January 31, 2012

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2012-13 State Budget***.

The ***Preliminary Review*** outlines and provides background for Governor Brown's major budget proposals and puts them in some perspective. It is organized by traditional topics of interest to us all, and highlights major provisions.

Eliminating the ongoing structural deficit and budget debt will require the voters approving the temporary taxes proposed by the Governor and the Legislature approving a mix of other difficult budget solutions.

The Assembly Budget Committee will evaluate the Governor's proposed solutions as it crafts a balanced State budget. In doing so, many of the Governor's proposals will be approved, others will be modified and improved, and some – particularly the handful of holdover proposals from the Schwarzenegger era – will be rejected and replaced with better alternatives.

The ***Preliminary Review*** is intended to serve as an effective tool for those interested in participating in this year's budget proceedings.

I hope that you find the ***Preliminary Review*** useful in understanding and discussing the Budget. If you have any questions or need additional information, please do not hesitate to contact me or my Assembly Budget Committee staff.

Sincerely,

BOB BLUMENFIELD, Chair

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OVERVIEW

On Thursday January 5, 2012, the Governor issued his proposed 2012-13 budget. On January 10th, the budget bill itself was introduced to the legislature. This document provides a thorough review of the Governor's Budget proposals based on the release of this newer, more detailed information.

The Governor's proposed budget includes $10.3 billion in solutions to address a $9.2 billion budget shortfall. More specifically, his proposal is based on $94.4 billion in expenditures, $719 million reserve for liquidation of encumbrances, and a regular reserve of $1.1 billion.

The Governor's Budget is now in the hands of the Legislature to review, analyze, debate, revise, and return to the Governor. Assembly Bill 1463 (Blumenfield) and Senate Bill 957 (Leno) will serve as the budget bills for the Assembly and the Senate, respectively. Multiple “Trailer Bills” have also been introduced in both houses as vehicles for statutory changes necessary to implement the final budget agreement.

Eliminating the ongoing structural deficit and budget debt will require the voters approving the temporary taxes proposed by the Governor and the Legislature approving a mix of other difficult budget solutions.

The Assembly Budget Committee will evaluate the Governor’s proposed solutions as it crafts a balanced State budget. In doing so, many of the Governor’s proposals will be approved, others will be modified and improved, and some – particularly the handful of holdover proposals from the Schwarzenegger era – will be rejected and replaced with better alternatives.

From this point forward, our budget process will be framed by the following concepts:

The Legislature's Budget Choices Provide the Parameter of Public's Choice in November. The Governor's Budget provides voters with two options in November; temporary taxes, or permanent "trigger" cuts. In the budget process, the Assembly will further refine these options, and set the table for this historic decision by California's voters. To that end, the Assembly must oversee an open and vibrant budget process for the public to help shape the choices that the Governor is asking them to make in November.

The Economy is improving, but it is Still Fragile and Unpredictable.
The budget choices made by the Legislature, and ultimately the voters, involve long-term changes to public policy in an unstable and changing present. As California's economic recovery starts to gain momentum, it is still highly susceptible to the uncertainty characterizing the global economy and the budget choices we make.

Progress has been Made to Fix California's Budget Problems, But at a Heavy Cost.
While 75 percent of the State's structural deficit was eliminated last year. It is also important to remember the painful sacrifices that were made to achieve this progress when considering what additional steps the Assembly should take in developing its budget and presenting it to the voters.

Budget Problem

The $9.2 billion budget problem has two components:

- $5.1 billion is the structural difference between State spending and revenues, this gap is generally consistent with what was anticipated at the conclusion of the 2011-12 budget process.

- $4.1 billion is the carry-in deficit from 2011-12. This resulted in: lower than expected revenues for 2011-12, net the 2011-12 trigger cuts; court action to delay and enjoin about $2 billion in Health and Human Services reductions; some one-time loss from the court decision on redevelopment agency elimination; and, a $1.9 billion shortfall in 2010-11 that was identified and carried into the current year.

How the Gap is Bridged

The $10.3 billion of solutions are almost divided between revenues and cuts, and result in a significant reserve of $1.1 billion.

Starting Problem	**$9,167**
Solutions	
Expenditure Reductions	$4,216
Revenues	$4,651
Other	$1,432
Total Solutions	**$10,299**
Reserve	**$1,132**

Major Solutions Proposed in Governor's Budget

The budget is divided into three categories of solutions, expenditure reductions, revenues and other solutions.

$4.22 billion Expenditure Reductions

The proposed expenditure reductions are concentrated in large solutions, with over $2 billion in reductions to Health and Human Services programs accounting for about 20 percent of all budget solution.

Proposed 2012-13 Expenditure Reductions
($ in millions)

Solutions	Amount
CalWORKs	$946.1
Medi-Cal	842.3
In-Home Supportive Services	163.8
Other HHS Cuts	86.9
Proposition 98	544.4
Child Care	446.9
CalGrants	301.7
Other Education Cuts	28.0
State Mandates	828.3
Other Reductions	27.3
Total Expenditure Reductions	4,215.8

$4.65 Billion in Revenues

Most of the proposed revenue assumes that the voters approve the Governor's Tax Initiative in November, generating $4.4 billion in revenues.

Proposed 2012-13 Revenues
($ in millions)

Revenues	
Temporary Taxes	$4,400.8
Other Revenues	88.8
Managed Care Tax Extension	161.8
Total Revenue	$4,651.4

$1.43 Billion Other Solutions

The balance of solutions is other solutions.

Proposed 2012-13 Other Solutions
($ in millions)

Other Solutions	
Loan Repayment Extensions	$ 630.5
UI Interest Payment	417.0
Additional Weight Fee	349.5
Suspend Child Support County Share	34.5
Total Other Solutions	$ 1,431.5

Trigger Cuts

If the voters reject the Governor's tax initiative on the November ballot, $5.4 billion of reductions would be triggered to keep the budget balanced.

Proposed 2012-13 Trigger Reductions
Effective January 1, 2013
($ in millions)

Expenditure Reduction	Amount
Proposition 98	$4,836.9
University of California	200.0
California State University	200.0
Courts	125.0
Department of Forestry and Fire Protection	15.0
Flood Control	6.6
Fish and Game: Non-Warden Programs	2.5
Fish and Game: Wardens	1.0
Park Rangers	1.0
Park Lifeguards	1.0
Department of Justice	1.0
Total Ballot Trigger Reductions	**$5,390.0**

The bulk of the trigger reduction is the result of the combination of two Proposition 98 reductions. First, without the temporary taxes, the overall Proposition 98 guarantee level would be $2.4 billion lower than if the initiative passed. In addition, the Governor proposes shifting $2.6 billion of debt service costs associated with school construction bonds from the General Fund to Proposition 98 this reduction effectively reduces the amount of funding available to schools. The Education section of this report discusses these reductions in further detail, including analysis of how local districts would consider this trigger.

The trigger also includes a handful of seemingly small reductions to Park and Fish and Game. But these reductions are a deceptive partial year savings that grow into major service reduction in all these areas. These reductions are described in the Resources sections later in this report.

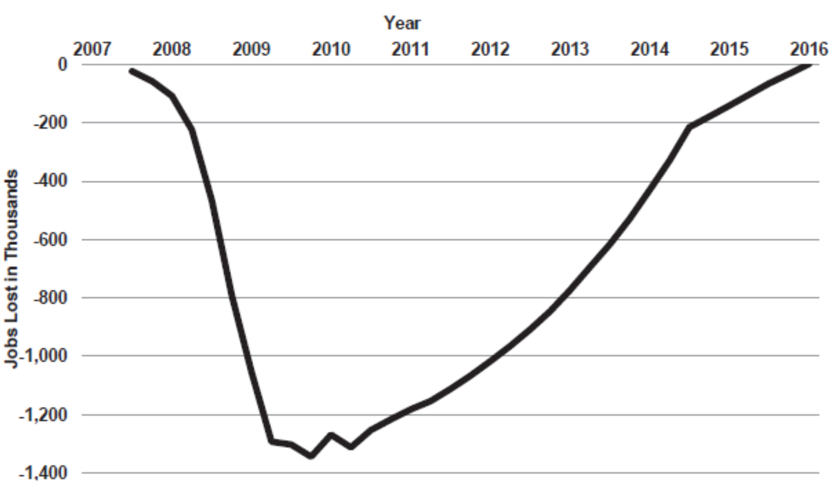
Budget Reflects Economic "Recovery"

The Department of Finance projects that in 2012, overall personal income of $1.7 trillion will finally exceed the 2008 pre-recession levels. This growth is correlated with the growth in revenue projected in the budget itself.

The news for workers isn't as good—the estimates suggest that in 2014 California will have 406,200 more workers than in 2008 but the economy will provide 307,500 fewer jobs- a deficiency of 713,00 jobs. The Department's Budget Summary provides a grim graph to illustrate this slow recovery, below:

Figure ECO-04

Jobs Lost During Recession Not Recovered Until 2016



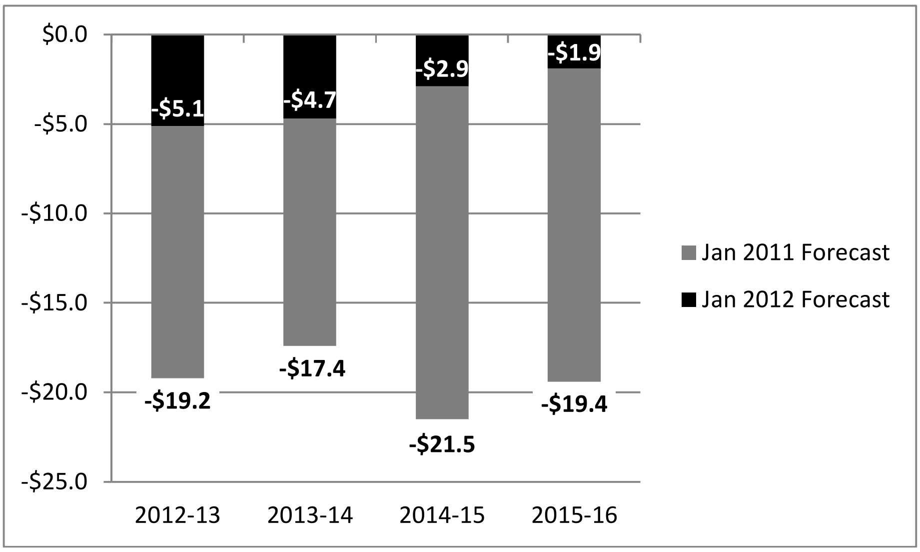
This graph does not illustrate the natural growth in the labor force due to population growth, which means that even when employment returns to pre-recession levels in 2016, there will still be significant unemployment. In the Department's forecast, the unemployment rate in the fourth quarter of 2014 is projected to be 10.4 percent, more than double the 5 percent unemployment rate the State experienced in the first quarter of 2007.

The only bright side to these dreary predictions for California's economy is that if the State performs better than these expectations it will translate into higher than expected revenues and lower costs.

Significant Progress To Date on Structural Deficit

As the Governor's Budget document points out, the 2011-12 budget process eliminated 75 percent of the $20 billion budget structural problem that had persisted up until that time. The chart below, illustrates how this structural problem looks for this and future years.

January 2011* – January 2012 Comparison:
Structural Deficit Nearly Eliminated In Last Year
(in billions)



*Uses LAO forecast for 2015-16 since Jan 2011 DOF forecast did not include 2015-16

Governor's Budget Eliminates Structural Deficit and Envisions Payoff of "Wall Of Debt"

With solutions, the Governor's Budget achieves a structural surplus over the next five years, as noted in the chart below.

	2011-12	2012-13	2013-14	2014-15	2015-16
Prior Year Balance	(3,079)	985	1,851	2,767	3,167
Revenues	85,527	94,404	99,766	109,133	115,493
Expenditures	86,512	92,553	96,999	105,966	112,097
Total Reserve	(1,704)	1,132	2,048	3,529	5,487
Budget Stabilization Account	-	-	-	1,081	2,810
Structural Surplus	2,094	2,836	916	400	229

It is worth noting that in projections like these above, the level of expenditures will track closely to the level of revenue. This is in part due to Proposition 98, which dictates expenditures on K-14 education based upon the level state General Fund revenues. Therefore if revenues are anticipated to increase, expenditures will follow. In the projection above over 60 percent of the expenditure growth is associated with Proposition 98 costs.

According to the Department of Finance, if fully adopted the Governor's Budget would not only fully address California's budget structural deficit, it would provide sufficient funds to repay the "wall of debt" budget borrowing by 2015-16. The Department of Finance included a chart with a repayment plan to illustrate this possibility.

Governor's "Wall of Debt" Pay-down Estimate
($ Billion)

Component	Total Debt	2012-13	2013-14	2014-15	2015-16
Prop 98 Deferrals	10,430	(2369)	(2469)	(4998)	(594)
Economic Recovery Bonds	6,081	(1362)	(1466)	(1584)	(1669)
Special Fund Loans	3,101	(486)	(1321)	(927)	(367)
Unpaid Mandates	4,472	0	(616)	(617)	(3239)
Under funding of Prop 98	4,113	(462)	(1457)	(1188)	(1006)
Prop 1A Local Government Borrowing	2,095	(2095)	0	0	0
Deferred MediCal Costs	1,625	0	(480)	(135)	(1010)
Deferred State Payroll Cost	759	0	0	(759)	0
Deferred Payment to CalPERs	501	0	(472)	(14)	(15)
Prop 42 Trans Borrowing	334	(83)	(85)	(83)	(83)
Total	33,511	(6,857)	(8,366)	(10,305)	(7,983)

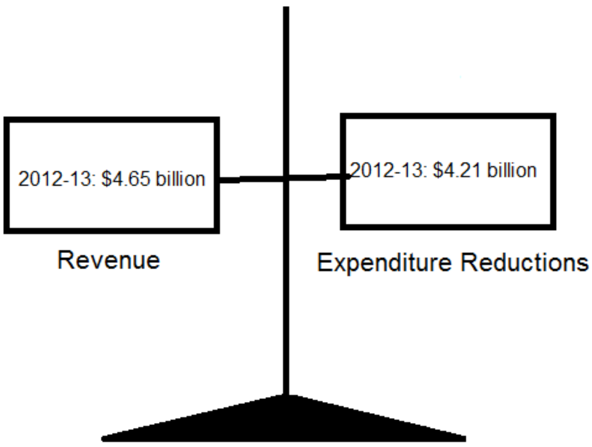
As the economy recovers, the Assembly may wish to embrace this strategy in future fiscal years. Some of the repayment of these debts, like the $2 billion Proposition 1A payment due in the budget year, cannot be avoided. However for many of these debts the Legislature will have years to consider the best timing and strategy to meet these obligations. Additionally, some of these "debts" may be overstated, like local mandate liability, or may not have any cost to the State, like the one-day deferral of the June employee payroll paycheck.

The fact that the "Wall of Debt" is even being discussed hints at the optimism underlying the overall budget. If the economy continues to recover and the election is successful, California's budget discussions will soon transition into a dialogue about how to best invest a small budget surplus.

Governor's Approach—Classic "Balanced Approach"

Overall the budget's structure reflects a framework often suggested by the Assembly as the ideal solution to the budget problem, a balanced distribution of the burden equally between revenues and expenditure reductions.

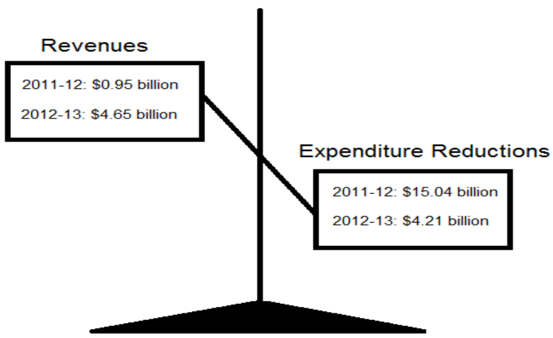
2012-13 Revenues versus Expenditures



Balance Does Not Consider 2011-12 Efforts to Tackle Structural Deficit

However, most of the structural deficit was eliminated last year, where the overall budget included over $15 billion in expenditure reductions and only $ 937 million in revenue. When combining these two year's together, it is clear that most of the solutions between $19.22 and $24.62 billion, depending on the November election outcome of the Governor's tax initiative are budget cuts.

2011-12 and 2012-13 Revenues versus Expenditures

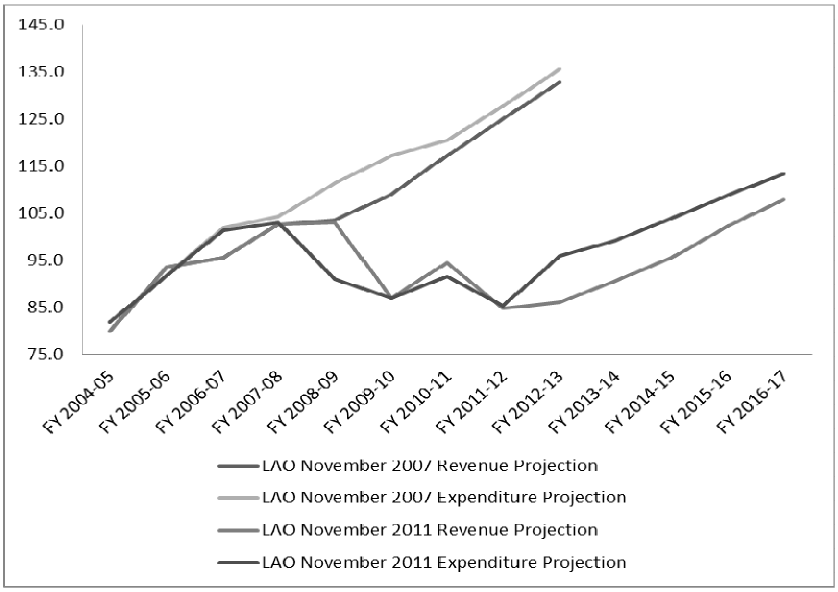


State Spending At Historic Lows Due to Years of Cuts:

The proposed budget would provide one of the lowest levels of state spending in the last four decades, with $5.30 of General Fund expenditure per $100 in per capita income, almost 20 percent lower than the level in 2007-08. The 2011-12 and proposed 2012-13 budgets would provide levels of spending close to the 1972-73 in terms of expenditure per $100 in per capita income, reflecting the profound impact of the recession on California Government.

The recession has effectively reset the level of overall state services to a significantly lower level. This pattern can be seen when comparing the projected revenues and expenditures by the LAO in 2007 with the most recent 2010 estimate a difference of nearly $40 billion in the budget year.

LAO Fiscal Outlook Projections
2007 Projections Compared to 2010 Projections and Actuals ($ billions)



Most of the Governor's Budget Can Be Adopted With A Majority Vote
With the passage of Proposition 25, the Legislature can adopt the budget bill and implementing trailer bills with a majority vote, as long as these bills would not otherwise require a two-thirds vote, like a tax increase. Because the Governor relies upon an outside voter initiative to provide the tax funds assumed in the budget package, almost all provisions of the budget can be implemented with a majority vote.

There are a couple exceptions that have been identified. These include: 1) the extension of the managed care tax; 2) the proposal to increase the Employment Training Fund fee for unemployment insurance; and, 3) the proposal to change the use of some unexpended t school bond funds. More examples may be identified as the process moves forward.

Major Issues To Consider

What is the State's Role in Governance of Locally Administered Programs?
Over 70 percent of State General Funds expenditures are passed through the State to be spent by local entities. The budget includes several proposals which cede discretion and decision-making power for funding decisions to local governments. From K-12 funding for school districts to mandate funding, the budget includes proposal that will allow local entities to assume control over some or all of the funding and decisions—decisions that are currently made by, or in consultant with, the State.

The realignment/local control discussions have often been framed as a single decision point with only two options: "Should we give control to locals or not?" This suggests that the State responsibility for local programs is like a light switch, we can either: 1) maintain the existing relationships and keep the State role in the "on" positions, or 2) we flip down the switch and totally cede program control and turn “off” the State role in these programs. In the 2012-13 budget process, it is important to move the discussion beyond this simplistic framework.

In 2011-12, the policy discussions highlighted the benefits of increased local control, validating the policy direction overall. However, there has not been much discussion of how these changes define the State's role in oversight and accountability. In the 2011 Public Safety Realignment, it appears the State role is to act as a fiscal agent, with the State’s primary responsibility to write checks and audit expenditures. The State still has a role in oversight, which has not been discussed or defined other than to suggest that it will require far less staff resources.

Increased local flexibility will lead to increased local variation in the level and quality of services provided to Californian. But how much variation is in State interest? California has 58 counties, 1,107 local school districts and offices, and 482 cities. Some California local governments been incredibly innovative paragons of governance, others have been victims of negligent and even corrupt leadership. The ideal arrangement is for the State to give innovative entities the flexibility to be innovative while giving less latitude to local governments that cannot demonstrate they deserve such flexibility.

The State could set minimum services level or performance expectations in providing more flexibility. This would require more focus on this type of data from the State. It would also require discussion about what tools the State would retain to hold local governments accountable to these minimum levels of performance.

It is also important to consider what recourse the State has if our local partners do not act in the interest of the State. For example, in the 2011 Realignment, the State and counties share responsibility for custody of offenders with the State handling the serious and violent felons. What prevents a county from trying to find ways to cost-shift their responsibilities to the State?

The other danger is that counties actively look for ways to shift costly populations to other jurisdictions. A classic example is the program that was offered by some rural counties to purchase low income adults one-way bus tickets to large cities—thus passing off the responsibility for costly support and care for these individuals to another jurisdiction. A more contemporary example is hospitals in Los Angeles had to discharge uninsured homeless patients directly to LA's Skid Row. Should the State have the ability to prevent county structures their programs to try to push costs to other counties?

As the Assembly considers moving more responsibilities to locals, it should be cautious in how fast these changes proceed. History shows that shifting local programs to the State is difficult. The State’s awkward and expensive efforts to assume control over Trial Courts over the last two decades is an example of the difficulty of returning State control to a program operated by a local government. In the case of the Trial Court Realignment, the State was forced to step in because the provision of justice in California was not uniform across the State. As the deliberations continue regarding these current programs, such an outcome can be avoided if the State has a clearly defined role.

Do we have to cut services and funding for California's poorest children every year?

Nearly one-third of the reductions in the proposed budget, target California's lowest income families. These reductions compound severe reductions that were made to programs that service these populations in the three previous budgets.

Research shows that the recession has impacted the poorest California families more than any other group. The lowest 10 percent of Californian income earners have seen income decline 21.5 percent since 2007, a drop that is three times larger than any other income group. Unlike other income levels, the lowest income population has not seen income rebound after the end of the recessions in the 1990 and early 2000's. This suggests that the loss of income is a permanent downward shift in the economic condition and quality of life for these families. As noted earlier, the Department of Finance does not foresee employment recovering to 2007 until 2016—further reinforcing this conclusion.

No population has been hit harder by this recession than California's poorest children. The Assembly should consider whether this population should also be asked to make the largest sacrifice in terms of lost services and state support.

Should we sell more bonds?

The Governor's Budget reduces the amount of bond funds appropriated in the budget year, in part because of the large cash balances for past bond sales. The State is spending bond funds at slower rate than it did in the past, and large accumulations of bond funds have occurred in almost all areas, such as Transportation, Housing, and Resources.

With the depressed construction industry starved for work, the State benefits by engaging in as many infrastructure projects at this time as possible. It not only stimulates the economy with needed jobs, the State also is benefitting from historically low construction costs. As the Assembly explores the slower rate of bond expenditures, it will be important to determine whether this trend is byproduct of a slower pace at initiating and executing these projects. With billions of unmet infrastructure needs, the State cannot afford to miss an opportunity to meet these needs at lower cost and more additional economic benefit than in the past.

Assembly Budget Process in the Post-Proposition 25

For the first time since the recession began, it appears the Assembly will be able to follow the traditional deliberative budget process. The additional time for deliberation will also facilitate the open and transparent public budget process California deserves. No longer should the process be dominated by closed door meetings, like the "Big 5" process, or insiders using the leverage of budget votes to demand giveaways to special interests. It also offers and excellent opportunity for the Assembly to reflect on how to improve the process itself. For example, hopefully this process can be improved with the addition of additional performance measures and program evaluation functions that the committee will develop.

With the voter's approval of Proposition 25 in 2010, this year may serve as a template for how the Legislature conducts its budget process in the future. Before Proposition 25, the budget process was geared toward enactment of a budget before June 30th, essentially treating the existing June 15th Constitutional deadline as advisory. This allowed the Assembly six weeks after the release of the May revision to conduct a full May Revision hearing process followed by Budget Conference Committee that could last several weeks. Proposition 25 makes June 15th a firm deadline for enactment of the budget, which compresses this schedule to only four weeks. This change in deadlines will mean that May Revision and Conference Committee will need to be redefined to allow the Legislature to adopt the budget in a deliberative and transparent manner by the Constitution deadline.

K-12 Education

DEPARTMENT OF EDUCATION

California Department of Education (CDE). California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education (SBE). CDE is responsible for enforcing education laws and regulations, which guide the education of more than 6.3 million students in more than 9,000 schools housed in approximately 1,000 school districts and 58 county offices of education.

State Superintendent of Public Instruction Tom Torlakson oversees CDE operations. He is elected to four-year terms and is currently serving in his first term, which will end on January 4, 2015. The State Board of Education is the governing and policy-making body of the CDE. The SBE sets K-12 education policy in the areas of standards, instructional materials, assessment, and accountability. The SBE adopts regulations to implement legislation and has authority to grant waivers of the Education Code. The SBE has 11 members appointed by the Governor.

CDE State Operations. CDE's administrative branch (state operations) are funded with a mix of non-Proposition 98 General Fund and federal funds. CDE relies heavily on federal funds to maintain state operations. Approximately 65.5 percent of CDE state operations are funded with federal funds.

The primary duties of the Superintendent and the Department are to provide technical assistance to local school districts and to work with the educational community to improve academic performance. The functions of state operations include: Allocation of funds to local education agencies; curriculum and management leadership; assessment and program review; focused school improvement intervention; regulatory and compliance action; child development agency assistance; nutrition services and distribution of United States Department of Agriculture (USDA) surplus donated food.

Figure 1: CDE Fund Sources: State Operations

CDE Fund Source	2010-11 Actuals	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund CDE Headquarters	$36,798	$39,853	$45,636	(5,783)	12.7%
Federal Funds	$134,158	$150,187	$145,293	(4,894)	(3.4)%
Fee Revenue	$4,836	$6,415	$6,787	$372	5.5%
Bond Funds	$2,334	$2,627	$2,665	$38	1.4%
Other Funds	$11,174	$22,587	$21,504	(1,083)	(5.0)%
Total Expenditures	**$189,300**	**$221,669**	**$221,885**	**$216**	**0.1%**
Percentage of FF to Total Expenditures	70.9%	67.8%	65.5%		0.0%
Positions	**2353.0**	**2471.0**	**2475.5**	**4.5**	**0.2%**

** The increase in the CDE GF for 2012-13 includes $5M pass-through funding for UC Subject Matter Projects.*

*** This table does not include the State Special Schools appropriations.*

Source: California Department of Education

Overall Proposition 98 Funding: K-12 Education and Community Colleges

Background on the Proposition 98 Formula. Proposition 98 is a 1988 ballot initiative that amended the California constitution to establish a minimum annual funding level for K-12 education and Community Colleges (K-14 education). This funding formula is intended to provide K-14 education with a guaranteed funding source that grows each year with the economy and the number of students attending. Community Colleges receive roughly an 11 percent share of total Proposition 98 funding. The guaranteed funding is provided through a combination of state General Fund and local property tax revenues and is more commonly referred to as the "minimum guarantee." The State has the option of funding at the designated minimum guarantee, over-appropriating to provide funding above the guarantee, or "suspending" the guarantee to provide any level of funding the Legislature deems appropriate.

