



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

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## **Quick Summary**

# **The Governor's Special Session Proposals And Proposed 2010-11 Budget**

January 8, 2010

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 proposals, as well as the Governor's proposed Budget for 2010-11. In some instances, this document may also include brief staff comments (*which can be identified in italics*) concerning issues that may be important during budget discussions. 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 \$19.9 billion for the two-year period ending June 30, 2011. This represents a current-year short fall of \$6.6 billion and an anticipated budget-year shortfall of \$12.3 billion, while including a \$1 billion GF reserve.

Broadly, factors which contribute to the increase of the 2010-11 deficit, from the anticipated \$6.9 billion when the 2009 Budget was enacted include: (a) lower revenue estimates of \$3.4 billion, (b) court decisions which have reduced or eliminated budget solutions of \$4.9 billion, (c) erosion of previous budget solutions of \$2.3 billion, and (d) increased caseload and population growth changes of \$1.4 billion in additional costs.

Overall the proposed GF Budget for 2010-11 is premised on approximately \$89.3 billion in total revenues, \$82.1 billion in expenditures, and a rebuilding of the GF reserve of \$1 billion.

## **Governor's Proposed Overall Solutions - \$19.9 billion**

As defined by the DOF, the size of the budget problem is approximately \$19.9 billion over the two-year period. In addition, in order to end 2010-11 with a positive General Fund reserve of approximately \$1.0 billion, a total of \$19.9 billion in GF solutions over the two-year period are required. The overall solutions for the two-year period roughly fall into four categories:

### **Proposed Budget Solutions By Category 2009-10 and 2010-11 (in millions)**

<b>Category</b>	<b>2009-10</b>	<b>2010-11</b>	<b>Totals</b>
Budget Reductions	\$1,034	\$7,475	\$8,509
Federal Funds	\$8	\$6,905	\$6,913
Alternative Funding	\$150	\$3,736	\$3,886
Fund shifts and other revenues	\$0	\$572	\$572
<b>Total</b>	<b>\$1,192</b>	<b>\$18,888</b>	<b>\$19,880</b>

## **Proposed Budget Solutions by Category**

### **1. Budget Reductions - \$8.5 billion (all reductions would be permanent):**

- \$2.4 billion from schools (Proposition 98).
  - ◆ Includes delaying repayment on the maintenance factor (MF) from 2010-11 to 2011-12 (\$788 million).
  - ◆ Various policy proposals for schools, including changes in layoff notices and seniority rules, cuts in administration, and consolidation of services.
  - ◆ Child care changes (approximately \$200 million) including rate reductions and changes in stage 3 CalWORKS child care.
  
- \$2.9 billion in Health and Human Services reductions:
  - ◆ In-Home Supportive Services (IHSS) – \$952 million. These reductions are based on many of the same proposals as last year, such as lowering to the minimum wage, no services for persons below an index score of 4.0.
  - ◆ Medi-Cal – \$1.1 billion of which \$750 million is from expansion of cost sharing and utilization controls.
  - ◆ CalWORKS – \$200 million by, among other things, reducing grants by 15.7 percent (\$152 million) and child care cuts.
  - ◆ Healthy Families – \$100 million by only offering services to families at 200 percent of poverty, providing no vision care, and other changes.
  - ◆ Reducing Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants to the federal minimum for a \$307 million cut.
  - ◆ Developmental Services – an approximate \$200 million reduction by cutting provider payments to regional centers, (b) expansion of consumer services associated with 1915 amendment to the state Medicaid plan, and (c) additional \$25 million reduction through the stakeholder process.
  - ◆ Elimination of cash assistance program to legal immigrants (\$115 million) and elimination of the California Food Assistance program (\$60 million).
  
- \$1.6 billion employee compensation reductions. The administration moves away from furloughing state employees effective at the end of the current year (2009-10) and replaces it with (a) a five-percent salary reduction, (b) a five-percent increase in employee retirement contributions, and (c) a five-percent reduction to all departments.
  
- \$1.2 billion to Corrections / Juvenile Justice achieved by (a) shifting some felons to county jails for \$291 million, (b) various changes and reduction to

the Juvenile Justice for \$41 million, and (c) an unspecified prison health care reduction of \$811 million – this proposal seeks to fund California health care at the same per prisoner level in New York.

**2. \$6.9 billion in additional federal funds:**

- \$2.1 billion Health and Human Services extension of federal American Recovery and Reinvestment Act (ARRA) funding.
- \$1.8 billion base increase of Federal Medical Assistance Percentage to 57 percent for the Medi-Cal program.
- \$900 million for prison costs of undocumented inmates in California.
- \$1 billion in federal special education reimbursement mandate funding.
- \$1 billion in "owed" Medi-Cal for past reimbursement discrepancies.
- \$94 million in Foster Care formula updates.

Under the Governor’s budget proposal, if the mentioned federal funds do not materialize then a “triggering” of permanent GF budget reductions and temporary (one-year only) tax changes would occur.

Possible Permanent Program Cuts and Eliminations under the “trigger” proposal, among other things:

- Elimination of CalWORKs (\$1 billion).
- Elimination of IHSS (\$495 million).
- Elimination of the Healthy Families program (\$126 million).
- Major changes in Medi-cal eligibility, thereby significantly reducing services (\$532 million).
- An additional five percent reduction to state employee salaries (\$508 million).
- Additional corrections reductions by eliminating non-court required programs and increasing parole staffing to prisoner ratios (\$280 million).
- Trial Court cuts of \$100 million or more.
- CalGrant increases being frozen at prior year levels (\$79 million).
- Eliminate Transitional housing for foster youth (\$36 million).
- Eliminate enrollment growth at UC and CSU (\$112 million).
- Redirect additional county savings (\$325 million).

