COMMITTEE ON BUDGET & FISCAL REVIEW
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Quick Summary

Proposed 2012-13 Budget

January 6, 2012

The purpose of this Quick Summary is to provide members and staff of the Legislature with an overview of the Governor's proposed budget for 2012-13. More detailed reviews of the proposals will be developed as the Committee reviews the proposals in public hearings. If you have questions, please contact the committee at (916) 651-4103.

Definition of the Overall Budget Problem

The Governor defines the General Fund budget shortfall as $9.2 billion through the period ending June 30, 2013. Of this budget shortfall, $4.1 billion is attributed to 2011-12, and $5.1 billion is attributed to 2012-13. The budget includes a total of $10.3 billion in cuts and revenues to balance and build a $1.1 billion reserve. The Governor's budget assumes revised expenditures in the current year of $86.5 billion General Fund and projects expenditures of $92.6 billion General Fund in 2012-13. To provide some context, state budget expenditures peaked in 2007-08 with expenditures of about $103 billion General Fund.

The budget shortfall in the current year is a result of several factors. Specifically, court orders and delayed federal approval have increased costs in the health and human services area by nearly $2 billion. Furthermore, final revenues from the 2010-11 fiscal year came in significantly lower than anticipated in June 2011 to account for an additional $1.9 billion in erosions. Lower state revenues also contributed to the current year shortfall, but were partially offset by lower costs for Proposition 98 and the implementation of "trigger" spending reductions in the current fiscal year. The elimination of redevelopment agencies, which was recently validated by the California Supreme Court, will also result in less General Fund savings in the current fiscal year, but more revenue in future years.

Overview of Governor's Budget Proposal

The Governor's budget proposal includes $94.3 billion in General Fund resources available and $92.6 billion in total General Fund expenditures, providing for a $1.1 billion reserve. The expenditures in 2012-13 are proposed to be about $6 billion more than revised 2011-12 expenditures. This is mainly a result of additional revenues for K-12 education ($4 billion) primarily from the Governor's proposed Constitutional amendment to raise taxes temporarily and the repayment of the Proposition 1A bonds ($2 billion) issued to repay local government for property tax borrowed to balance the budget in 2009-10. The General Fund budget details are summarized in the table below.

2012-13
General Fund Summary
(Dollars in Millions)

	Revised 2011-12	**Proposed 2012-13**
PRIOR YEAR BALANCE	**-$3,079**	**-$985**
Revenues and transfers	88,606	95,389
TOTAL RESOURCES AVAILABLE	**$85,527**	**$94,404**
Non-Proposition 98 Expenditures	$53,883	$55,035
Proposition 98 Expenditures	32,629	37,518
TOTAL EXPENDITURES	**$86,512**	**$92,553**
FUND BALANCE	**-$985**	**$1,851**
Encumbrances	$719	$719
Special Fund for Economic Uncertainties	-$1,704	$1,132
BUDGET STABILIZATION ACCOUNT (BSA)	**--**	**--**
TOTAL AVAILABLE RESERVE	**-$1,704**	**$1,132**

Current-Year Budget Update and the December 2011 Trigger

The Legislature passed and the Governor signed the 2011 Budget Act in June 2011. The current-year budget made major strides in reducing the out-year structural deficit from $20 billion to about $5 billion. The Governor failed to gain two-thirds legislative support for his original balanced plan for voter-approved taxes and spending cuts. Instead, the enacted budget relied primarily on major cuts in most areas of the budget. At the time of enactment, the cuts totaled $15 billion, bringing GF expenditures down to a level of $85.9 billion against revenues of $88.5 billion. As a share of the economy, this brought General Fund spending to its lowest level since 1972-73.

Part of the 2011-12 budget solution was recognition of unexpected revenue gains at the end of 2010-11, and a revised revenue forecast that continued this positive trend by adding $4 billion in 2011-12 revenue. Due to increased risk in the resulting revenue forecast, budget "triggers" were added to reduce spending by an additional amount of up to $2.5 billion if revenues fell below expectations. The final trigger determination was outlined in a December 13, 2011, letter from the Director of Finance – revenues were projected to exceed the May Revision level, but by $1.8 billion instead of the prior estimate of $4 billion. Due to the partial revenue gain, the trigger reduction level was $980 million instead of $2.5 billion – so an additional trigger cut of $1.5 billion to K-12 schools was avoided, as detailed below:

2011-12 Trigger Cuts

Program/Area Reduced	**Cut Amount (in millions)**
K-12 Schools – primarily home-to-school transportation	$328
University of California and California State Universities	$200
California Community Colleges	$102
In-Home Supportive Services program	$101
Department of Developmental Services	$100
Department of Corrections and Rehabilitation (CDCR), including $68 million in increased county charges for youthful offenders	$88
Childcare funding	$23
Local Library Grants	$16
Local Vertical Prosecution Grants	$15
Medi-Cal, extending the 2011 cuts to all managed care plans	$9
TOTAL	**$981**

Accounting for the revised revenues and expenditures – including trigger cuts – as well as other baseline updates, the Governor's revised 2011-12 cut level is $16 billion, with revenues of $86.2 billion, and expenditures of $86.6 billion. Due to a carry-over deficit from 2010-11, and other adjustments for litigation and court action, the Governor estimates the state will end 2011-12 with a deficit of $4.1 billion.

Proposed Expenditures by Program Area

The table below summarizes the Governor's proposed expenditures by program area. The largest change in expenditure by program area is in K-12 education where the Governor proposes $4 billion in additional expenditures to fully fund the Proposition 98 guarantee level driven by additional revenues raised in the Governor's proposed Constitutional amendment. The Governor's budget also includes $2 billion to repay Proposition 1A debt borrowed to repay local governments for property tax borrowed in 2009-10.

General Fund Expenditures
(Dollars in Millions)

Program Area	**Revised 2011-12**	**Proposed 2012-13**	**Change**	**% Change**
K-12 Education	$34,162	$38,179	$4,017	11.8%
Higher Education	$9,821	$9,377	-$444	-4.5%
Health and Human Services	$26,668	$26,414	-$254	-1.0%
Corrections and Rehabilitation	$7,849	$8,744	$895	11.4%
Business, Transportation and Housing	$679	$558	-$121	-17.8%
Natural Resources	$1,935	$1,896	-$39	-2.0%
Environmental Protection	$51	$47	-$4	-7.8%
State and Consumer Services	$619	$689	$70	11.3%
Labor and Workforce Development	$354	$448	$94	26.6%
General Government				
Non-Agency Departments	$450	$514	$64	14.2%
Tax Relief / Local Government	$544	$2,534	$1,990	365.8%
Statewide Expenditures	$840	$553	-$287	-34.2%
Legislative, Judicial and Executive	$2,540	$2,600	$60	2.4%
Total	**$86,512**	**$92,553**	**$6,041**	**7.0%**

Proposed Budget Solutions

The Governor has proposed budget solutions that total approximately $10.3 billion over the two-year period ending with June 30, 2013. The budget balancing proposals are shared between expenditure reductions ($4.2 billion), temporary taxes ($4.4 billion), and other solutions ($1.6 billion). Most of the expenditure solutions are permanent and if adopted would not only address the current budget problem but would also help to address the out-year operating deficits. Most of the revenue solutions are temporary and expire after five years. The table below summarizes the different categories of solutions included in the Governor's budget.

Proposed Budget Solutions
By Category
2012-13
(Dollars in Millions)

Category	**2012-13**
Expenditure Reductions	$4,216
Revenues	4,651
Other	1,432
Total	**$10,299**

Expenditure Reductions

Expenditure reductions represent about 41 percent of the overall budget solutions at $4.2 billion. General Fund expenditure reductions are discussed in more detail later in this summary, but the following are some of the most significant proposals:

- $946 million reduction to the California Work Opportunities and Responsibility to Kids Program (CalWORKS), including a significant redesign of the program.
- $842 million in cuts to the Medi-Cal program mainly from a proposal to enroll more seniors and disabled Medi-Cal recipients in managed care.
- $163 million in cuts to the In-Home Supportive Services program.
- $544 million from K-14 education by applying a consistent approach to accounting for the various programmatic adjustments made to the Proposition 98 guarantee.

- $447 million in child care reductions.
- $301 million in Cal-Grant program reductions.
- $823 million in savings from reform of state mandates owed local governments.

Revenues – Constitutional Amendment – New Trigger Cuts

Revenues make up approximately 45 percent of the overall solution. Nearly all of the revenues are from the assumed passage of revenues contained in the Governor's Constitutional Amendment that is currently being circulated for signatures. The voter initiative would raise $6.9 billion in revenues through 2012-13 and the temporary taxes would expire in five years. The additional revenues raised by the initiative would increase the calculation of the Proposition 98 guarantee by $2.5 billion. Therefore, net of the impacts on the Proposition 98 guarantee, revenues would provide $4.4 billion in budget solution. The Constitutional Amendment would temporarily raise the following taxes for five years:

- **Temporary Personal Income Tax Rates on Highest Income Californians**. The Governor's initiative would add three additional tax brackets. For single filers with income between $250,000 and $300,000 and joint filers with income between $500,000 and $600,000 an additional 1 percent would be applied to income above $250,000 and $500,000, respectively. Income between $300,000 and $500,000 for single filers and income between $600,000 and $1,000,000 for joint filers would be assessed an additional 1.5 percent. Finally, income over $500,000 for single filers and income over $1,000,000 for joint filers would be assessed an additional 2 percent. These changes are expected to raise $5.8 billion in revenues in the current and budget years combined.
- **Temporary Sales Tax Rate Increase of 0.5 percent**. The Governor's initiative would also temporarily raise the sales tax rate by 0.5 percent. This portion of the initiative is expected to generate $1.2 billion in additional revenues in the budget year.