There are three formulas or "Tests" that, based on various inputs, determine the minimum level of funding required under Proposition 98. "Test 1" governs both the 2011-12 and 2012-13 Fiscal Years (FY).

Figure 2: Three Formulas ("Tests") Used to Determine K-14 Funding

Test 1—Share of General Fund. Provides roughly 40 percent of General Fund revenues to K-14 education. This minimum requirement must be met each year.

Test 2—Growth in Per Capita Personal. The Proposition 98 requirement is determined by growth in the economy (as measured by per capita personal income) and K-12 attendance. Applies in years when state General Fund growth is relatively healthy and formula yields more than under Test 1.

Test 3—Growth in General Fund Revenues. Adjusts prior-year funding for changes in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues grow more slowly than per capita personal income.

- **Maintenance Factor**. The underlying premise of Proposition 98 is to guarantee that per pupil funding keep pace with the cost of living (Test 2). In times of slow economic growth, when the State cannot provide the Test 2 level of funding, the State keeps track of this long term funding commitment and eventually restores Proposition 98 to what it otherwise would have been had education funding grown with the economy. This outstanding obligation is called "maintenance factor." Formulas under Proposition 98 dictate when and how much maintenance factor is restored in a given year. At the end of the 2010-11 FY, the state had an outstanding maintenance factor balance of $10.2 billion.

- **Suspension.** As noted above, the Proposition 98 formula also allows the Legislature to provide less than the formulas require. This is achieved through a two-third's vote to suspend the State's obligation to provide education funding at the level dictated by the Proposition 98 formula. The Legislature has only invoked suspension on a few occasions. The most recent suspension was invoked under the 2010-11 Budget Act.

***The economy and the impact on education funding*.** In most States, public schools receive the largest portion of their funds from local tax dollars. By contrast, the California public school system is supported predominantly with state funds. As a result, when state general funds decline, education funding is largely at risk for decline. Since the national recession began in 2008, California has grappled with a decline in state revenue that in turn has largely impacted state funding for education.

After the enactment of the 2008-09 Budget Act, the nation faced a historic economic crisis. Rapid declines in revenues created cash flow problems and the need for repeated revisions to the 2008-09 Budget Act. By December 2008, the Governor released a 2009-10 budget proposal that reflected a $41.7 billion budget deficit over two years. On February 20, 2009 the Legislature passed a historically early budget package that provided $41.8 billion in solutions over the two years. As a part of this package, Proposition 98 was reduced from $58 billion in 2008-09 to $50.7 billion, a decrease of $7.3 billion.

By May, revenues had deteriorated further and solutions adopted in February that needed voter approval failed to pass. By the end of July, the Legislature enacted additional solutions totaling $24 billion (this was on top of the $35.8 billion in solutions realized from February). This package further reduced Proposition 98 funding from $50.7 billion in 2008-09 to $49.1 billion. For 2009-10, Proposition 98 was reduced from $53.2 billion to $50.4 billion.

Although the national Bureau of Economic Analysis declared an end to the national recession in June of 2009, recovery has been slow in California. As a result, the 2010-11 and 2011-12 Budget Acts made further general fund program reductions, including cuts to education funding. In 2010-11, the Legislature could not afford to fund the Proposition 98 minimum guarantee and as a result invoked suspension to provide a funding level of $49.7 billion, $4.1 billion less than the minimum guarantee for that year.

The 2011-12 Budget Act provided a Proposition 98 funding level of $48.7 billion but also contained trigger reductions in the event that revenues fell short and the State was unable to provide this funding level. In December 2011, the Department of Finance triggered reductions of $327.6 million to K-12 education.

While economic recovery appears to be on the horizon, K-14 education continues to grapple with limited resources. Federal stimulus dollars that helped bridge the gap in prior years are now spent. Schools are owed forgone COLAs totaling roughly $9 billion and roughly 21 percent of state funding currently comes to schools late due to deferrals.

Major Provisions

Proposition 98 and Governor's Tax Initiative Proposal. According to the Governor's Budget Summary, the Administration's proposal begins to reverse the recent decline in funding for K-12 education programs. The Governor's 2012-13 Budget assumes passage of his November ballot initiative which proposes a temporary increase to the Personal Income Tax (PIT) and Sales and Use Tax (SUT). The Administration estimates that their measure would generate $6.9 billion over two years —$2.2 billion in 2011–12 revenues and $4.7 billion of 2012–13 revenues.

- **2011-12 Adjustments.** The 2011-12 Budget Act provided a funding level of $48.7 billion. In December 2011, this amount was adjusted down by trigger cuts to Home to School Transportation ($248 million) and revenue limit funding ($79.6 million).

  The Governor's Budget provides a revised funding level of $47.6 billion for 2011-12. Assuming passage of the Governor's tax initiative, the minimum guarantee would rise to $48.3 billion, an increase of $661 million. The Governor's Budget does not propose to appropriate this funding in the current year but instead assumes this funding will be provided to schools as a future "settle-up" payment[1].

- **2012-13 Adjustments.** For 2012–13 the Governor's Budget provides a minimum guarantee of $52.5 billion. This level of funding assumes approval of the Governor's tax measure as well as a series of base funding level adjustments. Roughly $2 billion of the increase in the minimum guarantee is attributable to the tax initiative. The remaining increase is due to several adjustments or "rebending" of the guarantee. According to the Legislative Analyst's Office, the Governor's Budget proposes the following adjustments:

[1] A settle-up obligation is created when the minimum guarantee goes up after the budget has been enacted (the difference is deemed settle up)

1) The Governor permanently rebenches the minimum guarantee to account for a shift in property tax revenues (of approximately $1 billion annually) from redevelopment agencies to school districts and community colleges. By rebenching the guarantee for this shift, the state achieves associated General Fund savings.

2) In addition, the Governor proposes to eliminate existing provisions that require the state to rebench for the "gas tax swap" adopted by the Legislature in 2011. The gas tax swap eliminated the sales tax on gasoline (previously included in the Proposition 98 calculation) and replaced it with an increase in the excise tax on gasoline (excluded from the Proposition 98 calculation). With the rebenching, the minimum guarantee was unaffected by the gas tax swap. Without the rebenching, the minimum guarantee drops by $544 million.

3) Thirdly, the Governor proposes to recalculate last year's rebenchings using the "1986–87 methodology." This change (which applies to child care, student mental health, and redevelopment revenues) increases the 2012–13 guarantee by $217 million.

Figure 3: Proposed Proposition 98 funding based on passage of Governor's tax initiative

(Dollars in Millions)	**2011–12 Revised**	**2012–13 Proposed**	**Change From 2011–12**	
			Amount	**Percent**
K–12 Education				
General Fund	$29,329	$33,755	$4,426	15%
Local property tax revenue	12,891	12,908	17	—
Subtotals	($42,220)	($46,663)	($4,443)	(11%)
California Community Colleges				
General Fund	$3,217	$3,683	$465	14%
Local property tax revenue	2,107	2,101	–6	—
Subtotals	($5,324)	($5,784)	(459)	(9%)
Other Agencies	$83	$80	–$2	–3%
Totals, Proposition 98	**$47,627**	**$52,527**	**$4,900**	**10%**
General Fund	$32,629	$37,518	$4,889	15%
Local property tax revenue	14,998	15,009	11	—

Source: Legislative Analyst's Office

Programmatic funding remains flat even with a year-over-year increase of $4.9 billion. While the Governor's Budget provides an increase of $4.9 billion over the 2011-12 Budget Act funding level, programmatic spending remains flat. This is because the Governor dedicates the year-to-year increase primarily to backfilling one–time solutions from 2011-12.

The largest component of the Governor's tax initiative is to pay down $2.4 billion in existing deferrals in K-14 education ($2.2 billion for school districts and $218 million for CCC apportionments). This reduces the need for school districts and community colleges to borrow to support operations while awaiting the state's late payments. The proposal would reduce the state's outstanding deferrals from $10.4 billion to $8 billion. Because this funding would not be intended to increase programmatic activities, K–12 per–pupil programmatic funding under the Governor's basic plan is roughly flat year over year.

The Governor also provides a slight increase in the K–12 student population (estimated to be 0.35 percent) for a few select K–12 programs, proposes to provide no cost–of–living adjustment for any K–12 education program and essentially provides no programmatic augmentations.

Figure 4: 2012–13 Proposition 98 Spending Changes

(In Millions)	
Technical	
Backfill one–time actions	$2,440
Make revenue limit technical adjustments	162
Fund revenue limit growth	158
Backfill Proposition 63 mental health funding	99
Backfill CCC fee revenue decline	97
Make other technical adjustments	–182
Subtotal	($2,775)
Policy	
Pay down K–12 deferrals	$2,151
Pay down CCC deferrals	218
Create K–12 mandate block grant	98
Create CCC mandate block grant	12
Do not initiate Transitional Kindergarten program	–224
Reduce preschool funding	–58
Swap one–time funds	–57
Eliminate Early Mental Health Initiative	–15
Subtotal	($2,125)
Total	**$4,900**

Source: Legislative Analyst's Office

Governor's Budget assumes mid-year trigger reductions if the ballot initiative fails. If the Governor's tax measure is not adopted, the budget contains a total of $5.4 billion in trigger reductions. Of these reductions, $4.8 billion (nearly 90%) would be reduced from schools and community colleges. The $4.8 billion breaks down as follows:

- First, Proposition 98 drops by $2.4 billion due to the loss of the new tax revenues. The Governor rescinds buying down $2.4 billion in K-14 inter-year deferrals ($2.2 billion for school districts and $218 million for CCC apportionments).

- Next, the Governor proposes to shift debt service on school bonds inside Proposition 98. Historically, debt service has been funded outside of Proposition 98. The Governor's Budget proposes to shift the cost, $2.6 billion, into Proposition 98. However, when calculations are done to "rebench" or adjust the Proposition 98 base per 1986-87 formulas, the minimum guarantee only goes up by $200 million. This is because in 1986-87 debt service was relatively low. Rebenching in this manner allows the Governor to shift $2.6 billion in costs into Proposition 98 with minimal effect on the minimum guarantee. As a result of this cost shift, schools must make programmatic reductions of $2.4 billion, which the Governor equates to eliminating three weeks of instruction from the school year.

Other issues affecting the minimum guarantee

The Governor's Budget proposes a new method of accruing revenues in 2012 however the method would only apply to the revenues generated under the Governor's tax initiative. By accruing a portion of the tax initiative revenues to 2011-12, the Proposition 98 minimum guarantee is lowered in 2012-13.

The Governor's 2012-13 minimum guarantee also excludes the realignment–related sales tax revenue. In September 2011, the California School Boards Association along with various other education stake holders filed a lawsuit claiming the 2011-12 Budget Act diverted more than $2 billion that should have otherwise gone to public schools under Proposition 98. The issue continues to be litigated.

Funding for K-12 Education

As discussed above, schools face two scenarios under the Governor's proposed budget: Plan A) flat funding if the Governor's ballot initiative passes or Plan B) $2.4 billion in programmatic cuts if the tax initiative fails. Under the Plan B scenario, according to the Legislative Analyst's Office, K–12 per–pupil programmatic funding would decline 6 percent from the current–year level.

Figure 5: Governor's Proposed 2012-13 Budget: K-12 Programmatic Funding

K-12 "Programmatic" Funding[a]

(Dollars In Millions Unless Otherwise Specified)

Programmatic Funding	2007-08 Final	2008-09 Final	2009-10 Final	2010-11 Final	2011-12 Revised	2012-13 Plan A	2012-13 Plan B
K-12 ongoing funding[b]	$48,883	$43,215	$40,717	$43,017	$42,254	$46,755	$42,390
Payment deferrals		2,904	1,679	1,719	2,064	-2,151	
Settle-up payments		1,101		267			
Public Transportation Account	99	619					
Freed-up restricted reserves[c]		1,100	1,100				
ARRA funding[c]		1,192	3,575	1,192			
Federal education jobs funding[c]				421	781		
Totals	**$48,982**	**$50,130**	**$47,070**	**$46,616**	**$45,099**	**$44,604**	**$42,390**
Per-Pupil Programmatic Funding							
K-12 attendance	5,947,758	5,957,111	5,933,761	5,953,259	5,947,368	5,950,041	5,950,041
K-12 per-pupil funding (in dollars)	**$8,235**	**$8,415**	**$7,933**	**$7,830**	**$7,583**	**$7,496**	**$7,124**

a Excludes federal funds not associated with stimulus packages, lottery, and various other local funding sources.

b Includes ongoing Proposition 98 funding, Proposition 98 accounting adjustments, and funding for the Quality Education Investment Act.

c Reflects LAO estimates of funds spent in each year.

K-12 COLA. Current law requires that a COLA be applied annually to revenue limits and most K-12 categorical programs in order to reflect the higher costs that schools face due to inflation. The statutory K-12 COLA is based on an index that measures changes in costs experienced by state and local governments. School districts generally use COLAs to provide annual increases to employee salaries and address cost increases for local operating expenses, including employee benefits, utilities, materials, and supplies.

Due to the state budget crisis, the state has not provided COLAs in recent years. Deficit factors have been established in these years to keep track of the foregone COLA for revenue limit programs, so revenue limit funding could eventually be restored to previous base levels. The Legislature is not required to create a deficit factor for revenue limits when no COLA is provided; however, the Legislature has adopted the practice of establishing deficit factors for revenue limit programs -- based upon statutory COLA rates -- when COLA has not been provided.

For 2012-13, the statutory COLA for K-12 programs is 3.17 percent or a cost of $1.24 billion. The Governor does not propose to provide COLA to any programs in 2012-13 but does intend to establish a deficit factor of 21.666 percent to account for foregone COLAs in the budget year and prior years.

Key Provisions

Weighted Student Formula Proposal. The Governor's Budget proposes major changes to the way funding is allocated to schools by proposing to suspend K-12 categorical program requirements and phase in a weighted student formula over five years.

Background on existing system of School Finance in California. The California K-12 public school system is supported predominantly with state funds. Of the state funds that are provided to K-12 schools, there are two major types of funding: discretionary funds and categorical funds. Discretionary funds comprise approximately two-thirds of the funds the state provides to school districts and categorical funds comprise approximately a third.

- **Discretionary Funds**_are provided to school districts to support the general costs of operating schools. They are provided on a continuous appropriation basis, meaning that the funds are provided on an ongoing basis and are not subject to the annual budget act. Funds are provided to school districts and county offices of education based on a formula that takes their average daily attendance over the course of the year and multiplies it by their individual funding rate (also known as a "revenue limit"). Each district has its own unique revenue limit based on historical spending. The end result is a school district's "apportionment funding." Although this funding does not require an annual appropriation in the budget, the State can still affect the amount of total funding that is provided for this purpose by increasing or decreasing the rates (revenue limits) that are used to calculate apportionments. In addition, the Legislature's ability to approve or deny a cost-of-living adjustment for revenue limits also affects the total amount of funding that is provided in discretionary funds.

- **Categorical Funds** have been created over the years to provide school districts funding for specific purposes, such as improving school safety or improving the academic achievement of struggling students. Unlike discretionary funds, categorical funds (also known as "categorical programs") are all funded through the annual budget act. They are usually accompanied by regulations that require that they be spent in specific ways or for specific purposes.

  As part of the February 2009 budget package, the state allowed school districts to use the funding associated with about 40 categorical programs for any education purpose. This change essentially made roughly $4.5 billion in restricted funding discretionary. About 20 state-funded categorical programs totaling roughly $7.5 billion were excluded from this flexibility. This categorical flexibility was authorized through 2012-13.

- **Governor's Proposal.** In addition to the 40 programs already included in the categorical flexibility, the Governor proposes to suspend requirements for up to ten additional programs—essentially phasing out most existing categorical programs beginning in 2012–13. (A few categorical programs—including special education, child nutrition, and the After School Education and Safety program—would remain).

According to the Legislative Analyst's Office overview of the proposal, in lieu of the current revenue limit and categorical program model, the Governor proposes that all districts and charter schools receive an equal base per–pupil amount, plus additional general purpose funding intended to serve their disadvantaged students. Specifically, for every dollar a district or charter school receives for a student, they would get an additional 37 cents if the student were poor and/or an English Learner. Districts and charter schools with large proportions of these disadvantaged student populations also would receive supplemental "concentration" funding. Perhaps as soon as 2013–14, the Administration plans to add a performance component to the weighted student formula, which would provide fiscal incentives for districts to improve or sustain high academic performance. Districts would have local discretion as to how to spend weighted student formula funding. The Governor proposes to transition to the new formula over a five year period, with implementation beginning in 2012–13.

According to the Administration, the foundation of this proposal is based on the paper *Getting Beyond the Facts: Reforming California School Finance* (Bersin,Kirst,Liu). Details of the proposal, however, are still forthcoming and are not expected until early February.

Mandate Block Grant Proposal. The Governor's Budget proposes major changes to the funding of education mandates by suspending mandate requirements and instead creating a block grant to fund activities that were formerly mandated.

Background on mandates. The concept of state reimbursement to local agencies and school districts for state mandated activities originated with the Property Tax Relief Act of 1972 (Senate Bill 90, Chapter 1406, Statutes of 1972), known as SB 90. The primary purpose of the Act was to limit the ability of local agencies and school districts to levy taxes. To offset these limitations, the Legislature declared its intent to reimburse local agencies and school districts for the costs of new programs or increased levels of service mandated by state government. The Legislature authorized the State Board of Control to hear and decide upon claims requesting reimbursement for costs mandated by the state. This duty is now assumed by the Commission on State Mandates, a quasi-judicial body created in 1984.

Proposition 1A, approved by the state’s voters in 2004, required the Legislature to appropriate funds in the annual budget to pay a mandate’s outstanding claims, “suspend” the mandate (render it inoperative for one year), or “repeal” the mandate (permanently eliminate it or make it optional). The provisions in Proposition 1A, however, did not apply to K-14 education.

Over the years, as the cost and number of education mandates grew, the state began to defer the full cost of education mandates. Prior to the 2010-11 Budget Act, the state had deferred the cost of roughly 50 education mandates but still required local education agencies (LEAs) to perform the mandated activity by providing a nominal amount of money ($1,000) for each activity. An exception was in 2006 when the state faced some good times and was able to provide more than $900 million in one-time funds for state mandates. This funding retired almost all district and college claims (plus interest) through 2004-05.

The 2010-11 Budget Act funded, suspended, modified, and eliminated several mandates as an alternative to the Governor's proposal to suspend all K-14 mandates across the board. The 2011-12 Budget Act continued the actions taken in 2010.

Even though the state has made progress in funding education mandates, the system continues to be complex, particularly when it comes to the claiming process. Costs are often higher than the legislature anticipated when the original law was passed. Costs can vary greatly due to different district claims, the number of years covered by the claims, the range of activities deemed reimbursable and subsequent statutory decisions and legal rulings. Furthermore, the mandate determination process can take as long as five years leading to huge lag time in determining accurate state costs. Claiming also varies widely among districts. Some larger districts have staffing units dedicated to processing mandate claims or hire accounting firms to file claims whereas many smaller districts have one administrator to file claims while juggling many other responsibilities.

Governor's Proposal. The Governor's Budget proposes to expand on the recent mandate reforms by eliminating additional mandates and suspending the remaining mandates. The Governor then proposes to provide $200 million on a per pupil basis ($178 million for school districts, $22 million for community colleges) through a block grant to fund activities that were formerly mandated. This is an increase of $110 million over funding provided in the 2011-12 Budget Act for mandated education activities. As a condition of receiving block grant funding, recipients would be required to complete 26 activities still deemed to be high priorities. The administration indicates it will establish some auditing and/or compliance monitoring process to ensure grant recipients undertake the required activities.

Figure 6. Governor's 2012-13 Mandate Proposal

K-12 Mandates	
Mandates Eliminated	**Mandates funded in the Mandates Block Grant**
Absentee Ballots	AIDS Instruction and AIDS Prevention Instruction
Agency Fee Arrangements	CA State Teachers Retirementment System Services Credit
Behavioral Intervention Plans (BIPPS)	California High School Exit Exam
Caregiver Affidavits	Charter Schools I, II, and III
Consolidation of Law Enforcement Agency Notifications (LEAN) and Missing Children Reports	Collective Bargaining
Consolidation of Notification to Teachers: Pupils Subject to Suspension or Expulsion I and II, and Pupil Discipline Records	Comprehensive School Safety Plans
County Treasury Withdrawals	Consolidation of Annual Parent Notification/Schoolsite Discipline Rules/Alternative Schools
Financial and Compliance Audits	County Office of Education Fiscal Accountability Reporting
Graduation Requirements	Criminal Background Checks
Grand Jury Proceedings	Criminal Background Checks II
Habitual Truants	Differential Pay and Reemployment
Health Benefits for Survivors of Peace Officers and Firefighters	Immunization Records

Law Enforcement Sexual Harassment Training	Immunization Records-Hepatitis B
Mandate Reimbursement Process	Intradistrict Attendance
Notification of Truancy	Juvenile Court Notices II
Physical Education Reports	Open Meetings/Brown Act
Physical Performance Tests	Prevailing Wage
Pupil Residency Verification	Pupil Health Screenings
Pupil Suspensions, Expulsions, Expulsion Appeals	Pupil Promotion and Retention
Removal of Chemicals	Pupil Safety Notices
School Bus Safety I and II	School Accountability Report Cards II and III
Scoliosis Screening	School District Fiscal Accountability Reporting
Student Records	School District Reorganization
Threats Against Peace Officers	The Stull Act
CCC Mandates:	
Mandates Eliminated	**Mandates funded in the Mandates Block Grant**
Absentee Ballots	Cal Grants
Agency Fee Arrangements	CA State Teachers Retirementment System Services Credit
Grand Jury Proceedings	Collective Bargaining
Health Benefits for Survivors of Peace Officers and Firefighters	Enrollment Fee Collection and Waivers
Health Fee Elimination	Open Meetings/Brown Act
Integrated Waste Management	Prevailing Wage
Law Enforcement Jurisdiction Agreements	Sex Offenders: Disclosure Requirements
Law Enforcement Sexual Harassment Training	Tuition Fee Waivers
Mandate Reimbursement Process	
Reporting Improper Governmental Activities	
Sexual Assault Response Procedures	
Student Records	
Threats Against Peace Officers	

Elimination of Transitional Kindergarten. SB 1381 (Simitian), Chapter 705, Statutes of 2010 changed the required birthday for admission to kindergarten and first grade to November 1 for the 2012–13 school year, October 1 for the 2013–14 school year, and September 1 for the 2014–15 school year and each school year thereafter. The bill also required districts to provide access to transitional kindergarten for a child whose admission to a traditional kindergarten would be delayed per the age changes.

According to the Legislative Analyst's Office, this change reduces the kindergarten population by about 125,000 students and yields estimated revenue limit savings of $224 million in 2012–13. The Legislature, however, redirected these savings to fund a new Transitional Kindergarten program, which is to offer an additional year of public school to the children who miss the new kindergarten cutoff. This program is phased in over three years, beginning 2012–13 for those children turning age five between November 1 and December 1.

The Governor's Budget proposes to continue the age of admission changes in laws but eliminate the transitional kindergarten requirement. By proposing not to initiate this new program, the Governor estimates he will achieve $224 million in 2012–13 savings, growing to roughly $675 million in annual savings (by 2014–15, when the program otherwise would have been fully implemented).

Charter Schools. The Governor's Budget proposes a number of changes to charter schools. According to the Governor's Budget Summary, the Administration proposes to enhance charter school funding as follows:

1) Fully fund non-classroom-based charter schools and continue to provide growth funding for all charter schools through the charter school categorical block grant, until a weighted student formula replaces this funding mechanism;

2) Stabilize funding for the Charter School Revolving Loan Fund by providing additional access to proceeds available in the Charter School Security Fund;

3) Facilitate timely processing of charter school deferral exemption requests by eliminating the requirement that requests be reviewed by the charter authorizer; and,

4) Provide additional borrowing opportunities to charter schools by specifying in statute that Local Educational Agencies (LEAs) may include charter schools in their issues of County Treasury Revenue Anticipation Notes (TRANs). LEAs issuing TRANs will be statutorily identified as senior creditors for the purposes of the repayment of TRANs issued on behalf of a charter school.

The Governor's Budget also proposes the following changes to charter school facilities:

1) Allow non-classroom-based charter schools to participate in the Charter School Facility Grant Program (Grant Program);

2) Facilitate the timely release of Grant Program funds by eliminating some of the upfront application processes and streamlining eligibility determinations; and,

3) Specify in statute that the state be identified as the senior creditor for Grant Program fund accountability purposes.

Further, the Governor's Budget proposes to authorize the California School Finance Authority to refinance existing working capital revenue bonds, expand charter school payment intercepts to include categorical block grant funds, and expand working capital financing to include charter management organizations.

School Facilities. According to the Governor's Budget summary, since 1998, voters have approved approximately $35 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state's 6.3 million elementary, middle and high school students. In addition to general obligation bonds, school districts may utilize developer fees, local bonds, certificates of participation and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms.

The Governor's 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. According to 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.

Other Various K-12 Adjustments for 2012-13

- Proposes to make the 2011-12 trigger reduction of $248 million General Fund (Proposition 98) for the Home-to-School Transportation Program an ongoing reduction. Proposes an additional reduction of $248 million in 2012-13 to the program, thereby eliminating the program.

- Proposes an increase of $98.6 million General Fund (Proposition 98) in 2012-13 to backfill Proposition 63 funds provided on a one-time basis in 2011-12 for special education mental health services.

- Proposes an increase of $12.3 million in one-time General Fund Proposition 98 funds for the Emergency Repair Program.

- Proposes an increase of $8.6 million in federal Title II funds and 2 positions as a result of shifting the Improving Teacher Quality State Grant Program from the California Postsecondary Education Commission to the California Department of Education.

- Proposes a decrease of $10.4 million General Fund to reflect the elimination of state supplemental reimbursement for free and reduced price breakfast and lunch served at private schools, private child care centers and other private entities.

- Proposes a decrease of $8.1 million General Fund (non- 98) to reflect the elimination of the Advancement Via Individual Determination (AVID) Program.

- Proposes a decrease of $1.8 million General Fund (non-98) to reduce deferred maintenance projects at the State Special Schools.

- Proposes a decrease of $514,000 General Fund (non- 98) to reflect the elimination of the Vocational Education Leadership Program. This decrease also results in the elimination of support for the California Association of Student Councils.

- Proposes a decrease of $376,000 General Fund (non-98) to reflect the elimination of the Indian Education Center Program.

CHILD CARE & DEVELOPMENT

Under current law, the State makes subsidized child care services available to: 1) families on public assistance and participating in work or job readiness programs; 2) families transitioning off public assistance programs; and, 3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE); depending upon the "stage" of public assistance or transition the family is in.

CalWORKs Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE. Families receiving ***CalWORKs Stage 2*** child care services are either (1) receiving a cash public assistance payment (and are deemed "stabilized"), or (2) in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The state allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

If a family is receiving ***CalWORKs Stage 3*** child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs, low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, waiting lists for this care are

Child care providers are paid through either (1) direct contracts with CDE or (2) vouchers through the Alternative Payment Program.

- *Direct Contractors* receive funding from the State at a Standard Reimbursement Rate, which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.

- *Alternative Payment Programs (APs)* act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

Impacts of the 2011-12 Trigger Reductions. An additional across-the-board reduction to all child care programs of $23 million in General Fund and Proposition 98 savings have been triggered due to state revenues dropping below a specified level, pursuant to Control Section 3.94 of the 2011-12 budget act, this additional child care reduction became effective January 1, 2012.