Possible Temporary Taxes or Tax Credit changes under the “trigger” proposal:

- Net-Operating Loss (NOL) – suspend for one year only.
- Dependent tax credit – suspend for one year only.
- Delay unitary increases for one year only.
- Delays NOL carry back for one year only.

- Delay single sales factor implementation by one year.

### **3. \$3.9 billion Alternative Funding Proposals:**

- \$550 million in Proposition 10 (proposed for a June ballot) – to offset reductions in a variety of areas, including foster care. *[A similar proposal was rejected by the voters in May 2009; it is unclear how different the 2010 proposal is from the one rejected by the voters.]*
- \$452 million in Proposition 63 (proposed for a June ballot) – to offset reductions to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program. *[A similar proposal was rejected by the voters in May 2009; it is unclear how different the 2010 proposal is from the one rejected by the voters.]*
- \$505 million by redirecting county savings from CalWORKS and IHSS cuts to other programs.
- \$297 million by adding speed violations to red light cameras in order to offset reductions to Trial Courts.
- \$200 million for the Emergency Response Initiative to offset reductions in the Cal Fire program. The ERI is a 4.8 percent surcharge on all residential and commercial property insurance.
- \$197 from Tranquillion Ridge (T-Ridge) revenues to fund state parks. *[Last year, the State Lands Commission rejected a similar proposal.]*
- \$350 million in change to RDA shift (from schools to courts).
- \$986 million from a gas tax swap (see Transportation section).

### **4. \$572 million in fund shifts:**

- \$95 million from the Tribal Contingency Fund.
- \$450 in miscellaneous revenue, which is anticipated from sales lease back proposals and the sale of the EdFund.

## **Governor’s Special Session Budget**

As part of the overall budget proposal, 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 45<sup>th</sup> day following this type of proclamation, the Legislature may not act on any other bill.

According to the DOF, the value of solutions attributable to the special session will be approximately \$1.2 billion in 2009-10 and \$7.7 billion in 2010-11.

**Proposed 2010-11 Budget**

The proposed 2010-11 Budget is predicated on the passage of the Governor’s current-year budget proposals. Therefore, changes to the Special Session proposals will ripple through the proposed 2010 Budget.

**2010-11  
General Fund Summary  
(in millions)**

	<b>Revised <u>2009-10</u></b>	<b>Proposed <u>2010-11</u></b>
<b>PRIOR YEAR BALANCE</b>	<b>-\$5,855</b>	<b>-\$3,863</b>
Revenues and transfers	88,084	89,322
<b>TOTAL RESOURCES AVAILABLE</b>	<b>\$82,229</b>	<b>\$85,459</b>
Non-Proposition 98 Expenditures	\$51,432	\$46,811
Proposition 98 Expenditures	<u>34,660</u>	<u>36,090</u>
<b>TOTAL EXPENDITURES</b>	<b>\$86,092</b>	<b>\$82,901</b>
<b>FUND BALANCE</b>	<b>-\$3,863</b>	<b>\$2,558</b>
Encumbrances	\$1,537	\$1,537
Special Fund for Economic Uncertainties	-\$5,400	\$1,021
<b>BUDGET STABILIZATION ACCOUNT (BSA)</b>	<b>--</b>	<b>--</b>
<b>TOTAL AVAILABLE RESERVE</b>	<b>-\$5,400</b>	<b>\$1,021</b>

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- **Revenues:** The Governor’s budget estimates General Fund revenues and transfers to be \$89.3 billion, an increase of \$1.2 billion or 1.4 percent, above the revised 2009-10 estimate of \$88.1 billion. Total resources available, in 2010-11, from all sources are estimated at \$85.3 billion (this takes into account a negative prior year carry forward balance of \$3.9 billion).

Below is a table that reflects GF revenues and transfers for the 2009-10 and 2010-11 fiscal years.

**Proposed 2010-11  
General Fund Revenue and Transfers  
By Source  
(in millions)**

<u>Source</u>	<u>Revised 2009-10</u>	<u>Proposed 2010-11</u>	<u>Year-to-Year % Change</u>
Personal Income Tax	\$46,640	\$46,862	0.5%
Sales Tax	26,036	25,851	-0.7%
Corporation Tax	9,407	10,052	6.9%
Other	<u>6,001</u>	<u>6,557</u>	<u>9.3%</u>
<b>TOTAL</b>	<b>\$88,084</b>	<b>\$89,322</b>	<b>1.4%</b>

- **Expenditures:** The budget proposes General Fund expenditures of approximately \$82.9 billion in 2010-11. This is a decrease of \$3.2 billion, or 3.7 percent, below the revised 2009-10 figure of \$86.1 billion.