The temporary taxes listed above are necessary to prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the budget. The revenues will allow the state to invest in higher education and to pay off the $33 billion in outstanding budgetary borrowing and deferrals by 2015-16. However, because the voters will not make the ultimate decision until after the budget is approved a backup plan is needed to finance the budget if the revenues are not passed by the voters.

New Trigger Cuts if Ballot Measure Fails. The Governor has put forward a plan that specifies $5.4 billion in trigger cuts affecting education and public safety. The ballot trigger cuts, summarized below, would go into effect on January 1, 2013:

2012-13 Trigger Cuts

Program/Area Reduced	**Cut Amount (in millions)**
K-14 Schools - funding for schools and community colleges would be reduced by $4.8 billion, which could result in a funding decrease that is equivalent to the cost of three weeks of instruction. It would also continue to provide 20 percent of program funds a year in arrears.	$4,837
University of California and California State Universities.	$400
Courts - the cut could result in closures three days per month.	$125
Department of Forestry and Fire Protection - the emergency air response program would be reduced and fire stations would be closed.	$15
Department of Water Resources - cuts to the flood control program.	$7
Parks and Recreation / Fish and Game - the number of the State's public safety officers in each department would be reduced and the state would no longer staff its beaches with lifeguards.	$6
Department of Justice.	$1
TOTAL	**$5,390**

Other Solutions

The final category of "other" budget solutions total $1.4 billion or 14 percent of the overall solution. The following are the most significant proposals:

- $631 million from extending loan repayments to various special funds borrowed in previous budget years.
- $417 million from using a loan from the Unemployment Compensation Disability Fund to make interest payments to the federal government for Unemployment Insurance (UI) benefits. A new employer surcharge would

generate revenue to pay future interest payments and the borrowed funds from the Disability Fund.

- $350 million from additional weight fee revenues.

Government Efficiencies and Reorganization

The Governor's Budget includes major proposals to reorganize state government. The proposal would reduce the number of agencies from 12 to 10, eliminate 39 state entities, and eliminate 9 programs. These proposals are not reflected in the 2012-13 budget detail – the existing entities are reflected for purposes of scheduling expenditures in the budget bill. If some or all of these proposals were approved by the Legislature, implementation would likely occur over time.

The specific reorganizations are discussed in the General Government section, and other sections, of this summary. It should be noted that last year, the Legislature approved the elimination of 23 boards and commissions, and various program reductions totaling $24.6 million in savings. Some of the Governor's proposals this year are the same as those proposed last year but not adopted.

In addition to reorganization, the Governor proposes to improve efficiency in the budget process by zero-basing some departments and providing for a special focus on program goals and outcomes. The Governor indicates some departments, including the Department of Transportation and the Department of Consumer Affairs, will be directed to perform a detailed review and analysis of all their programs to evaluate whether the functions need to exist and the level of resources needed to accomplish them. Pursuant to Executive Order B-13-11, the Director of Finance will create a plan by March 2012 for modifying the budget process to increase efficiency and focus on accomplishing program goals.

Realignment

Major Public Safety Realignment Enacted Last Year. Last year the Governor embarked on a major effort to realign the finances and programs that state and local governments manage. The first phase of this realignment effort targeted certain public safety programs and was enacted in June 2011. The 2011 Public Safety Realignment moved program and fiscal responsibility of the following programs from the state to the counties:

- Substance Abuse Treatment Programs
- Adult Protective Services
- Foster Care
- Child Welfare Services
- Adoptions and Adoptions Assistance
- Child Abuse Prevention
- Mental Health Managed Care
- Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program
- Court Security
- Local Law Enforcement Programs (including allocations for cities)
- Community Corrections Programs (Lower-Level Offenders, Parole and Parole Violators)
- Juvenile Justice Programs

In addition, community mental health programs previously funded in 1991 Realignment are now funded by revenue dedicated for 2011 Realignment. The 1991 Realignment funding previously dedicated to mental health programs is allocated to a new Maintenance of Effort Subaccount in 1991 Realignment to cover costs of cash assistance grants to low-income families.

The goals of the realignment are multi-pronged, but central to this policy was an effort to create a government structure that meets the public needs in the most effective and efficient manner. By bringing decision making closer to the people programs can be better tailored to local circumstances. Furthermore, the new Community Corrections Grant Program is important to reducing the prison population as required by the US Supreme Court decision regarding the unconstitutional conditions in our state prisons due to overcrowding.

Governor Proposes Constitutional Protection for 2011 Realignment. The Constitutional amendment being circulated by the Governor contains Constitutional protection for the revenue dedicated to 2011 Realignment. This initiative will protect local government against future costs imposed upon them, as well as provide mandate protection for the state.

Governor Proposes Ongoing Funding Structure for 2011 Realignment. Although the revenue stream for the 2011 realignment enacted last year is ongoing, the program allocations were for the 2011-12 fiscal year only. The Governor, in consultation with the California State Association of Counties, has proposed a permanent funding structure for 2011 Realignment for both the base and growth funding. The funding structure was designed with the overall goal of providing a known, reliable, and stable funding source for the programs realigned. The structure would establish the following two accounts in the County Local Revenue Fund: (1) Support Services Account and (2) Law Enforcement Services Account.

The Support Services Account will contain two Subaccounts:

- Protective Services Subaccount that will contain funding for Foster Care; Child Welfare Services; Adoptions; Adoptions Assistance Program; Child Abuse Prevention, Intervention, and Treatment; and Adult Protective Services.
- Behavioral Health Subaccount will contain funding for Drug Medi-Cal; Drug Courts; Perinatal Drug Services; Non Drug Medi-Cal Services; Mental Health Managed Care; and Early and Periodic Screening, Diagnosis, and Treatment.

The Law Enforcement Services Account will contain five subaccounts:

- Trial Court Security Subaccount.
- Law Enforcement Services Subaccount.
- Community Corrections Subaccount.
- District Attorney/Public Defender Subaccount.
- Juvenile Justice Subaccount, containing both the Youthful Offender Block Grant and Juvenile Reentry Fund.

The Governor proposes to allocate program growth on roughly a proportional basis first among the Accounts and then among the Subaccounts. Within each subaccount, federally required programs would receive priority funding if warranted by caseload and costs. Furthermore, the Governor has proposed that growth funding for the Child Welfare Services program be a priority once base programs are established and should receive $200 million in additional growth funds over time. This is in recognition of a significant cut that was sustained to Child Welfare Services programs in 2010.

The Governor has also proposed some flexibility for the counties to move money among subaccounts. Specifically, the Governor has proposed that counties have the ability to transfer up to 10 percent between subaccounts within the Support Services Account. This is modeled after similar flexibilities provided in 1991 Realignment. Furthermore, the Governor has also proposed a local option to transfer a portion of growth among subaccounts within the Law Enforcement Services Account beginning in 2015-16. These transfers would only be valid for one year and would not increase the base of any program.

Governor Proposes Next Steps on Realignment. Last year the Governor discussed a broad phase 2 plan involving significant changes in health and human services programs. This year the Governor's budget seems to slow down the implementation of a phase 2 realignment plan and instead focuses on implementing the 2011 Public Safety Realignment. The Governor continues to be committed to a 25 percent reduction in state operations of programs realigned to the counties in 2011. The Governor is also proposing to continue training efforts related to implementing the Community Corrections Partnerships by providing $8.9 million for a second year of training efforts.

The Governor is proposing new realignment efforts in the area of education reform and has proposed significant changes to current funding formulas for aid to local schools. These changes include a weighted pupil funding formula to be phased in over the next five years. The Governor's proposal generally centralizes more control over school funding allocations with local school districts.

The Governor is also proposing to continue the realignment of the juvenile justice system that started 15 years ago by stopping intake of juveniles to state facilities by January 1, 2013, providing $10 million General Fund to counties to begin planning for this population, and to delay collection of the recently imposed fees for wards housed in the state Division of Juvenile Justice facilities.

The Governor has indicated that phase 2 of realignment will likely center around the implementation of federal health care reform, but that additional data are needed to inform decisions before further plans are made.

Major Budget Solutions – Summary by Program Area

Proposition 98 – K-14

- **Current Year – Overall Funding Levels.** The Governor's Budget estimates that the Proposition 98 guarantee will be $48.3 billion, which is $661 million above the level of General Fund appropriated in 2011- 12, assuming passage of the Governor's tax initiative. The additional $661 million will be appropriated in the future as "settle-up" payments.

- **Budget Year – Overall Funding Levels.** The Budget provides Proposition 98 funding of **$52.5 billion** for K-12 education in 2012-13, an increase of $4.9 billion compared to 2011-12. This level of funding assumes passage of the Governor's tax initiative, which per the Administration would produce an additional $2.5 billion in new funds for education in 2012-13. The Administration estimates that Proposition 98 will be a Test 1 year in 2012-13.