Major Provisions

The 2012-13 Budget provides about $1.6 billion in state and federal funds to CDE to administer subsidized child care programs. These include specific programs targeted at three populations: (1) current CalWORKs recipients; (2) former CalWORKs recipients; and, (3) other low-income working families not receiving CalWORKs cash assistance.

The Governor proposes to reduce funding for these programs by roughly $450 million, or almost 30 percent, for an estimated elimination of services to 62,000 children from a current total of about 293,000. The breakdown of the funding reductions are as follows:

- ***New Work Participation Requirements.*** The bulk of this reduction (about $300 million) results from limiting eligibility for receiving child care services to families that meet the work participation requirements described under the CalWORKs section of this report.

- ***Reduction to the Voucher Programs' Maximum Reimbursement Rate.*** The proposal would reduce the maximum amount the state pays child care providers, reducing the reimbursement rate ceilings from voucher-based programs from the 85th percentile of the private pay market, based on the 2005 market survey data, to the 50th percentile based on 2009 survey data. This proposal would reduce the program by $11.8 million in non-Proposition 98 General Fund and $5.3 million General Fund decrease to Stage 1 in the Department of Social Services' budget.

- ***Reduction to the Standard Reimbursement Rate.*** The budget proposes to reduce the standard reimbursement rate for direct-contracted Title 5 centers by 10 percent. This is a reduction of $67.8 million to the General Child Care program and $34.1 million to the State part-time Preschool program.

- ***Reduction of Family Income Eligibility Threshold.*** Proposes to reduce family income eligibility thresholds from 70 percent of state median income (SMI) to 200 percent of the federal poverty level, which equates to 62 percent of SMI, for a total reduction of $43.9 million in Child Care programs and $24.1 million in the part-day Preschool program. 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.

  The Administration estimates that $14.7 million would be loss in family fee revenue related to those families who are above the 200 percent of the federal poverty level. In 2010-11, families who pay a family fee generated a total of $54 million in revenue that goes into funding the child care programs.

- ***No COLA Funding.*** Proposes to eliminate the statutory COLA for capped non-CalWORKs child care programs, to reduce funding and generate savings of $29.9 million in the non-Proposition 98 General Fund programs and $11.7 million in the part-day Preschool program.

The Governor also proposes to change the funding structure and administration of the child care programs moving forward, beginning in 2012-13, as follows:

In 2012-13, the Governor proposes that 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 (the Alternative Payment Program, CalWORKs Stage 2 and Stage 3) 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.

Effective 2013-14, the Governor proposes to shift administration from CDE and local contractors to the Department of Social Services and county welfare departments in 2013-14. This consolidation means that there would no longer be a dedicated funding stream for low-income working families that have never received CalWORKs cash assistance.

By eliminating subsidized child care for all families who are not working sufficient hours in unsubsidized employment, as well as ultimately transferring the responsibility for the state's subsidized child care system to DSS and county welfare departments, the Governor's proposal would focus the intent of these programs on supporting low-income families' ability to find and retain unsubsidized employment.

The Administration will also propose legislation, effective 2013-14, to require counties and alternative payment programs to identify and collect overpayments. The legislation would also impose sanctions on agencies that do not reduce the incidence of overpayments, and it also imposes sanctions on providers and families who commit intentional program violations. Details are still pending, but the Administration expects that any funds that would be recovered from such a process, would be reinvested in child care slots.

HIGHER EDUCATION

California's higher education system is governed by the *Master Plan of Higher Education* (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The *Master Plan* also delineates different missions for each of the three segments – the University of California, the California State University, and the California Community Colleges.

The ***University of California (UC)*** provides undergraduate and graduate instruction; it has jurisdiction over professional training including law, medicine, dentistry and veterinary medicine, and it serves as the State's primary agency for research.

The ***California State University (CSU)*** provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research related to its instructional mission.

The ***California Community Colleges (CCC)*** provide academic and vocational instruction at the lower division level. Studies in these fields may lead to the Associate in Arts or Associate in Science degree. The colleges also engaged in promoting regional economic development and conducting research on student learning and retention.

The ***California Student Aid Commission (CSAC)*** also plays an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing the state's financial aid programs.

The *Master Plan* has been put in strains due to the impacts of this recession, as the state has reduced General Fund support for higher education by $2.65 billion since the 2008-09 Budget Act. The most notable consequences have been significant student tuition and fee increases and declining course offerings, which have made it difficult for students to complete their certification and degrees in a timely manner.

UNIVERSITY OF CALIFORNIA (UC)

The UC system includes ten campuses at Berkeley, Davis, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Cruz, and Santa Barbara. Nine general campuses offer undergraduate, graduate, and professional education, with the San Francisco campus devoted exclusively to the health sciences. The University operates five teaching hospitals in the following counties: in Los Angeles, San Francisco, Sacramento, San Diego, and Orange. The University of California draws students from the top 12.5 percent of the state's high school graduates, educating an estimated 237,800 full-time equivalent students (FTES) including undergraduate, graduate, and professional students.

Impacts of the 2011-12 Trigger Reductions. In the current year, the University of California was reduced by $100 million, due to a revenue shortfall of $2.2 billion lower than the revenue specified in Section 3.94 of the 2011-12 Budget Act.

Major Provisions

Funding Augmentation to Address Retirement Costs or Other Unfunded Expenses
Adjusts the 2012-13 UC's base budget to include the $100 million unallocated trigger reduction. The budget provides an augmentation of $90 million General Fund for base operating costs, which can be used to address costs related to retirement program contributions. However, the Governor does not propose to address or discuss the UC's Retirement Plan, which is currently underfunded. The budget also provides UC with $5.2 million General Fund for retired annuitant benefits.

Eliminates Earmarks & Set-Aside Programs
The Governor's Budget proposes to remove various set-aside appropriations for specific programs and purposes, such as the AIDS research, Charles R. Drew Medical Program, and the Summer School for Math and Sciences, as a means of providing the system with greater flexibility to manage its $750 million reduction.

The budget proposes to shift $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.

Eliminates Enrollment Targets
Authorizes the system to establish its own enrollment targets, without further legislative input.

Merges G.O. and Lease-Revenue Bond Costs with the University's Base Funding
The 2012-13 budget provides an additional $9.7 million for debt service costs and proposes to shift the system's general obligation and lease revenue debt service for UC capital improvement projects into the UC's base appropriation. The state would no longer budget or annually make adjustments to account for changes for purposes of repaying GO or lease revenue debt, which would require the University to factor these costs into UC's overall fiscal outlook and decision-making process.

New "Funding" Agreement Based on Performance Metrics, Contingent on Voter Approval of Governor's Tax Initiative

The Governor's Budget proposes a new "funding" agreement with the system, to increase its General Fund contribution of the institution's prior year base by a minimum of 4 percent per year, from 2013-14 through 2015-16, contingent upon the passage of the Governor's tax initiative.

As a condition of receiving additional General Fund support, the Governor proposes to establish fiscal incentives to improve management of all costs. Key components of this proposal, although vague, are as follows:

- Affordability – asserts an expectation that the university will curtail the need to increase student tuition and fees.
- Student Success – proposes to make General Fund augmentations contingent upon the university achieving the Administration's priorities, including improvements in specific accountability metrics, such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload.

Education Targeted with new Trigger Reductions, if Governor's Tax Initiative Fails.
In the event that the initiative is not approved by the voters, the Governor imposes a trigger reduction of $200 million to the system, effective January 1, 2013.

HASTING COLLEGE OF THE LAW (HCL)

Hasting College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and was affiliated with the University of California by the Legislature in the same year. A board of directors, appointed by the Governor for 12-year terms, oversees the college. The Juris Doctor degree is granted by the Regents of the University of California, and is signed by the President of the University of California and the Dean of Hastings College of the Law.

Major Provisions

Merges G.O. and Lease-Revenue Bond Costs with the University's Base Funding
Proposes no further reductions, but proposes to include $1.8 million in General Obligation bond debt service payments in Hastings' General Fund appropriation in 2012-13. No augmentations for this purpose will be provided in 2013-14 and beyond, expecting that the system will be required to factor these costs into their overall fiscal outlook and decision-making process.

Includes the Approved Student Fee Increase
The Governor's Budget accounts for Hastings' Board of Trustees approval of a 15.2 percent fee increase for 2012-13. This will bring Hastings' student fees to $44,094 for resident law students, in line with the average tuition and professional fees paid at the three University of California law schools.

CALIFORNIA STATE UNIVERSITY (CSU)

The California State University (CSU) system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus in the system has its own unique geographic and curricular character, all campuses offer undergraduate and graduate instruction for professional and occupational goals, as well as broad liberal education programs. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and a limited number of doctoral degrees are offered jointly by the CSU with the University of California, and with select private universities. The CSU system draws students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, educating approximately 412,000 students.

Impacts of the 2011-12 Trigger Reductions. In the current year, the California State University was reduced by $100 million, due to a revenue shortfall of $2.2 billion lower than the revenue specified in Section 3.94 of the 2011-12 Budget Act.

Major Provisions

Merges G.O. & Lease-Revenue Bond and Retirement Costs with the University's Base Funding
Adjusts the 2012-13 CSU's base budget to include the $100 million unallocated trigger reduction.

The budget provides an additional $5.5 million for debt services costs and proposes to shift the system's general obligation and lease revenue debt service for CSU capital improvement projects into the CSU's base appropriation.

With regard to CSU's employer contributions to CalPERS, the amount included in the CSU's base budget is $38.5 million less than 2011-12 due to lower rates. CSU will receive an increase of $1.1 million General Fund for retired annuitant benefits in 2012-13.

The State would no longer budget or annually make adjustments to account for changes for purposes of repaying GO or lease revenue debt, as well as retirement costs, which would require the University to factor these costs into CSU's overall fiscal outlook and decision-making process.

Eliminates Enrollment Targets
Authorizes the system to establish its own enrollment targets, without further legislative input.

New "Funding" Agreement Based on Performance Metrics, Contingent on Voter Approval of Governor's Tax Initiative
The Governor's Budget proposes a new "funding" agreement with the system, to increase its General Fund contribution of the institution's prior year base by a minimum of 4 percent per year, from 2013-14 through 2015-16, contingent upon the passage of the Governor's tax initiative.

As a condition of receiving additional General Fund support, the Governor proposes to establish fiscal incentives to improve management of all costs. Key components of this proposal, although vague, are as follows:

- Affordability – asserts an expectation that the university will curtail the need to increase student tuition and fees.

- Student Success – proposes to make General Fund augmentations contingent upon the university achieving the Administration's priorities, including improvements in specific accountability metrics, such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload.

Education Targeted with new Trigger Reductions, if Governor's Tax Initiative Fails

In the event that the initiative is not approved by the voters, the Governor imposes a trigger reduction of $200 million to the system, effective January 1, 2013.

CALIFORNIA COMMUNITY COLLEGES (CCC)

The California Community Colleges (CCC) provides a general education and vocational certificate programs at 112 community colleges through 72 local districts, which serve approximately 2.6 million students. In addition to providing education, training, and services, the CCC contributes to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Impacts of the 2011-12 Trigger Reductions. In the current year, the California Community Colleges were reduced by $102 million, with a student fee increase of $10/unit (from $36/unit to $46/unit effective summer 2012) to offset about $30 million of this reduction, due to a revenue shortfall of $2.2 billion lower than the revenue specified in Section 3.94 of the 2011-12 Budget Act.

Major Provisions

Eliminates the Current Apportionment Allocation Methodology

Although the Governor's summary document and budget bill do not mention the proposal to eliminate how apportionments are allocated to college districts; that is the intent of this Administration. There is no rationale why the Governor is proposing to eliminate SB 361 (Scott, Chapter 631, Statutes of 2006), which establishes the current apportionment allocation system, but it might be in the spirit of fostering greater flexibility in a 6-month period time, instead of a phase-in process as proposed for the K-12 system.

The budget bill does contain language prescribing that the Community Colleges' Chancellor's Office "allocate funding to districts in the same proportionate share that districts received in 2011-12." The budget bill also allows for the Chancellor's Office to create its own funding allocation methodology, with the approval of the CCC's Board of Governors and final sign off from the Department of Finance. There is no mention of legislative involvement in this process.

The Governor's Budget would also discontinue the current practice of using student fee revenue to offset General Fund apportionment obligations. However, because trailer bill language has not been released at the time of this report, there are no further details at this time.

Potential Deferral Buy-Back & New Funding Agreement, Contingent on Voter Approval of Governor's Tax Initiative

Contingent on voter approval of the Governor's tax initiative, the Governor's Budget proposes to increase the Community Colleges' funding by $218.3 million to partially restore apportionment funding that has been previously deferred, from $961 million to $742.7 million.

The Governor's Budget proposes a new "funding" agreement with the community college system, to increase its General Fund contribution of the institution's prior year base by a minimum of 4 percent per year, from 2013-14 through 2015-16, contingent upon the passage of the Governor's tax initiative.

As a condition of receiving additional General Fund support, the Governor proposes to establish fiscal incentives to improve management of all costs. Key components of this proposal, although vague, are as follows:

- Affordability – asserts an expectation that the university will curtail the need to increase student tuition and fees.
- Student Success – proposes to make General Fund augmentations contingent upon the university achieving the Administration's priorities, including improvements in specific accountability metrics, such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload.

Education Targeted with new Trigger Reductions, if Governor's Tax Initiative Fails
In the event that the initiative is not approved by the voters, the Governor imposes a trigger reduction to the system, as part of an overall $4.8 billion K-14 Proposition 98 reduction, effective January 1, 2013. The breakdown of trigger reductions would be as follows for community colleges:

- -$218.3 million – Rescinds the buy-back of deferrals.
- -$30 million – Reduction to CCC's Apportionments.
- -$262 million – The share of the CCC's bond debt service payment rolled into their base budget. The Governor is proposing to shift K-14 education bond debt service payment into Proposition 98, thereby replacing existing education program spending. The shift would allow the state to make as-yet-undefined programmatic reductions and still fund the Proposition 98 minimum guarantee, thus avoiding a suspension.

Categorical Programs' Funding Flexibility
Under current law, 11 of community colleges' 21 categorical programs are included in a "flex item." Through 2014-15, districts are permitted to transfer funds from categorical programs in the flex item to any other categorical purpose. As part of his emphasis on flexibility, the Governor adds seven currently protected categorical programs to the flex item. Only three categorical programs would remain restricted: Foster Care, Disabled Student Programs, and Telecommunications & Technology Services.
The Governor's categorical funding flexibility allows for the use of "flexed" categorical funds for any categorical or non-categorical program purpose. Under this proposal, the consolidated funds total $411.6 million.

Mandate System Reform with New Block Grant Funding
The Governor's Budget eliminates mandates deemed unnecessary while preserving core mandatory programs and functions. The Governor's Budget creates a $22 million General Fund "block grant incentive program," an increase of $12.5 million, for the community colleges to incentivize continued compliance with remaining previously mandated activities.
As a condition of receiving block grant funding, recipients would be required to complete the activities still deemed high priority, and receive block grant funding on a per-student allocation. Although this proposal is still vague, the Administration indicated it will establish some auditing and/or compliance monitoring process to ensure grant recipients undertake the required activities.

Eliminate	Required Mandates Funded with Categorical Funds	Mandates Funded in Block Grant of $22 million
Absentee Ballots (2011-12: $1,000)	Enrollment Fee Collection and Waivers (2011-12: $3,000,000)	Sex Offenders: Disclosure Requirement (2011-12: $1,000)
Agency Fee Arrangements (2011-12: $57,000)	Cal Grant (2011-12: $1,000)	*Collective Bargaining (2011-12: $444,000)
Grand Jury Proceedings (2011-12: suspended)	Tuition Fee Waivers (2011-12: $13,000)	*CA State Teachers Retirement System Services Credit (2011-12: $101,000)
Health Benefits for Survivors of Peace Officers and Firefighters (2011-12: suspended)		*Open Meetings/Brown Act (2011-12: suspended)
Health Fee Elimination (2011-12: $5,907,000)		*Prevailing Wages (2011-12: $1,000)
Integrated Waste Management (2011-12: suspended)		
Law Enforcement Jurisdiction Agreements (2011-12: suspended)		
Law Enforcement Sexual Harassment Training (2011-12: suspended)		
Mandate Reimbursement Process (2011-12: $1,000)		
Reporting Improper Governmental Activities (2011-12: $13,000)		
Sexual Assault Response Procedures (2011-12: suspended)		
Student Records (2011-12: suspended)		
Threats Against Peace Officers (2011-12: $1,000)		
*These mandates are claimable for both school districts and community colleges.		

Technical Adjustments to CCC's Base Budget

The Governor's Budget backfills $109.4 million Proposition 98 General Fund to offset a decline in student fee revenue ($97.4 million) and increases costs to compensate colleges for the administration of fee waivers and financial aid ($14.3 million), and also reflects savings due to increased property tax and oil and mineral revenues ($2.3 million).
Expects to be able to offset $147 million in General Fund support of apportionment in the current year (2011-12) with an identical funding level in local property tax revenue resulting from the elimination of redevelopment agencies. This estimate seems rather high, and could potentially put college districts at fiscal risk if the revenue materializes lower than expected.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

The California Student Aid Commission is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant Program, which is the primary state source of financial aid.

The Commission is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, 2 members are appointed by the Senate Rules Committee, and 2 members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

Major Provisions

New Restrictions to the Cal Grant Eligibility & Award Levels
Citing dramatic increases in the Cal Grant costs since adoption of the entitlement programs in 2001, the Governor's Budget proposes several new restrictions in Cal Grant eligibility and award amounts. The major proposals are to:

- Increase the minimum required grade point average (GPA) for students to qualify for Cal Grants. The GPA requirements for high school entitlement awards would increase from 3.0 to 3.25 for Cal Grant A and from 2.0 to 2.75 for Cal Grant B (which serves lower-income students). The Community College Transfer entitlement requirement would increase from 2.4 to 2.75.

- Reverse the CSAC's recent decision to expand access to transfer entitlement awards. Currently students must begin university studies in the academic term immediately following community college enrollment to qualify for the transfer award. The CSAC decision would allow an interruption in studies prior to transferring. By reversing this decision, the administration estimates it will avoid $70 million in new General Fund costs.

- Halt the planned increase in allowable student loan default rates at Cal Grant eligible institutions. The default limit is currently 24.6 percent but is scheduled to increase to 30 percent for 2012-13. The Governor's proposal would retain the current limit, which prevents institutions with higher rates (primarily private for profit colleges) from participating in the Cal Grant program.

- Lower the current annual grant cap of $9,708 for students attending private colleges and universities. The new cap would be $5,472 for students attending private non-profit institutions and $4,000 for those attending private for-profit institutions.

Major Financial Aid Fund Shifts
The Governor's proposal would shift $736 million in Cal Grant costs from the General Fund to federal TANF funds. This fund swap would have no net effect on total funding for Cal Grants. As discussed earlier in this report, the Governor's proposal would cut CalWORKs services in order to free up TANF funding for Cal Grants.

Technical Adjustments

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

- Eliminates new awards for Student Loan Assumption Programs for Teachers and Nurses, while continuing to fund remaining renewal awards through 2015-16. Generates $6.6 million in General Fund savings.

CALIFORNIA POSTSECONDARY EDUCATION (CPEC)

In 1973, the Legislature's Joint Committee on Higher Education reviewed the 1960 Master Plan and recommended strengthening California's higher education plan. AB 770 (Vasconcellos), Chapter 1187, Statutes of 1973 created CPEC and made it responsible for the planning and coordination of postsecondary education. The commission was charged with providing analysis, advice, and recommendations to the Legislature and the Governor on statewide policy and funding priorities for postsecondary education. In making changes to the Coordinating Council, Chapter 1187 (1) required that a majority of the commission members be from the general public rather than from the segments and (2) increased the commission's responsibilities. Subsequent legislation has added to and modified CPEC's statutory responsibilities over time.

However, due to budget reductions and legislative direction, CPEC began to diminish in its ability to provide the Governor and Legislature with the policy and coordinating structure the state continues to require. In 2011-12, the Legislature rejected the Governor's request to eliminate this entity and requested that the Legislative Analyst's Office report on recommendations on the structure and duties of a statewide higher education coordinating body for the State. However, the Governor effectively reversed the Legislature's decision and vetoed state funding for CPEC, forcing its closure in fall 2011.

The Governor's Budget proposes as clean up to the 2011-12 line-item veto of CPEC's funding, to provide $850,000 General Fund for "close out costs" in current year and shifts the federal Improvement Teacher Quality Grant program to the California Department of Education in 2012-13.

CALIFORNIA STATE LIBRARY (CSL)

The California State Library is the state's information hub, preserving California's cultural heritage and connecting people, libraries and government to the resources and tools they need to succeed and to build a strong California.

Founded in 1850, the California State Library is the oldest and most continuous cultural agency in the State of California. Decades before there was a university system or a public library system, there was the California State Library.

The Governor's Budget proposes to reduce the Library's 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.

HEALTH SERVICES

Health care in California, and in the nation, is in the midst of major transformation. The landmark Affordable Care Act (ACA) has just begun to be implemented and states are in the midst of major planning efforts for the tidal wave of changes and new requirements that the ACA will deliver over the next few years. California has lead the way by being the first state to establish a health benefits exchange and many other policy reforms have been implemented or are in the pipeline, being discussed and debated by state leaders, health policy experts, stakeholders, advocates, and consumers. Among other major changes on the way, by 2014, Medicaid coverage will expand to nearly all non-elderly Americans and legal immigrants who have been in the U.S. at least five years, with incomes below 133% of the Federal Poverty Level, resulting in 1.4 million new beneficiaries in Medi-Cal.

On top of the myriad of impending ACA reforms, California also sought and secured a major new federal Medicaid 1115 Waiver in 2010, which contains its own host of changes to the way California provides health care to its residents. Named California's "Bridge to Reform," this waiver seeks to help California to be poised and ready for a swift and efficient implementation of the ACA. It implements major new initiatives that, collectively, are intended to provide a model for the nation on transitioning to reform in 2014. One of its many provisions is the transition of an estimated 600,000 seniors and people with disabilities from fee-for-service Medi-Cal into managed care, a process that is well-underway and the subject of a detailed oversight hearing by the Assembly and Senate Health Committees on December 7, 2011. Furthermore, California's counties are busily establishing Low-Income Health Programs in order to extend coverage to many uninsured Californians.

Yet another category of major change falls under the umbrella of cost-saving solutions to the state's severe fiscal crisis that has defined the past several years. The list of reductions and cost-saving policy reforms in Medi-Cal that have been adopted just since 2008 is exhaustive and includes, among others: the elimination of "optional benefits" (dental, psychology, audiology, speech therapy, optometry, podiatry, and others); the elimination of Adult Day Health Care (ADHC); the creation of first-ever mandatory co-pays in Medi-Cal (pending approval of the federal government); a utilization cap of 7 physician visits per patient per year; elimination of coverage of enteral nutrition products; implementation of mid-year status reports; repeated suspensions of annual COLAs, coupled with multiple additional funding reductions, to counties for eligibility administration; substantial reductions to hospitals and clinics; multiple provider rate reductions; repeated increases in Healthy Families premiums and copayments; and establishment of a Healthy Families Program waiting list.

Some might argue that these reforms were necessary to solve the budget crisis, or that they were necessary to make these programs more efficient and cost-conscious in a way that public programs should be. But on balance, they made health care less available, less accessible, and in many cases more bureaucratic. While perhaps the studies have yet to be completed, we already know that less health care equates to worsening health status, and therefore Californians overall are likely less healthy today than they were a few years ago.

Against this backdrop of enormous change and transition, the Governor, in his January 2012 budget, proposes more massive changes to California's health care system and overall safety net. As described below, the budget proposes a major statewide expansion of managed care, in large part to accommodate another proposal which moves all "dual-eligibles" (individuals in both Medi-Cal and Medicare) into managed care. It proposes to expand a duals-integration pilot project, just adopted in legislation in 2011 and not yet implemented, from 4 to 10 counties. It proposes to integrate nearly all home and community based services into managed care, including the In-Home Supportive Services (IHSS) program. It proposes to change the financing of all of these programs, the details of which have yet to be provided or perhaps even developed. It proposes to move over 800,000 low-income children from the Healthy Families program into Medi-Cal and eliminate the Healthy Families program. It proposes to completely revamp the way the state reimburses Federally Qualified Health Centers and Rural Health Centers, representing a completely-untested sea change in the world of clinics. It proposes to eliminate the Department of Mental Health and move most of its programs to the Department of Health Care Services (DHCS). It proposes to do all of this by 2014, in an expedited and closed process conducted at break-neck speed.

In addition to concern over the rising costs of health care, we must acknowledge of the value and role of public health and the substantial gains to be had by increasing California's investment in public health. California's investment in public health has shrunk during the budget crisis, from very little to close to nothing. Substantial research shows that socio-economic status and lifestyle choices have a vastly bigger impact on health than does one's insurance status. Access to medical care is essential, but helping people to stay healthy would go even further to both improve health and decrease costs in the long run. Chronic, life-style-related diseases, such as heart disease and diabetes, are major cost drivers in our health care system, yet we spend all of our money on treatment rather than prevention. Public health strategies, both new and old, that address systemic factors that contribute to unhealthy behaviors, such as smoking, poor diet, and unsafe sex, would go a long way towards building a dam to slow the torrent of rising health care costs. If we are serious about reducing costs in Medi-Cal, rather than more provider rate cuts and elimination of more benefits, we could increase access to smoking cessation and drug treatment programs. Increasing programs that make affordable healthy food available in low-income communities, and increasing teen pregnancy prevention programs.

Medi-Cal and Healthy Families are expensive programs. Medi-Cal is one the top three largest expenditures in the entire state budget and program costs consistently rise due to rising health care costs and increasing caseload. California's demographic—an aging population in an increasingly unequal-income distribution—means that health care costs will continue to rise for the foreseeable future. Sadly, the State of California has developed an obsession with reducing costs in the program, nearly at any cost to the well-being of its beneficiaries. Instead of considering the overall benefit to California's economy and society at large, the increases in health care costs are associated with the rhetoric of out-of-control government spending, as if meeting the basic health needs of our population were a compulsive addiction rather than a worthy public policy objective.

In 2007, the press uncovered that hospitals outside Los Angeles were treating homeless uninsured patients and then discharging them to taxis that made one-way trips to Skid Row in downtown L.A. The hospitals were trying to avoid costs associated with treating this expensive population and were looking for a way to sweep these people out of their way, as if these individuals were nothing more than smelly trash that needed to be taken out. This practice is a powerful metaphor for how so many people have come to view health care costs – the goal is to provide the minimal care necessary and then push the burden of cost to someone else. State policy direction has followed a similar path. When ADHC was eliminated in 2011, initially it was to be replaced with a simple referral to a managed care company that had no replacement for these unique services that thousands of medically-fragile individuals have come to depend on.

One legacy of the recession is to reduce the discussion of health policy in California to an abstract accounting cost-model that is singularly focused on minimizing State costs. This has dehumanized the policy debate into a sterile and conceptual discussion that masks the real impact these policies have on individuals. We have made choices that have diminished the quality of life of millions of our residents and helped to widen the growing economic gulf between rich and poor in this state, all the while blaming the budget crisis for our inability to stand on principle when it matters most. This is a choice we have made, and, now, at the beginning of a new year, we once again face the opportunity to instead choose to put the human side of the program first. Health care costs are not a threat to the State's five year fiscal outlook; they are a challenge, a duty, and a responsibility that California's government owes its people. Furthermore; an ounce of prevention can be worth a pound of cure both fiscally and in human terms.

DEPARTMENT OF HEALTH CARE SERVICES

The California Department of Health Care Services' (DHCS) mission is to protect and improve the health of all Californians by operating and financing programs delivering personal health care services to eligible individuals. DHCS's programs provide services to ensure low-income Californians have access to health care services and that those services are delivered in a cost effective manner.