**General Fund Expenditures  
(in millions)**

<b>Program Area</b>	<b>Revised 2009-10</b>	<b>Proposed 2010-11</b>	<b>Change</b>	<b>% Change</b>
Education (K-12)	\$34,554	\$36,004	\$1,450	4.2%
Health and Human Services	\$25,045	\$21,000	-\$4,045	-16.2%
Higher Education	\$10,566	\$11,836	\$1,270	12.0%
Business, Transportation and Housing	\$2,674	\$902	-\$1,772	-66.3%
Legislative, Judicial, Executive	\$1,826	\$2,825	\$999	54.7%
General Government	\$765	-\$95	-670	-87.6%
Corrections and Rehabilitation	\$8,161	\$7,983	-\$133	-2.2%
Natural Resources	\$1,865	\$1,732	-\$148	-7.1%
Environmental Protection	\$69	\$68	-\$1	-1.4%
State and Consumer Services	\$510	\$587	\$77	15.1%
Labor and Workforce Development	\$57	\$59	\$2	3.5%
<i>Total</i>	<b>\$86,092</b>	<b>\$82,901</b>	<b>-\$3,191</b>	<b>-3.7%</b>

In the following pages are various summaries, by subject matter, of the proposals presented by the Governor for both the special session and regular session budgets.



## **K-14 -- Proposition 98 Overall**

**Current Year.** The Governor proposes \$49.9 billion in Proposition 98 funding for K-14 education in 2009-10, which provides funding at the revised minimum guarantee level. This equates to a reduction of \$568 million compared to the 2009-10 Budget Act, which provided \$50.4 billion in Proposition 98 funding for K-14 education.

**Budget Year.** The Governor provides \$50.0 billion in Proposition 98 funding for K-14 education in 2010-11, which also provides funding at the minimum guarantee level. This level of funding provides an increase of \$103 million compared to the revised 2009-10 budget proposed by the Governor.

**Maintenance Factor Payments.** The Governor proposes the following changes to the calculation of the maintenance factor:

- The Governor counts a portion of the \$2.2 billion "overappropriation" for 2008-09 towards satisfying \$1.3 billion owed to schools in outstanding maintenance factor in 2007-08. Making this change lowers the minimum guarantee for 2009-10 and 2010-11.
- The Governor proposes to delay "in lieu" maintenance factor payments for two years, until 2012-13. This funding obligation was negotiated as part of the 2009-10 Budget Act to provide schools with \$11.2 billion over time, beginning in 2010-11. These payments will now be delayed until 2012-13.

**Total General Fund Solution.** The Governor's estimates total state General Fund savings of \$2.4 billion for K-14 education, which includes \$893 million in 2009-10 and \$1.5 billion in 2010-11. *[These savings are calculated in comparison to the Governor's workload budget and counted as a part of state budget solutions.]*

## **K-12 Education**

**Updated Current Year Proposals:** As a part of the 2009-10 budget, the Governor has provided the following mid-year adjustments for K-12 education funding.

- Reduces the K-3 Class Size Reduction program by \$340 million to reflect projected savings for this program.
- Captures \$228 million in savings from various technical adjustments to other programs, primarily revenue limit savings tied to a decline in student attendance.

***Budget Year Proposals:*** The Governor proposes the following major program adjustments for K-12 education as a part of the 2010-11 Proposition 98 budget. *[While year-to-year changes in Proposition 98 funding are relatively flat, the Governor proposes these programmatic adjustments in order to live within these funding levels.]*

- Reduces school district and county office of education revenue limits by approximately \$1.5 billion. Of this total, \$1.2 billion is associated with reductions to school district central administration staff. Another \$300 million reduction is associated with the expected savings from allowing school districts to contract out for non-instructional services.
- Reduces the K-3 Class Size Reduction program by \$550 million due to projected savings in the program. (This reflects additional savings of \$210 million beyond those proposed for 2009-10.)
- Reduces school district and county offices of education revenue limit and categorical programs by \$202 million to reflect an estimated, negative Cost-of-Living Adjustment for K-12 education, computed at -0.38 percent.
- Adds \$65 million to fund Special Education Behavior Intervention plans as a part of the Administration's education mandate settlement agreement.
- Suspends statutes and funding for all but three, ongoing K-12 education mandates. The Governor provides \$14.5 million to fully fund the remaining three mandates, which include inter/intra district transfers (\$7.7 million) and the California High School Exit Exam (\$6.8 million).

***Program and Funding Flexibility:*** The Governor proposes to continue program and funding flexibility provided in recent budget packages. In addition, the Governor proposes the following additional flexibility to schools intended to protect classroom spending and build upon reforms included in the federal Race to the Top Initiative:

- **Teacher Seniority.** Proposes statutory changes to give local school districts the ability to layoff, assign, reassign, transfer, or rehire teachers without regard to seniority.

- Staffing Notification Process. Proposes statutory changes to teacher layoff notification requirements that allow layoffs to occur 60 days after the state budget is adopted or amended.
- Substitute Teachers. Repeals statute that gives teachers who have been laid-off first priority for substitute assignments and requires that substitute teachers be paid as if they were permanent full-time teachers if they work more than 20 days in a 60-day period.

