are estimated to increase GF revenues by \$71 million in 2008-09, and increasing amounts thereafter.

Accounting Change: The Administration proposes an accounting change to accrue the September 2009 portion of the state's tax receipts to June 2009, thus impacting the condition of the state's 2008-09 General Fund. This change does not affect the timing of actual cash receipts but does result in a \$2.0 billion increase in the 2008-09 GF reserve.

State Controller's Office

The Governor's Budget proposes a \$177 million for the State Controller's Office (Controller) which represents an approximately \$8 million decrease over the adjusted 2007-08 level. Among other things, this reflects a special fund shift for the Unclaimed Property Program of \$26 million (to the General Fund), an addition of \$21.9 million General Fund expenditures for the Human Resources Management System (see below), as well as a 10 percent unallocated General Fund reduction (see below).

Human Resources Management System. The Governor proposes \$38.3 million (\$21.9 million General Fund) for the Human Resources Management System (aka 21st Century Project) to continue activities associated with the replacement of the existing employment history, payroll, leave accounting, and position control systems.

Unallocated Reduction. The Governor's Budget includes a 10 percent General Fund reduction totaling approximately \$9.0 million. The State Controller has not yet identified how the reduction will be taken.

Department of Insurance

The Governor's Budget proposes \$224 million for the Department of Insurance, which represents an approximately \$6 million increase over the adjusted 2007-08 level. The budget contains the following major changes:

Tax Collection. The Governor proposes shifting \$2.12 million in expenditures from the Insurance Fund to the General Fund for insurance premium tax collection activities.

Worker's Compensation Insurance Fraud. The Governor's Budget includes \$4 million (Insurance Fund) for local assistance to aid District Attorneys in the prosecution of workers' compensation fraud.

Secretary of State

The Governor's Budget proposes a \$122 million appropriation for the Secretary of State, which represents an approximately \$90 million decrease over the adjusted 2007-08 level. Among other things this reflects a reduction in Help America Vote Act spending (following large, one-time expenditures of federal funds in 2007-08), but also includes a 10-percent unallocated General Fund reduction (see below).

Help America Vote Act. The Governor's Budget includes \$42.3 million (Federal Funds) to continue implementation of the Help America Vote Act (HAVA). Of that amount \$38.8 million is to implement the VoteCal voter database system.

Unallocated Reduction. The Governor's Budget includes a 10 percent General Fund reduction totaling \$3.5 million. The Secretary of State has not yet identified how the reduction will be taken.

Department of Fair Employment and Housing

The Governor's Budget proposes \$22.6 million for the Department of Fair Employment and Housing, which represents an approximately \$2 million decrease over the adjusted 2007-08 level.

Reduction. The Governor's Budget includes a 10 percent General Fund reduction of \$1.8 million and 17.2 positions. These reductions will result in lost federal funding of at least \$100,000 due to inability to meet statutory timelines for investigation of discrimination cases.

Department of General Services

The Governor's Budget proposes \$1.2 billion for the Department of General Services (DGS) which represents an approximately \$24 million increase over the adjusted 2007-08 level. This includes additional special funding for additional workload, as well as General Fund decreases (see below).

Space Planning. The Governor's Budget includes \$2.5 million (Service Revolving Fund) to support anticipated increases and workload growth in space planning for state-owned buildings, and leased space.

Capitol Maintenance and Repair. The Governor proposes a \$1.2 million General Fund reduction in current year (2007-08) funding for capitol infrastructure projects. Additionally, the Governor's Budget (2008-09) includes a 10 percent General Fund reduction to capitol infrastructure projects, totaling \$794,000.

Housing and Community Development

The Governor's Budget proposes \$1.1 billion for the Department of Housing and Community Development (HCD) which represents an approximately \$250 million decrease over the adjusted 2007-08 level. This primarily reflects a decreasing level of bond fund expenditure (Prop 1C) relative to 2007-08 which is consistent with prior projections for bond implementation. However, the decrease also reflects a net \$875,000 General Fund reduction, including cuts to the following programs.

Emergency Housing Assistance Program. The Governor's Budget includes a 10 percent reduction, totaling \$401,000, to the annual General Fund transfer that supports funding of local homeless shelters.

Office of Migrant Services. The Governor's Budget includes a 10 percent General Fund reduction of \$687,000 for provision of affordable, seasonal rental housing to migrant farmworkers. This would result in closure of between four and six of the 25 existing migrant centers and an additional loss of rents (\$229,000 GF). Because the state must give notice of plans to close the centers, the full impact of this reduction (totaling \$916,000 GF) would not be realized until 2009-10, while the 2008-09 impact would be approximately \$343,000 to the General Fund.