- **Rebenching Adjustments.** In addition to assuming new revenues, the Budget includes a series of adjustments or "rebenchings" of the Proposition 98 guarantee that provide **$373.2 million** of General Fund savings. These adjustments reflect: (1) elimination of the policy rebenching made to hold Proposition 98 harmless from the elimination of sales tax on gasoline in 2011-12 and (2) changes to two rebenchings of the Proposition 98 guarantee in 2011-12 involving the inclusion of special education mental health services and the exclusion of most child care programs within the guarantee. Per the Governor, these rebenching adjustments are proposed to conform to the methodology used for previous rebenchings. An additional adjustment is made for special education mental health in 2012-13 to reflect costs covered by Proposition 63 funds on a one-time basis in 2011-12.

- **Reduction of Inter-Year Payment Deferrals**. The Budget proposes an increase of more than $2.4 billion in Proposition 98 General Fund to reduce inter-year budgetary deferrals for K-14 education beginning in 2012-13. This increase provides approximately $2.2 billion for K-12 schools and $200 million for community colleges.

New Trigger Cuts if Governor's Tax Initiative Fails. In the event the Governor's initiative does not pass, the Budget includes a trigger reduction of **$4.8**

billion for K-14 education. (This cut results from a $2.4 billion drop in the minimum guarantee from lower revenues and a proposed shift of General Obligation Bond debt service into Proposition 98 requiring programmatic savings of $2.4 billion to accommodate the shift.) In order to achieve the $4.8 billion in savings, the Budget proposes to eliminate the restoration of $2.4 billion in inter-year payment deferrals (currently proposed by the Governor) and implement an additional $2.4 billion in unspecified, proportional programmatic reductions for K-14 education. The Administration will work with school officials and stakeholders to develop legislation that protects education programs, but allows schools to develop and implement necessary contingency plans.

K-14 Mandates Funding. The Budget proposes an increase of $110 million in 2012-13 to support a new block grant program for K-12 and community college mandates as discussed further below. This will bring total funding for K-14 mandates to approximately $200 million in 2012-13.

Proposition 98 – Major Budget Year K-12 Adjustments

Reduction for K-12 Payment Deferrals. The Budget provides an increase of $2.2 billion Proposition 98 General Fund to reduce inter-year budgetary payment deferrals.

Revenue Limit Growth. The Budget assumes continued state-level growth in K-12 enrollments statewide for purposes of funding revenue limits. The Budget provides an increase of $158 million for school district and county office of education revenue limits as a result of projected growth in student attendance in 2012-13.

Categorical Program Growth. The Budget provides additional growth funding for two categorical programs -- $56.6 million for Charter Schools and $12.3 million for Special Education programs.

Cost-of-Living Adjustment Increases. The Budget does not provide a cost-of-living-adjustment (COLA) for any K-14 program in 2012-13. The projected 2012-13 COLA is 3.17 percent, which would have provided a $1.8 billion increase to the extent Proposition 98 resources were sufficient to provide that adjustment. A deficit factor will be established in 2012-13 for school district and county office of education revenue limit apportionments to reflect the lack of a COLA, ensuring that funding in future years is used to restore this adjustment.

Transitional Kindergarten Not Funded. The Budget does not fund the new Transitional Kindergarten program created pursuant to Chapter 705, Statutes of 2010, for a cost avoidance of $223.7 million. These savings will be used to support existing education programs.

School Transportation Funding Eliminated. The Budget eliminates all funding for the School Transportation program in 2012-13, which provides savings of $496 million. The current year trigger cut for School Transportation eliminates the remaining half year of funding ($248 million) for the program in 2011-12. The Governor's 2012-13 plan proposes to continue elimination of the program.

Major K-12 Budget and Policy Reforms

Mandates Reform. As a part of the Governor's K-14 education mandate reforms, the Budget provides a total of $178 million for K-12 mandates – an increase of approximately $98 million in 2012-13 – for a new mandates block grant incentive program. Legislation will eliminate almost half of all current K-12 mandates (including Graduation Requirements [Second Science Course] and Behavioral Intervention Plans) and will create incentives for schools to continue to comply with remaining, previously mandated activities. The Administration estimates that the new block grant will provide a 340 percent increase in funding and will encourage schools to sustain core education, health and safety, and accountability mandates.

Consolidation of Revenue Limit and Most Categorical Program Funding into Single Funding Stream. The Budget proposes to dramatically increase flexibility and local control by consolidating the vast majority of categorical programs (excluding federally required programs such as Child Nutrition and Special Education) with revenue limit apportionments into a single stream of funding for schools on a permanent basis. More specifically, the Governor proposes to consolidate funding within a "weighted student formula" that would be phased in over a five year period beginning in 2012-13. The newly proposed formula would provide a basic per pupil allocation with additional weights for economically disadvantaged pupils and English learner pupils. Per the Administration, all programs included in the new funding stream would be subject to full flexibility beginning in 2012-13. The Governor's new funding stream would be accompanied by new accountability requirements for schools and would provide fiscal rewards for school performance.

Streamline and Expand Financial Support for Charter Schools. The Governor proposes changes to the operation and funding of charter schools in order to improve access and equity, as follows:

- **Enhance Charter School Funding.** Improve access to existing funding streams for charter schools;
- **Invest in Charter School Facilities.** Provide greater charter school access to Charter Schools Facilities Grant program funds and ensuring the timely release of funds; and
- **Improve Charter School Working Capital**. Provide additional authority to the California School Finance Authority to expand working capital to charter schools.

Other K-12 Budget Year Adjustments:

Child Nutrition. Provides a decrease of $10.4 million in non-Proposition 98 General Funds to reflect the elimination of supplemental reimbursement for free and reduced-price breakfast and lunch served at private schools and private child care centers.

AVID Program. Eliminates $8.1 million in non-Proposition 98 General Funds for the Advancement Via Individual Determination (AVID) program.

State Special Schools. Provides a decrease of $1.8 million in non-Proposition 98 General Funds to reflect a reduction in discretionary funding for the California Schools for the Deaf in Fremont and Riverside and the School for the Blind in Fremont.

Indian Education Centers. Eliminates $376,000 in non-Proposition 98 General Funds for Indian Education Centers.

Vocational Education Leadership. Eliminates $514,000 in non-Proposition 98 General Funds for the Vocational Education Supplemental Leadership programs.

State Summer School for the Arts. Consolidates funding for the California State Summer School for the Arts within the California Arts Council.

Child Nutrition Program. The Budget provides an increase of $37.2 million for 2012-13 in federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.

Fresh Fruit and Vegetable Program. The Budget provides an increase of $2 million for 2012-13 in federal local assistance funds for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the school day.

School Facilities

The Budget proposes to shift existing School Facilities Program bond authority from the Overcrowding Relief Grant Program to the New Construction program and to regulate the allocation of new construction and modernization funds to ensure continued construction of new classrooms and modernization of existing classrooms. Per the Administration, this action will delay local authority to impose a third level construction fee while continuing construction of new classrooms using bond proceeds, fee revenues, and local funds.

California State Library

Reduces the Library's non-Proposition 98 General Fund budget by $1.1 million to reflect a decrease in administrative workload resulting from the 2011-12 trigger reductions that eliminated $15.9 million in local assistance programs (California Library Literacy Services; Public Library Foundation; California Library Services Act; California Newspaper Project; and California Civil Liberties Public Education Program) effective January 1, 2012.

Child Care and Development

Child Care Cost Reductions: The Governor's Budget proposes the following major child care reductions in 2012-13:

- A decrease of $293.6 million in non-Proposition 98 General Fund by requiring families to meet federal welfare-to-work participation requirements. This change will eliminate services for families who do not work a required number of hours. Part-day preschool programs will not be affected by this reduction, as these programs are not intended to meet the full-time needs of working parents. This reduction will eliminate about 46,300 child care slots.

- A decrease of $43.9 million in non-Proposition 98 General Fund and $24.1 million in Proposition 98 General Fund by reducing the income eligibility ceilings from 70 percent of the state median income to 200 percent of the federal poverty level. Per the Administration, this level equates to 61.5 percent of the state median income for a family size of three, reflecting a reduction in the income ceiling from $42,216 to $37,060. This reduction will eliminate about 15,700 child care slots.

- A decrease of $29.9 million in non-Proposition 98 General Fund and $11.7 million in Proposition 98 General Fund by eliminating the statutory COLA for capped non-CalWORKs child care programs.

- A decrease of $11.8 million in non-Proposition 98 General Fund by reducing the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market, based on 2005 market survey data, to the 50th percentile based on 2009 survey data. Per the Administration, to preserve parental choice under lower reimbursement ceilings, rates for license-exempt providers will remain comparable to current levels, and these providers will be required to meet certain health and safety standards as a condition of receiving reimbursement. (A corresponding $5.3 million General Fund decrease is made to Stage 1 in the Department of Social Services budget.)

- A decrease of $67.8 million in non-Proposition 98 General Fund and $34.1 million in Proposition 98 General Fund by reducing the standard reimbursement rate for direct-contracted Title 5 centers by 10 percent.

Administrative Restructuring Proposals: The Governor proposes the following changes to restructure administration of Child Care programs. These changes are consistent with the Administration's proposal to restructure CalWORKs, whereby the Administration intends to focus state funding on low income families working a required number of hours. Over time, the Administration proposes to replace the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents with a work-based child care system administered by county welfare departments. [*For additional detail, please see the Department of Social Services section of this report.]*

- Beginning in 2013-14, families meeting federal work requirements will receive a work bonus issued by the county welfare departments to better support working families.