***Proposition 98 Reversion Funds.***

- The Governor proposes an increase of \$50 million in Proposition 98 Reversion Account funds in 2010-11 in order to fully fund the Emergency Repair Program appropriation for 2008-09. *[This program provides funding for school facility repairs pursuant to the Williams settlement agreement.]*

***Federal Fund Relief to State General Fund.***

- The Administration is proposing to seek an additional \$1.0 billion in federal special education funds to be used as state General Fund relief in 2010-11. *[These federal funds are proposed as a reimbursement to the state General Fund and would not increase overall funding for special education programs.]*

**Higher Education**

***University of California (UC) and California State University (CSU)***

- Proposes a constitutional amendment to earmark 10 percent of the state General Fund for higher education – defined as UC and CSU (excludes California Community Colleges) – beginning in 2014. Funds would come from changes to the California prison system. *[The calculations required by this proposal would greatly increase the amount of General Fund support for UC and CSU by 2014. The current annual General Fund appropriation amount is just under \$5 billion for both UC and CSU.]*
- Provides \$610 million to UC (\$305 million) and CSU (\$305 million) to backfill one-time federal ARRA funds and other reductions made in 2009-10.
- Provides \$111.9 million to fund 2.5 percent enrollment growth at UC (\$51.3 million) and CSU (\$60.6 million). The growth adjustments would fund approximately 5,121 FTES for UC and 8,290 FTES for CSU. *[Due to current over-enrollment in the UC and CSU systems, this increase will not provide new student enrollment and will still leave current enrollment levels underfunded.]*

- Provides \$14.8 million for annuitant benefits for the UC, CSU, and Hastings College of Law. Of this amount, \$14.1 million is for the UC system.
- Reflects \$1.1 billion (\$662.7 million for UC and \$390.7 million for CSU) for the annualization of the student fee increases instituted by the UC Regents and the CSU Trustees in 2009-10; as well as an already approved 15 percent increase for UC and an additional 10 percent increase for CSU in 2010-11. Also assumes a 22.5 percent student fee increase for Hastings College of Law (HCL), which has already been approved by the HCL Governing Board.
- Reduces by \$1.3 billion total the budgets of UC (\$600 million), CSU (\$600 million), and CCC (\$130 million) to reflect the decrease in one-time federal ARRA funds. Also, reduces current year budgeted amounts by \$399 million total to reflect the actual allocations received by the three segments.

### ***California Community Colleges***

- Provides \$126 million to fund enrollment growth of 2.21 percent (or roughly 26,000 new students).
- Reduces funding for apportionments and select categorical programs by \$22.9 million to account for a negative Cost-Of-Living Adjustment (COLA), computed at -0.38 percent.
- Provides \$39.3 million General Fund (Proposition 98) to community colleges to account for a like decrease in local property tax revenues.
- Provides \$1.9 million to the State Teachers' Retirement System for additional costs for CCC employees based on 8.2 percent of applicable payroll.
- Defers an additional \$163 million in the current year, which brings the total deferral in program funding to \$703 million.
- Does not backfill the one-time federal American Recover and Reinvestment Act (ARRA) funds of \$35 million that were allocated to the community colleges in the current year to help offset categorical program reductions. Thus the categorical programs will face an additional programmatic reduction of \$35 million.

- Holds student fees at the community colleges constant at the current level of \$26 per unit.
- Proposes trailer bill language to suspend the requirement that 75 percent of courses be taught by full-time faculty.

### ***Student Financial Aid***

- Budget Year – Suspends new awards for the Competitive CalGrant program for a savings of \$45.5 million. *[This would eliminate 22,500 awards for non-traditional and returning students.]*
- Current Year – Provides \$32.9 million for CSAC local assistance costs reflecting increased costs from undergraduate fee increases for UC and CSU.
- Budget Year – Provides \$197.4 million in local assistance costs for CSAC. This amount includes \$32 million to backfill the use of one-time Student Loan Operating Fund resources, a \$97.1 million continuation of unanticipated current-year fee increases for UC and CSU, a \$59 million additional budget year fee increase of 15 percent for UC, and \$19.5 million for an assumed 10 percent budget year fee increase for CSU.
- Restores \$4.3 million for CSAC state operations in 2009-10 and 2010-11.
- Shifts \$18.3 million in local assistance CalGrant costs from General Fund to TANF reimbursements. The funding shift is made possible by a proposed 15.7 percent CalWORKS Grant reduction.

### **Child Development**

- Reduces CalWORKS stage 3 child care funding by \$123 million. Since stage 3 is not an entitlement, only the neediest families would continue to be served by the program.
- Reduces by \$77 million child care provider reimbursement rates for voucher-based programs from the 85<sup>th</sup> percentile of the market to the 75<sup>th</sup> percentile, based on the 2005 regional market survey. The reimbursement rate for licensed-exempt providers would decrease from 90 percent of the ceilings for licensed family child care homes to 70 percent.

## Health

- **Healthy Families.** Reduces by \$100 million General Fund by (1) reducing eligibility to 200 percent of poverty; (2) eliminating the vision benefit; (3) increasing cost-sharing for families. This reduction level assumes implementation by spring 2009. *[This action would eliminate 204,000 children from health care coverage and deny vision care for all children remaining in the program. These uninsured children would need to seek random indigent health care services and would miss school. Without fundamental vision services children will have difficulty reading and learning.]*

*The proposed premium increases for families between 150 and 200 percent of poverty by \$14 (total of \$30 per child per month or a family maximum of \$42 per month) creates an undue fiscal hardship on families already faced with an extremely difficult economy.]*

In addition, the budget contains a “trigger mechanism” for Healthy Families in the event certain federal funds are not obtained for a reduction of \$126 million (General Fund) in 2010-11. *[If pulled, this trigger would completely eliminate the Healthy Families Program leaving about 950,000 children without any health care coverage. California receives a 65 percent federal match for this program. Clearly the cost-benefit for maintaining Healthy Family services for children and keeping them healthy to participate in school far outweigh the identified General Fund reduction.]*

- **Medi-Cal.** The budget proposes numerous reductions to Medi-Cal through eligibility reductions, benefit reductions, cost-containment and fund shifts. Key proposals are as follows:
  - Reduces by \$750 million (General Fund) by (1) limiting services and imposing utilization controls; (2) increasing cost-sharing through co-payment requirements and premiums; and (3) various other programmatic changes.
  - Eliminates full-scope services for newly-qualified legal immigrants and others legally residing in California which leaves about 74,000 legal immigrants without health care services for a reduction of \$118 million (General Fund).
  - Eliminates Adult Day Health Care services for about 34,000 infirmed and elderly individuals for a reduction of \$104 million (General Fund).