Medi-Cal .The Medi-Cal program is a health care program for low-income and low-resource individuals and families who meet defined eligibility requirements. Medi-Cal coordinates and directs the delivery of health care services to approximately 8.3 million qualified individuals, including low-income families, seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases.

Children's Medical Services (CMS). CMS coordinates and directs the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases; its programs include the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program.

Primary and Rural Health. Primary and Rural Health coordinates and directs the delivery of health care to Californians in rural areas and to underserved populations, and it includes the Indian Health Program, the Rural Health Services Development Program, the Seasonal Agricultural and Migratory Workers Program, the State Office of Rural Health (CalSORH), the Medicare Rural Hospital Flexibility Program (FLEX)/Critical Access Hospital (CAH) Program, the Small Rural Hospital Improvement Program (SHIP), and the J-1 Visa Waiver Program.

Mental Health & Substance Abuse. As adopted in the 2011 Budget Act, the DHCS is also coordinating and directing the delivery of community mental health services and substance use disorder services

New Programs. Finally, as proposed in the Governor's January 2012 Budget, DHCS will oversee family planning services, cancer screening services to low income under-insured or uninsured women and prostate cancer treatment services to low-income, uninsured men, through the Every Woman Counts Program, the Family Planning Access Care and Treatment Program and the Prostate Cancer Treatment Program.

DHCS Budget

For Fiscal Year (FY) 2012-13, the Governor's Budget presents a total of $61.0 billion for the support of DHCS programs and services, as summarized in the chart below. Of the amount proposed, $506.1 million is for state operations and $60.4 billion is for local assistance. The $1.4 billion increase in MHSA funding represents the replacement of General Fund with MHSA funds, approved of last year, coupled with the shift of Medi-Cal mental health programs from the Department of Mental Health to the DHCS, also approved of in the 2011 Budget Act. The $2.5 billion increase in the Hospital Quality Assurance Revenue Fund results from a timing issue that results in overlapping payments between 2011-12 and 2012-13.

DEPARTMENT OF HEALTH CARE SERVICES
(Dollars in Thousands)

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$12,570,630	$15,572,740	$15,398,789	($173,951)	(1.1)
Federal Trust Fund	29,145,101	29,775,070	33,770,967	3,995,897	13
Reimbursements	109,466	431,521	2,390,433	1,958,912	453
Mental Health Services Fund	1,107	863	1,407,803	1,406,940	163,000
Health Care Support Fund	1,104,209	1,709,156	1,027,830	(681,326)	(40)
Hospital Quality Assurance Revenue Fund	7,691,457	1,573,076	4,125,225	2,552,149	162
Other Funds	1,762,465	2,336,752	2,832,065	495,313	21
Total Expenditures	**$52,384,435**	**$51,399,178**	**$60,953,112**	**$9,553,934**	**183**
Positions	**2,665.3**	**3,017.9**	**3,380.8**	**362.9**	**12**

The Medi-Cal Program

Medi-Cal is California's version of the federal Medicaid program. Medicaid is a 46-year-old joint federal and state program offering a variety of health and long-term services to low-income women and children, elderly, and people with disabilities. Each state has discretion to structure benefits, eligibility, service delivery, and payment rates under requirements established by federal law. State Medicaid spending is "matched" by the federal government, at a rate averaging about 57% for California, based largely on average per capita income in the State. California uses a combination of state and county funds augmented by a small amount of private provider tax funds as the state match of the federal funds.

Medicaid is the single largest health care program in the United States. According to the Kaiser Family Foundation (KFF), in 2011 the average monthly enrollment was projected to exceed 55 million, and a projected 70 million people, roughly 20% of Americans were expected to be covered by the Medicaid program for one or more months during the year. In California, the estimated average monthly enrollment is eight million or roughly one seventh of the national total program enrollment. Approximately 29% of Californians are on Medi-Cal.

Beginning in 2014, the ACA will expand Medicaid coverage to nearly all non-elderly Americans and legal immigrants who have been in the United States at least five years and who have incomes below 133% of the Federal Poverty Level. This is estimated to expand Medi-Cal by 1.4 million by 2019.

Funding for the Medi-Cal program is summarized in the table below. Medi-Cal costs have grown about six-percent annually since 2006-07 due to a combination of health care cost inflation and caseload growth. The increase in "other funds" of over $5 billion represents approximately $2 billion in increased reimbursements and $2.5 billion in increased Hospital Quality Assurance Revenue (as discussed above).

Medi-Cal Funding Summary (000s)	2011-12 Revised	2012-13 Proposed	CY to BY $ Change	% Change
Benefits	46,929,547	54,416,224	7,486,677	16
County Administration (Eligibility)	2,913,699	3,015,544	101,845	3.5
Fiscal Intermediaries (Claims Processing)	389,502	302,969	(86,533)	(22)
Total Local Assistance	**$50,232,748**	**$57,734,737**	**$7,501,989**	**15**
General Fund	15,297,145	14,800,127	(497,018)	(3.2)
Federal Funds	31,414,356	34,271,710	2,857,354	9.1
Other Funds	3,521,247	8,662,900	5,141,653	146

Major Provisions

Long-Term Care Reform & Managed Care Expansion

The Governor's Budget proposes to enroll all persons eligible for both Medicare and Medi-Cal ("dual eligibles") into managed care plans. This initiative would transition all 1.2 million dual eligibles to managed care within one year, beginning January 1, 2013. In order to accommodate this transition, the Governor's Budget also proposes to expand managed care statewide, into rural counties that currently are fee-for-service only, for General Fund savings of $2.7 million in 2012-13 and $8.8 million in 2013-14.

In addition, the dual eligible proposal seeks to expand the existing dual eligible pilot program from four to ten counties that are able to integrate and coordinate Medi-Cal and Medicare services for this population. Managed care plans would receive both Medicare and Medi-Cal funds; combine them into one capitated payment per dual eligible. Furthermore, the initiative proposes to move various Medi-Cal long-term care and home and community based services into managed care, statewide, and in these ten counties, both Medi-Cal and Medicare services would be integrated into managed care. These services would include, among others, nursing home care, In-Home Supportive Services (IHSS), and Community–Based Adult Services (CBAS – the replacement for Adult Day Health Care).

In the out years, the administration expects this initiative to achieve approximately $1 billion in General Fund savings. These savings are expected to result from reduced utilization of skilled nursing facilities and hospitals, as well as from shared Medicare savings.

As a result of the cash accounting system used in Medi-Cal, whenever a beneficiary transitions from fee-for-service to managed care, there are overlapping costs for the state at the beginning of the transition. Therefore, in order to achieve savings in the budget year (2012-13), the budget defers one managed care payment and one check write for BY savings of approximately $679 million General Fund.

Background on Duals

In California, as in most states, low-income SPDs may qualify separately for both Medicare and the state Medicaid program (Medi-Cal in California) and are called “dual eligibles.” Nationally, there were nearly nine million individuals eligible for both the Medicare and Medicaid programs in 2008. The majority of dual eligibles (6.9 million) receive full Medicaid benefits and assistance with Medicare premiums and cost-sharing. The remaining dual eligibles (2.0 million) receive assistance only with their Medicare premiums and cost-sharing. According to national data from the federal oversight agency, dual eligibles are among the most chronically ill and costly individuals enrolled in both the Medicare and Medicaid programs, with many having multiple chronic conditions and/or long-term care needs. More than half of Medicare-Medicaid enrollees have incomes below the poverty line, compared with 8 percent of other Medicare beneficiaries. Forty-three percent of Medicare-Medicaid enrollees have at least one mental or cognitive impairment, while 60 percent have multiple chronic conditions. Nineteen percent live in institutional settings compared to only 3 percent of Medicare beneficiaries who are not also eligible for Medicaid. In California, 54 percent of duals have a cardiovascular disease, 52 percent have a psychiatric illness, 28 percent have a disease of the central nervous system, and 22 percent have diabetes. As of January 2011, there were 1.1 million dual eligibles in California. Of these individuals, 770,042 were age 65 or older (70 percent) and 326,822 individuals (30 percent) were between 22-64 years of age. Of the 1.1 million dual eligibles in California, an estimated 175,000 (16 percent) are in managed delivery systems, such as the Program for All-Inclusive Care for the Elderly (PACE), Two-Plan Model managed care plans or COHS.

For dual eligible beneficiaries, Medicare generally is the primary payer for benefits covered by both programs. Medicaid is then available for any remaining beneficiary cost sharing. Medicaid may also provide additional benefits that are not (or are no longer) covered by Medicare. For example, Medicare covers SNF services when a dual eligible beneficiary requires skilled nursing care following a qualifying hospital stay. During this time, Medicaid benefits may be available for amounts that are not paid by Medicare. Once the beneficiary no longer meets the conditions of a Medicare skilled level of care benefit, Medicaid may cover additional nursing facility services, including custodial nursing facility care. In California, most state General Fund dollars spent on dual eligibles are for long-term care services. In 2007, dual eligibles accounted for 75 percent of the $4.2 billion spent by Medi-Cal on long-term care. According to the KFF’s “Proposed Models to Integrate Medicare and Medicaid Benefits for Dual Eligibles: A Look at the 15 State Design Contracts Funded by CMS” (KFF, August 2011), dual eligibles are attracting attention in part due to the medical needs and associated health care costs that typically exceed those of other Medicare and Medicaid enrollees. As an example, the KFF August 2011 Report states nationally they comprise 15 percent of Medicaid enrollees but 39 percent of total Medicaid spending. Similarly, dual eligibles represent 21 percent of Medicare enrollees but 36 percent of total Medicare expenditures. In California, DHCS indicates dual eligibles are less than 10 percent of Medi-Cal beneficiaries, but account for $8.6 billion or nearly 25 percent of annual Medi-Cal costs.

Existing Duals Pilot

SB 208 (Steinberg), Chapter 45, Statutes of 2011 requires the DHCS to seek federal approval to establish pilot projects in up to four counties under a Medicare or Medicaid demonstration project or waiver (or a combination of the two). The purpose of the pilot project is to develop effective health care models that integrate Medicare and Medicaid services. There are several significant policy issues as part of implementation of the dual eligible pilot programs, including site selection, consumer protections for dual eligibles, whether subsets of dually eligible beneficiaries are "carved out" of mandatory enrollment, the level and scope of benefits and services included in the pilot programs, how enrollment in the pilot program will be handled, and the outcomes measures that will be used to evaluate the programs. The DHCS is in the process of site selection but has not yet announced which counties will be chosen to participate. It is unclear how the DHCS intends to proceed with the pilot program given the current budget proposal that expands the pilot.

"Rebalancing"

The administration describes this proposal as a "rebalancing" proposal, stating: "The transitions and coordination of care for this group will help beneficiaries live in their homes and communities as long as possible by rebalancing the current avoidable institutionalized services toward enhanced provision of HCBS." Rebalancing is a policy direction that several states have undertaken, involving state leaders prioritizing HCBS over institutional care. Rebalancing is a way to protect and preserve independence and a higher quality of life for seniors and people with disabilities, while at the same time reducing state costs by minimizing expensive institutional care. This is a very noble policy direction and a very appropriate and legitimate goal for California.

In general, California has been consistently criticized for having an especially fragmented and uncoordinated long-term care system for which the financing incentivizes institutional care, thereby costing the state more and failing to keep people in the community who otherwise could be with adequate funding and supports. Nevertheless, while the goal and general policy direction of the administration maybe laudable and appropriate, the magnitude and complexity of the Governor's proposal far exceed the proposed time-line for implementation. What could be a fantastic long-term care proposal, could also turn into a major disaster if hurried through the Legislature and subsequently implemented at a pace that ignores the very complicated and unique needs of quite fragile individuals.

Moreover, the Assembly and Senate Health Committees held an oversight hearing on December 7, 2011 to examine the on-going transition of hundreds of thousands of seniors and people with disabilities (excluding dual eligibles) into managed care. Extensive testimony was provided that highlighted major weaknesses in the current transition that have left many medically-fragile people without the care they need and with very little help trying to traverse a bureaucratic minefield. Significant disruptions in chronic care, such as for HIV and dialysis patients, was reported as well as the experience of many advocates of finding the state to be utterly unresponsive to these reports as they have arisen. Does it make sense to immediately begin a similar process for an even larger and more medically-complex population, prior to completing the current transition, taking stock and learning from this experience?

Finally, rebalancing in any state can work only when state leaders make a genuine commitment to, and investment in, the development, and preservation, of a rich network of HCBS that make it possible for people to continue living in the community. Yet, while the budget describes this proposal as a rebalancing proposal, and it certainly seems to have key elements of rebalancing, California has consistently reduced its investment in HCBS over the past several years in the form of repeated reductions to IHSS, the elimination of ADHC, reductions to the MSSP program and other community-based supports. Consistent with this trend, this budget proposes the elimination of Caregiver Resource Centers, yet another small, but key support that makes it possible for family members to meet the challenge of caring for a loved one at home. This trend flies in the face of rebalancing and would need to be reversed in order for California to successfully rebalance its long-term care system.

Questions

- Does this expanded proposal suggest that we have nothing to learn from doing a pilot?
- Is the proposed timeline realistic?
- How will DHCS determine if a managed care plan is ready? Based on what criteria?
- How will DHCS choose the ten counties to participate?
- Who will determine the rates to be paid to HCBS?
- What if the rates are not sufficient to maintain the HCBS system in CA?
- Would PACE be excluded? If so, for what reason?
- How will the state ensure that IHSS will remain largely the same program with the same consumer freedoms and protections?

Elimination of Healthy Families & Transfer of Children to Medi-Cal

The Governor's Budget proposes to transfer all of the approximately 883,000 children currently enrolled in the Healthy Families program to Medi-Cal, beginning October 1, 2012 and to be completed by June 30, 2013. According to the Administration, this proposal is intended to help prepare for full implementation of federal health care reform (the Affordable Care Act, "ACA") which, among many other provisions, requires all state Medicaid programs to increase eligibility to 133 percent of the federal poverty level (FPL). The ACA also creates state health benefits exchanges, the first of which has been created here in California. The administration states that three public health coverage programs would be inefficient and unnecessary and that the best place for these children, instead of Healthy Families, would be Medi-Cal. This proposal is discussed in more detail below under the Managed Risk Medical Insurance Board.

Payment Reform for Federally Qualified Health Centers
The Governor's Budget proposes to reform the payment system to certain clinics, for projected General Fund Savings of $27.8 million in 2012-13 and $58.1 million in 2013-14. Under this proposal, Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs) participating in Medi-Cal managed care plan contracts will no longer receive a cost-based payment that the administration believes incentivizes the volume of visits to the clinics. Instead, clinics will receive a per-member-per-month (PMPM) bundled payment for primary care within the clinic's scope of service. The proposal also adds access and performance requirements in order to build a risk/performance payment system that incentivizes quality health care rather than volume, according to the administration.

Background and History. FQHCs and RHCs are community-based clinics that provide comprehensive primary care and preventive care, including health, oral, and mental health/substance use disorder services to persons of all ages, regardless of their ability to pay. The number of FQHCs and RHCs in California has grown from about 400 in 2001 to about 1,000 today, including 681 FQHCs and 293 federally designated RHCs. In 2009-10, about 1.6 million Medi-Cal beneficiaries made 6.8 million health center visits and nearly 400,000 beneficiaries made 2.1 million rural clinic visits. Also in 2010, 64 percent of Medi-Cal primary care visits in the doctor's office or clinic setting were at FQHCs and RHCs.

Current Law. Federal law requires state Medicaid programs to reimburse these clinics using a prospective payment system (PPS). The PPS is a minimum facility-specific, cost-based amount and must be paid on a per-visit basis unless the facility agrees to an alternative payment methodology. The PPS rate is adjusted annually based on a Medicare inflation factor. The Medi-Cal program may not set different rates for these clinics or negotiate lower rates. Therefore, these clinics were exempt from the recently approved Medi-Cal provider reimbursement reductions.

The administration also argues that FQHCs operate under onerous and outdated restrictions that inhibit the clinic's ability to provide efficient care. Restrictions include:

- Payments are limited to visits to only certain provider types;
- Services are limited to those provided within the "four walls" of the clinic; and
- Restriction against multiple payments for multiple services in the same day.

The administration states that the current reimbursement structure for FQHCs/RHCs inhibits significant outpatient service delivery reform in these clinics. The administration's goals are to bundle payments that more appropriately capture the complexity of the services provided by clinics, allow clinics to provide care in the best way to meet patient needs, and to use payment incentives to reward quality and outcomes rather than volume. The DHCS hopes to create a payment model for FQHCs and RHCs that will allow, and reward, these clinics for providing more efficient and better care, and as a result, create state General Fund savings.

The projected savings are assumed to result from increased efficiencies by the elimination of the current FQHC operating restrictions. The DHCS expects that FQHCs will be able to operate according to efficient best practices, such as group visits, expanded tele-health services, such as nurse advice lines, telephonic disease management, and performing multiple services on the same day, all of which reduce the cost of care. Clinics would be required to report several key performance metrics to monitor access and quality of care to Medi-Cal beneficiaries, particularly those with chronic illnesses.

Stakeholders. The California Primary Care Association, the largest association of clinics in the state, is opposed to this proposal. In general, clinic associations and advocates, though still analyzing the proposal, state that this would be a massive restructuring of the clinic payment system. They therefore argue that reforms of this magnitude should be handled through the policy process in the Legislature, rather than the budget, and should be implemented over a much longer time frame. Moreover, they object to the funding reduction that would result from this proposal stating that the existing PPS system is justified given the quantity and quality of services provided by FQHCs. This proposal will require extensive exploration and discussion with stakeholders.

Questions

1. Would this proposal require a federal waiver, and if so what indication has the DHCS received from the federal CMS that they are receptive to this?

2. Has anything like this been implemented in any other state?

3. How would this be implemented in rural counties where there is no managed care?

Key Provisions

- **Administrative Flexibilities.** Creates new operational flexibilities within the Medi-Cal program, based on a stakeholder process, to allow administrative changes to benefits, services, rate methodologies and payment policies. This proposal will achieve approximately $75 million in General Fund savings in 2012-13 and on-going.

- **Annual Plan Lock-In**. Limits Medi-Cal beneficiaries' opportunity to change plans from monthly to annually, for General Fund savings of $3.6 million in 2012-13 and $6 million in 2013-14.

- **Medical Therapy Program**. Creates income eligibility criteria for the Medical Therapy Program consistent with the criteria for the California Children's Services program, for General Fund savings of $9.1 million in 2012-13 and $10.9 million in 2013-14.

- **Hospital Funding Redirection**. Redirects, on a one-time basis, $42.9 million of private and non-designated public hospital stabilization funding not yet paid for fiscal years 2005-06 through 2009-10 for General Fund savings.

- **Gross Premium Tax**. Eliminates the sunset on the Gross Premium Tax on Medi-Cal managed care plans for General Fund savings of $161.8 million in 2012-13 and $259.1 million in 2013-14.

- **Nursing Home Quality Assurance Fee**. Restores the 10 percent provider rate reduction within the nursing home fee program ("AB 1629") at a cost of $171.2 million General Fund and provides for supplemental payments to nursing homes of $245.6 million General Fund. Permanently extends the rate methodology and nursing home fee established by AB 1629 (Frommer), Chapter 875, Statutes of 2004.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers five programs as follows:

1. **The Major Risk Medical Insurance Program (MRMIP).** MRMIP provides health insurance for Californians unable to obtain coverage in the individual health insurance market because of pre-existing conditions. Californians qualifying for the program participate in the cost of their coverage by paying premiums. Proposition 99 (tobacco tax) Funds are used to supplement premiums paid by participants to cover the cost of care in MRMIP. MRMIP was the state's pre-existing conditions program (PCIP) prior to the passage of the federal Affordable Care Act (ACA) and creation of the federal PCIP (described below).

2. **Access for Infants and Mothers (AIM).** AIM provides low cost insurance coverage to uninsured, low-income pregnant women. The subscriber cost is 1.5 percent of their adjusted annual household income. AIM is supported with Proposition 99 Funds, as well as federal funds to supplement the participant's contribution to cover the cost.

3. **County Children's Health Initiative Matching Fund Program (CHIM).** The CHIM offers counties the opportunity to use local funds to obtain federal matching funds for their Healthy Children's Initiatives, which provide health coverage to uninsured children. Currently, four counties participate in CHIM.

4. **Pre-Existing Conditions Insurance Program (PCIP).** Created by the ACA, the PCIP offers health coverage to medically uninsurable individuals 18 years or older who live in California. It is available for people who have not had health coverage in the 6-months prior to applying. PCIP uses a preferred provider network that has contracted health providers in all 58 counties statewide. Monthly premium costs are based on the applicant's age and the region where the applicant lives.

5. **Healthy Families Program (HFP).** The HFP, California's version of the federal Children's Health Insurance Program (CHIP), provides subsidized health, dental and vision coverage through managed care arrangements for children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements. Eligibility is conducted on an annual basis. A 65 percent federal match is obtained through a federal allotment (Title XXI funds).

MRMIB Budget

The Governor's Budget proposes to eliminate the MRMIB, by shifting all of the children in the Healthy Families Program to the Medi-Cal program, and by moving all of the other MRMIB programs to the DHCS by July 1, 2013. The chart below summarizes the proposed budget and reflects the proposed elimination.

MANAGED RISK MEDICAL INSURANCE BOARD					
Fund Source (000s)	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**BY to CY Change**	**% Change**
General Fund	$120,693	$288,610	$136,213	($152,397)	-53
Proposition 99	28	34	35	1	3
Perinatal Insurance Fund	50,925	58,692	59,061	369	0.6
Major Risk Medical Insurance Fund	27,670	38,583	43,015	4,432	11
Federal Trust Fund	758,479	843,812	358,049	(485,763)	(57)
Reimbursements	87,443	8,873	8,417	(456)	(5)
County Health Initiative Matching Fund	689	705	819	114	16
Mental Health Services Fund	130	-	-	-	0
Children's Health & Human Services Special Fund	168,205	123,160	11,342	(111,828)	(91)
Federal Temporary High Risk Health Insurance Fund	32,836	320,681	348,618	27,937	8.7
Total Expenditures	**$1,247,098**	**$1,683,150**	**$965,569**	**($717,591)**	**(43)**
Positions	89	107.8	99.7	(8.1)	(7.5)
MRMIP	27,679	38,592	43,015	4,423	11
AIM	118,199	132,156	127,096	(5,060)	(3.8)
HFP	1,066,418	1,189,770	444,627	(745,143)	(63)
CHIM	1,966	1,951	2,213	262	13
PCIP	32,836	$320,681	$348,618	$27,937	8.7

Major Provisions

Elimination of MRMIB

Mirroring a proposal included in the Governor's 2011 May Revision, the Governor's January 2012 Budget proposes the elimination of the MRMIB by transferring all children in the Healthy Families Program to Medi-Cal, and by shifting all of the other MRMIB programs to the DHCS. The proposal requires all of the programs (MRMIP, PCIP, AIM & CHIM), excluding the HFP, to shift to the DHCS by July 1, 2013. The federal ACA requires the transition of the PCIP to the California Health Benefit Exchange by 1/1/2014. The caseload for these programs is summarized in the table below.

MRMIB PROGRAM	ESTIMATED 2012-13 CASELOAD
Healthy Families	883,174
Managed Risk Medical Insurance	6,166
Access for Infants and Mothers	10,627
Pre-Existing Conditions Insurance	5,972
County Children's Health Insurance Matching	1,665

Healthy Families Program Background

The HFP provides subsidized health, dental and vision coverage through managed care arrangements for children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements. Eligibility is conducted on an annual basis. A 65 percent federal match is obtained through a federal allotment (Title XXI funds). In addition, infants born to mothers enrolled in the AIM program (200-300 percent of federal poverty) are immediately enrolled into the HFP and can remain in the program until age two. At age two, the family income must not exceed 250 percent FPL in order for the child to stay in the HFP.

The HFP benefit package is modeled after that offered to state employees, including health, dental and vision. The enabling federal legislation—the Children's Health Insurance Program (CHIP)—required states to use this "benchmark" approach. These benefits are provided through managed care arrangements. The HFP directly contracts with participating health, dental and vision care plans. Participation from these plans varies across the state but consumer choice has always been available.

In addition to these HFP benefits, enrolled children can also access the California Children's Services (CCS) Program if they have a CCS-eligible medical condition. A child enrolled in the HFP is also eligible to receive supplemental mental health services provided through County Mental Health Plans. These additional services are provided in accordance with state statute and are also available to children enrolled in Medi-Cal.

Caseload in the HFP has remained relatively flat for the past few years. The economy could be expected to result in increased enrollment; however this effect may be offset by the near-elimination of funding for outreach activities. The MRMIB projects a year-end total enrollment of 883,174 subscribers. This is an increase of 5,463 (0.6 percent) compared to the 877,711 projected for the current year. This year-end enrollment estimate is based on the full caseload. Should the Legislature approve of the Governor's proposal to transition all children to Medi-Cal, the year-end enrollment for the Healthy Families program will be 0.

Healthy Families Program Local Assistance Summary	2011-12 Revised	2012-13 Proposed	CY to BY $ Change	% Change
General Fund	285,905,000	133,834,000	(152,071,000)	(53)
Federal Funds	762,231,000	282,067,000	(480,164,000)	(63)
Reimbursements	8,371,000	7,923,000	(448,000)	(5)
Children's Health and Human Services Fund	123,160,000	11,342,000	(111,818,000	(90)
TOTAL, ALL FUNDS	**$1,179,667,000**	**$435,166,000**	**($744,501,000)**	**-63**

Transfer of Children to Medi-Cal.
The Governor's Budget proposes to transfer all children in the HFP to Medi-Cal in three phases, as outlined in the chart below, beginning October 1, 2013 and to be complete by June 30, 2013. Effective October 1, 2012, all new eligible applicants to the HFP would instead be enrolled into the Medi-Cal program. During the transfer, all children will be declared presumptively eligible for Medi-Cal and redetermination will occur on his or her next birthday. This transfer is projected to result in General Fund savings of approximately $148.4 million in 2012-13 in the MRMIB budget and $155 million in increased costs in the Medi-Cal budget, resulting in a net increased cost to the state of approximately $6.6 million (related to the loss of premiums for children under 150 percent FPL, which would be prohibited under Medicaid). However, the budget also assumes a rate reduction in Healthy Families for $70 million in General Fund savings, a proposal which is discussed below.

Phase	Transition Period	Impacted Subscribers	# Impacted
I	Oct 1 – Dec 31, 2012	HFP children with a "matching" Medi-Cal managed care plan	410,666
II	Jan 1 – March 31, 2013	HFP children without a "matching" Medi-Cal managed care plan	424,103
III	Jan 1 – June 30, 2013	HFP children in counties w/o managed care (fee-for-service only)	43,090

The Governor's proposal to eliminate the HFP appears to be in response to significant changes to health care accomplished by the ACA. Specifically, the ACA increases Medicaid (Medi-Cal in California) eligibility to 133 percent of FPL. Currently, Medi-Cal eligibility for children aged 6 and older is 100 percent FPL. Therefore, federal law requires eligibility to increase to 133 percent FPL by 2014, and therefore children between 100 and 133 percent FPL who are currently enrolled in the HFP will automatically become eligible for Medi-Cal.

Health Benefits Exchange
The second significant change as a result of federal health care reform, that potentially changes the future of the HFP, is the creation of the Health Benefits Exchange (Exchange) which, once fully operational, will extend health insurance to many of the low-income families (both parents and children) which currently utilize the HFP for their children.