- In 2012-13, the California Department of Education (CDE) will continue to administer services payment contracts with alternative payment programs (which administer voucher-based programs) and Title 5 centers. Contracts with alternative payment programs for funding remaining after the reimbursement rate and eligibility reductions will be consolidated. Priority for voucher-based services will be given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families . Cash-aided families that are currently enrolled in Stage 1 will continue to receive child care services.

- Beginning in 2013-14, the eligibility and payment functions will shift from the alternative payment programs and Title 5 centers to the counties, though counties may contract with these agencies to perform the payment function. All eligible families, including those currently enrolled in Title 5 centers, will receive a voucher for payment to a provider of their own choice. This will shift responsibility for the administration of services for approximately 142,000 children from the CDE to the counties. CDE will continue to administer part-day preschool programs.

- Effective in 2013-14, the counties and alternative payment programs will be required to identify and collect overpayments. Sanctions will be imposed on agencies that do not reduce the incidence of overpayments, and it also imposes sanctions on providers and families who commit intentional program violations. Any savings will be reinvested in child care slots.

Higher Education

University of California (UC)

- Provides an ongoing General Fund augmentation of $90 million for base operating costs, which the Administration indicates can be used to address costs related to retirement program contributions.

- Provides an additional $5.2 million augmentation for retired annuitant benefits.

- Eliminates budget bill language earmarking funds for specific programs and purposes, such as the Charles R. Drew Medical Program, AIDS research, and the Summer School for Math and Sciences, to provide UC with greater flexibility to manage its 2011-12 $750 million budget reduction.

- Shifts $5 million previously earmarked for the Subject Matter Projects from UC to the California Department of Education to ensure that the funding is identified for federal matching requirements.

- Provides an additional $9.7 million for debt service costs associated with UC capital outlay projects, thereby moving these costs into UC's base budget. Currently these costs are budgeted and annually adjusted outside of UC's budget. The Governor's proposal further states that no augmentations for this purpose will be provided in 2013-14, and beyond, thereby requiring the University to factor these costs into its overall fiscal outlook and decision-making process.

- Contingent on voter approval of the Governor's tax initiative, from 2013-14 through 2015-16, provides at least a four percent annual augmentation if UC achieves the Administration's priorities, including specific accountability metrics such as graduation rates and transfer students enrolled. In the alternative, i.e., if the initiative is not approved by the voters, imposes a "triggered" unallocated reduction of $200 million effective January 1, 2013.

Hastings College of the Law (Hastings)

- Provides an additional $1.8 million for debt service costs associated with Hastings capital outlay projects, thereby moving these costs into Hastings' base budget. Currently these costs are budgeted and annually adjusted outside of Hastings' budget. The Governor's proposal further states that no augmentations for this purpose will be provided in 2013-14, and beyond, thereby requiring Hastings to factor these costs into its overall fiscal outlook and decision-making process.

California State University (CSU)

- Provides an additional $5.5 million for debt service costs associated with CSU capital outlay projects, thereby moving these costs into CSU's base budget. Currently these costs are budgeted and annually adjusted outside of CSU's budget. The Governor's proposal further states that no augmentations for this purpose will be provided in 2013-14, and beyond, thereby requiring CSU to factor these costs into its overall fiscal outlook and decision-making process.

- With regard to CSU employer contributions to CalPERS, the amount included in CSU's base budget is $35.5 less than 2011-12 due to lower rates.

- Provides an additional $1.1 million augmentation for retired annuitant benefits.

- Contingent on voter approval of the Governor's tax initiative, from 2013-14 through 2015-16, provides at least a four percent annual augmentation if CSU achieves the Administration's priorities, including specific accountability metrics such as graduation rates and transfer students enrolled. In the alternative, i.e., if the initiative is not approved by the voters, imposes a "triggered" unallocated reduction of $200 million effective January 1, 2013.

California Community Colleges (CCC)

- Contingent on voter approval of the Governor's tax initiative, increases funding by $218.3 million to partially restore apportionment funding that had been previously deferred. As discussed in greater detail in the K-12 section of this report, should the initiative not be approved by the voters, the community colleges budget would be reduced as part of an overall $4.8 billion K-14 Proposition 98 reduction.

- Backfills $109.4 million in revenue losses due to student fee increases.

- Consolidates nearly all categorical programs and provides flexibility to community college districts to use the "flexed" categorical funds for any categorical program purpose. Under this proposal, the consolidated funds total $411.6 million.

- Notes that the Administration plans to review the recommendations of the forthcoming Student Success Task Force report (as required by Chapter 409, Statutes of 2010; SB 1143, Liu) and explore other possibilities for expanding flexibility for possible inclusion in the May Revision.

- Eliminates mandates deemed unnecessary while preserving core mandatory programs and functions. Creates a $12.3 million General Fund "block grant incentive program" for the community colleges to incent continued compliance with remaining previously mandated activities.

- Reduces 2011-12 apportionment funding by $146.9 million to reflect an identical increase in offsetting property taxes available to community college districts resulting from the recent Supreme Court decision on redevelopment agencies.

- Retains the $10 per unit fee increase, effective with the summer 2012 term, bringing the per unit charge at community colleges to $46.

Student Financial Aid

- Provides an additional $83.6 million in 2011-12 and $181.2 million in 2012-13 to fully fund Cal Grant programmatic costs; the cost increases are driven largely by fee increases at UC and CSU.

- Proposes numerous changes to the Cal Grant program, for total savings of roughly $302 million, as follows:

    - Reduces the award amount for students attending private for-profit colleges and universities to $4,000; currently these awards are statutorily capped at $9,708.
    - Reduces the award amount for students attending independent, non-profit schools to the CSU award amount of approximately $5,472; currently these awards are statutorily capped at $9,708.
    - Raises the minimum grade point average requirement for applicants; e.g., Cal Grant A from 3.0 to 3.25, Cal Grant B from 2.0 to 2.75, and CCC Transfers from 2.4 to 2.75.

- Reverses a recent decision by the California Student Aid Commission (CSAC) to allow prolonged enrollment breaks between the CCC and transfer to a four-year institution. Current law is silent on the length of time, but under CSAC's prior operational policy, a CCC student was eligible for a Cal Grant Transfer Entitlement Award at a four-year institution only if the student enrolled at a four-year institution the next academic year. The Administration indicates that this policy change will result in $70 million in new General Fund costs. By codifying the prior operational policy, the Administration's intent is to avoid new costs at a time of limited General Fund resources.

- Uses $736.4 million of Temporary Assistance to Needy Families (TANF) dollars to fund the Cal Grant program, in lieu of General Fund dollars.

- Proposes to shift $30 million of Cal Grant Program costs from the General Fund to the Student Loan Operating Fund.

- Maintains the 2011-12 student loan default rate index, which requires that institutions participating in the Cal Grant program ensure that no more than 25 percent of their students default on federal student loans within a three-year window. Absent this change, current law would have increased this rate to 30 percent.

- Saves $6.6 million by eliminating new awards for Student Loan Assumption Programs for Teachers and Nurses, while continuing to fund remaining renewal awards through 2015-16.

California Postsecondary Education Commission (CPEC)

- As clean-up to the Governor's line-item veto in 2011-12 which effectively eliminated CPEC effective November 18, 2011, provides $850,000 General Fund for "close out costs" in 2011-12 and shifts the federal Improving Teacher Quality Grant program to the California Department of Education in 2012-13.

Health

Overall Summary. The Governor's budget includes a total of $100.1 billion ($26.4 billion General Fund and $73.7 billion other funds) for health and human services that serve low-income, vulnerable individuals and families.

It reflects an expenditure reduction of $2.039 billion (General Fund) across these programs which have incurred substantial reductions over the past three years. These General Fund reductions are as follows:

• CalWorks	-$946.2 million
• Medi-Cal	-$842.3 million
• In-Home Supportive Services	-$163.8 million
• Other Health and Human Services Programs	-$ 86.9 million

Most of these proposed reductions would require statutory changes through trailer bill legislation to implement. These proposals are discussed individually below.

Further, the budget also proposes to restructure State administrative functions by:

- Eliminating the departments of Mental Health, and Alcohol and Drug Programs and reorganizing behavioral health programs to other departments;
- Eliminating the Managed Risk Medical Insurance Board and shifting its programs and responsibilities to the Department of Health Care Services;
- Transferring certain direct-care health programs from the Department of Public Health to the Department of Health Care Services; and
- Consolidating five specialty health offices into an Office of Health Equity.

Each of these restructuring proposals is discussed below.

Department of Health Care Services (DHCS)

Medi-Cal Program. The budget proposes total expenditures of $59.7 billion ($15.1 billion General Fund) for 2012-13 to serve about 8.3 million Medi-Cal eligible individuals, including the transfer of 875,000 children from Healthy Families to Medi-Cal.

The Administration proposes significant policy changes, payment reforms, and program consolidations to reduce by a *net* $842.3 million (General Fund) in 2012-13. The table below provides a summary of key reduction proposals. These are discussed further below.