- Assumes savings of \$4 billion (General Fund) through receipt of additional federal funds, including: (1) \$1.8 billion through the federal government increasing California's baseline Medicaid funding level from 50 percent to 57 percent; (2) \$1.2 billion through continuation of the American Recovery and Reinvestment Act (ARRA) through June 2011; and (3) \$1 billion through obtaining various federal changes.
- Includes \$560 million (General Fund) savings by using AB 1383, Statutes of 2009, hospital fee revenues to offset General Fund expenditures for children's services. This assumes that all seven quarters of revenue (hospital fees) are available in 2010-11.
- Reduces reimbursement rates for family planning providers for a reduction of \$15 million (General Fund). *[This proposal has been rejected by the Legislature several times since California receives a 90 percent federal match for these services in which rates were previously adjusted.]*
- Delays the last Medi-Cal reimbursement checkwrite in June 2010 until July 2010, the start of the next fiscal year. *[The intent of this proposal is to facilitate the State's cash flow; however, Medi-Cal providers would be considerably impacted.]*

In addition, the budget contains a "trigger mechanism" in the event certain federal funds are not obtained. If pulled, this trigger would reduce Medi-Cal eligibility to the bare federal minimum level (about 70 percent of poverty) and would eliminate most remaining optional benefits. This action would reduce Medi-Cal by another \$532 million (General Fund) in 2010-11. On an annualized basis, this action would eliminate millions of individuals from health care coverage; this would include working families (1931 b category), medically needy children and adults, and working disabled individuals.

It should be noted that the trigger mechanism assumes that the American Recovery and Reinvestment Act (ARRA) maintenance of effort requirements would be discontinued as of January 2011.

- **Mental Health Services.** Assumes voter approval of changes to Proposition 63 (Mental Health Services Act) to redirect \$452.3 million of these funds to backfill for General Fund support for the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program. *[This initiative would be placed on the June 2010 ballot. A previous effort to divert these funds for General Fund purposes was recently denied by voters in February 2009.]*

In addition, the budget contains a “trigger mechanism” in the event certain federal funds are not obtained. If pulled, this trigger would require that all revenues obtained from Proposition 63—Mental Health Services Act—would be used to backfill for General Fund support for a total backfill of \$847 million.

- **California Children and Families Act.** Assumes voter approval of changes to Proposition 10 of 1998 to shift \$550 million of these funds to backfill for General Fund support in several departments for specified children’s services, including within the departments of Social Services and Developmental Services. *[This initiative would be placed on the June 2010 ballot. A previous effort to divert these funds for General Fund purposes was recently denied by voters in February 2009.]*
- **Developmental Services.** First, the budget reflects savings of over \$500 million (General Fund) by reflecting the full-year implementation of cost containment actions enacted in 2009-10, including the three percent reduction in Regional Center provider payments and Regional Center operations, and various program changes. Second, it proposes a reduction of \$25 million (General Fund) to be developed through the existing stakeholder process.
- **AIDS Drug Assistance Program (ADAP).** The budget proposes to eliminate ADAP services for individuals residing in county jails for a reduction of \$9.5 million (General Fund). A net increase of \$87.5 million (General Fund) is provided due to a decrease in rebate funds and increases in expenditures.

## **Human Services**

- **In-Home Supportive Services (IHSS).** If the federal government fails to provide \$6.9 billion of additional funding across program areas, the Governor’s Budget proposes to trigger the complete elimination of the IHSS program. In the absence of that trigger being pulled, the Governor’s Budget proposes savings of \$77.9 million GF in 2009-10 and \$872.6 million GF in 2010-11 by eliminating the provision of services to approximately 87 percent of IHSS recipients (individuals with a functional index score under 4.0) and reducing state participation in the wages of IHSS workers to the state minimum wage of \$8 per hour plus \$.60 per hour for benefits. *[The Governor’s Budget presumes that the state will prevail in pending lawsuits that have previously prevented a similar approach to smaller-scale service reductions and prevented a reduction in the state’s wage participation.]*