Housing Element. The Governor's Budget includes a 10 percent General Fund reduction of \$163,000 and elimination of 1.0 position in the administration of the

State Housing Element Law. The current year (2007-08) effect of this proposal would be savings of \$100,000 General Fund.

Various Programs. The Governor's Budget includes 10 percent General Fund reductions to various programs (Enterprise Zone; Community Development Block Grant; State Housing Law; Employee Housing, and Administration and Program Support), totaling \$345,000 General Fund, \$52,000 Federal Fund, and 2.2 positions. The current year (2007-08) effect of these reductions would be \$100,000 General Fund.

Fair Political Practices Commission

Unallocated Reduction. The Governor's Budget includes a 10 percent General Fund reduction totaling \$825,000. The Fair Political Practices Commission has not yet identified how the reduction will be taken.

Political Reform Act

Unallocated Reduction. The Governor's Budget includes a 10 percent General Fund reduction totaling \$275,000. The Administration has not yet identified how the reduction will be taken, but Political Reform Act funds are distributed to three departments: the Secretary of State, the Franchise Tax Board, and the Department of Justice.

Bureau of State Audits

Unallocated Reduction. The Governor's Budget includes a 10 percent General Fund reduction totaling \$1.6 million. The Bureau of State Audits has not yet identified how the reduction will be taken.

Office of Administrative Law

Regulatory Oversight Reduction. The Governor's Budget proposes a 10 percent reduction, totaling \$293,000 General Fund. The Office of Administrative Law will eliminate spending on services, printing, communications, postage, repairs, and

maintenance of equipment, as well as new equipment purchases, in its regulatory oversight program.

Department of the Military

The Governor's Budget proposes a \$141 million appropriation for the Department of the Military (Military), including a net increase of \$171,000 General Fund, \$10.7 million special fund, and 48.8 positions for the Military. This includes approximately \$4.8 million General Fund for new initiatives and baseline increases, as well as \$4.6 million in General Fund reductions to existing programs. The Governor also proposes current year (2007-08) reductions of \$1.1 million and 2.4 positions. The major augmentations and reductions are as follows.

Augmentations:

Education Benefit Program. The Governor's Budget includes \$1.8 million General Fund and 1.0 position to provide an education benefit to Guard members in order to improve recruitment and retention.

Joint Operations Center Staffing. The Administration requests \$1.3 million General Fund and 13.3 positions to provide 24 hours a day, 7 days per week staffing of the Joint Operations Center to enable the Military to rapidly deploy personnel and equipment with little notice from the Office of Emergency Services and conduct coordination and notification necessary to support state agencies in the event of an emergency or disaster.

Wildland Firefighting Initiative. The Governor's Budget includes \$9.2 million from the Insurance Fund and 35.8 positions to establish and maintain staffing and an equipment level necessary for the National Guard (Guard) to respond to major wildfire disasters. Of this amount, \$4.8 million is for the purchase of new firefighting systems for military aircraft and \$4.4 million is for staffing to provide air support and response to any emergency situation in the state in four hours or less.

Reductions:

Army National Guard Program. The Governor proposes a 10 percent General Fund reduction, totaling \$1.5 million and 2.9 positions. This would also result in a loss of \$100,000 in federal funds (for an aggregate 14.3 percent reduction).

Air National Guard Program. The Governor's Budget includes a 10 percent General Fund reduction, totaling \$400,000, and resulting in a total loss of federal matching funds, totaling an additional \$400,000. Additionally, the Governor proposes a current year (2007-08) reduction of \$100,000 General Fund.

Office of the Adjutant General. The Governor proposes a current year (2007-08) reduction of \$700,000 General Fund, and a 10 percent General Fund reduction of \$1.4 million and 8.6 positions in budget year (2008-09).

Military Support to Civil Authority. The Governor proposes a current year (2007-08) reduction of \$100,000, and a 10 percent General Fund reduction of \$200,000 and 1.9 positions in the budget year (2008-09) for operational and emergency response planning efforts for State of California missions.

Various Youth Programs. The Governor proposes current year (2007-08) General Fund reductions of \$100,000, and 10 percent General Fund reductions totaling over \$800,000 and 5.7 positions in the budget year, for various youth programs (California Cadet Corps and California National Guard Youth Program). These reductions would also trigger a federal funding reduction of \$500,000.