Administration's Key Reduction Proposals	**General Fund Reduction 2012-13**
Connected Care for Dual Eligibles and Long-Term Care Rebalancing	-$621.8 million
Medi-Cal Operation Flexibility and Value-Based Purchasing	-$75 million
Eliminate Sunset Date for the Gross Premium Tax	-$161.8 million
Transition Children from Healthy Families to Medi-Cal	-$64.4 million
Hospital Stabilization Funds	-$42.9 million
Federally Qualified Health Center Payment Reform	-$27.8 million
Align Managed Care Policies	-$57 million
Managed Care Expansion	-$2.7 million
Limit Annual Open Enrollment for Medi-Cal Enrollees	-$3.6 million
Managed Care Default Assignment	-$2.4 million
Medical Therapy Program Means Test	-$9.1 million
TOTAL	-$1.068.5 billion

Connected Care for Dual Eligibles and Long-Term Care Rebalancing. Administration proposes a sweeping proposal to significantly change health care services provided to "dual eligibles" that are eligible for both Medi-Cal and Medicare, as well as to incorporate certain "carved-out" Long-Term Care benefits (such as nursing home care and community-based adult day care) into Medi-Cal Managed Care. It proposes to provide for a three-year phase-in beginning with implementation in eight to ten counties for expanded Dual Pilots, as well as the expanded role for the Medi-Cal Managed Care plans. The proposal is centered on receiving health care and certain home and community-based social services, including IHSS, through Medi-Cal Managed Care Plans. A reduction of $621.8 million (General Fund) is assumed. Substantial stakeholder work, along with significant discussions with providers of both health and human services, coupled with the close involvement of the federal CMS needs to occur to shape this proposal. Policy legislation and trailer bill legislation would be needed for any implementation.

Medi-Cal Operation Flexibility and Value-Based Purchasing. DHCS is seeking broad program operation flexibility as well as the establishment of a stakeholder process to make changes to the Medi-Cal Program, including benefit design changes and rate methodology changes. The framework of this proposal is unclear at this time since trailer bill legislation has not yet been received. Further, the proposal is unclear on the role of the Legislature in the continued operation of the Medi-Cal Program. This proposal would reduce by $150 million ($75 million General Fund) in 2012-13 and substantially more in out-years contingent upon program design changes.

Eliminate Sunset Date for the Gross Premium Tax. Administration proposes to eliminate the sunset date of the Gross Premium Tax on Medi-Cal Managed Care plans. Among other things, this tax on Health Plans had been used to provide rate adjustments to plans participating in the Healthy Families Program. DHCS states that continuing this tax, coupled with increased managed care utilization, will generate General Fund savings of $161.8 million. This proposal requires trailer bill legislation.

Transition Children from Healthy Families to Medi-Cal Enrollment. Administration proposes to phase-out the Healthy Families Program by transitioning children to Medi-Cal Program enrollment over a nine-month period. As part of this effort, the rates paid for the Healthy Families Program would be reduced by 25.7 percent effective October 1, 2012 to reflect rates paid under the Medi-Cal Program. This proposal requires trailer bill legislation.

Hospital Stabilization Funds. A one-time sweep of the Private and Non-Designated Public Hospital Stabilization Fund is proposed for General Fund savings of $42.9 million. DHCS notes that this funding has not yet been paid for fiscal years 2005-06 through 2009-10.

Federally Qualified Health Center Payment Reform. A reduction of $55.6 million ($27.8 million General Fund) is assumed by changing the payment methodology for Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs) to create a performance, risk-based payment model. DHCS contends this model will also provide flexibility to these facilities by providing broad flexibility in service delivery. This proposal requires trailer bill legislation.

Medi-Cal Managed Care Expansion. DHCS proposes to expand Medi-Cal Managed Care into rural counties which are presently Fee-For-Service. This proposal would reduce by $2.7 million (General Fund) in 2012-13 and $8.8 million (General Fund) in 2013-14. This proposal requires trailer bill legislation.

Limit Annual Open Enrollment for Medi-Cal Enrollees. A reduction of $3.6 million (General Fund) is assumed by limiting Medi-Cal enrollees to an annual open enrollment, in lieu of being able to change plans more frequently. This proposal requires trailer bill legislation.

Managed Care Default Assignment. A reduction of $2.4 million (General Fund) is assumed by requiring certain Medi-Cal eligibility categories, such as Seniors with Special Needs, who do not choose a health plan to be “defaulted” into a health plan based on certain default ratios which consider health plan cost in addition to quality of care and safety-net population factors. This proposal requires trailer bill legislation.

Medical Therapy Program Eligibility. DHCS proposes to align income eligibility requirements for the Medical Therapy Program with the broader California Children’s Services (CCS) Program. Currently, there is no financial test for eligibility. A reduction of $9.1 million (General Fund) is assumed.

Medi-Cal Managed Care Rate Adjustment. An increase of $203.4 million (General Fund) is proposed to increase the rates paid to Health Plans participating in the Medi-Cal Managed Care Program.

Transfer of Programs from Department of Public Health. Effective July 1, 2012, three medical services programs would be transferred to the DHCS including: (1) the Family Planning Access Care and Treatment (Family PACT) Program; (2) the Every Woman Counts Program; and (3) the Prostate Cancer

Treatment Program. Their intent is to consolidate direct health care service delivery programs at the DHCS.

Managed Risk Medical Insurance Board (MRMIB)

Proposed Elimination of MRMIB. The Administration proposes to eliminate the MRMIB as of July 1, 2013. Programs currently administered by the MRMIB, including the Healthy Families Program, the Access for Infants and Mothers (AIM) Program, County Children's Health Initiative Program, and the Pre-Existing Conditions Insurance Plan (PCIP) would be transferred to the DHCS.

Transition Children from Healthy Families to Medi-Cal Enrollment. Administration proposes to phase-out the Healthy Families Program by transitioning children to Medi-Cal Program enrollment over a nine-month period. As part of this effort, the rates paid for the Healthy Families Program would be reduced by 25.7 percent effective October 1, 2012 to reflect rates paid under the Medi-Cal Program. This proposal requires trailer bill legislation.

Department of Public Health

AIDS Drug Assistance Program (ADAP). The DPH proposes to impose new cost-sharing arrangements on clients enrolled in the AIDS Drug Assistance Program for a reduction of $14.5 million (General Fund) in 2012-13. It appears that this proposal is the same as has been several times in prior budget proposals.
This proposal requires trailer bill legislation.

Department of Mental Health

Eliminates the Department of Mental Health, and establishes the Department of State Hospitals (DSH) to provide long-term care and services to individuals with mental illness, and redirects funding and positions for the following major program areas to improve state support of community mental health services:

- Department of Health Care Services will assume responsibility for most of the Mental Health Services Act (MHSA) programs, federal block grants, and veteran's mental health programs.

- Department of Social Services will be responsible for licensing and quality improvement programs.
- Department of Education will administer early Mental Health Initiative grants.
- Office of Statewide Health Planning and Development will administer Early Mental Health Initiative grants.
- Department of Public Health will assume the Office of Multicultural Services.
- Mental Health Services Oversight and Accountability Commission will be responsible for MHSA training, technical assistance and program evaluation.

DSH Efficiencies. Reflects ongoing savings of $193.1 million and 620 positions through staffing ratio changes, program flexibilities, and other efficiencies. Developing the new DSH resulted in a thorough evaluation of the state hospital system and its budget. The evaluation highlighted unfunded activities within the system, some of which were the result of federal court orders. In December 2011, a report was released that focused on the issues to be addressed by the DSH, and proposed a plan to address a current year funding shortfall of approximately $180 million. Through a combination of current year cost-saving measures, the shortfall was reduced to approximately $63 million. Aspects of the plan include:

- Staffing Ratio Adjustment — Reduces $21.3 million in 2011-12 and $68.7 million in 2012-13 as a result of changes to the staffing ratios of physicians and treatment teams and changes to the staffing mix of registered nurses and psychiatric technicians.
- Program Restructuring/Elimination — Reduces $8.6 million in 2011-12 and $24.4 million in 2012-13 as a result of modifications to services and treatments and elimination of less effective programs within the hospitals.
- Pharmaceuticals and Outside Medical Costs Adjustment — Reduces $2 million in 2011-12 and $23 million in 2012-13 as a result of the availability of generic drugs and revisions to contract rates.
- County Bed Rate Adjustment — Reduces $20 million in 2012-13 as a result of increased bed rates charged to counties for civil commitments to more accurately reflect actual patient cost of care.
- Staff Redirection Adjustment — Reduces $8.4 million in 2011-12 and $15.4 million in 2012-13 as a result of redirecting staff to higher priority assignments and reducing overtime and temporary help costs.

- Streamlined Documentation — Reduces $6.9 million in 2011-12 and $14 million in 2012-13 as a result of modifications to documentation processes.
- Elimination of Funding for Caregiver Resource Centers — Reduces $2.9 million in 2012-13 as a result of eliminating contract funding for Caregiver Resource Centers, which provide services to individuals with acquired brain disorders.

DSH Overtime and Temporary Help Adjustment — Proposes $102.4 million to reflect increased workload associated with enhanced patient observations, admissions assessments, and redirected staff to comply with the Civil Rights of Institutionalized Persons Act.

DSH Operating Expenses and Equipment — Proposes $45.1 million as a result of the increased cost of pharmaceuticals and outside medical care.

***DSH Population Adjustment* —** Proposes $13.9 million in 2011-12 and $44.3 million in 2012-13 to reflect a projected population increase primarily related to the court-ordered increase in *Coleman* patient admissions.

***DSH Safety and Security* —** Proposes $22.8 million to fund new alarm systems at Patton and Metropolitan State Hospitals, pending the successful implementation of a similar system at Napa State Hospital. In addition, the DSH is piloting an Enhanced Treatment Unit at Atascadero State Hospital and working with the Division of Occupational Safety and Health to institute new safety policies and procedures throughout the state hospital system.