- Supplemental Security Income/State Supplementary Program (SSI/SSP). The Governor's Budget proposes savings of \$21.8 million GF in 2009-10 and \$285.1 million GF in 2010-11 by reducing SSI/SSP grants for approximately one million individuals by \$15 per month (from \$845 to \$830, which is the minimum federally required) as of June 1, 2010. *[This grant reduction would result in incomes for these individuals being equal to roughly 92 percent of the Federal Poverty Level.]* The Governor's Budget also proposes the elimination of the Cash Assistance Program for Immigrants (CAPI), which provides state-only benefits to legal immigrants who are not eligible for federal benefits.
- California Work Opportunity and Responsibility to Kids (CalWORKs). If the federal government fails to provide \$6.9 billion of additional funding across program areas, the Governor's budget proposes to trigger the complete elimination of the CalWORKs program. In the absence of that trigger being pulled, the Governor's Budget proposes a reduction of \$146.1 million GF by reducing monthly grant payments to more than 500,000 families by 15.7 percent to \$585, reducing the level at which the state reimburses child care providers, and eliminating the Recent Noncitizen Entrants program as of June 1, 2010.
- California Food Assistance Program (CFAP). The Governor's Budget proposes to eliminate CFAP, which provides food benefits to low-income, legal non-citizens, effective June 1, 2010. This would result in savings of \$3.8 million GF in 2009-10 and \$56.2 million GF in 2010-11.
- Transitional Housing Program-Plus (THP+) Program. If the federal government fails to provide \$6.9 billion of additional funding across program areas, the Governor's budget proposes to trigger the elimination of \$36 million GF in funding for THP+, which provides housing and supportive services to former foster youth between the ages of 18 and 24.
- Substance Abuse Offender Treatment Program. The Governor's Budget proposes to completely eliminate funding for the Offender Treatment Program for \$18 million GF in savings.
- Increased County Share in Children's Programs. The Governor's Budget proposes savings of \$505.5 million GF from increasing the counties' share of costs for social service programs for children by redirecting county savings under proposed IHSS and CalWORKs reductions.

- Federal funding. The Governor’s Budget proposes savings from enhanced federal financial participation in California’s human services programs, including foster care, adoption assistance, IHSS, CalWORKs, and child support. *[These changes in federal funding would require the extension of various provisions of ARRA, as well as other changes to federal law.]*

## **Resources and the Environment**

- Fund State Parks from Oil Revenues – Deletes \$140 million GF from the Department of Parks and Recreation (Parks), to be backfilled with oil lease revenues from new drilling at Tranquillon Ridge. Proposes ongoing funding of Parks from oil revenues based on estimated \$1.8 billion in advanced royalties over the next 14 years. Assumes the State Lands Commission will approve the Tranquillon Ridge proposal (otherwise legislation would be necessary). *[The Administration is proposing the above changes in the Proposition 58 special session.]*
- Fire Protection Fund Reduction and Shift – Deletes \$232.8 million GF from Department of Forestry and Fire Protection (DFFP) fire protection budgets, with \$200 million to be backfilled by the Emergency Response Initiative (ERI), which includes a 4.8 percent statewide surcharge on all residential and commercial property insurance that would also fund enhanced statewide emergency response capabilities in 2011-12. The remaining \$32.8 million reduction reflects the difference between existing baseline funding and the five-year historical average of emergency firefighting costs. Note: Should firefighting costs come in higher than budgeted, the GF would still be liable for the costs. *[The Administration is proposing the ERI in the Proposition 58 special session.]*
- Beverage Container Recycling Program – Proposes various programmatic and budgetary changes including the following: (1) incorporate the cost of beverage container recycling into the price paid by consumers; (2) eliminate several “unnecessary” recycling programs and subsidies; and (3) require Beverage Container Recycling Fund (BCRF) expenditures to go through the budget process—currently many are programmed in statute. As proposed, consumers would pay a higher container fee after 2013-14 (based on the findings of a cost study), once prior-year loans to the GF from the BCRF are repaid—with \$54.8 million scheduled for repayment in 2010-11 and \$98.2 million in 2011-12 (amounts that would be ear-marked solely for payment to processors). *[The*

*Administration is proposing the above changes in the Proposition 58 special session.]*

- Shield Certain Construction Projects from Environmental Challenge – Grants the Business, Transportation, and Housing Agency the right to select a specified number of projects that have completed environmental impact reviews (required under the California Environmental Quality Act) and deem those projects approved and not subject to legal challenge in order to expedite groundbreaking. *[This is part of the Governor’s “Jobs Package” proposed in the Proposition 58 special session, and is similar to the exception created by Chapter 30, Statutes of 2009 (ABx3 81) for a new NFL stadium in Los Angeles County.]*
- Increase Water Board Program Fees – Deletes \$6.4 million GF for various water quality regulatory programs—including Water Rights, Irrigated Lands, and National Pollutant Discharge Elimination Systems programs—and backfills with an equal amount of revenue from increases to existing fees.
- Increase Renewable Portfolio Standard (RPS) Staffing – Proposes a \$1.8 million (special fund) increase to the Public Utilities Commission to provide staff and resources for transmission siting that will assist the state in achieving a 33 percent RPS by 2020 (consistent with Executive Order S-14-08). *[Staff notes that the Governor vetoed SB 14 (Simitian) which would have codified the 33 percent RPS, and subsequently issued Executive Order S-21-09 which charged the Air Resources Board (ARB) with developing a 33 percent Renewable Energy Standard. Anecdotal evidence suggests that since receiving this charge, the ARB has had to rely heavily on PUC and California Energy Commission staff to carry out the Governor’s order.]*

### **General Government**

- Office of the Chief Information Officer (OCIO) – The January budget contains the final phase of the consolidation of information technology related activities and personnel under the OCIO pursuant to the 2009 Governor’s Reorganization Plan No. 1. The final phase represents an increase of 394 positions for the OCIO to reflect the transfer of employees in the Public Safety Communications Division from the Department of General Services. The January budget also proposes other workload adjustments for the OCIO.