The Exchange is charged with creating a new insurance marketplace in which individuals and small businesses will be able to purchase competitively priced health plans using federal tax subsidies and credits beginning in 2014. The Exchange is an independent public entity within state government with a five-member board appointed by the Governor and the Legislature. It is currently fully funded with federal funds. Once the Exchange is fully operational in 2015, it must be self-supporting.

In August, 2011, the Exchange received a $39 million federal Level 1 Establishment grant that will help the state plan for and design a new health insurance marketplace to cover millions of Californians. Specifically, the federal funds will be used to create a three-year business and operational plan, begin development of an information technology infrastructure, and conduct other start-up activities including consumer outreach.

Policy Decision

Given the changes created by the ACA, California is faced with a basic policy decision about the future of the HFP program. The federal CHIP is authorized through 2019 and there is nothing in federal law that requires states to discontinue their CHIP programs. However, with the existence of both Medi-Cal and the Exchange, some argue that a third public coverage program is excessive and unnecessary, thereby calling for the elimination of the HFP.

If the Legislature agrees that the HFP should be eliminated, the secondary decision that must be made is where HFP children would best be served in the future: Medi-Cal or the Exchange. As stated above, Medi-Cal will be expanded to cover individuals up to 133 percent FPL and therefore we know with certainty that those children will transition to Medi-Cal. However, Children between 133 and 250 percent FPL could be covered through Medi-Cal or the Exchange. The Governor argues that the benefit package in Medi-Cal will be better for kids than that offered by the Exchange, and that the state will be better able to control General Fund costs by covering these children through Medi-Cal.

Healthy Families Rate Reduction

Effective October 1, 2012. The Governor's Budget proposes to reduce the HFP rates paid to health, dental and vision plans to the average, combined Medi-Cal rate of $76.86. The Medi-Cal "combined rate" reflects the average amount paid for health, dental and vision services. Currently, the HFP's statewide average rate is $103.44. This rate reduction is projected to result in General Fund savings of approximately $71 million in 2012-13. In effect, through this proposal, the Governor is asking health plans to accept Medi-Cal rates for providing the HFP benefits package, during the transition phase of children moving to Medi-Cal. This rate reduction could be described as a way to "front-load" the savings (that otherwise would be out-year savings) associated with the transition of children to Medi-Cal.

DEPARTMENTS OF MENTAL HEALTH & STATE HOSPITALS

The Governor's Budget eliminates the Department of Mental Health (DMH), establishes the Department of State Hospitals (DSH), and redirects funding and positions for major program areas for community mental health services as described below

DMH/DSH BUDGET

The Governor's Budget includes a net increase of $63 million General Fund for 2011-12 and $55 million General Fund for 2012-13 to support increases in state hospital operating costs. The total includes savings of approximately $120 million and $184 million respectively, which will be achieved primarily through staff redirection, program/service restructuring, streamlining documentation, and the use of generic pharmaceuticals when appropriate.

The Governor's Budget includes a decrease of $3 million General Fund resulting from treating defendants found to be incompetent to stand trial in county jails, rather than state hospitals, when medically appropriate.

DEPARTMENT OF STATE HOSPITALS					
Fund Source	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**BY to CY Change**	**% Change**
General Fund	$1,894,856,000	$1,353,182,000	$1,337,936,000	($15,246,000)	-1
General Fund, Prop 98	14,987,000	15,000,000	-	(15,000,000)	-100
CA State Lottery Education Fund	67,000	144,000	$144,000	0	0
Federal Trust Fund	62,623,000	64,799,000	-	(64,799,000)	-100
Reimbursements	1,783,509,000	1,554,188,000	$100,518,000	(1,454,670,000)	-93
Mental Health Services Fund	1,269,980,000	1,533,857,000	-	(1,533,857,000)	-100
Licensing & Certification Fund	327,000	391,000	-	(391,000)	-100
Total Expenditures	**$5,026,349,000**	**$4,521,561,000**	**$1,438,598,000**	**($3,082,963,000)**	**-68**
Positions	**9,900**	**9,926.3**	**9,861.3**	**(65)**	**-0.6**

The Governor's 2011 May Revision first proposed the elimination of the DMH, the creation of the new DSH, and the transfer of Medi-Cal programs to the DHCS. The 2011 Budget Act approved of just the proposal to move Medi-Cal programs from the DMH to the DHCS, and therefore, Mental Health Managed Care and the Early Periodic Screening Diagnosis and Treatment (EPSDT) are now being operated by the DHCS. This budget assumes the elimination of the DMH and the creation of the DSH which will have the singular focus of providing improved oversight, safety, and accountability at the state's mental hospitals and other psychiatric facilities.

Major Provisions

Elimination of DMH and Creation of DSH

Whereas the existing DMH oversees both state hospitals and community mental health programs, the new DSH, as proposed, will only oversee state hospitals, with community mental health programs proposed to be moved to other departments, as described in the next table. At first glance, it appears that some of these programs could operate within different departments than as proposed in the budget; however more exploration is needed before recommendations can be made.

FUNCTION OR PROGRAM	RECIPIENT DEPARTMENT POSITIONS/TOTAL FUNDING
Financial Oversight, Certification Compliance/Quality Improvement, MHSA State Level Issue Resolution, County Data Collection and Reporting, Suicide Prevention, MHSA Student Mental Health Initiative, MSA Stigma and Discrimination Reduction Project, Co-Occurring Disorders, Veterans Mental Health, Substance Abuse and Mental Health Services Administration Block Grant, Projects for Assistance in Transition from Homelessness (PATH), Training Contracts – California Institute for Mental Health (CIMH), California Health Interview Survey (CHIS), Policy Management, MHSA Housing Program, Administrative Staff-Accounting, IT, California Mental Health Planning Council	**Department of Health Care Services** ($72.3 million ($256,000 General Fund) 41.0 Positions
Office of Multicultural Services Disaster Services and Response	**Department of Public Health** ($2.3 million Mental Health Services Fund) 4.0 Positions
Licensing/Quality Improvement (Mental Health Rehabilitation Centers, Psychiatric Health Facilities)	**Department of Social Services** ($1.1 million ($337,000 General Fund) 12.0 Positions
Early Mental Health Initiative	**Department of Education** ($15 million General Fund) 0.0 Positions
MHSA Workforce Education and Training (WET)	**Office of Statewide Health Planning and Development** ($12.3 million Mental Health Services Fund) 1.0 Positions
Training Contracts – Consumer Groups, MHSA Technical Assistance, MHSA Program Evaluation	**Mental Health Services Oversight and Accountability Commission** ($1.7 million Mental Health Services Fund) 0.0 Positions

Cost Savings in State Hospitals

After many years of mismanagement, or at least a significant void in effective, strong leadership, the Administration has taken great strides to turn the Titanic, otherwise known as the state's mental hospitals. For the past several years, state hospital costs have been rising at an alarming rate, and substantial current year deficiencies have become the norm and expected from year to year. In the 2010-11 FY, the current year deficiency rose from $50 million to $120 million and the DMH staff could not explain why. In general, the DMH lacked any clear understanding of what the major cost drivers were and how to curb or stabilize costs in the system. There is new, albeit temporary, leadership at the DMH/DSH at this point in time which, over the past year, oversaw an in-depth exploration and analysis of state hospital costs, resulting in a substantial report that is available on the department's website. The research team identified the following system-wide problems: increased patient aggression and violence; increased operational costs and significant overspending; inadequate data, tracking, and reporting systems; and inflexible treatment models and redundant staff work.

Based on this report, the DMH has proposed a comprehensive list of reforms, to reverse the rising cost trend, that address three general goals: 1) improve mental health outcomes; 2) increase worker and patient safety; and 3) increase fiscal transparency and accountability. Perhaps the most significant of these proposed reforms is the reduction of 600 positions from throughout the state hospital system. Of these 600 positions, 230 are vacant while 270 are filled. The department's goal with the 270 filled positions is to offer as many of these people as possible positions elsewhere in the system, in order to minimize layoffs. In addition to the reduction in positions, the DMH/DSH is proposing key changes in the following areas:

1. Modified mall services, streamlined documentation, and reduced layers of management;

2. Flexible staffing ratios, focusing on front-line staff, and redirecting staff to direct patient care; and

3. New models for contracting, purchasing, and reducing operational expenses.

Elimination of Caregiver Resource Centers

The Governor's Budget proposes the elimination of funding for the Caregiver Resource Centers (CRCs) for General Fund savings of $4.1 million ($2.9 million Local Assistance). The CRCs provide supportive services to caregivers of people with acquired brain impairment such as Alzheimer's, Stroke, Parkinson's, Huntington's, traumatic brain injury and related dementia. CRC services include: mental health support, respite, legal counseling, support groups, and education. There are 11 CRCs throughout the state, serving approximately 12,000 caregivers.

The CRC system in California was the first of its kind in the nation, and was looked to as a model for the development of similar services now available in all fifty states. State funding for CRCs was reduced by 74 percent in 2009. State funding qualifies for a 33:1 federal-state match. While eligibility for CRC services is not means-tested, CRC services are unique and generally not available elsewhere, even for people of middle or high-income who have health insurance. Individuals also pay fees on a sliding scale. These services are a valuable piece of our overall safety net that allows caregivers to continue providing care, and therefore for many disabled Californians to continue living in the community rather than in institutions, thereby creating substantial savings for the state in reduced institutional care. States that have prioritized and invested in community-based care, as a preferred alternative to nursing homes and other institutional care settings, generally support these types of services. For example, the State of Washington recently doubled its state funding support for its CRCs. As a result of budget reductions to California's CRCs, particularly in 2009, all 11 CRCs maintain waiting lists for various services; the LA CRC has a waiting list of over 900 people just for respite services. Eliminating CRCs will increase, rather than decrease, California's dependence on high-priced, low-quality-of-life institutional care.

Key Provisions

- **Support Budget.** The proposed budget for state operating expenses and equipment is $44.2 million as compared to the 2011-12 estimate of $78 million, a 43% reduction from the current year, most of which is attributable to a reduction in external consulting and professional services. Specifically for the state hospitals, the budget proposes operating expenses of $237.4 million as compared to the current year estimate of $240.6 million.

- **Enrollment Growth.** The budget proposes a reduction in state level staff of 65 positions. 58 positions would be moving to other departments associated with the proposed shifting of programs to other departments.

DEPARTMENT OF PUBLIC HEALTH

The mission of the CDPH is dedicated to optimizing the health and well-being of the people in California, primarily through population-based programs, strategies, and initiatives. The DPH's goals are to achieve health equities and eliminate health disparities; eliminate preventable disease, disability, injury, and premature death; promote social and physical environments that support good health for all; prepare for, respond to, and recover from emerging public health threats and emergencies; improve the quality of the workforce and workplace; and promote and maintain an efficient and effective organization.

DPH BUDGET

As summarized in the table below, the Governor's proposed 2012-13 budget provides $3.4 billion for CDPH programs and services, a decrease of 2.2 percent from the 2011-12 budget. General Fund dollars make up just 3.6 percent of the department's total budget. Federal funds make up approximately 58 percent of the total budget.

DEPARTMENT OF PUBLIC HEALTH					
Fund Source	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**BY to CY Change**	**% Change**
General Fund	$181,405,000	$132,380,000	$124,805,000	($7,575,000)	-6
Federal Funds	$1,884,492,000	$1,989,065,000	$1,998,122,000	$9,057,000	0.4
Special Funds & Reimbursements	$1,204,804000	$1,383,045,000	$1,304,742,000	($78,303,000)	-5
Total Expenditures	**$3,270,701,000**	**$3,504,490,000**	**$3,427,669,000**	**($76,821,000)**	**-2.2**
Positions	**3,277.0**	**3,577.3**	**3,807.4**	**230.1**	**6.4**

The General Fund in the Department of Public Health has been reduced dramatically over the past few years. In 2008-09, the DPH budget included approximately $350 million in General Fund, as compared to the currently proposed $125 million, a 64 percent reduction.

Furthermore, the Governor's Budget estimate for the current year for the DPH is $90.9 million General Fund less than the 2011-12 enacted budget. This $90.9 million is made up of a $14.1 million reduction to the Every Woman Counts program and a $76.8 million reduction to the AIDS Drug Assistance Program (ADAP), both of which are explained by estimated decreases in caseload as people move from these programs to newly-formed Low-Income Health Programs (LIHPs), county-based programs that are extending health insurance coverage to low-income people as a part of the state's new 1115 Medicaid "Bridge to Reform" Waiver. More information is needed in order to assess whether these estimates of caseload reduction are realistic and reasonable.

Questions

- If the projections of caseload shifts from EWC and ADAP to county LIHPs turns out to be over-estimates, how will the funding needs of these programs be addressed?

- Do all of the LIHPs provide the same level and type of services as provided by EWC and ADAP?

Major Provisions

ADAP Cost Sharing

ADAP provides HIV/AIDS drugs for individuals who could not otherwise afford them (up to $50,000 annual income). Drugs on the ADAP formulary slow the progression of HIV disease, prevent and treat opportunistic infections, and treat the side effects of antiretroviral therapy.

ADAP LOCAL ASSISTANCE BUDGET					
Funding Source	**2011-12 Enacted**	**2011-12 Projected**	**2012-13 Proposed**	**11-12 Enacted To 12-13**	**% Change**
General Fund	$82,625,000	$5,785,000	$6,445,000	($76,180,000)	-92
Federal Fund	100,632,000	118,797,000	102,572,000	1,940,000	1.9
Special Fund	253,827,000	283,184,000	245,520,000	(8,307,000)	-3.2
Reimbursements	74,064,000	74,064,000	49,300,000	(24,764,000)	-33
Total Expenditures	**$511,148,000**	**$481,830,000**	**$403,837,000**	**107,311,000**	**-21**

As shown in the table above, The Governor's proposed Budget reflects a net decrease in ADAP funding of $107.3 million from the 2011 enacted budget to the proposed 2012-2013 budget. The General Fund reduction reflects the expected caseload shift from ADAP to LIHPs, coupled with increased rebate funds available in the current year.

Caseload in ADAP is projected to be 41,887 in 2011-12 and 39,146 in 2012-13, reflecting the net decrease from a shift of clients to LIHPs and an increase in caseload based on consistent caseload trends. The following table describes the cost and caseload assumptions made by the administration associated with the LIHPs:

ADJUSTED LIHP IMPACTS		
Impact Estimates	FY 2011-12	FY 2012-13
Client Shift	4,800	5,272
Reduced Expenditures	19,902,871	139,903,677
Reduced Rebate Revenue	0	(33,078,128)
NET SAVINGS	**$19,902,871**	**$106,825,549**

The Governor is proposing to increase cost sharing for ADAP clients, for projected General Fund Savings of $14.5 million. The administration estimates this savings solely from revenue generated, and not as a result of the cost sharing serving as a deterrent to participation in the program. Currently, clients with income between 401 percent FPL ($43,430 for a single adult) and $50,000 have a share of cost. The budget proposes to increase client share of cost in the program to the maximum allowable under federal law (Ryan White Program). Cost sharing would be as follows:

Income Level	Share of Cost
Up to 100% FPL (54.6% of clients)	None
101-200% FPL	Up to 5% of gross income
201-300% FPL	Up to 7% of gross income
Over 300% FPL	Up to 10% of gross income

CURRENT AND PROPOSED ANNUAL SOC FOR ADAP ONLY AND MEDI-CAL						
INCOME	FPL	CURRENT ANNUAL SOC	CURRENT MONTHLY SOC	PROPOSED SOC %	PROPOSED ANNUAL SOC	PROPOSED MONTHLY SOC
$30,000	201-300%	$0	$0	7%	$2,100	$175
$40,000	301-400%	$0	$0	10%	$4,000	$333
$50,000	>401%	$4,126	$344	10%	$5,000	$417
CURRENT AND PROPOSED ANNUAL SOC FOR PRIVATE INSURANCE AND MEDICARE PART D						
INCOME	FPL	CURRENT ANNUAL SOC	CURRENT MONTHLY SOC	PROPOSED SOC %	PROPOSED ANNUAL SOC	PROPOSED MONTHLY SOC
$30,000	201-300%	$0	$0	6%	$1,800	$150
$40,000	301-400%	$0	$0	6%	$2,400	$200
$50,000	>401%	$4,126	$344	6%	$3,000	$250

The Governor's Budget in 2011 included this same proposal which was rejected by the Legislature. Cost sharing is very challenging for this population given both the relatively low incomes and high cost medical care needs of this population. More alternatives to ADAP are now available, such as the LIHPs, mentioned above, as well as the Pre-Existing Condition Insurance Program, a federal ACA program operated by MRMIB. Nevertheless, some individuals will not qualify for those programs or for other reasons choose not to switch to another program, thereby remaining ADAP clients facing these very onerous premiums.

Reorganization Proposals

The Governor has proposed to move various programs between different departments, many of which involve the DPH. The Governor asserts that these program shifts will lead to increased efficiency in state government. Specifically, the following changes are proposed:

1. ***Direct Services***. In order to maintain the focus of the DPH on prevention and population health, the budget moves the following three direct-service programs from the DPH to the DHCS: 1) Every Woman Counts Program; 2) Prostate Cancer Treatment Program; and 3) Family Planning Access Care and Treatment Program. This proposal shifts 33.6 positions from the DPH to the DHCS and is expected to result in savings of $12 million ($3.8 million General Fund) in State Operations and $47.9 million ($12.6 million General Fund) in Local Assistance.

2. ***Department Eliminations***. As part of the Governor's proposal to eliminate the Departments of Mental Health (DMH) and Drug and Alcohol Programs (DADP), several programs from those departments would move to various other departments, including the DPH. From the DMH, the Office of multicultural Services and Disaster Services and Response would move to the DPH. From the DADP, the following programs would move to the DPH: Office of Problem Gambling, Narcotic Treatment Program, Driving-Under-The Influence Program, and the Counselor Certification activity. Some of these proposed shifts warrant further exploration.

3. ***Office of Health Equity***. The budget proposes to create a new Office of Health Equity within the DPH to focus on health disparities between populations. This Office would comprise the Office of Women's Health (currently in the DHCS), the Office of Multicultural Health, the Health in All Policies Task Force, the Health Places Team, and the Office of Multicultural Services (currently in the DMH).

Key Provisions

- **Support Budget.** The Governor's Budget reflects already-implemented reductions to State Operations and workforce that were undertaken to comply with the Governor's Work Force Cap executive order. Specifically, the budget proposes $244.3 million for operating expenses and equipment, a $7.5 million (3%) reduction from the current year budget.

- **Enrollment Growth.** The Governor's Budget reflects reductions of a total of 171.5 positions, including the abolishment of 26.0 of those positions. 45.5 positions are proposed to be retained and redirected to meet current workload demands, and the remaining 100 positions are being redirected as part of the proposed "Blanket Position Conversion for Federal Special Projects and Reimbursements." Collectively, these reductions represent $14.2 million (Total Funds, $2.6 million General Fund) savings in the proposed 2012-13 budget.

DEPARTMENT OF MANAGED HEALTH CARE

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system through:

- Administration and enforcement of California's HMO patient rights laws.
- Operating the 24-hour-a-day Help Center.
- Licensing and overseeing all HMOs in the state.

Currently within the Business, Transportation, and Housing Agency, Chapter 552, Statutes of 2011, transfers the DMHC to the Health and Human Services (HHS) Agency effective January 1, 2012. Chapter 552 also removes the Office of Patient Advocate (OPA) from DMHC and establishes it as an independent entity under the HHS Agency effective July 1, 2012. The OPA offers information to consumers on choosing health plans, rankings of health plans and medical groups, and educates consumers about patient rights and responsibilities.

DMHC BUDGET

The DMHC receives no General Fund and is supported primarily by an annual assessment of each HMO. The annual assessment is based on the department's budget expenditure authority plus a reserve rate of 5%. The assessment amount is prorated 65 percent and 35 percent to full-service and specialized plans respectively. The amount per plan is based on its reported enrollment as of March 31st. The Knox-Keene Act requires each licensed plan to reimburse the department for all its costs and expenses.

As summarized in the table below, The Governor's 2012-13 Budget proposes total funding of $53,097,000, a decrease of $3,115,000.

DEPARTMENT OF MANAGED HEALTH CARE					
Fund Source	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**BY to CY Change**	**% Change**
General Fund	$0	$0	$0	$0	0
Federal Trust Fund	1,254,000	4,550,000	755,000	(3,795,000)	-83
Managed Care Fund	40,349,000	50,488,000	51,156,000	668,000	1.3
Reimbursements	276,000	1,174,000	1,186,000	12,000	1
Total Expenditures	**$41,879,000**	**$56,212,000**	**$53,097,000**	**(3,115)**	**-5.5**
Positions	**280.1**	**349.6**	**349.6**	**0**	**0**

The decrease in the department's overall funding is primarily attributable to the expiration of the federal Consumer Assistance Program Grant of $4.2 million originally awarded in 2010. The DMHC expended $3.9 million of this grant in 2011-12. The Consumer Assistance Program Grant funds are being used to update and enhance the Healthcare.ca.gov website and to promote a consumer education campaign, including translations of website content, recruitment of community based organizations to perform outreach efforts, and utilization of social networks to improve consumer education and outreach related to federal health care reform.

Major Provisions

Premium Rate Review Cycle II Federal Grant

The Governor's Budget requests 2.0 two-year limited term positions and spending authority of $755,000 for FY 2012-13, $691,000 for FY 2013-14, and $72,000 for FY 2014-15. The administration will also request spending authority of $645,000 for the current year through a Section 28 letter to the Legislature.

The federal Affordable Care Act directs states to establish a formal process for the annual review of health insurance premiums to protect consumers from unreasonable rate increases. In response, SB 1163 (Leno), Chapter 661, Statutes of 2010 was signed into law. As a result of the ACA and SB 1163, Knox-Keene licensed full-service health plans are now required to file premium rate data for their individual, small employer and large employer products with the DMHC and the DMHC is required to review these for unreasonable premium rate increases.

In support of this, the federal government established grant opportunities that states may apply for to help them meet this requirement. In 2010 the DMHC applied for and received a federal grant as part of Cycle I of the Health Insurance Premium Rate Review grant. California received $1 million which was shared between the DMHC and the Department of Insurance (DOI) ($392,000).

This request is for authority to implement Cycle II of this grant, which the DMHC applied for in August of 2011. This grant is intended to enhance the DMHC's capacity to collect premium rate data, improve rate filing requirements, enhance the rate review process, report required data to the U.S. Department of Health and Human Services and the California Health Benefit Exchange, and disclose rate information to consumers. As with the Cycle I grant award, the Cycle II grant funds would be split between the DMHC and DOI.

Key Provisions

- **Support Budget.** The Governor's Budget proposes $19,104,000 for operating expenses and equipment, a 2 percent decrease ($4,619,000) over the current year budget.

- **Enrollment Growth.** The Governor's Budget reflects on-going savings from reducing the department's position authority by 5.0 temporary help positions in response to the Governor's Executive order on January 8, 2010 ordering all departments to cap the workforce by achieving 5 percent salary savings by July 1, 2010.

OFFICE OF STATEWIDE HEALTH PLANNING & DEVELOPMENT

The Office of Statewide Health Planning and Development (OSHPD) develops policies, plans and programs to meet current and future health needs of the people of California. Its programs provide health care quality and cost information, ensure safe health care facility construction, improve financing opportunities for health care facilities, and promote access to a culturally competent health care workforce.

One of OSHPD's responsibilities is to implement the state's hospital seismic safety requirements. The Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983 established a seismic safety building standards program under OSHPD's jurisdiction for hospitals built on or after March 7, 1973. Numerous pieces of legislation since then have amended the Alquist Act, by increasing OSHPD responsibilities and modifying seismic safety deadlines for hospitals. Most recently, SB 90 (Steinberg), Chapter 19, Statutes of 2011 sought to respond to the fiscal challenges facing many hospitals and the resulting difficulty for them to meet the current seismic deadline of 2013, thereby facing the real possibility of closure. Hence, SB 90 authorized OSHPD to grant hospitals an extension of up to seven years beyond the 2013 deadline if specific milestones and public safety conditions are met.

OSHPD BUDGET

The OSHPD's overall department budget is summarized in the table below. Overall expenditures are proposed to increase by $7,797,000, primarily due to an $11,459,000 increase in Mental Health Services Act (MHSA) funds (described below) and a decrease of $2,705,000 in expiring federal American Recovery and Reinvestment Act (ARRA) funds.

OFFICE OF STATEWIDE HEALTH PLANNING & DEVELOPMENT					
Fund Source	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**BY to CY Change**	**% Change**
General Fund	62,000	0	74,000	74,000	100
Federal Trust Fund	2,576,000	4,140,000	$1,435,000	(2,705,000)	(65)
Reimbursements	634,000	1,830,000	995,000	(835,000)	45
Special Funds	99,752,000	95,428,000	95,546,000	118,000	11
Mental Health Services Fund	5,681,000	6,993,000	18,452,000	11,459,000	164
Total Expenditures	**$108,705,000**	**$108,391,000**	**$116,502,000**	**$8,111,000**	**7.5**
Positions	**416.2**	**472.6**	**473.6**	**1**	**.2**

The increase in MHSA funds largely represents the proposed shift of the MHSA Workforce Education and Training ("WET") program from the Department of Mental Health (DMH) to the OSHPD, as part of the proposed elimination of the DMH. If approved, the WET program would shift 1.0 position and $12.3 million from the DMH to the OSHPD.

Major Provisions

Shift WET program from DMH to OSHPD

The Governor's 2012-13 Budget proposes to eliminate the Department of Mental Health (DMH) by creating a new Department of State Hospitals to oversee the state's mental hospitals and by shifting all remaining DMH programs to other state departments. The elimination plan proposes shifting the Workforce, Education and Training (WET) program (within the MHSA/Proposition 63) to the OSHPD.

The MHSA contains five major components, including the WET, as follows:

1. **Community Services and Supports (CSS)** – provides funds for direct services to individuals with severe mental illness

2. **Capital Facilities and Technological Needs (CFTN)** – provides funding for building projects and increasing technological capacity to improve mental illness service delivery

3. **Workforce, Education and Training (WET)** – provides funding to improve the capacity of the mental health workforce

4. **Prevention and Early Intervention (PEI)** – provides historic investment of 20% of the MHSA funding for outreach programs for families, providers, and others to recognize early signs of mental illness and to improve early access to services and programs to reduce stigma and discrimination

5. **Innovation (INN)** – funds and evaluates new approaches that increase access to the unserved and underserved communities, promote interagency collaboration and increase the quality of services

Under the WET section of the MHSA, OSHPD already administers the Mental Health Loan Assumption Program (MHLAP). The MHLAP awards grants to mental health practitioners working in the public mental health system in hard to fill or retain positions. The following chart illustrates the significant, and still unmet, demand for the program:

Mental Health Loan Assumption Program

MHLAP	March 2009	Jan. 2010	Dec. 2010	Dec. 2011
Applications received	1222	1529	1009	1660
Applications awarded	288	309	474	TBD*
Debt burden of applicants	56,544,823	76,539,957.56	66,130,820.00	105,247,266.00**
Amount requested by applicants	15,460,101	9,381,609.00	9,899,700.00	10,891,251.00**
Amount awarded	$ 2,285,277	$ 2,476,325.61	$ 4,523,757.00	TBD*

*Applications are still being processed and awards will not be finalized until May 2012. ** Preliminary numbers

Key Provisions

- **Support Budget.** The Governor's Budget proposes $31,601,000 for operating expenses and equipment, a 5 percent decrease ($1,536,000) over the current year budget.

- **Enrollment Growth.** The Governor's Budget proposes on-going reductions of 3.8 PYs and $2,111,000 (various fund sources) per Control Section 3.90 of the 2010 Budget Act.