***DSH California Health Care Facility* —** Proposes $11.4 million to reflect the anticipated opening of the California Health Care Facility in Stockton operated by the Receiver overseeing health care in the state prison system. This facility will accommodate many inmates with serious mental health disorders.

Department of Alcohol and Drug Programs

Eliminates the Department of Alcohol and Drug Programs (DADP) and transfers the remaining non-Drug Medi-Cal programs and associated funding as follows:

- Department of Health Care Services will assume federal Substance Abuse block grants and the Parolee Services Network.

- Department of Public Health will assume Administration of Counselor certification, narcotic treatment, driving under the influence and problem gambling functions.
- Department of Social Services will be responsible for licensing and quality improvement.

Drug Medi-Cal programs were already transitioned to the Department of Health Care Services starting in 2011.

Human Services

California Work Opportunity and Responsibility to Kids (CalWORKs)

- The Governor's Budget proposes major policy and structural changes, as well as significant reductions, in the state's welfare-to-work program. The changes are estimated to result in savings of $1.1 billion in 2012-13 ($946.2 million after offsetting new costs proposed as part of the related policy changes). These changes, detailed below, would impact approximately 600,000 impoverished families with more than one million children. In addition to proposing these changes as a budget balancing solution, the Administration has indicated that it intends for the redesign to refocus on the work-emphasis of the CalWORKs program.

  The welfare-to-work system as the Administration proposes to redesign it would be divided into three parts: 1) a "CalWORKs Basic" program, 2) a "CalWORKs Plus" program, and 3) a "Child Maintenance" program.

  - CalWORKs Basic: By comparison to the current 48 month lifetime-limit (reduced from 60 months as part of the 2011-12 budget) for adults to receive welfare-to-work services, the CalWORKs Basic program would include a time limit of 24 months of services. After that time or after more than three months of being sanctioned for non-participation, adults who are eligible for welfare-to-work services and who do not meet federal work participation requirements (generally 20-30 hours per week) would be disenrolled from the program. All currently aided, eligible adults would be eligible for up to six-months of transitional welfare-to-work services and child care following the proposed October 2012 implementation of this new program.

- CalWORKs Plus: The proposed CalWORKs Plus program would serve clients who are working sufficient hours in unsubsidized employment to meet federal work participation requirements (generally 20-30 hours per week). The program would allow families who still qualify as low-income enough to meet the program's eligibility requirements to receive a higher grant than families served by the CalWORKs Basic or Child Maintenance programs. The average monthly increase for a family of three would be $44. These benefits could continue for up to 48 months if the adult recipient continues to meet work requirements.

- Child Maintenance: Beginning in October 2012, the Governor proposes the creation of a Child Maintenance program to provide a reduced level of "basic support" for children whose parents are not eligible for aid (e.g., undocumented parents of U.S. citizen children) or whose parents have exceeded the new, more stringent time limits and welfare-to-work requirements. Currently, children whose parents are not receiving aid are served within CalWORKs, as part of the child-only and safety net caseloads.

  Under the Governor's proposal, cash assistance to children in the Child Maintenance program would be reduced from an average monthly grant of $463 to $392. When combined with CalFresh benefits, the full monthly grant for a family with two children would place its income at approximately 64 percent of the federal poverty level. Children would be aided at this reduced level as long as they met eligibility criteria, which would also include a new requirement to participate in an annual well-child exam. Adults who are eligible, and who met specified requirements, would have an opportunity to transfer back into the CalWORKs Basic or CalWORKs Plus programs. The Administration estimates a total of 296,000 Child Maintenance cases on average each month in 2012-13.

- The Governor's budget also proposes significant changes to eligibility for and the administration of the existing three-stage childcare system for current and former CalWORKs recipients. See the Child Care and Development section of this report for additional details.

- Finally, the Governor's budget proposes to create a new state benefit of $50 per month for low-income working families who receive subsidized child care or CalFresh (formerly called food stamps) benefits, but who are not CalWORKs recipients.

In-Home Supportive Services (IHSS)

- The Governor's budget includes phased-in initiatives to improve the coordination of health care and long-term care and support services for Medi-Cal beneficiaries, with a focus on individuals who are eligible for both Medi-Cal and Medicare (dual eligible beneficiaries). Under the Governor's proposal, the IHSS program would become a managed care benefit in 2012-13, but there would be no changes to the program's operations or services during that year. The Administration does propose to shift more responsibility for IHSS to managed care plans in future years. There are 1.2 million dual eligible individuals in California, and approximately one-third of them are also IHSS recipients. That translates to roughly 85 percent of the IHSS caseload. See the Health section of this report for additional details.

- The Governor's budget assumes savings from a partial-year implementation of a 20 percent reduction in authorized services for all IHSS recipients, with specified exceptions. This ongoing reduction was triggered by lower than expected 2011-12 revenues, but has thus far been enjoined by a federal court in response to litigation filed against the state. The Governor's budget assumes success in that litigation such that the reduction can take effect in April 2012, but also includes a set aside in case the reduction does not ultimately take effect.

- The Governor's budget proposes $163.8 million savings in the IHSS program from eliminating Domestic & Related services for approximately 254,000 IHSS recipients who reside in shared living arrangements. Domestic and related services include housework, shopping for food, meal preparation and clean-up, and laundry. Currently, the authorized hours for recipients who reside in shared living are prorated to account for the other household members' responsibilities for domestic and related tasks. The proposed elimination of these services includes exceptions when the household is solely composed of IHSS recipients or when medically verified conditions prevent other members of the household from performing these activities.

- The Governor's budget also proposes to repeal a Medication Dispensing Machine pilot project that was enacted as part of the 2011-12 budget. Current law requires the Department of Health Care Services to utilize automated medication dispensing machines and associated monitoring services to assist Medi-Cal recipients in taking medications as prescribed. Current law also requires the Department of Social Services to implement an across-the-board reduction in service hours beginning October 1, 2012, if some or all of the anticipated $140 million in savings from this pilot (or an alternative savings proposal enacted in the interim) are no longer expected to be achieved.

Realignment

- The Governor's budget proposes a permanent funding structure for the 2011 realignment package, which included the realignment of child welfare services and foster care, adoption, and adult protective services programs. The proposed structure (discussed in the Realignment section of this report) includes a base amount in each Subaccount, as well as plans for distributing funding in the event of program growth. For the included human services programs, counties would be allowed to transfer up to 10 percent between subaccounts for one year.

Developmental Services

- The Governor's budget indicates that the Department of Developmental Services (DDS) will consult with stakeholders regarding how to achieve $200 million in ongoing, annualized savings that were triggered as a result of lower than expected revenues in 2011-12. The Department is considering extending a prior 4.25 percent payment reduction to providers and regional centers (which would result in savings of $108.4 million), reducing the budget for developmental centers, and other options. When the Administration initially pulled the trigger in December 2011, the Administration indicated that the $100 million of savings for the last six months of the 2011-12 budget year could be achieved on a one-time basis through unanticipated technical and administrative adjustments.

- The Governor's budget also proposes adjustments to the DDS budget related to caseload changes, including a decrease of $14.4 million to the budget for developmental centers and an increase of $5.9 million in 2011-12 and $115.2 million in 2012-13 to the budget for regional centers.

Child Support Services

- The Governor's budget proposes to suspend the county share of child support collections in 2012-2013. Currently, it is estimated that this will result in a $34.5 million dollar reduction in GF expenditures.

Rehabilitation Appeals Board

- The Governor's budget proposes to eliminate the Rehabilitation Appeals Board, which hears appeals by applicants and consumers of the Department of Rehabilitation's services who wish to contest a denial of eligibility or who are not satisfied with the services being provided to them. The Legislature previously rejected this proposal in 2011.

Resources and the Environment

- ***Cap and Trade Revenues*** – Proposes expenditure authority of $1 billion and a framework to invest proceeds from Cap and Trade fees to reduce greenhouse gasses under the AB 32 climate change legislation. Revenues will not be certified until 2012-13 and specific expenditures are not included in the budget. Categorical expenditures are proposed to be jointly submitted by the Director of Finance and the Air Resources Board for allocation as soon as 30 days after submission. Proposed expenditure categories include: (1) clean and efficient energy; (2) low-carbon transportation; (3) natural resource protection; and (4) sustainable infrastructure development.

- ***Ballot Measure Public Safety Trigger Reductions*** – Should the tax initiative fail, the administration proposes to eliminate $27.1 million in the budget year and $95.3 million ongoing mainly from public safety programs in the Resources budgets. The administration proposal includes: reductions to emergency air response and fire station closures ($15 million in the budget year and $60 million ongoing); reductions to the number of park rangers and game wardens, and elimination of lifeguard staffing at state beaches ($13.7 million ongoing); and reductions to flood control programs and mainly marine-based Fish and Game programs ($21.6 million ongoing).

- ***Department Consolidations, Eliminations and Shifts*** – The administration proposes to shift the Department of Resources Recycling and Recovery to the California Environmental Protection Agency; and eliminate the Department of Boating and Waterways and transfer its functions as a program to the Department of Parks and Recreation. The administration proposes to consolidate the number of Regional Water Quality Control Boards and reduce the number of members on the boards from nine to seven. The administration also proposes elimination of several smaller programs, commissions, and committees within the Department of Fish and Game and the Department of Toxic Substances Control.