- Department of Consumer Affairs – The January budget provides the Department of Consumer Affairs \$12.8 million in special funds for increased enforcement and oversight of licensees in health-related professions and to improve consumer protection.
- Eliminate Governor’s Office of Planning and Research (OPR) – The January budget proposes to eliminate OPR, which is responsible for state planning and policy development and the California Volunteers program, and transfer certain functions and resources to two **newly created** offices, (1) the State Inspector General and (2) the California Agency on Service and Volunteering, as well as to a variety of other existing state agencies, offices, and departments. As part of this proposal, the operation of the State CEQA Clearinghouse would transfer to the Resources Agency.
- ARRA Oversight – The January budget proposes \$10.5 million in the Central Services Cost Recovery Fund (\$7.3 million GF) to support oversight of the expenditure of federal ARRA funds. The Administration proposes to split the funds as follows: \$4 million to the Governor-created California Recovery Task Force; \$3.4 million to the **newly-created** State Inspector General; \$2.4 million to the State Controller’s Office; and, \$700,000 to the Bureau of State Audits.
- State Controller’s Office/21<sup>st</sup> Century Project – The January budget proposes \$30.7 million GF to continue implementation of the 21<sup>st</sup> Century Project, which would replace the existing statewide employment history, payroll, leave balance accounting, and position control legacy systems. The January budget also includes \$35.4 million from other funds for this project. *[The 21<sup>st</sup> Century Project began in May 2004 and is currently projected to end in June 2014; the current estimated total cost of the project is \$282.8 million].*
- Secretary of State/Special Election Costs – The January budget proposes a one-time increase of \$68.2 million local assistance to reimburse counties for costs incurred for the May 19, 2009, Statewide Special Election.
- Department of General Services (DGS)/Capitol Repairs – The January budget proposes a reduction of \$5.4 million in the DGS budget to reflect that DGS would no longer fund the cost of Capitol repairs and maintenance. Under the Administration’s proposal, DGS would still coordinate these activities but the cost of Capitol repairs and maintenance would be funded by the Legislature.

- California Science Center – The January budget reduces the Science Center budget by \$12 million General Fund, which will be recouped from charging an admission fee.
- Veterans Homes Activation and Construction – The January budget proposes to activate business operations and begin admissions at the Veterans Homes in West Los Angeles, Lancaster, and Ventura (GLAVC) with an increase of 97.2 positions and \$8.3 million GF. An additional \$11.7 million is provided for the full-year cost of the GLAVC implementation which began in 2009-10. The January budget also proposes an increase of \$2.4 million and 16.9 positions for construction compliance at the Veterans Homes in Redding and Fresno.
- Employment Opportunities Initiative – The January budget proposes, via a series of loans from the Unemployment Compensation Disability Fund (UCDF) beginning March 1, 2010 through FY 2012-13 and totaling \$500 million, to provide: (1) \$200 million to the Employment Training Panel to train workers; employer training costs, estimated at \$1,400 per worker, would be reimbursed after the employee has worked for three months; and (2) up to \$300 million to pay employers \$3,000 for every person who, after receiving unemployment benefits, is trained in a job and stays in it for nine months. The Administration proposes to pay back the UCDF loan by eliminating the Employment Training Tax exemption for negative reserve employers, thereby generating an estimated \$54 million annually.
- California Agency on Service and Volunteering – The January budget proposes \$34.2 million (\$1 million General Fund) and trailer bill language to establish a new California Agency on Service and Volunteering as a stand-alone, independent agency. The agency will assume the California Volunteers (CV) current responsibilities, programs, and commissions, and will be funded through dollars made available by the dissolution of the Governor’s Office of Planning and Research.

### **Employee Compensation**

- Pay Cuts – The January budget proposes to end the current 3-day per month state employee furlough policy as planned on June 30, 2010. In its place, effective July 1, 2010, the Administration proposes a five percent permanent across-the-board pay cut for state employees for an estimated GF savings of \$529.6 million.

- **Increased Retirement Contributions** – The January budget proposes to increase employees’ retirement contributions by five percent, reducing the employer contribution accordingly, for an estimated GF savings of \$405.8 million. *[The budgeted CalPERS contribution, employee and employer combined, totals the minimum contribution set by the CalPERS Board in December; employees are proposed to pay a bigger share of that total under the Governor’s plan].*
- **Employee Healthcare Savings** – The January budget proposes GF savings of \$152.8 million in health care costs beginning in January 2011 achieved by contracting for lower-cost health care coverage either directly from an insurer or through CalPERS.
- **Executive Order/Workforce Cap** – The January budget proposes GF savings of \$449.6 million via an Executive Order that requires state departments to achieve a five percent reduction in salary costs by July 1, 2010. The Administration expects that attrition will be the primary factor in achieving the increased salary savings. The constitutional officers are not included in the Executive Order workforce cap because the 2009-10 budget for each of those offices included a permanent reduction in their budget that achieves savings to the level of the workforce cap or higher amount.
- **Pre-funding for Health and Dental Benefits for Annuitants** – The January budget proposes a decrease of \$98.1 million GF for pre-funding other post-employment benefit costs.
- **Federal Funds Trigger** – If the state does not receive expected federal funds, the January budget proposes an additional five percent reduction in state employee compensation which the Administration estimates will provide \$508 million in GF savings.

### **Local Government**

- **Local Mandates.** The Governor proposes to defer annual payment to local governments for mandate costs incurred prior to 2004-05 for GF savings of \$95 million. A similar deferral was adopted with the 2009 Budget Act. Additionally, the Governor proposes to continue the suspension of most mandates into 2010-11 for savings of \$137 million.