EMERGENCY MEDICAL SERVICES AUTHORITY

The Emergency Medical Services (EMS) Authority's mission is to coordinate EMS statewide; develop guidelines for local EMS systems; regulate the education, training, and certification of EMS personnel; and coordinate the state's medical response to any disaster. The EMSA is comprised of the following three divisions:

Disaster Medical Services Division
The Disaster Medical Services Division coordinates California's medical response to disasters. It is the responsibility of this division to carry out the EMS Authority's mandate to provide medical resources to local governments in support of their disaster response, and coordinate with the Governor's Office of Emergency Services, Office of Homeland Security, California National Guard, California Department of Public Health, and other local, state, and federal agencies, private sector hospitals, ambulance companies and medical supply vendors to improve disaster preparedness and response.

EMS Personnel Division
The EMS Personnel Division oversees licensure and enforcement functions for California's paramedics, personnel standards for pre-hospital emergency medical care personnel, trial studies involving pre-hospital emergency medical care personnel, first aid and CPR training programs for child day care providers and school bus drivers.

EMS Systems Division
The EMS Systems Division oversees EMS system development and implementation by the local EMS agencies, trauma care and other specialty care system planning and development, EMS for Children program, California's Poison Control System, emergency medical dispatcher standards, EMS Data and Quality Improvement Programs, and EMS communication systems.

EMSA BUDGET
The EMSA's overall department budget and proposed 2012-13 budget are summarized in the table below. Overall expenditures are proposed to increase very slightly by just $269,000, including a General Fund increase of $12,000.

EMERGENCY MEDICAL SERVICES AUTHORITY					
Fund Source	**2010-11 Actual**	**2011-12 Projected**	**2012-13 Proposed**	**BY to CY Change**	**% Change**
General Fund	8,368,000	6,712,000	6,724,000	12,000	.17
Federal Trust Fund	1,909,000	2,501,000	2,575,000	74,000	3
Reimbursements	11,282,000	14,715,000	14,750,000	35,000	0.2
Special Funds	2,906,000	3,376,000	3,524,000	148,000	4
Total Expenditures	**$24,465,000**	**$27,304,000**	**$27,573,000**	**$269,000**	**1**
Positions	**65.7**	**64.3**	**64.3**	**0**	**0**

Due to the state's severe fiscal crisis, substantial reductions have been made over the past few years to the state's emergency preparedness infrastructure, most of which falls under the authority of the EMSA. It would be extremely helpful and timely to have an analysis of the state's remaining emergency preparedness infrastructure and capacity as it is unclear what resources remain in light of the reductions outlined below:

Mobile Field Hospitals (MHFs)

Since 2006, the EMSA has maintained three MFHs, each of which consists of approximately 30,000 square feet of tents, hundreds of beds, and sufficient medical supplies to respond to a major disaster in the state, such as a major earthquake in a densely populated area. The 2006 Budget Act allocated $18 million in one-time funds for the purchase of the MFHs and $1.7 million in on-going General Fund funding for the staffing, maintenance, storage, and purchase of pharmaceutical drugs, annual training exercises, and required medical equipment for the MFHs.

The original amount budgeted for the pharmaceutical drug cache was $23,000 which was later determined to be woefully inaccurate and inadequate. Recognizing that the value of the MFHs is quite limited in the absence of sufficient pharmaceutical supplies, the Governor put forth requests in 2009 and 2010 to augment the MFH budget by $448,000 General Fund, however the Legislature denied both requests. In 2011, the Governor instead proposed, and the Legislature approved, to eliminate the $1.7 million in on-going support for the MFHs.

Due to storage facility leases, there are on-going storage costs for the MFHs in the current year and those costs will continue at least through January 2013. The EMSA explored various potential shared responsibility arrangements with various non-state entities, such as the Red Cross, in order to find an affordable way for the state to continue to have access to the MFHs in a major disaster. Ultimately, the EMSA did the following: 1) consolidated the MFHs into two storage facilities in order to reduce warehouse space costs,; and 2) entered into a 1-year, no-cost contract with Blu-Med (a subsidiary of Alaska Structures) to continue providing minimal maintenance for the MFHs, at no cost to the state, with the stipulation that Blu-Med may rent out one or two MFHs to any state or country dealing with a major disaster. Therefore, at this point, they are available to California as long as they have not been rented out to another location. The EMSA has sufficient resources to cover storage costs only through January 1, 2013, at which point the state will no longer be able to access them without additional resources to cover storage costs.

Medical Stockpiles (Department of Public Health)

In 2006-07, the state purchased a large supply of respirators, ventilators, and antivirals to be used in case of a natural disaster, act of terror or other public health emergency. In 2007-08, $8.5 million was re-appropriated to the Department of Public Health specifically to store and maintain that stockpile. That re-appropriation expired in FY 10-11. In 2011, the Governor proposed, and the Legislature approved, to not provide the DPH with new General Fund of $4.1 million that they would need to continue storing and maintaining the stockpile.

Poison Control Centers

The State's system of poison control centers came close to being eliminated more than once during the past few years due to General Fund reductions to the program. The Poison Control Centers are a statewide network of experts that provide free treatment advice and assistance to people over the telephone in case of exposure to poisonous or hazardous substances. It provides poison help and information to both the public and health professionals and is accessible, toll-free, 24 hours a day, 7 days a week, and every day of the year. The system maintains interpreting services in over 100 languages. All fifty states have poison control systems.

The program was initially established in 1987 in ten different hospitals which operated independently and served different geographic regions, without guidance or regulation by the state. The system was eventually consolidated into seven regional poison centers required to meet minimum operational standards. In 1997, a new statewide system was created to provide uniform poison control services, and EMSA contracted with the University of California San Francisco to administer the program.

The General Fund support for the program has been reduced from $6.9 million in 2007-08 to $2.95 million in 2009-10 and each year since then. In order to avoid closure, in 2009 the EMSA successfully sought out federal matching funds under the federal Children's Health Insurance Program (CHIP), which it has received in 2009, 2010, and 2011. Without this new federal funding (which is matched with General Fund), the Poison Control Centers would have ceased operations in January 2010. The EMSA works closely with the Managed Risk Medical Insurance Board (MRMIB) to secure the federal CHIP match and therefore, should the Legislature approve of the Governor's proposal to eliminate the MRMIB, the DHCS would have to facilitate securing this match in place of the MRMIB in order for California to keep securing this funding and keep the Poison Control Centers operating.

Poison Control Centers Funding 2010-2011, 2011-12, 2012-13	
General Fund	$2,950,000
Federal (CHIP) Funds	$5,300,000
Medi-Cal Reimbursements	$800,000*
Federal Stabilization Grant to UCSF	$1,800,000*
TOTAL (ALL FUNDS)	**$10,850,000**

***Approximate funding amounts**

Major Provisions

The Governor's proposed 2012-13 budget contains no major policy or fiscal changes to this department.

Key Provisions

- **Support Budget.** The Governor's Budget proposes $6,174,000 for operating expenses and equipment, an increase of $62,000 over the current year budget.

- **Enrollment Growth.** The Governor's Budget requests authority to eliminate three limited-term positions (approximately a 5 percent reduction in authorized positions), for a total work force cap reduction of $273,000 (Special Funds). As a result of these eliminations, the EMSA has experienced delays in paramedic certification processing, which has resulted in complaints to the department.

HUMAN SERVICES

The Human Services area includes programs within the Health and Human Services Agency, including the Departments of Social Services, Developmental Services, Alcohol and Drug Programs, Child Support Services, Aging, Rehabilitation, Community Services and Development, and the Office of Systems Integration. These programs serve the most needy of Californians, including adults with disabilities, seniors, the medically frail living in their homes, low-income parents and their children living either in poverty or deep poverty, and children suffering from abuse and neglect.

Programs within this arena, largely CalWORKs, In-Home Supportive Services, Supplemental Security Income/State Supplementary Payments, and Developmental Services, have been the targets of repeated spending reductions over the past several budget cycles. Huge segments of their funding have been cut, affecting entire caseloads of these vulnerable recipients. Corresponding to the spending reductions, policies structuring these programs have been significantly revamped, driven by decisions framed by fiscal pressures. However, fiscal imperatives do not anesthetize the very real human impacts inflicted by budget decision-making.

Census Bureau data released in 2011 show that the share of Californians with incomes below the federal poverty line rose in 2010 for the fourth straight year. The state's 2010 poverty rate rose to 16.3 percent, the highest rate since 1997. More then 6 million Californians – nearly one out of six – had incomes below the federal poverty line. In addition, 2.2 million of the state's children – nearly one out of four – were living in poverty in 2010. The numbers for children in poverty and deep poverty are expected to worsen in the current year. And, California's workers still face the toughest job market in decades.

Against this backdrop, the Governor's Budget poses new threats for the human services safety net, however many of the major proposals mimic those proposed in the past by the Schwarzenegger administration. It was in those years that the face of human services programs changed dramatically. Background of what these programs have experienced in the recent past provides important context critical in reviewing any current proposal, and illustrates how the proposed policy changes will negatively impact communities that have already borne the brunt of policy and fiscal decisions in recent years.

Budget-driven decisions and their inexorable impact challenged the essence of these safety net programs' purpose, as the state and nation experienced an economic recession unmatched in its dimensions since the Great Depression. As there was additional demand for these programs, they expanded to accommodate the basic, daily needs of families, as their structure intended. New proposals to "redesign" or "refocus" these programs should be informed by the indispensable context of how recipients currently fare under the present conditions and what social and economic impacts are likely to be created if further shrinking of these safety net programs occurs.

Further safety net shrinkage means that families most reliant on these programs for survival will face destitution. Destitution as a condition for millions of families will alter not only individual futures for children in our society, but it will also change, for the worse, the face of our State for decades to come.

DEPARTMENT OF SOCIAL SERVICES

Department Description

The stated mission of the Department of Social Services (DSS) is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department accomplishes its mission through the operation and oversight of a variety of programs that provide cash assistance, social services, disability evaluation, community care licensing, and other services.

Fiscal Overview: Due to the significant program areas within DSS, the major programs for this department have been broken out into separate sections within this report. By way of overview, this section simply presents the overall Department information.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$8,921,455	$6,300,341	$6,234,028	(66,313)	-1.1%
Federal Trust Fund	7,264,008	6,977,199	6,833,080	(144,119)	-2.1%
Reimbursements	**4,333,687**	4,221,479	4,382,341	160,862	3.8%
Technical Assistance Fund	20,086	20,583	22,091	1,508	7.3%
Child Support Collections Recovery Fund	9,876	10,252	10,653	401	3.9%
State Children's Trust Fund	3,501	3,896	1,903	(1,993)	-51.2%
Child Health and Safety Fund	1,594	4,695	5,152	457	9.7%
Certification Fund	1,323	1,626	1,680	54	3.3%
Continuing Care Provider Fee Fund	1,228	1,679	1,714	35	2.1%
Mental Health Services Fund	760	-	-	-	-
Child Welfare Services Program Improvement Fund	508	4,000	4,000	0	0.0%
Emergency Food Assistance Program Fund	451	626	640	14	2.2%
Foster Family Home and Small Home Insurance Fund	-765	-	-	-	-
Licensing and Certification Fund, Mental Health	-	-	391	391	100
Residential and Outpatient Program Licensing Fund	-	-	3,915	3,915	100
Safely Surrendered Baby Fund	-	-	90	90	100
Total Expenditure	**20,557,712**	**17,546,376**	**17,501,678**	(44,698)	-0.3%
Positions	3,802.6	4,275.0	4,288.2	13	0.3%

Major Provisions

To highlight areas that are presented in further detail in this report, the Governor's Budget includes:

- General Fund savings of $1.1 billion through an enormous shift and reductive restructuring of the CalWORKs program that further depresses grants and limits access to employment services and child care to 24 months, unless the assistance unit is fully meeting federal work participation requirements through unsubsidized work hours. Of the total savings, $736.4 million is achieved in the California Student Aid Commission budget through a redirection of federal Temporary Assistance for Needy Families block grant funds for Cal Grants.

- General Fund savings of $163.8 million through elimination of domestic and related services for recipients of In-Home Supportive Services (IHSS) in a shared living arrangement and for minor recipients who live with an able and available parent provider. Domestic and related services include housework, shopping for food, meal preparation and cleanup, laundry, and other shopping and errands.

- Beginning in 2011-12, the Foster Care, Adoption Assistance, Child Welfare Services, Child Abuse Prevention, Adult Protective Services, Adoptions, and Title IV-E Waiver programs reflect reduced General Fund costs resulting from 2011 Realignment.

CALWORKS

Program Description and Background

The California Work Opportunity and Responsibility to Kids (CalWORKs) Program, our state's Temporary Aid for Needy Families (federal TANF) program, is a basic needs program that provides income support and services to eligible, needy California parents and their children. The program serves all 58 counties in the state and is operated locally by county welfare departments. Generally, services are available to:

- Families with a child (ren) when one or both parents are in the home but the principal earner is unemployed.
- Families that have a child(ren) in the home who has been deprived of parental support or care because of the absence, disability, or death of either parent.
- Needy caretaker relatives of a foster child(ren).

Caseload**.** CalWORKs is largely a program that serves children living in poverty and deep poverty (below 50 percent of the poverty level). Of the more than 1 million recipients of the program, more than three out of four – 77 percent - are children.

According to DSS, projected caseload for CalWORKs at the end of the 2011-12 Fiscal Year is:

- Children >1,128,000
- Total Individuals = 1,447,514
- Total Cases = 586,812.

The caseload experienced a large reduction in the years between the implementation of CalWORKs and its Welfare to Work (WTW) focus and the onset of the recent economic recession in 2007. Since this onset, and predictably, the caseload has steadily increased.

***Eligibility Determination*.** If a family has little or no cash and needs housing, food, utilities, clothing, or medical care, they may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance may receive aid each month to help pay for housing, food, and other basic living expenses. The county office will set up an interview with an eligibility worker to obtain facts and verify eligibility. Applicants must provide the county with proof of income and property, citizenship status, age, social security number, residence, shelter costs, work or school status, and other information. Similar information may be requested for all of the people in the home. Additionally, adult family members must also be fingerprinted and photo imaged.

***Welfare to Work and Income Support*.** At the interview, the county will advise applicants of the rules that must be met to be eligible for CalWORKs. Unless identified as not being able to maintain employment due to disability, caring for an ill relative, age, or another reason, the recipient develops a (WTW) plan toward employment preparedness. Once eligible, the family will receive monthly checks from the county welfare department until the entire family or adults in the family are determined ineligible. Any income of the family is considered in calculating the amount of cash aid the family receives and reduces the amount received from the Maximum Aid Payment (MAP) level.

All WTW participants receive an orientation to the program and an appraisal of their education and employment background. Initially, most individuals receive job search services. Additional employment-related services are provided based on an individual's education and work history. Individuals may be assigned to:

- Unpaid work experience/preparation.
- Vocational training placements.
- Adult education or community college programs.

In addition, program participants may be eligible for help with child care, transportation, and work-related or training-related expenses. Moreover, participants who find a job and are no longer eligible for welfare may continue to receive help with medical care and child care expenses. Unless exempt, applicants/recipients of CalWORKs are required to participate in WTW activities as a condition of receiving aid.

***Current Work Requirements and Services*.** Adults in one-parent families must spend at least 32 hours per week in WTW activities. The minimum participation requirement for two-parent families is 35 hours per week. After recipients find work, services may be available for up to 12 months to assist them to retain their employment. Recipients eligible for child care services are entitled to receive subsidized child care while on cash aid and for two years after they are off cash aid in Stage 1 and Stage 2 child care programs. Former recipients who meet child care eligibility requirements are then eligible to transition to the Stage 3 child care program.

Federal Funding and State MOE - California receives a federal block grant to design and operate its CalWORKs Program to accomplish stated federal purposes, which are:

- Assisting needy families so that children can be cared for in their own homes;
- Reducing the dependency of needy parents by promoting job preparation, work, and marriage;
- Preventing out-of-wedlock pregnancies; and,
- Encouraging the formation and maintenance of two-parent families.

Each year, California receives a $3.7 billion federal Temporary Assistance for Needy Families (TANF) block grant. The TANF funds may be expended on activities which are reasonably calculated to meet a purpose of the TANF program. The broad purposes of TANF and flexible transfer provisions allow states to use TANF funds for many different programs. About $680 million in TANF funding is used to offset General Fund costs in other departments. To receive a block grant, California must expend $2.9 billion annually. Typically, the General Fund appropriation for CalWORKs provides about $2 billion of the required Maintenance of Effort (MOE). The remaining MOE funding comes from county expenditures and expenditures in other departments, such as eligible child care spending in the Department of Education.

Budget Context

State budgets in recent years reflect vast and deep changes in the CalWORKs Program, at the same time that an increased caseload of parents and children have relied on its benefits for basic subsistence expenses, including housing, hygiene, and clothing costs. By way of context, the following is a summary of adopted budget reductions and program policy changes in CalWORKs as part of past budget negotiations.

CalWORKs Reductions Adopted as Part of the 2009-10 Budget

- ***Reduction of Grants by 4 Percent*** - For a family of three in a high-cost county, this 4 percent reduction cut the maximum monthly grant from $723 to $694, for a monthly loss of $29. Together with the COLA elimination below, these grant reductions resulted in about $240 million in program savings.
- ***Elimination of Cost of Living Adjustments (COLAs)*** - COLAs had been suspended in the program for some time; however the 2009 budget deal resulted in the statutory elimination of COLAs for CalWORKs and SSI/SSP, making any possible application of them in the future subject to annual budget negotiations.
- ***Significant Cut to Employment Services (WTW) and Child Care*** - This budget achieved $420 million in savings by reducing the Single Allocation by $377 million ($162 million from welfare-to-work services and $215 million from Stage 1 child care) and by reverting $43 million from 2008-09. The negotiated agreement was for a two-year cut of $375 million to the Single Allocation through the end of 2010-11.
- ***Apply Program Exemptions Associated with the Single Allocation Reduction*** - To allow counties to absorb the Single Allocation reduction, budget legislation exempted families with a child under age two, or with two or more children under the age of six, from work participation requirements, although they are allowed to volunteer. The policy also stopped the 60-month lifetime time clock for those excused due to lack of supportive services.

CalWORKs Reductions Adopted as Part of the 2010-11 Budget

- ***Context*** – In 2010, Governor Schwarzenegger proposed to eliminate the CalWORKs program, first, subject to a trigger, and then as a stand-alone proposal at May Revision. The Legislature rejected this, along with a massive 15.7 percent grant cut proposal and a proposal to eliminate the CalWORKs Recent Noncitizen Entrants Program (RNE).

- ***Continue $375 Million Single Allocation Reduction*** – The final budget agreement instead continued the reduction in WTW and child care services for CalWORKs recipients, with exemptions for adults with young children, with $376.9 million in savings.

CalWORKs Reductions Adopted as Part of the 2011-12 Budget

Altogether, the changes adopted in the 2011-12 Budget deals (March and June) resulted in savings of approximately $1 billion in the CalWORKs program.

- ***Reduction of Lifetime Time Limit from 60 to 48 Months*** - Approved Governor's proposal to cut CalWORKs from 60-months to 48-months for adults effective June 1, 2011, without altering policies regarding those adults' exemptions, for a savings of $102.6 million General Fund in 2011-12 ($112.9 million General Fund annually), resulting in the removal of approximately 22,500 adults from aid.

- ***Cut Grants by 8 Percent*** - Approved an 8 percent grant cut effective June 1, 2011 to save approximately $314.3 million General Fund in 2011-12 and on an ongoing annual basis. The Governor had proposed a deeper reduction of 13 percent. This change reduces the maximum grant for a family of three in a high cost county from $694 per month to $638 (lower in actual dollars than the grant level in 1987). It is important to note that the average grant for a family of three is closer to $474 per month after the 8 percent cut.

- ***Further Continuation of the Single Allocation Reduction***- Extended a 2009-10 and 2010-11 reduction of $376.9 million General Fund in funding for child care, employment services, and administration through 2011-12. Correspondingly, extended exemptions from WTW requirements for parents of very young children (i.e., one child between the ages of 12 and 23 months, inclusive, or two children under the age of six years), which erodes $7.5 million of those savings.

- ***Lower Earned Income Disregard, Reducing Income for Families*** - Approved a change to disregard the first $112 of relevant income, instead of the first $225 pursuant to current law, and then 50 percent of all other relevant earnings. Savings from the earned income disregard change, effective June 1, 2011, is approximately $83.3 million General Fund in 2011-12 ($90.0 million General Fund annually).

- ***Suspend CalLearn for Pregnant and Parenting Teens*** - Suspended, for one year, case management services otherwise available under the CalLearn program for pregnant and parenting teenagers. These teenagers will instead be eligible for regular WTW services that are available in their counties. They will also continue to be eligible for supplements or bonuses related to progress in school, as specified. These changes are anticipated to result in $43.6 million General Fund savings in 2011-12.

- ***Reduce Substance Abuse and Mental Health Funds, Reduce Funds for Automation*** - Adopted a reduction of $5 million for substance abuse and mental health services for CalWORKs recipients and a $5 million across the Statewide Automated Welfare System.

- ***Cut in Stage 1 Child Care*** - Approved savings of up to $41 million for Stage 1 child care conforming to actions related to reimbursement rates taken in the child care package.

- ***Eliminate Community Challenge Grants*** - Eliminated $20 million for these grants related to teen pregnancy prevention.

Major Provisions

For CalWORKs in 2012-13, the Governor has proposed a set of major changes with staggering implications for the caseload of parents and children. His proposal purports to change the CalWORKs program by "prioritizing employment and child care services for families most likely to be employed," creating two subprograms within CalWORKs and a separate program for children continuing to receive a grant once their parent has been removed from the aided cases due to time limits or other program rules. In total, the changes proposed by the Governor would reduce the CalWORKs program by a net $984.8 million in 2012-13, growing to $1,085.3 million starting in 2013-14.

The administration's estimates work off the following breakout of the caseload, for a total of 586,432 cases at the start of the 2012-13 Budget Year:

Families (Cases, not Individuals) Receiving WTW Benefits	259,988
Families Where the Adult is Meeting the Work Participation Requirements WPR	25,445
Families Where Only the Child is Aided, also called "Safety Net" Cases	300,999
Total Cases	***586,432***

Description of Two Subprograms and the Non-CalWORKs Child-Only Program.
Each of the two new CalWORKs subprograms has differing grant structures, services arrays, reporting requirements, and time limits. The Non-CalWORKs Child-Only Program is called a "Child Maintenance" (CM) program by the administration and is proposed to be a program outside of CalWORKs.

The First Subprogram – A Shorter and More Stringent Welfare to Work Program, Reduced to 24-Months.

What the administration is calling "CalWORKs Basic" would provide services to families similar to the style of the current CalWORKs Program, including job search, barrier removal, employment training, and child care services, but for a reduced period of 24-months, versus the just-implemented reduced time clock of 48-months. After the first 12 months, the adult will again participate in job search. If, during the second 12 months, the adult remains unable to find unsubsidized employment, the adult will continue to participate in WTW activities, including subsidized job placements. Failure to meet WTW requirements will result in a sanction equal to the adult portion of the grant. Clients unable to meet federal work participation requirements after 24 months, or cases in sanction status for more than three months will be disenrolled from CalWORKs.

The program would have much more stringent rules regarding the time clock, which would instead apply retroactively to all recipients regardless of their ability to become employed. Prior exemptions and time extenders that have been part of the program since its origin would not be honored. Beginning October 1, 2012, months in sanction status also count for all time limits. So, if an adult has already exceeded their use of 24 months of WTW services by April 1, 2013, after a six-month phase-in period, at any time in the life of the CalWORKs program, which began in 1997, then they are ineligible for employment services or child care. If they are within 48 months of aid, they are only eligible for child care for purposes of looking for work for 30 days within a six-month period.

As of April 1, 2013, any case that has been aided for 24 months or longer and is not meeting WPR through unsubsidized employment will be moved to the Child Maintenance program (approximately 131,050 cases), where the adult will no longer be aided, regardless of time remaining in his/her 48-month time limit. The 24 months would include any previously exempted months as well as months in which the adult was in sanction status. This reduces the average monthly caseload to 128,938 for "Basic" for April-June 2013.

The result of the "Basic" program is earlier removal from the CalWORKs caseload for families who are not meeting federal WPR through unsubsidized work. Their monthly benefit, with movement to the Child Maintenance program, will be reduced cumulatively by 41%, from a maximum monthly grant of $638 to $375.

October 1, 2012 Cases in WTW Not Meeting WPR – Total, Including:	**259,988**
• Cases without an Exemption	183,847
• Cases with an Exemption (e.g. disability, over 60, caring for an ill or incapacitated relative)	76,141
As a Result of April 1, 2013 Implementation of "Basic"	
• *Cases Retained in "Basic"*	*128,938*
Cases Moved from 259,988 to "Child Maintenance" (CM)	131,050
• Minus Cases Discontinued Resulting from the 27% Grant Reduction (Lowered Maximum Aid Payment Level) for CM cases	22,084
• *Cases in CM from Basic*	*108,996*

The Second Subprogram – A Caseload of Those Already Meeting Federal WPR.
What the administration is calling "CalWORKs Plus" would serve recipients working sufficient hours to meet federal work participation requirements (WPR) in unsubsidized employment, generally 30 hours per week (20 hours per week for families with children under the age of six). These clients will retain access to supportive services and child care that they have now. These benefits continue for up to 48 months only if clients maintain unsubsidized employment. After 48 months, the adult will no longer be aided.

The "Plus" program implements on April 1, 2013. This program essentially houses those cases currently meeting federal WPR through unsubsidized employment, or 25,445 cases. Recipients in this program are discontinued after their 48-month lifetime time limit.

The current average cash grant is $213 per month for recipients who are meeting the federal WPR. These recipients are eligible for an increased earned income disregard (disregarding the first $200 of income as well as 50 percent of all additional income), which equates to an approximate grant increase of $44 per case. This will increase the average monthly grant for these recipients to $257. It is important to note that the earned income disregard prior to the change made in the 2011-12 budget disregarded the first $225 of income and then 50% of other income, so this proposal restores part of what was reduced in recent policy.

The Third Component – A Non-CalWORKs Child-Only Program with a Dramatically Reduced Grant.
What the administration is calling "Child Maintenance" would, at the outset of 2012-13, include 300,999 cases in the CalWORKs caseload that do not meet the eligibility requirements for either "Basic" or "Plus." This includes:

- Safety Net cases (where the case no longer includes the adult portion of the grant), including those not meeting WPR through unsubsidized employment;
- Recipients of Social Security Income;
- Non-Needy Caretaker Relatives;
- Citizen Children of Undocumented Parents;
- Drug/Fleeing Felon Parents; and,
- Cases sanctioned for more than three months.

The average monthly cash aid grant for these child-only cases is $463 for July-September 2012. The grant is reduced to $375 per month for a family with two children in "Child Maintenance." The administration proposes a disregard policy of 50 percent of all earned income, which, depending on the level of income, could mean more or less disregarded than under the current policy. The disregard for disability payments remains $225. The $50 current child support pass-through is eliminated completely for these cases.

Reporting requirements for families in CM are changed from quarterly to annually, however, mandatory mid-period reporting and voluntary report changes continue to apply. Verification of an annual well-child exam is required, with a penalty for families that don't comply. It is unclear at this time how this information will be used to assess the family's situation and the health and well-being of the child.

Caseload Into Child Maintenance. As of October 1, 2012, the CM caseload shrinks from 300,000 cases to 259,810 cases. This is due to 41,189 cases, including 84,000 children, who are discontinued from any benefit due to income over the threshold given the reduced grant for CM. These 84,000 children and their families lose all aid given very limited income they receive. Once the "Basic" program implements, as discussed earlier, 108,996 cases move into CM with 22,084, including at least 41,000 children, discontinued from aid. CM then includes 368,776 cases and the number of discontinued cases totals 63,273.