- ***Continued Reductions to Parks and Recreation*** – Provides the second year of a two-year plan adopted in 2011 to reduce funding at the Department of Parks and Recreation by $22 million General Fund resulting in the closure of up to 70 state parks. The administration also proposes an increase of $4.3 million State Parks and Recreation Fund and a shift of $11 million from its base budget to a continuous appropriation to provide the department additional flexibility to implement new projects and programs to generate additional revenue, and to help keep parks open to the public.

- ***Continuation of Reductions to Department of Food and Agriculture*** – Provides a reduction of $12 million, the second part of a two-year plan to reduce funding at the Department of Food and Agriculture for a total of $31 million ongoing. The proposal includes reductions to border control stations, pest prevention, and food safety activities. Some of these activities are proposed to be backfilled by new revenue programs.

General Government

- **Restructuring Government –** proposes to reduce the number of agencies from 12 to 10, eliminates 39 state entities and eliminates 9 programs. Under this proposal the California Volunteer Agency will be incorporated into the Office of Planning and Research. The California Emergency Management Agency is eliminated and would report directly to the Governor's office and the California Technology Agency would become a department under the newly-created Government Operations Agency.

  Additional Key Highlights:

  - Proposes to realign the California Housing Finance Agency within the Department of Housing and Community Development.

  - Proposes to consolidate licensing and regulatory entities into one single agency. The new agency would include the departments of Consumer Affairs, Housing and Community Development, Fair Employment and

Housing, Alcoholic Beverage Control and the Department of Business Oversight.

- Proposes housing many of the agencies that perform functions inherent to the day-to-day operations of state government under one agency; the Government Operations Agency. This proposed entity would include the departments of General Services, Human Resources, Technology, the Office of Administrative Law, the Public Employees' Retirement System, and the State Teachers' Retirement System and, under this proposal, a newly-restructured Department of Revenue. Additionally, it would include the State Personnel Board and the Government Claims Board.

- Proposes to eliminate the Commission on the Status of Women, State 9-1-1 Advisory Board, Technology Services Board, the Office of Privacy Protection, the Governor's Emergency Operations Executive Council, the Unemployment Insurance Appeals Board (by converting it to a Bureau), and the Public Safety Radio Strategic Planning Committee.

- ***Veterans Homes of California (VHCs)*** *– proposes to continue the delay of the* opening of the Veterans Homes in Redding and Fresno. The Redding and Fresno facilities were expected to open in early calendar year 2012 and are now forecasted to be delayed through 2012-13.

- ***State Operations*** – reflects $2.7 million dollar reduction in less critical repairs to the State Capitol in 2012-13.

- ***Department of General Services (DGS)*** - A further unallocated reduction of $59.1 million dollars is proposed due to continued operational efficiencies related to DGS' efforts to further reduce client departments' costs.

- ***California Emergency Management Agency*** – proposed relocation of the California Specialized Training Center located in San Luis Obispo to more populated locations in Northern and Southern California. Expected savings from the relocation are $1.5 million ($0.2 million in General Fund and $1.3 million in other funds) for 2012-13.

- ***Redistricting Commission*** – Due to continuing litigation costs, the Administration will be proposing a 2011-12 augmentation to the Commission's budget via a supplemental appropriations request.

- ***Unemployment Insurance Fund Deficit*** – similar to the approach taken in 2011-12, loans $417 million from the Unemployment Compensation Disability Fund (DI Fund) to the General Fund to pay the second interest payment due to the federal government for the quarterly loans the Employment Development Department (EDD) has been obtaining from the federal government since January 2009 to cover the Unemployment Insurance (UI) Fund deficit and make payment to UI claimants without interruption. The UI Fund deficit was $9.8 billion at the end of 2011 and is projected to be $11.7 billion at the end of 2012. Interest will continue to accrue, and be payable annually, until the principal on the UI loan is repaid. Federal law requires that the interest payment come from state funds.

  To fund future interest payments for funds borrowed from the federal government to pay UI benefits, and to repay the funds borrowed from the DI Fund, increases (effective January 1, 2013) the employer surcharge payable to the Employment Training Fund by a total of $472.6 million.

  In conjunction with the employer surcharge, increases the minimum monetary eligibility to qualify for UI benefits to account for increases in employee wages that have occurred since the requirements were last adjusted in 1992. Under current law, to meet monetary eligibility requirements, a claimant must have earned (1) at least $900 in a single quarter, as well as $1,125 total in a 12-month base period or (2) at least $1,300 in any quarter in the base period.

- ***Department of Industrial Relations Compliance Outreach –*** Increases by $2.3 million (special fund) to expand education and outreach efforts to increase the effectiveness of labor compliance field staff and to improve the working conditions for the California workforce.

- ***Department of Human Resources*** – consistent with the Governor's Reorganization Plan No. 1 of 2011, approved by the Legislature last year, and effective July 1, 2012, consolidates the Department of Personnel Administration and the operational functions of the State Personnel Board into the Department of Human Resources (CalHR). As part of the Governor's 2012-13 proposal to further restructure state government discussed at the beginning of this section, CalHR would reside within the new Government Operations Agency.

- ***Health Benefits Program Savings –*** similar to requirements in the current year, requires the California Public Employees Retirement System (CalPERS) to achieve additional savings in the Health Benefits Program, totaling $45.5 million General Fund and $22.5 million other funds. The 2011-12 Budget Act required savings totaling $80 million General Fund and $35.7 million other funds.

- ***Bond Debt Service –*** similar to the current year, the budget assumes GF bond debt service costs of $5.4 billion in 2012-13. This amount excludes GF cost of $2.1 billion for repaying Proposition 1A local government bonds, which is detailed in the Local Government section of this summary.

- ***Cashflow Borrowing*** – the budget includes $178 million GF for interest costs associated with cashflow borrowing. This includes $78 million for special fund borrowing and $100 million in external borrowing (or Revenue Anticipation Notes [RANs]). Cashflow borrowing is not a budget solution and funds borrowed in 2012-13 are fully repaid within the same fiscal year.

- ***Budgetary Loans from Special Funds*** – a GF budget solution of $631 million is proposed from deferring repayment of certain outstanding loans from special funds. The Governor indicates outstanding debt from special fund loans is $3.4 billion.

- ***Governor's Office of Business and Economic Development (GO-Biz) –*** the budget proposes $4.1 million GF to support the annual operations of the GO-Biz. This new office was created by Chapter 475, Statutes of 2011, to serve as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment, and economic growth. This new office will also consolidate the operations of the Infrastructure Bank, the Film and Tourism Commissions, the Small Business Centers, and the Small Business Guarantee Loan Program.

Local Government

- ***Fully Repays the "Prop 1A" loan*** – reflects a one-time expenditure of $2.1 billion to fully repay funds borrowed from local governments in 2009-10. The local governments sold the state's constitutional repayment obligation to investors, so local governments did not actually lose revenue in 2009-10 and the state's repayment will go to bond-holders. Due to voter approval of Proposition 22 in 2010, new Prop 1A borrowing is not allowable.

- ***Redevelopment*** – reflects the recent action by the California Supreme Court that found constitutional the elimination of redevelopment agencies (RDAs), but found unconstitutional the voluntary alternative redevelopment program, which would have allowed communities to continue redevelopment by making remittance payments to schools. Last year's redevelopment package was originally anticipated to provide state GF relief of $1.7 billion in 2011-12. Due to the revised distribution under the Court decision, the GF will only receive about $1.1 billion in 2011-12, but the Administration indicates a GF gain in 2012-13 of $1.1 billion that will result in a net gain over two years. The Court's distribution will also result in additional property tax funds for local governments – specifically $340 million for counties, $220 million for cities, and $170 million for special districts.

- ***Local Mandates*** – suspends and defers payment on non-education local mandates for total GF savings of $828 million. Specifically, the Governor proposes to defer annual payment to local governments for mandate costs incurred prior to 2004-05 for GF savings of $100 million – a similar deferral was adopted with the 2011 Budget Act. The Governor proposes to continue the suspension, or permanently repeal, most mandates in 2012-13 for savings of $729 million. In general, the only mandates funded and in effect would be those related to law enforcement and property tax. The amount budgeted for active non-education mandates is $50 million GF.

- ***Realignment*** – continues the implementation of the 2011 Public Safety Realignment. This is further discussed in the introduction section and the public safety section of this summary.

Revenues

Governor's Constitutional Amendment

The Governor is currently circulating a Constitutional amendment that would raise the following revenues temporarily for five years starting in 2012:

- **Temporary Personal Income Tax Rates on Highest Income Californians**. The Governor's initiative would add three additional tax brackets. For single filers with income between $250,000 and $300,000 and joint filers with income between $500,000 and $600,000 an additional 1 percent would be applied to income above $250,000 and $500,000, respectively. Income between $300,000 and $500,000 for single filers and income between $600,000 and $1,000,000 for joint filers would be assessed an additional 1.5 percent. Finally, income over $500,000 for single filers and income over $1,000,000 for joint filers would be assessed an additional 2 percent. These changes are expected to raise $5.8 billion in revenues in the current and budget years combined.

- **Temporary Sales Tax Rate Increase of 0.5 percent**. The Governor's initiative would also temporarily raise the sales tax rate by 0.5 percent. This portion of the initiative is expected to generate $1.2 billion in additional revenues in the budget year.