Transportation

The 2007 Budget Act provided about \$600 million in ongoing GF relief from transportation (see the next page for more detail). The Governor’s Budget does not propose any *new* GF relief from transportation in either 2007-08 or 2008-09.

Department of Transportation (Caltrans) Budget. The proposed Caltrans budget of \$13.9 billion reflects a \$262 million decrease over the adjusted 2007-08 level. The year-over-year decrease is primarily explained by receipt of \$460 million in one-time (and unanticipated) federal funds in 2007-08.

Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Proposition 1B provides for a general obligation bond issue not to exceed \$19.9 billion. The budget includes appropriations totaling \$4.7 billion in Proposition 1B bond funds – an increase of \$463 million relative to the \$4.2 billion appropriated in the 2007 Budget Act. Dollars below are in millions.

Proposition 1B Category	2007-08 Appropriations	2008-09 Appropriations	Budget
Local Streets and Roads	\$ 950	\$ 0	Shared Revenues
Public Transportation	600	350	STA
Public Transportation (Intercity Rail)	188	73	Caltrans
State Transportation Improvement Program (STIP)	727	1,186	Caltrans
Corridor Mobility Improvement Account (CMIA)	608	1,547	Caltrans
State Highway Operations and Preservation Program (SHOPP)	403	216	Caltrans
Air Quality	250	250	ARB
School Bus Retrofit	193	0.4	ARB
Railroad Crossing Safety	123	65	Caltrans
Transit Security	102	101	OES
Port Security	41	58	OES
State Route 99 Improvements	14	108	Caltrans
Local Bridge Seismic Retrofit	14	21	Caltrans
Trade Corridor Improvement	0	500	Caltrans

State/Local Partnership	0	200	Caltrans
TOTAL	\$4,213	\$4,675	

State Transit Assistance (STA) Budget. The proposed STA budget of \$1.1 billion reflects a \$189 million increase over the adjusted 2007-08 level. The primary reason for the year-over-year change is a higher Proposition 42 distribution, including the effects of SB 717 (Chapter 733, Statutes of 2007). Included in the overall budget numbers is a decrease in Proposition 1B bond funds from \$600 million to \$350 million.

Mass Transit Revenues for General Fund Obligations: The 2007 Budget Act shifted about \$1.3 billion in transit special funds to transportation expenditures that would otherwise have been GF costs. Trailer bill language was adopted that would make a portion of this GF relief ongoing – at the time of the Budget Act, 2008-09 GF savings was estimated at about \$600 million. Based on current revenue estimates, the Administration estimates 2008-09 General Fund relief will be \$596 million and will be allocated as follows:

- \$372 million for transportation-related general obligation bond debt.
- \$141 million for transportation services budgeted in the Department of Developmental Services.
- \$83 million to reimburse the General Fund for the 2008-09 Proposition 42 loan repayment.

Proposition 42/Gasoline Sales Tax Revenue. The Governor is *not* proposing a Proposition 42 suspension for 2008-09 and revenue is estimated to be \$1.5 billion – an increase of \$46 million over the revised 2007-08 estimate. The Governor proposes to make a loan repayment of \$83 million for past Proposition 42 borrowing – consistent with the repayment requirements of Proposition 1A.

High Speed Rail Authority (HSRA) Budget. The Governor’s Budget includes \$5.2 million for HSRA – down from the \$21.1 million provided in 2007-08. The reduction is due to the backout of one-time Proposition 116 bond funds without the inclusion of a replacement funding source. The budget does assume the \$10 billion high-speed rail bond will stay on the November 2008 ballot, albeit with some modifications to “ensure that appropriate financing is available to begin building the project.”

California Highway Patrol (CHP) Budget. The Governor’s Budget includes the following significant augmentations for the CHP (all special fund):

- \$21.6 million for 112 additional CHP Officers and non-uniformed positions.
- \$18.5 million for year three of the public-safety radio upgrade project.

Department of Motor Vehicles (DMV) Budget. The Governor's Budget includes the following significant adjustment for the DMV (all special fund):

- An increase in vehicle registration fees of \$11 per vehicle to continue public safety initiatives, such as the CHP staffing and radio system upgrade, while maintaining a prudent reserve. The fee increase and other proposed changes would increase revenue by \$385 million in 2008-09 and \$522 million ongoing.

Highway Users' Tax Account (HUTA) Distribution to Local Governments. See the Local Government section for a discussion of this proposal.