	CM Caseload	***Discontinued Cases***
At October 2012	259,810	41,189
At April 2013	368,776 (with 108,996 from "Basic")	22,084

A Look at Grants for Those Moving Into Child Maintenance. The grant in Child Maintenance is generally the only source of cash income these families receive.

GRANTS	**Maximum Monthly Grant**	**% Reduction**	**% of Federal Poverty (Income Only)**
Current Maximum Monthly Grant for a Family of Three in a High Cost County, ALSO Maximum Grant in "Basic"	**$638** (x 12 months = $7,656)	**-**	41.3%
Current Average Safety Net Grant, With Removal of the Aided Adult	**$463** (x 12 months = $5,556)	**27.4%** reduction currently in safety net cases losing the adult portion	30%
Maximum Grant in "Child Maintenance"	**$375** (x 12 months = $4,500)	Additional **19%** reduction from current safety net grant, and a **cumulative 41%** reduction from "Basic"	24.3%

Child Care. Beginning in 2012-13, the budget proposes to provide subsidized child care (i.e., general child care outside of CalWORKs) only to those individuals who meet federal CalWORKs work participation requirements, whether or not the family ever participates in CalWORKs, for savings of $293.6 million GF and elimination of about 46,300 child care slots.

Comments. The policies set forth in this overhaul portend, profoundly negative consequences for families unable to meet higher, more stringent work requirements, and they continue to aid at the same level as exists now only families already able to meet these standards. Services are not structured in such a way as to allow families time to engage in activities needed, such as education, training, subsidized employment, counseling, and treatment, to remove barriers that may inhibit their ability to achieve and maintain work, even in the healthiest economy.

Implications for administration of this revamped CalWORKs program and new Child Only program are enormous and extremely complicated, particularly given the time limit changes, their new rules for turning on and off for various program features, and their retroactive lifetime application.

Additional information on the proposals is pending from the administration and more analysis will be reflected in the Subcommittee agenda on these issues.

Key Provisions in CalWORKs

- ***Elimination of Cal-Learn*****.** The Cal-Learn program was suspended for 2011-12 for one year only, except for bonuses paid for satisfactory progress and high school graduation. The Governor's Budget proposes to permanently eliminate Cal-Learn program costs, with the exception of the Cal-Learn bonuses, producing a savings of $35.4 million. Approximately 10,500 pregnant and parenting teens monthly will be impacted by the elimination of this program.

- ***Elimination of Exempt Maximum Aid Payment (MAP).*** The Governor's Budget proposes to eliminate the current exempt MAP level in the CalWORKs program, which is provided to caretaker relatives or parents receiving Supplemental Security Income or other disability benefits. This would establish a single tier grant structure as the current non-exempt MAP levels would apply to all CalWORKs cases.

- ***Reductions to Stage 1 Child Care.*** The Governor's Budget additionally proposes to set the Regional Market Rate (RMR) child care reimbursement ceiling at the 50th percentile of the 2009 RMR survey for all providers, with licensed exempt providers receiving 73 percent of the Family Child Care Home Rate. There are also proposed changes to the state median income level and a new requirement for licensed-exempt providers. Please see the "Child Care" section of this report for additional information.

- ***TANF Transfer to Student Aid Commission*****.** As part of the Governor's $1 billion reduction proposal described in this section, the Governor's Budget proposes to transfer $736.4 million in TANF funds to the California Student Aid Commission to offset a like amount of General Fund costs for Cal Grants.

- ***CalWINs.*** The Governor's Budget proposes to fund, with $2.46 million in 2012-13, the costs of automation for the implementation of the Work Incentive Nutritional Supplement (WINS) program, toward full implementation by April 2014. WINS will provide an additional CalFresh benefit of $50 per month beginning in 2013-14 to those participants who meet the federal TANF work requirements. This does not reflect the additional automation costs that may be necessary for the Governor's Budget proposal to provide WINS to subsidized child care recipients.

IN-HOME SUPPORTIVE SERVICES

Program Description and Background

The In-Home Supportive Services (IHSS) program provides an alternative to out-of-home care for low-income seniors and persons with disabilities. IHSS consists of three programs: the Medi-Cal Personal Care Services Program (PCSP), the IHSS Plus Option (IPO) – a Medi-Cal State plan option that replaced the IHSS Plus Waiver Program (IPW) – and the IHSS Residual (IHSS-R) program. To qualify for PCSP and IPO services recipients must first meet eligibility requirements for the Medi-Cal program. The IHSS-R program serves individuals who are ineligible for Medi-Cal, but meet the SSI/SSP income standards.

To qualify for IHSS program services, recipients must have demonstrated a need for care and been personally assessed by a caseworker in order for them to remain safely in their home and avoid out-of-home care. IHSS services include domestic and related services (e.g. housework, meal preparation, laundry, shopping), personal care services, accompaniment to medical appointments, protective supervision for mentally impaired recipients who place themselves at risk for injury, hazard, or accident, and paramedical services when directed by a physician.

The IHSS program is administered through the counties. Individuals seeking to become a provider in the IHSS program must undergo a criminal background check and meet other requirements.

IHSS Average Projected Monthly Recipients in 2012-13	444,854
IHSS Providers as of December 2011	366,125

The 2011-12 Budget includes $5.6 billion (about $1.6 billion General Fund) for the support of IHSS. The Governor's proposals would reduce expenditures in the program to $5.3 billion total funds (about $1.17 billion General Fund) and are discussed further in this section.

***Program Costs and Comparison with Nursing Homes*.** Based on the most recent estimates of expenditure and caseload data, the average annual cost per person for IHSS is about $13,000 (total funds) in 2011-12. This estimate assumes a mid-year implementation of the 20 percent reduction in IHSS hours, so, without this reduction, the cost per person for IHSS would be higher. In comparison, the estimated average annual cost per user for nursing facilities is estimated to be $67,434 (total funds) for 2010-11. It is important to note that this is only the fee-for-service nursing facility cost and does not reflect managed care costs.

Budget Context

State budgets in recent years included major program and policy changes in the IHSS program, responding to calls for expenditure controls and for additional program integrity assurances. By way of context, the following is a summary of adopted budget and policy changes included as part of past budget negotiations.

IHSS Reductions Adopted as Part of the 2009-10 Budget
Legislation enacted for the 2009-10 budget year contained significant changes in the IHSS program, including service reductions and eliminations, the expansion of quality assurance and anti-fraud activities, the elimination of share-of-cost buyouts that previously lowered some recipients' out-of-pocket expenses, and a reduction to the support of Public Authorities. The Governor's line-item vetoes included a further reduction to the budgets for the Public Authorities.

- ***Service Reductions and Eliminations*.** The Governor proposed to eliminate IHSS services for nearly 90 percent of the caseload of recipients, or for all recipients with a functional index score of less than 4.0, for total General Fund savings of roughly $700 million. The functional index score is intended to be a standardized measure for overall need for assistance on a daily basis. Instead, the Legislature adopted, effective September, 2009: (1) restrictions in eligibility for domestic and related services, eliminating these services for 90,000 consumers and (2) the elimination of all services for a group of nearly 37,000 IHSS recipients with functional index (FI) scores under 2.0.

  These changes were initially estimated to save about $73 million in 2009-10. For both of these reductions, the Legislature also adopted exemptions to protect recipients who receive paramedical services, protective supervision, or a total of more than 120 hours of services per month. The Legislature additionally authorized the DSS Director to waive these exemptions if they placed the program's federal funding at risk. The exemption for recipients receiving more than 120 hours of services was subsequently waived by the Department.

  These service reductions and eliminations did not take effect, and still have not, as a result of a federal court order.

- ***Program Integrity Measures*.** In 2004, comprehensive legislation (SB 1104, Committee on Budget and Fiscal Review, Chapter 224, Statutes of 2004) was enacted to standardize assessment of IHSS recipients' needs and to ensure integrity in the IHSS program. Among its other requirements, SB 1104 directed DSS and the Department of Health Care Services (DHCS) to develop a new provider enrollment form that each person seeking to provide supportive services must complete, sign under penalty of perjury, and submit to the county. SB 1104 also gave DHCS authority to investigate suspected instances of fraud in the IHSS program. The bill required DSS, DHCS, and county quality assurance staff to work together and coordinate activities.

  In July 2009, AB 1 X4 (Evans), Chapter 1 of the 2009-10 Fourth Extraordinary Session allocated additional 2009-10 and 2010-11 funds to DHCS and DSS for a total of 25 new fraud investigation and program integrity-related positions. AB 1 X4 additionally included $10 million in additional funds to be allocated to counties based on their approved plans. AB 4 X4 (Evans), Chapter 4 of the 2009-10 Fourth Extraordinary Session, the human services trailer bill, also included language changes to provisions governing the new provider enrollment form, requiring documentation to be submitted in person by applicant providers to county offices.

At the same time, AB 19 X4 (Evans), Chapter 17, Statutes of 2009 was enacted to enhance program integrity and anti-fraud protections in the IHSS program. The 2009-10 Budget included the Administration's estimate of about $162 million GF savings as a result of new anti-fraud activities in the IHSS program. The provisions in AB 19 X4 included the following:

1. **Criminal Background Check.** Requires criminal background checks to be completed for all prospective providers as of October 1, 2009 and to be completed by July 1, 2010 for anyone who is already a provider on October 1, 2009.

2. **Applicants' Rights and Appeal.** Requires that any individual applying to become a provider who is rejected as a result of information contained in the criminal background report be given a copy of his or her criminal history, and that DSS develops a written appeal process for current and prospective providers who are deemed ineligible because of information included in their criminal background checks.

3. **Provider Orientation.** Requires, effective November 1, 2009, that all prospective providers complete an orientation at the time of their enrollment as a provider. Requires, between November 1, 2009 and June 30, 2010, that all current providers receive the orientation information.

4. **Directed Mailings.** Requires DSS to develop protocols for mailings to providers and recipients. Requires counties to distribute these mailings to inform providers and recipients of program rules and the consequences of failing to adhere to them.

5. **Unannounced Home Visits.** Authorizes unannounced visits to a recipient's home in targeted cases where there is cause for concern regarding program integrity. Requires DSS to develop protocols for follow-up home visits and other actions if the provider and recipient are not present. Allows the provider and recipient the opportunity to address any suspicion of fraud that has resulted in a home visit.

6. **Use of P.O. Box.** Requires the provider enrollment form to be completed with a provider's residential address. Prohibits provider paychecks from being sent to a post office box unless the county approves a written or oral request from the provider addressing why use of a post office box is necessary. SB 930 (Evans), Chapter 649, Statutes of 2011 repealed this provision.

7. **Social Worker Training.** Requires DSS, on or before July 1, 2010, to develop a standardized curriculum and training materials for county social workers in order to prevent fraud in the program.

8. **Fraud Prevention Stakeholder Group**. Effective immediately, requires the convening of a stakeholder group to develop and issue a report evaluating quality assurance and fraud prevention and detection, due to the Legislature by December 31, 2010.

9. **Recipient Informed of Provider Information.** Requires recipients to be informed by January 1, 2010 that providers be notified of hours and service levels.

10. **Provider Notification of Hours.** Requires DSS with counties to develop a process on or before December 31, 2011 to ensure that providers receive a list of approved duties.

11. **Timesheet Changes.** Required that timesheets include (1) certification by the provider and recipient verifying that information is true and correct and (2) a statement that providers and recipients may be subject to criminal penalties if not. Effective July 1, 2011, requires the index fingerprint of providers and recipients be included on timesheets. SB 930 (Evans), Chapter 649, Statutes of 2011 repealed this provision.

12. **Fingerprinting Requirements.** Required fingerprinting for new consumers to occur in the home at initial assessment as of April 1, 2010. For current consumers, effective April 1, 2010, the recipient will be fingerprinted at the next reassessment, also in the home, with exemptions for minors and those physically unable to provide fingerprints due to amputation. SB 930 (Evans), Chapter 649, Statutes of 2011 repealed these provisions.

IHSS Reductions Adopted as Part of the 2010-11 Budget

- ***3.6 Percent Reduction in IHSS Hours*.** All IHSS recipients received a 3.6 percent reduction in authorized service hours starting January 2011 through the end of the 2011-12 fiscal year. After June 30, 2012, the authorized service hours will be restored.

- ***Provider Exclusion and Exceptions Process*.** Adopted additional provider exclusion policies, excluding a person from providing or being paid to provide IHSS if they have specified criminal convictions, including convictions for certain violent and serious felonies, fraud in the obtaining of aid, and designated felony sex offenses. The policy enabled a recipient of IHSS to employ a particular provider who has been convicted of an excludable offense by submitting an individual waiver to the county. In addition, a provider applicant may seek a general exception, in order to provide IHSS to the general recipient population. DSS prescribes criteria in determining whether to grant the exception.

- ***Extension of Sales Tax*.** Imposed a sales tax on IHSS providers, allowing the state to access additional Federal Medicaid matching funds.

- ***Criminal Background Checks*.** Protected IHSS providers from having to pay for more than one criminal background check.

IHSS Reductions Adopted as Part of the 2011-12 Budget

Approved the following reductions to the IHSS program (some savings are embedded in the Medi-Cal budget), to achieve savings of $420.2 million General Fund.

- ***Health Care Certification*.** Approved the Governor's proposal to require a certification that personal care services are necessary to prevent out-of-home care, with resulting General Fund savings of $67.4 million in 2011-12. Allowed services to be authorized temporarily, pending receipt of the certification, when there is a risk of out-of-home placement.

- ***Community First Choice Options*.** Adopted savings of $128 million General Fund in the program due to expected approval of an additional six percent in FMAP as a result of IHSS qualifying under the new federal Community First Choice Option made available under section 1915(k) of the federal Social Security Act (42 U.S.C. Sec. 139n(k)).

- ***Advisory Committees*****.** Cut $1.4 million from IHSS Advisory Committees and eliminated the mandate, while retaining $3,000 for each of the 56 Public Authorities (PAs), for a total of $168,000 General Fund, to support the continued operation of Advisory Committees for PAs.

- ***Medication Dispensing Pilot*****.** Established a pilot project that requires the Department of Health Care Services to identify individuals who receive Medi-Cal benefits on a fee-for-service basis and who are at high risk of not taking their prescribed medications. The Department would then procure automated medication dispensing machines to be installed in participants' homes and monitored as indicated, and will subsequently report on and evaluate the pilot project. The Department was also authorized to terminate the pilot under specified circumstances. The pilot anticipated $140 million General Fund savings in 2011-12.

- ***Across-the-Board Trigger*****.** Created a trigger mechanism for alternative reductions if the Department of Finance determined that data reported regarding the medication assistance pilot project described above does not demonstrate the ability to achieve annualized net savings of $140 million General Fund (after offsetting administrative costs). Under these provisions, the director of the department shall notify the Legislature by April 10, 2012, and request the passage of legislation by July 1, 2012, that provides alternative options for achieving any additional savings needed to reach this target. If the pilot and any subsequent legislation are not anticipated to result in $140 million annualized General Fund savings, the Department of Social Services is required to implement an across-the-board reduction in IHSS services beginning October 1, 2012, with specified exceptions.

- ***Caseload Savings*****.** Recognized savings of $83.4 million General Fund due to caseload savings both in 2010-11 and 2011-12, adjusting caseload trends for the current and budget year based on demonstrated and more recent numbers of recipients and hours paid.

- ***Secondary Trigger Tied to Revenue*****.** Created a second trigger mechanism, if specified revenues are not obtained and conditions specified in Section 3.94(b) of the 2011 Budget Act are met, for implementing an across-the-board reduction in IHSS services of 20 percent, beginning January 1, 2012. The trigger was to yield savings of $100 million, with specified notice requirements and exceptions. The trigger was ultimately pulled by Governor Brown in December 2011, but its implementation was halted by a court order.

- ***Maintenance of Administrative Funding*****.** Rejected a May Revision proposal that would have reduced administrative funding for Public Authorities by $7.7 million ($3.2 million General Fund). With this action, requires DSS, in consultation with designated stakeholders, to develop a new rate-setting methodology for public authority IHSS administrative costs, which is intended to take effect beginning with the 2012-13 fiscal year. Additionally, rejects a May Revision proposal that would have reduced administrative funding for counties to implement the IHSS programs by $12.6 million ($5.2 million General Fund).

- ***County District Attorney Activities*****.** Approves, subject to change by operation of a trigger mechanism, the Governor's January proposal to continue an augmentation of

$28.4 million ($10.0 million GF) for additional county and district attorney anti-fraud activities related to IHSS. This funding was first included in the 2009-10 budget. The trigger was ultimately pulled by Governor Brown in December 2011 and the expenditure authority for these activities was eliminated.

- ***DSS Positions for IHSS Program Elements*****.** Approves approximately $1.0 million ($500,000 GF) and eight limited-term positions (two two-year limited-term positions related to provider exclusions, two two-year limited-term positions related to the establishment of the provider sales tax, and four one-year limited-term positions to support the final stages of development of a new Case Management Information and Payrolling (CMIPS II) system.

Major Provisions

The Governor's Budget proposes the following for 2012-13 in the IHSS program:

- ***Domestic and Related Services*****.** The proposal would eliminate domestic and related services to recipients who are living with others in a shared-housing situation effective July 1, 2012, with an exception for households consisting entirely of IHSS recipients, and IHSS recipients whose need cannot be met by a household member due to a medically-verified condition. For children receiving IHSS benefits and living with their parent(s), domestic and related services would no longer be allowed under any circumstance. This cut was proposed in previous budget proposals and, as in the past, raises significant legal questions since in many cases there is no legal obligation for other individuals who happen to be living with the IHSS recipient to provide them with this care. This proposal is expected to impact 254,000 recipients, and will cut IHSS services by $461.5 million ($163.8 million General Fund).

- ***IHSS Integration Into Managed Care*****.** Establishes a new program for care for IHSS Dual Eligible beneficiaries, to be phased in over a three-year period. This proposal aims to coordinate IHSS, other home and community-based services, and institutional long-term care. Under the Governor's proposal, all individuals receiving both Medi-Cal and Medicare benefits (dual eligible beneficiaries) will be required to enroll in managed care health plans for their Medi-Cal benefits. The IHSS program will operate as it does today during 2012-13; all authorized IHSS benefits will be included in managed care plans. No IHSS savings are estimated to result from this proposal in 2012-13.

The inclusion of IHSS and other home and community-based services, as well as nursing home care, as a managed care benefit is proposed to begin January 1, 2013. DHCS indicates that all IHSS consumers, including residual clients, will be included in the capitated rate paid to managed care providers. A separate proposal will expand managed care from the current 30 counties to all 58 counties effective June 1, 2013.

During calendar year 2013 (which includes the full budget year 2012-13 and six months of budget year 2013-14), the budget proposes that County IHSS programs would continue to perform existing functions that include intakes, assessments, and authorization of services. Starting January 1, 2014, managed care plans will either contract with the county to administer IHSS services or may take over this function from the county. The budget notes additional work will be necessary to develop a program design that incorporates: (1) consumer protections for acute, long-term care, and home and community-based services within managed care; (2) development of a uniform assessment tool for home and community-based services; and, (3) consumer choice and protection when selecting their IHSS provider.

Over three years, all dual-eligible beneficiaries (Medicare and Medi-Cal) will be required to enroll into a managed care plan. In Year 1 (January 1, 2013) enrollment will be required in eight to ten counties that demonstrate capacity to coordinate care, under a proposed expansion of the Duals Demonstration from four counties to ten counties. DHCS has indicated that the initial counties may include the ten counties where a Special Need Plan (SNP) already exists due to the selection criteria being proposed, which among other things would require experience in providing services to dual eligibles. The budget estimates expansion to an addition 19 counties in FY 2013-2014, with statewide implementation in FY 2014-15.

The budget does not address several additional issues in this transition, including the role of Public Authorities in collective bargaining, impacts on current wage and benefit agreements, and the state-county financing relationship.

Additional information on the proposals is pending from the administration and more analysis will be reflected in the Subcommittee agenda on these issues.

Other Key Provisions in IHSS

- ***20 Percent Trigger Reduction.*** The Governor purposes to make the 20 percent January 1, 2012 "trigger" reduction in IHSS operational by April 1, 2012 unless inhibited by a court decision. The budget adjusts its projected savings resulting from the delayed implementation of the 20 percent across-the-board reduction that was to implement January 1, 2012 but was delayed due to the court injunction. The budget instead assumes implementation on April 1, 2012 of the 20 percent cut, for a savings of $39.4 million GF in the current year, and $179 million in the budget year. The budget also includes a set-aside to fully fund the program in the event that the court rules in favor of the plaintiffs and against the state.

- ***Medication Dispensing Pilot.*** Repeals the Medication Dispensing Machine Pilot Project and the associated trigger for the reduction of authorized hours in 2012-13. Current law requires the state to implement a Home and Community Based Medication Dispensing Machine Pilot Project that utilizes an automated medication dispensing machine with associated telephonic reporting service for monitoring and assisting Medi-Cal recipients with taking prescribed medications. Current law also requires the DSS to implement an across-the-board reduction in authorized hours for IHSS recipients beginning October 1, 2012, to the extent the pilot project and/or alternative savings proposals enacted by the Legislature does not achieve a combined net annual General Fund savings of $140 million. Based on the assumed 20-percent reduction described above, the Budget assumes neither savings from the pilot project nor savings from the associated across-the-board reduction, and proposes to repeal the associated statutory requirements.

SECURITY INCOME / STATE SUPPLEMENTARY PAYMENT

Program Description and Background

Supplemental Security Income/State Supplementary Payment (SSI/SSP) provides a monthly cash benefit to enable needy aged, blind, and disabled people to meet their basic living expenses for food, clothing, and shelter. The 2011-12 budget includes $9 billion ($2.6 billion General Fund) for the SSI/SSP program.

SSI is a federally funded benefit; SSP is state-funded and added on to the SSI benefit. The maximum amount of aid is dependent on the following factors:

- Whether one is aged, blind, or disabled;
- The living arrangement;
- Marital status; and,
- Minor status.

The natural caseload of SSI/SSP recipients in 2012-13 is projected to be 1,305,321 individuals. As a result of the implementation of the SSP Maintenance of Effort (MOE) Floor for Individuals reduction, effective July 1, 2011, the caseload is reduced to 1,294,868. As a result of the various factors determining the maximum amount of aid, there are 19 different payment standards in the SSI/SSP program. However, the following chart reflects the adjusted payment standards for recipients living in their own households, for a snapshot of benefit levels and how they've changed with the recent movement of bringing the individuals in SSI/SSP to the MOE Floor.

Individual:	Payment Standard in Effect January 1, 2011 (Reflects no pass-through of the CPI COLA and suspension of the CNI COLA)	Payment Standard in Effect July 1, 2011 (Relects SSP MOE Floor for Individuals and Suspension of the CNI COLA)
Aged or Disabled	$845.00	$830.40
- w/o cooking facilities	$929.00	$914.40
Blind	$908.00	$885.40
Disabled Minor	$737.40	$737.40
Per Couple:		
Aged or Disabled	$1,407.20	$1,407.20
- w/o cooking facilities	$1,575.20	$1,575.20
Blind	$1,554.20	$1,554.20
Blind/Aged or Disabled	$1,498.20	$1,498.20

The Cash Assistance Program for Immigrants (CAPI) provides benefits to aged, blind, and disabled legal immigrants. The CAPI benefits are equivalent to SSI/SSP program benefits, less $10 per individual and $20 per couple. The CAPI recipients in the base program include immigrants who entered the United States (U.S.) prior to August 22, 1996, and are not eligible for SSI/SSP benefits solely due to their immigration status; and those who entered the U.S. on or after August 22, 1996, but meet special sponsor restrictions (have a sponsor who is disabled, deceased, or abusive). The extended CAPI caseload includes immigrants who entered the U.S.

on or after August 22, 1996, who do not have a sponsor or have a sponsor who does not meet the sponsor restrictions of the base program.

Budget Context

- As part of the 2009-10 Budget agreement, cost of living adjustments (COLAs) for SSI/SSP beneficiaries were indefinitely suspended, pursuant to future legislative sanction. This occurred after many years of COLA suspension, whereby SSI/SSP grants were reduced to minimal levels.

- As part of the 2011-12 Budget, the state chose to reduce the SSP standard of the SSI/SSP program to the federally required MOE level of the 1983 payment standards for individuals only. Prior actions had reduced the grant levels for couples to the MOE floor, leaving some margin on the grants for individuals given their level of poverty. The MOE refers to a federal provision that limits the reduction a state can make to their SSP benefit levels without penalty. If a state were to reduce its SSP benefit levels below MOE levels, it would lose federal funding for Medi-Cal. California is now at the MOE floor, or the lowest benefit level possible, for the entire SSI/SSP caseload.

Major Provisions

The Governor's Budget includes a decrease in 2011-12 savings due to the SSI/SSP caseload growing at a lower rate than was projected, lower average grants, and offset by an increase in the estimated 2012 federal COLA from 1.3 to 3.6 percent. The 2012-13 savings decreased due to a lower projected caseload in which fewer recipients lose eligibility, reduced average grants, and offset by the 2012 federal COLA and the estimated 2013 federal COLA of 0.2 percent.

The impacts of these changes is to reduce SSP grants for up to 1.2 million SSI/SSP and SSP-only recipients. A total of 9,306 recipients in the CY and 10,454 recipients in 2012-13 may lose their SSP eligibility. As a result, approximately 615 recipients in both the current and budget year may seek CalFresh assistance.

CHILD WELFARE SERVICES AND FOSTER CARE

Program Description

The Children and Family Services Division (CFSD) provides leadership and oversight of local county and community agencies in the implementation of an array of services designed to protect children from abuse and neglect, and to strengthen and preserve families. Toward this end, the CFSD meets federal and state requirements and attempts to promote best practices in child welfare services (CWS) through promulgation of regulations, and the delivery of training, technical assistance, fiscal resources, incentives, and program evaluations.

Overview of Department's Major Areas

- ***Emergency Response*** – 24/7 assessment and/or investigation of reports of abuse, neglect, or exploitation of children.

- ***Foster Care*** – 24-hour board and care provided to minors under the jurisdiction of the county court and under the supervision of a local or tribal child welfare agency. Minors are typically removed from their family homes and placed into some form of out-of-home care as a result of known or suspected abuse or neglect (child welfare), or known or suspected commission of a crime (probation). Monthly maintenance payments are distributed to caretakers for board and care of eligible children.

- ***Family Maintenance*** – Time-limited protective services provided to families in crisis to prevent or remedy abuse or neglect, with the intent of preserving families and keeping children safely in their own homes, when possible.

- ***Family Reunification*** – Time-limited services to children in foster care and their families, with the goal of safely reuniting children with their families.

- ***Permanent Placement (PP)/Adoption*** – Alternative family structures and supports for children who cannot remain safely at home and/or who are unlikely to ever to return home. PP includes adoption, legal guardianship and independent living.

Budget Context

- ***Realignment of 2011*.** The 2011 Budget included a major realignment of public safety programs from the state to local governments. The 2011 realignment moved program and fiscal responsibility to counties, providing a dedicated source of funding while eliminating duplication of effort, generating savings, and increasing flexibility. Realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The funding sources for realignment, as discussed in other areas of this report, are the dedication of 1.0625 cents of a state special fund sales tax and the dedication of a portion of vehicle license fee revenues.