## Revenue

- Proposes a \$1.0 billion net tax cut via elimination of the sales tax on fuels and imposition of a smaller increase in fuel excise taxes. (See the transportation section for additional detail on this proposal.)
- Proposes an additional \$200 million in first-time homebuyer tax credits (\$10,000 per qualified taxpayer). As part of the 2009-10 budget package, \$100 million in first-time homebuyer tax credits were approved, but those credits have been fully allocated. *[According to DOF, no General Fund revenue loss is scored for these credits in 2010-11; however, a revenue loss would be expected.]*
- Proposes a new \$100 million sales tax exemption for green technology companies such as those that produce solar panels, for purchase of manufacturing equipment. *[According to DOF, no General Fund revenue loss is scored for this exemption in 2010-11; however, a revenue loss would be expected.]*
- Revenue increases related to the federal trigger – the Administration scores \$6.9 billion in new federal funds, but proposes revenue increases and additional cuts if the federal funds are not realized. The revenue increases would total up to \$2.4 billion and include: an extension of the Net Operating Loss (NOL) suspension (\$1.2 billion); an extension of the reduction in the dependent tax credit (\$504 million); and, a delay in the implementation of new business tax breaks (\$635 million).

## Transportation

- Eliminates the State 6.0 percent sales tax on gasoline and diesel fuel (including the temporary 1.0 percent tax) that under current law is directed to public transportation and the Proposition 42 allocation to highways and local roads (total 2010-11 revenue loss of \$2.8 billion). To partially backfill for the revenue loss, increases the gasoline and diesel excise tax by 10.8 cents per gallon (total 2010-11 revenue gain of \$1.9 billion and a tax cut of \$1.0 billion). According to DOF, this would generate a permanent revenue loss to transit funding, but maintain baseline “Prop 42” funding of \$1.3 billion for highways and local roads. The remainder of the new excise tax revenue, \$603 million, would be directed to General Fund relief via reimbursement for highway and road-related bond debt. *[This proposal, in part, would restore certain General Fund relief that was lost due to litigation over past transit fund shifts.]*

*However, this is ultimately a bigger hit to transit as it is permanent (the current-law suspension of transit operations funding only lasts through 2012-13). Additionally, this would eliminate a major funding source for intercity rail – when the fund balance is exhausted in an out-year, that Caltrans function would have to be funded by the General Fund or another funding source. This tax change would affect the Proposition 98 education calculation – DOF indicates a Proposition 98 guarantee reduction of \$836 million associated with this shift.]*

- Shifts \$57 million in 2009-10 and \$254 million in 2010-11 from transit funds to the General Fund in reimbursement for transit-related bond debt. DOF indicates these funds are from 2009-10 transit revenues and this expenditure is consistent with the recent court decision.
- Shifts \$72 million in “non-Article XIX” State Highway Account Funds to the Transportation Debt Service Fund to reimburse the General Fund for highway and road-related debt service. These funds are not subject to constitutional expenditure restrictions, and in the past have generally been direct to transit. Along with the shifts described in the above two bullets, a total of \$929 million in transportation funds are used in 2010-11 to reimburse the General Fund for bond debt service.
- Transit lawsuit – the budget does not include any repayment for transit funds shifted in 2007-08 and 2008-09. DOF indicates the Administration is in compliance with the outcome of litigation by not making any illegal shifts in 2009-10 and ongoing.
- Continues to redirect \$95 million in Tribal Gaming Revenues to the GF – similar amounts were redirected in 2008-09 and 2009-10. This funding would otherwise go to transportation special funds in repayment of transportation loans from 2001-02 and 2002-03.
- Caltrans Vehicle Replacement and Retrofit – the Governor proposes a \$57.3 million State Highway Account augmentation to replace and retrofit Caltrans vehicles to meet state, federal, and local air quality requirements.
- High-Speed Rail – the Governor proposes 2010-11 funding of \$956 million (\$375 million in federal funds and \$581 million in Proposition 1A of 2008 bond funds). This is an \$817 million increase over the 2009-10 funding level. The



State has applied for \$4.7 billion in federal stimulus funds for high-speed rail, but federal grants have not been awarded to date.

- Highway Patrol – the Governor proposes an increase of \$17.8 million Motor Vehicle Account to fund 180 new California Highway Patrol Officers.

### **Corrections and Judiciary**

- Proposes net reduction of \$262 million to the budget for inmate health care. This includes \$811 million in cuts achieved by bringing the average cost to provide inmate health care services to a level equal to that in the state of New York. Simultaneously proposes increases to the prison health care budget totaling \$549 million for contract medical expenses, resources to implement the Receiver’s plan to improve inmate medical services, and other court-mandated services. *[It is unclear that the Receiver and federal courts will allow the cuts to staff, salaries, or services necessary to achieve these budget reductions.]*
- Proposes reduction of \$292 million from sentencing changes that require that inmates convicted of specified crimes, including drug possession, would be punishable by imprisonment in jail instead of state prison.
- Assumes increase of \$880 million from the federal government to offset state costs for incarcerating undocumented immigrants who are committed to state prison for felony offenses.
- Assumes increase of \$338 million in revenues by using red light traffic cameras for speed enforcement. About \$297 million of those revenues will be used to offset General Fund support of the trial courts.