The Constitutional amendment being circulated by the Governor also contains Constitutional protection for the revenue dedicated to 2011 Realignment last year. The existing state revenue proposed for permanent allocation to 2011 Realignment is as follows:

- Defining 1.06 percent of the existing state sales tax as a local revenue; and
- The redirection of vehicle license fee (VLF) revenues from the following sources to support public safety programs: (1)$300 million from the Department of Motor Vehicles; (2) $106 million from cities; and (3) $48 million from Orange County.

Tax Policy Changes

The Governor’s budget does not contain tax policy changes pursued last year like changing current law to make the multi-state corporate income apportionment method mandatory instead of elective or reforming the tax incentives that benefit enterprise zones. However, the Governor has indicated that he will pursue these policy changes as part of a larger job creation effort proposed through policy legislation.

Tax Enforcement

Out-of-State Use Tax Collection. Last year there was significant discussion about how to improve enforcement of use tax collection by firms that do not maintain an instate footprint (mainly Internet retailers). Ultimately, the implementation of the comprehensive enforcement effort enacted in June 2011 (Chapter 7x, Statutes of 2011 [AB 28x, Budget]) was delayed until later in 2012 by

Chapter 313, Statutes of 2011 (AB 155, Calderon). The Governor's budget assumes that the tax enforcement changes included in the original bill will ultimately be implemented later in 2012 and will generate $50 million in additional revenues in the budget year.

Transportation

- ***High-Speed Rail*** – provides no capital outlay funding pending completion of the 90-day review period for the draft Funding Plan. The draft plan suggests the Administration will soon request approximately $6 billion in federal funds and bond funds to start construction in the Central Valley in early 2012-13. Proposes state operations funding of $15.8 million ($660,000 in federal funds and $15.2 million in Proposition 1A of 2008 bond funds) to continue oversight and communications contracts, and to augment state staff by 18 positions – to bring total funded positions to 69.

- ***Department of Transportation Funding*** – provides for total expenditures of $11.2 billion for the department – including $9.8 billion for highway transportation. The primary source of funding for the department is federal and state taxes on gasoline and diesel fuel (about $7.5 billion), with additional funds from Propositions 1B bonds (about $1.8 billion) and reimbursements from local governments (about $1.5 billion).

- ***Transit Funding*** – provides about $420 million for transit operations from the sales tax on diesel fuel. This revenue is associated with the "fuel tax swap" legislation, which was adopted two years ago and restored state funding for transit operators. Due to higher than anticipated fuel prices, funding is up significantly from last year's estimates which were $330 million. Additionally, Proposition 1B expenditures for transit capital are anticipated at $830 million in 2012-13.

- ***Weight Fee Transfer for General Fund relief*** - proposes to transfer $349 million in truck weight fee revenue to the GF. Under the modified "fuel tax swap" enacted last year, truck weight fee revenue is generally directed to transportation-related bond debt, but in 2012-13 weight fee revenue exceeds debt. This proposal is similar to 2011-12 action and would transfer "excess" weight fee to the GF, wherein it will be repaid in an out-year to cover bond debt when debt exceeds annual weight fee revenue.

- ***Department of Motor Vehicles*** **–** proposes to reduce annual vehicles registration fees by $5, but only for vehicle owners that pay by mail or the internet. The revenue loss is $75 million in 2012-13 and $100 million annually ongoing. The Administration indicates this will reduce DMV office visits and allow the department to reduce staff by 25 positions and save $700,000.

- ***Government Reorganization*** – proposes to eliminate the Office of Traffic Safety and transfer its functions to the Department of Motor Vehicles. Also, as part of the agency reorganization proposal, proposes to create a Transportation Agency, by moving the business and housing functions out of the Business, Transportation, and Housing Agency.

- ***Cap and Trade Fees*** – the Governor's Budget notes that the Air Resources Board will implement cap and trade fees for green-house gas emissions in 2012-13 and indicates first-year revenue of approximately $1 billion. However, no specific expenditures of this revenue are proposed because the revenues cannot be certified until late in 2012-13. The Governor indicates he will propose expenditures in several areas including public transportation and goods movement.

Corrections and Judiciary

- ***Judicial Branch*** - Proposes $50 million for the Trial Court Trust Fund from civil court fee increases. The courts' General Fund budget has been reduced by 21 percent since 2007–08. These funds would be available to offset the ongoing impact of these cuts.

- ***Judicial Branch Trigger Reduction*** - The Judicial Branch would be reduced by $125 million in 2012–13 if the Governor's tax proposal is not approved in November. While the Branch would determine how to implement this reduction, it is the equivalent of court closures equal to three days per month.

- ***California Department of Corrections and Rehabilitation (CDCR) Population*** – Reflects a net decrease of approximately $70 million in 2012-13 (total decreases of $453.3 million in 2011-12 and $1.1 billion in 2012-13) to account for changes in adult inmate and parole populations that are primarily due to shifting the responsibility of short-term, lower level offenders from the state to counties pursuant to Chapter 15, Statutes of 2011, and the reduction in the number of felony probationers entering state prisons. The adult inmate average daily population is projected to decrease from 163,152 in 2011-12 to 132,167 in 2012-13, a decrease of 30,985 inmates, or 19 percent. The average daily parolee population is projected to decrease from 108,338 to 56,440 in 2012-13, a decrease of 51,898 parolees or 48 percent.

- ***CDCR Mental Health Program*** – Proposes $34.3 million in 2011-12 and $27.3 million in 2012-13 for all necessary positions within the Mental Health Program, consistent with the Mental Health Staffing Ratios presented to the *Coleman v. Brown* court in 2010. The average daily population for inmates requiring mental health treatment is projected to be 31,530 in 2011-12 and 30,214 in 2012-13.

- ***CDCR Programs*** – Restores $101 million for rehabilitation services programs that was reduced on a one-time basis in the current fiscal year.

- ***CDCR Probation Grants* -** Provides $49 million, bringing total funding for the California Community Corrections Performance Incentive Act of 2009 (SB 678) to $138.2 million. This program provides county probation departments with a share of state savings accrued due to reductions in prison admissions of adult felony probation failures. The Act required counties to implement evidence-based supervision and treatment practices for adult probationers to receive these funds.

- ***CDCR Health Care, California Health Care Facility (CHCF)* -** Proposes $10.9 million for pre-activation and activation staffing for CHCF based on the first phase of construction being completed by May 22, 2013. CHCF intake is scheduled to begin July 22, 2013, and the facility is scheduled to be fully operational by December 2013.

- ***CDCR Health Care Pharmaceutical Costs* -** Proposes $59.9 million for adult inmate pharmaceutical costs, primarily driven by increased drug prices.

- ***CDCR Construction* -** Reduces $44.5 million to reflect the cancellation of the Estrella Correctional Facility project. As a result of the declining adult inmate population, there is no longer a need for the additional Level I and II beds that this project would have provided. Additionally, the Budget reflects that the state is not currently proceeding with the construction and conversion of the DeWitt youth facility to an adult facility.

- ***CDCR Alternative Custody for Women* -** Provides for the expansion of Alternative Custody for Women to include women who have a prior serious or violent conviction. This will allow CDCR to place these offenders in community-based treatment programs in an effort to achieve successful outcomes and reduce recidivism among this population. Savings resulting from the reduction in the female inmate population will be used to cover the cost of treatment programs in the community. The anticipated population decline in future years is expected to generate long-term savings of $2.5 million beginning in 2014-15 and $5 million annually thereafter. In addition, the state expects to avoid future incarceration costs related to this population due to the positive effects of rehabilitative and therapeutic programs provided through alternative custody.

- ***CDCR, Division of Juvenile Justice (DJJ)* -** Proposes $10 million in 2011-12 to support local governments in planning for the realignment of the remaining DJJ population to locals. The Budget assumes that DJJ will stop intake of new juvenile offenders effective January 1, 2013. This proposal expands on previous successful efforts to reform the state's juvenile justice system by eventually transferring the responsibility for managing all youthful offenders to local jurisdictions. DJJ currently houses approximately 1,100 offenders.

- ***CDCR, Transfer Resources to the Board of State and Community Corrections (Board)* -** Reduces $8 million General Fund and $46.3 million other funds to reflect the transfer of resources from the Corrections Standards Authority (CSA) to the newly-established Board, pursuant to Chapter 36, Statutes of 2011.

- ***Board of State and Community Corrections (Board)* -** Transfers $16.9 million General Fund and $92.2 million other funds from CDCR and the California Emergency Management Agency (CalEMA) for the state operations and local assistance programs included under the Board. Legislation associated with the 2011 Budget Act abolished the CSA and established the new Board as an independent entity, effective July 1, 2012. The Board will absorb the previous functions of the CSA as well as other public safety programs previously administered by CalEMA.

- ***Department of Justice (DOJ)* -** Proposes to shift support for the Armed Persons Prohibited System to the Dealers' Record of Sale Account, resulting in a decrease of $4.9 million dollars in General Fund expenditures beginning in 2012-13.

- ***DOJ Division of Law Enforcement* -** Partially restores funding for the Division of Law Enforcement that was eliminated in the 2011 Budget Act, and creates a California Bureau of Special Investigations through a mix of General Fund and other funds ($4.9 million General Fund and $6.9 million other funds totaling $11.8 million in augmented funds).

- ***DOJ Trigger Reduction* -** Triggered reductions for DOJ in 2012-13 would lead to a $1 million dollar reduction if revenue increases are not approved by voters in November. In 2013-14, DOJ would face a reduction of $4.9 million dollars that was proposed for the Department's Division of Law Enforcement.