- ***Court–Ordered Foster Family Home (FFH) Rate Increase*.** In May 2011, the U.S. District Court ordered DSS to immediately increase FFH rates based on a new rate methodology developed by DSS at the direction of the court. The new methodology results in an average rate increase of 31 percent for current FFH cases and for future cases in the Adoption Assistance Program (AAP), Kinship Guardianship Assistance Payment (Kin–GAP), federal Kin–GAP, and Non–Related Legal Guardian programs. The court also ordered that rates be increased each year in accordance with the California Necessities Index (CNI). The 2011–12 budget reflects all of the above changes, including a 1.92 percent CNI COLA for all current and future cases effective July 1, 2011. The General Fund cost of these changes is $17 million. The chart below displays the new FFH rates implemented in May and the 2011–12 rates, including the CNI COLA.

Revised Monthly Foster Family Home Rates

Child's Age	Prior Law	May 2011	July 2011*
0 – 4	$446	$609	$621
5 – 8	485	660	673
9 – 11	519	695	708
12 – 14	573	727	741
15 – 19	627	761	776

* Rates shown for July reflect a court–ordered inflation adjustment.

- ***Repeal of AB 3632 Mandate for Seriously Emotionally Disturbed (SED) Children.*** Budget legislation repeals the mandate requiring DSS and county welfare departments to provide board and care for so–called AB 3632 SED children. Local school districts are instead responsible for their out–of–home placement. This change results in a decrease of $68 million in DSS board and care and administration costs, with a comparable cost increase in Proposition 98 funding.

<u>Major Provisions</u>

Realignment

The 2011 Realignment implementing statutes enacted last year contained program allocations and an account structure for the 2011-12 fiscal year only. The 2012-13 budget proposes an ongoing funding structure for 2012-13 and beyond, for both base and growth revenues, warranted by caseload and costs. Growth funding for CWS is a priority once base programs have been established, with CWS receiving $200 million of additional funding over time. Growth and the adequacy of funding have been particular concerns in CWS since the $80 million General Fund veto, initiated in the enacted 2009-10 Budget, and continuing until the 2011-12 Budget, when realignment took effect. Draft legislation is expected from the administration soon for review in the Subcommittee hearing process.

Caseloads

The budget continues to assume a downward trend in foster care caseloads, assuming an average monthly caseload decrease of 8.4 percent in the current year and a 9.5 percent decrease in the budget year, to 42,363 children in care. AAP is forecast to experience modest growth, up 1.1 percent in FY 2011-12 to 84,453 cases, and up 1.8 percent in FY 2012-13 to 85,964 cases.

Administration

Foster Care administrative costs are projected to be $51.1 million ($17.6 million GF) in the current year, $48.7 million (17.5 million GF) in the budget year. Administrative costs for Child Welfare Basic are estimated at $824.7 million ($278.5 million GF) in 2011-12, and $794.1 million ($295.7 million GF) in 2012-13, reflecting lower direct and emergency shelter costs.

AB 12 Administration
The budget increases funding in the budget year to reflect continued implementation of AB 12. In FY 2012-13, administrative costs are proposed to increase by $5.9 million $2.9 million GF), to $6.8 million ($3.3 million GF).

Dual Agency
The budget seeks to institute an annual CNI-based adjustment to the Dual Agency basic rate, so that those rates keep pace with the rate increases to foster family homes resulting from the 2011 lawsuit. The CNI adjustment would be applied to the Dual Agency basic rate, however the supplemental rate is not proposed to change.

PROGRAM AREAS WITHIN DSS

Overview of the Department's Other Major Areas

- ***CalFresh*****.** The CalFresh Program, formerly known as the Food Stamp Program and federally referred to as the Supplemental Nutrition Assistance Program (SNAP), provides for nutrition among eligible low-income households by offering them a benefit amount, posted to a debit card, for the purpose of purchasing food.

  The cost of CalFresh benefits is borne entirely by the United States Department of Agriculture (USDA). The CalFresh Employment and Training Program requires certain non-assistance CalFresh recipients to participate in employment and training activities. The Department also administers the state-only California Food Assistance Program to provide food benefits to legal immigrants who meet federal SNAP eligibility criteria except for their immigration status.

  The California Food Assistance Program (CFAP) served legal noncitizens over the age of 18 and under the age of 65, who were legally in the U.S. prior to August 22, 1996, and met all federal food stamp eligibility criteria (except for their immigration status). The program also serves legal noncitizens who entered the country on or after August 22, 1996, who are otherwise eligible.

- ***Emergency Food Assistance Program*****.** The Emergency Food Assistance Program provides USDA commodities to local food banks for distribution to the working poor, low-income, unemployed, and homeless persons. This program is supplemented with food purchased by food banks using private donations and taxpayer contributions to the Emergency Food Assistance Program Fund made through a state income tax checkoff, as well as surplus fresh fruits and vegetables donated by farmers and businesses.

- ***Adult Protective Services*****.** Each county has an APS agency to help elder adults (65 years and older) and dependent adults (18-64 who are disabled), when these adults are unable to meet their own needs, or are victims of abuse, neglect or exploitation. County APS agencies investigate reports of abuse of elders and dependent adults who live in private homes and hotels or hospitals and health clinics when the abuser is not at staff member. County APS staff evaluates abuse cases and arranges for services such as advocacy, counseling, money management, out-of-home placement, or conservatorship. Reports of abuse that occur in a nursing home, a board and care home, a residential facility for the elderly or at a long term care facility are the responsibility of the Ombudsman's office which is administered by the California Department of Aging.

- ***Community Care Licensing*.** The Community Care Licensing Division (CCLD) is a licensing and enforcement program aimed at protecting the health and safety of vulnerable children, adults, and seniors in community care setting. Among other activities, CCLD conducts licensing activities and enforcement for the following community care setting programs:
  - Child Care Program: Family Child Care Home and Child Care Centers that provide care to children on a less than 24-hour basis.
  - Children's Residential Program: Residential care settings or agencies (e.g. foster homes, group homes, small family homes, foster family agencies or adoption agencies) that provide temporary and long-term care to children on a 24-hour basis.
  - Adult Care Program: Residential care and day program settings that provide care to adults, including persons with a developmental disability, mental illness, HIV/AIDS, special health care needs or hospice.
  - Senior Care Program: Residential care for persons who are 60 years or older or adults with compatible needs and who need assistance with care and supervision including activities of daily living.

- ***Disability Determination*.** The Disability Determination Service Division (DDSD) is responsible for determining the medical eligibility of California residents for benefits under United States Codes, Title II (Disability Insurance), Title XVI (SSI), and Title XIX (Medically Needy Only) of the Social Security Act. The state augments the SSI with the State Supplementary Payment (SSP). The State Division of DDSD is responsible for the development, evaluation, and adjudication of Medi-Cal, Medically Needy Only cases under Title XIX, which establishes eligibility for the full range of Medi-Cal services for those found disabled.

Major Provisions

- ***Adult Protective Services*.** This program was also realigned in 2011-12 and funding consolidated and allocated to counties through realignment. Total funding is proposed at $136.3 million ($54.6 million GF) for the budget year which incorporates the County Services Block Grant and continues to reflect the ten percent reduction of $13 million ($6.1 million GF).

- ***CalFresh*.** The budget proposes to adjust county funding for CalFresh Administration for 2012-13 to reflect actual expenditure patterns over the past few years, resulting in a reduction to county administration.

DEPARTMENT OF DEPARTMENTAL SERVICES

Department Description

The Department of Developmental Services (the Department) is responsible under the Lanterman Developmental Disabilities Services Act (Lanterman Act) for ensuring that approximately 258,000 persons with developmental disabilities receive the services and support they require to lead more independent and productive lives and to make choices and decisions about their lives. Proposed system-wide funding for 2012-13 is $4.7 billion ($2.7 billion General Fund).

The Department ensures coordination of services to persons with developmental disabilities; ensures that such services are planned, provided, and sufficiently complete to meet the needs and choices of these individuals at each stage of their lives; and, to the extent possible, accomplishes these goals in the individual's home community. The Department's goals are to:

- Expand the availability, accessibility, and types of services and supports to meet current and future needs of individuals and their families.
- Develop systems to ensure that quality services and supports are provided.
- Facilitate the dissemination of information to improve services and supports and the lives of people with developmental disabilities.
- Ensure the Department, state Developmental Centers, regional centers, and service providers comply with all applicable federal and state laws, regulations and contracts, including accounting for their funding in an appropriate manner.

Overview of Department's Major Areas

California provides services and supports to individuals with developmental disabilities in two ways: the vast majority of people live in their families' homes or other community settings and receive state-funded services that are coordinated by one of 21 non-profit corporations known as regional centers. A smaller number of individuals live in four state-operated developmental centers and one state-operated community facility. The number of consumers with developmental disabilities in the community served by regional centers is estimated to increase in 2012-13 to 256,000, an increase of 2.5 percent over the FY 2011-12 enacted budget. The number of consumers living in state-operated residential facilities is estimated to decrease by the end of 2012-13 to 1,438, a decrease of 12 percent over the FY 2011-12 enacted budget.

***Community Services Programs*.** Through the network of regional centers, the Department supports the development and maintenance of services for eligible persons with developmental disabilities who reside in the community. The regional centers directly provide or coordinate the following services and supports: (1) information and referral, (2) assessment and diagnosis, (3) counseling, (4) lifelong individualized planning and service coordination, (5) purchase of necessary services included in the individual program plan, (6) assistance in finding and using community and other resources, (7) advocacy for the protection of legal, civil, and service rights, (8) early intervention services for infants and their families, (9) family support, (10) planning, placement, and monitoring for 24-hour out-of-home care, (11) training and educational opportunities for individuals and families, (12) community education about developmental disabilities, and (13) habilitation services. The needs of individuals who reside in state-operated facilities are assessed and community resources are developed to assist those who can appropriately transition to the community. The Department monitors regional centers to ensure they operate in accordance with statute, regulations, and their contract with the Department.

***Developmental Centers Program*.** The Department operates four Developmental Centers: Fairview (Orange County), Lanterman (Los Angeles County), Porterville (Tulare County), and Sonoma (Sonoma County). Secure treatment services are provided at Porterville Developmental Center. In addition, the Department leases one small facility for persons who require specialized behavioral interventions: Canyon Springs, a 63-bed facility in Cathedral City. Services at all facilities involve the provision of active treatment through residential and day programs on a 24-hour basis, including appropriate medical and dental care, health maintenance activities, and assistance with activities of daily living, training, education, and employment.

The primary objectives of the Developmental Centers Program include providing care, treatment, and habilitation services in the most efficient, effective, and least restrictive manner to all individuals referred to the Developmental Centers Program by the regional centers, and/or the judicial system; and providing services to individuals that ensure increased independence, maintenance or improvement of health and welfare, and enhanced personal competence and effectiveness in all areas of daily living.

The Developmental Centers Division provides central administrative and clinical management services to the four Developmental Centers and the leased small community facility to ensure the quality of services provided, compliance with state licensing and federal certification requirements, protection of consumers and staff, and maintenance of facility structures and grounds. Areas of responsibility include the development of policy and procedures for all aspects of the Developmental Centers operations, law enforcement and protective services, facility population management, program and fiscal oversight, and facilities planning and support.

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$2,448,121	$2,473,144	$2,646,413	$173,269	7.0%
Reimbursements	2,166,374	1,900,311	1,942,352	42,041	2.2%
Federal Trust Fund	**54,201**	54,839	55,040	201	0.4%
General Fund, Prop. 98	6,975	7,026	6,302	(724)	-10.3%
Developmental Disabilities Program Development Fund	2,891	6,203	9,805	3,602	58.1%
Mental Health Services Fund	1,131	1,133	1,129	(4)	-0.4%
California State Lottery Education Fund	53	453	453	-	-100%
Developmental Disabilities Services Account	-	150	150	-	0.0%
Total Expenditure	**$4,679,746**	**$4,443,259**	**$4,661,644**	218,385	4.9%
Positions	5,547.6	5,932.0	5,614.5	(318)	-5.4%

Budget Context

The DDS budget in recent years has withstood several rounds of substantial reductions. By way of summary and background, the following changes have been adopted in past budgets for DDS.

DDS Reductions Adopted as Part of the 2009-10 Budget

The 2009-10 budget provided $2.4 billion from the General Fund ($4.7 billion from all fund sources) for services for individuals with developmental disabilities who are clients of DCs and RCs. This amounts to a net decrease of about $170 million, or 6.6 percent, in General Fund support compared to the revised prior–year spending level. The decrease in General Fund spending for DDS was largely due to increased federal funds provided under ARRA and the adoption of several proposals to achieve a department savings target of $334 million. These spending reductions were partly offset by increases for caseload, costs, and utilization of services.

- ***Savings in Community Programs*.** The spending plan included a total of $2.1 billion from the General Fund for community services for the developmentally disabled. This reflects a decrease in General Fund support of about $126 million, or 5.8 percent, over the revised prior–year spending level. Working with various stakeholder groups, DDS developed a variety of proposals to generate $334 million in General Fund savings in 2009–10. For example, $60 million in savings would come from obtaining additional federal Medicaid funds for certain services. In addition, the Governor vetoed $50 million from the community programs budget for services provided to children up to age five and directed DDS to request replacement funds from the First 5 Commission. The spending plan included savings of $26.6 million to the General Fund due to the availability of additional federal funds for California's Early Start program under ARRA. The DDS was also required to develop a new service model that provides consumers with an "individual choice budget" that allows RC clients to choose the services they want within a fixed budget.

- ***Net Reduction in DCs*.** The spending plan included about $301 million from the General Fund for the DCs, a decrease in General Fund of about $27 million, or 8.3 percent, compared to the revised prior–year spending level. This decrease in General Fund spending was mainly due to the delay of several capital outlay projects, and from the closure of the Sierra Vista Community Facility.

DDS Reductions Adopted as Part of the 2010-11 Budget

The 2010-11 budget provided $2.6 billion from the General Fund ($4.7 billion from all fund sources) for services for individuals with developmental disabilities who are clients of developmental centers (DCs) and regional centers (RCs). This amounted to a net increase of about $112 million, or 4.6 percent, in General Fund support compared to the revised prior–year spending level. This net increase reflected increased costs for employee compensation, as well as caseload, cost, and utilization adjustments. The spending plan provided full funding for projected DC and RC caseloads.

- ***Community Programs—Reduced RC Provider Payments*.** The spending plan provided $2.2 billion from the General Fund for community services for the developmentally disabled, a net increase of $61 million, or 3 percent, compared to the adjusted prior-year spending level. This net increase reflected growth in caseload, cost, and utilization of services, as well as the loss of General Fund savings associated with the lower level of federal assistance compared to the prior year. The 2010–11 spending plan extended a 3 percent provider payment reduction that was enacted in the 2009–10 budget (for savings of $61 million), and further reduced provider payments by 1.25 percent—a total reduction of 4.25 percent—for additional General Fund savings of $25 million.

- ***DCs—Closure of Lanterman DC.*** The spending plan provided $312 million from the General Fund for the DCs, an increase of $53 million, or about 21 percent, compared to the revised prior–year spending level. This increase mostly reflected the restoration of employee compensation reductions made in the prior year. While there were no related savings in the spending plan, the Legislature adopted as part of the 2010-11 the Governor's proposal to close the Lanterman DC.

DDS Reductions Adopted as Part of the 2011-12 Budget

The 2011–12 budget provided $4.6 billion in total funds for DDS programs. This was a decrease of $113 million, or 2.3 percent, compared to the revised prior–year spending level. Between 2010–11 and 2011–12, General Fund spending increased from about $2.5 billion to $2.6 billion, or about 7 percent. This net year–over–year increase in General Fund support was partly due to increases in caseload and utilization of services. Another major factor affecting net General Fund expenditures for DDS programs was the expiration of the enhanced FMAP provided under ARRA and subsequent legislation, which had provided about $386 million in reductions in 2010–11.

- ***Measures to Contain Costs and Improve Transparency and Accountability.*** The budget plan achieved $284 million in savings through a combination of measures to contain costs and improve transparency and accountability. For example, the plan implemented an annual family program fee for families with incomes above 400 percent of the federal poverty level (about $89,000 for a family of four in 2011). The budget plan also reflected about $110 million in savings from various measures to improve the transparency and accountability of the community services program.

- ***Extension of Regional Center Provider Payment Reduction.*** The budget plan extended a 4.25 percent provider payment reduction that had been imposed in recent years in order to achieve $92 million in savings in 2011–12.

- ***Assumption of Additional Federal Funds.*** The budget plan assumed $78 million in additional federal funds resulting from the following initiatives: (1) modifications to the state's Home and Community–Based Services program of community services for persons with disabilities ($60 million); (2) certification of Porterville Developmental Center to obtain federal Medicaid reimbursement for care provided to certain patients ($13 million), and (3) an increase in Money Follows the Person grants intended to help promote the shift of disabled persons from institutions to the community ($5 million).

- ***Reduction in Funding for Developmental Centers (DCs).*** The budget plan included several reductions to the DCs for a total of $28 million in savings. These reductions reflected the consolidation of residences and programs, reductions in funding for operations, and the elimination of funding for some DC staff.

- ***Trigger Reductions.*** The final 2011–12 budget included several reductions that would only be triggered if state General Fund revenue estimates are later determined to be too high. Effective January 2012, these trigger reductions included up to $100 million in unspecified savings in services for persons with developmental disabilities. This trigger is discussed further in the next section.

Major Provisions

The Governor's Budget proposes additional FY 2011-12 reductions of $157.2 million total funds ($131 million GF) compared to the FY 2011-12 enacted budget for DDS. For FY 2012-13, the Governor's Budget proposes an increase of $61.2 million ($41.5 million GF) over the enacted budget, which represents an increase of $218 million ($172.5 million GF) over the revised current year budget. This increase primarily reflects the expiration of a 4.25 percent payment reduction in regional centers, increases due to regional center caseload changes and the full year impact of the AB 121 revenue trigger reduction, discussed further below.

Trigger in 2011-12 and Budget Year

- The current year decrease in the Department's budget reflects a $100 million GF reduction due to the revenue triggers in the FY 2011-12 enacted budget. AB 121 authorized the Department of Finance to reduce up to $100 million General Fund from the Department's budget if State revenues were insufficient. Senate Bill (SB) 73 directs the Department to consider a variety of strategies including savings attributable to caseload and expenditure adjustments, unexpended contract funds, or other administrative savings to meet the target. For FY 2011-12, DDS will look to achieve these savings within the statutory authority provided by SB 73.

- For the triggered reduction of $200 million General Fund in 2012-13, DDS plans to engage with stakeholders to discuss reduction proposals, which may include extending the 4.25 percent reduction to provider and regional center operations, reductions in the developmental center budget, and other potential savings options in the department's budget. The DDS has recently released a schedule of six stakeholder meetings throughout the State in February and March and is planning for representation from various organizations representing consumers, providers, families, and other service categories.

Oversight of Lanterman Closure

DDS proposed the closure of Lanterman DC in January 2010. Following an extensive planning and communication process with stakeholders, DDS submitted the proposed Plan to the Legislature on April 1, 2010. The Plan was subsequently approved in October 2010 through enactment of the Budget Act of 2010 and trailer bill provisons necessary for the implementation of the Plan. Subsequent legislation has further defined elements of the Plan and updates have been submitted by DDS, the latest of which was released in January 2012. It reports that as of December 1, 2011, 296 residents are being served at Lanterman, and 84 have transitioned from

Lanterman to community living arrangements. The Legislature will continue to be involved in oversight over the movement of consumers from Lanterman into the community and the eventual closure of this DC.

Key Provisions

The Governor's Budget for DDS also proposes the following:

- Reduce $14.4 million General Fund ($724,000 Proposition 98 General Fund) for Developmental Centers in 2012-13 as a result of a revised population estimate.

- Provide for increases to Regional Centers of $5.9 million General Fund in 2011-12 and an increase of $115.2 million General Fund in 2012-13 as a result of a revised population estimate.

- Reduce $32 million General Fund in 2011-12 and $2.9 million General Fund in 2012-13 as a result of changes and delayed implementation of Medi-Cal savings proposals regarding the Adult Day Health Care program, caps, and copayments, which will delay the need for regional centers to backfill these reductions.

- Increase by $108.4 million General Fund in 2012-13 as a result of the 4.25-percent provider and regional center operations payment reduction expiring on June 30, 2012.

- Increase by $50 million General Fund in 2012-13 to backfill for the one-time use of Proposition 10 funding for services to consumers age 0-5 years.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Department Description

The Department of Alcohol and Drug Programs provides leadership, policy, coordination, and investments in the planning, development, implementation, and evaluation of a comprehensive statewide system of alcohol and other drug prevention, treatment, and recovery services, as well as problem gambling prevention and treatment services. As the state's alcohol and drug authority, the Department is responsible for inviting the collaboration of other departments, local public and private agencies, providers, advocacy groups, and individuals in establishing standards for the statewide service delivery system.

This Department is undergoing significant changes. In 2011-12, the Drug Medi-Cal functions were transferred to counties as part of 2011 Realignment and administrative functions for the Drug Medi-Cal program are being transferred to the Department of Health Care Services. In 2012-13, the remaining programs are proposed to be transferred to various departments, including the Department of Health Care Services, the Department of Public Health, and the Department of Social Services.

The Alcohol and Other Drug Services Program assists counties in providing appropriate prevention, treatment, and recovery services to help Californians have healthy lives free of alcohol and other drug-related problems and become contributing members of their communities. In addition to ensuring compliance with state and federal statutes, the Department provides program oversight, maintains agreements with counties to monitor performance measures and spending related to federal maintenance of effort requirements, and implements projects consistent with specific Department objectives.

Overview of Department's Major Areas

To meet this responsibility, the Department currently performs the following functions:

- ***Service Delivery System*.** Design, maintain, and continuously improve a statewide infrastructure for the delivery of community-based alcohol and other drug prevention, treatment, and recovery services, as well as problem gambling prevention and treatment services. This is achieved through ongoing partnership with county governments and in cooperation with numerous private and public agencies, organizations, and groups.

- ***System Financing*.** Provide efficient and effective systems of obtaining, allocating, administering, and accounting for local, state, and federal funds used in the alcohol and other drug system.

- ***Quality Assurance*.** Ensure that service providers maintain compliance with basic facility and program standards. The Department licenses and/or certifies a range of programs including residential treatment centers and outpatient programs, clinics for narcotic replacement therapy, and Driving Under the Influence educational programs.

- ***Alcohol and Other Drug Prevention*.** Maintain a prevention program designed to reduce and eliminate alcohol and other drug-related problems among California's children, youth, and adult populations.

- ***Information Technology*.** Develop an information infrastructure that supports the goals, strategies, and operations of the Department and its stakeholders.

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$181,802	$38,090	$-	-	%
Federal Trust Fund	259,639	261,734	-	-	-
Reimbursements	130,070	132,125	-	-	-
Indian Gaming Special Distribution Fund	8,400	8,449	-	-	-
Residential and Outpatient Program Licensing Fund	4,124	4,383	-	-	-
Driving Under-the-Influence Program Licensing Trust Fund	1,621	1,740	-	-	-
Narcotic Treatment Program Licensing Trust Fund	934	1,333	-	-	-
Mental Health Services Fund	282	-	-	-	-
Gambling Addiction Program Fund	166	166	-	-	-
Audit Repayment Trust Fund	43	72	-	-	-
Sale of Tobacco to Minors Control Account	-2,000	-2,000	-	-	-
Total Expenditure	**$585,081**	**446,092**	**-**	**-**	**-**
Positions	271.2	287.4	-	-	-

Budget Context

- ***Drug Medi-Cal Transfer*.** The 2011-12 budget approved the transfer of the Drug Medi-Cal program from the Department of Alcohol and Drug Programs (DADP) to the Department of Health Care Services (DHCS), effective July 1, 2012 in the interest of improving access and quality, as well as effectively integrating Medicaid services. It required the departments to convene and consult with stakeholders in the formulation of a transition plan, including specified components, and present this plan to the Legislature by October 1, 2011, with updates on the transfer provided during subsequent budget hearings after that date. It also authorized transition activities to take place in the 2011-12 fiscal year in accordance with the transition plan with a 30-day notification to the Legislature.

- ***Realignment*.** The 2011-12 budget plan additionally realigned several substance abuse treatment programs that were previously funded through the DADP. While DADP in the past provided funding and state oversight of these programs, the provision of services has long been administered primarily at the county level. The major substance abuse treatment programs that have been realigned are:

  - *Regular and Perinatal Drug Medi–Cal.* The Drug Medi–Cal program provides drug and alcohol–related treatment services to Medi–Cal beneficiaries. These include outpatient drug free services, narcotic replacement therapy, day care rehabilitative services, and residential services for pregnant and parenting women.

  - *Regular and Perinatal Non Drug Medi–Cal.* The Non Drug Medi–Cal program provides treatment services generally to individuals who do not qualify for Medi–Cal. This includes the Women and Children's Residential Treatment Services Program.

  - *Drug Courts.* Drug courts link supervision and treatment of drug users with ongoing judicial monitoring and oversight.

  The budget plan realigns a total of about $184 million of DADP programs (Regular and Perinatal Drug Medi–Cal, $131 million; Regular and Perinatal Non Drug–Medi–Cal, $26 million; and Drug Courts, $27 million) to the counties. Under the realignment plan, funding for these programs are deposited into three separate subaccounts within the newly created Health and Human Services Account of the Local Revenue Fund 2011. Under realignment, some programs would be supported with a combination of realignment funds and federal matching funds, while other programs would be supported mainly by realignment funds.

Major Provisions

Following the approach taken by 2011 Realignment, which shifted community-based programs from the Department to counties, the Governor's Budget transfers the remaining departmental responsibilities to other state departments.

Specifically, the majority of the programs and associated funding and positions are proposed to transfer to the new Division of Mental Health and Substance Use Disorder Services within the Department of Health Care Services, and many of the licensing programs would transfer to DHCS. The remainder of the programs (including problem gambling, driving under the influence, and certain narcotic treatment programs) would reside at the Department of Public Health.

The Governor states that the transfer of the remaining Department of Alcohol and Drug Programs activities is consistent with the realignment and consolidation effort begun in 2011-12. The Governor's Budget eliminates the Department of Alcohol and Drug Programs and shifts the remaining non-Drug Medi-Cal programs and associated funding to the Department of Health Care Services (DHCS). DHCS will administer the federal Substance Abuse Prevention and Treatment block grant.

In accordance with this proposal to eliminate DADP, the 2012-13 Governor's Budget includes the transfer of $330.357 million ($37.582 million General Fund) from DAPD to various other departments within the Health and Human Services Agency. Of the total transfer, $8.254 million ($3.513 million General Fund) is for the administrative functions associated with the Drug Medi-Cal (DMC) Program transferring to DHCS pursuant to the Governor's 2011 Realignment. In addition there is a shift of $322.103 million ($34.069 million General Fund) for the remaining Non-Drug Medi-Cal functions transferring to DHCS, the Department of Social Services, and the Department of Public Health.

DEPARTMENT OF AGING

Department Description

The California Department of Aging's (CDA's) mission is to promote the independence and well-being of older adults, adults with disabilities, and families through:

- Access to information and services to improve the quality of their lives;
- Opportunities for community involvement;
- Support to family members providing care; and
- Collaboration with other state and local agencies.

As the designated State Unit on Aging, the Department administers Older Americans Act programs that provide a wide variety of community-based supportive services as well as congregate and home-delivered meals. It also administers the Health Insurance Counseling and Advocacy Program. The Department also contracts directly with agencies that operate the Multipurpose Senior Services Program.

The Department administers most of these programs through contracts with the state's 33 local Area Agencies on Aging (AAAs). At the local level, AAAs contract for and coordinate this array of community-based services to older adults, adults with disabilities, family caregivers and residents of long-term care facilities.

Overview of Department's Major Areas

- ***Nutrition*****.** The Nutrition Program provides nutritionally-balanced meals, nutrition education and nutrition counseling to individuals 60 years of age or older. In addition to promoting better health through improved nutrition, the program focuses on reducing the isolation of the elderly and providing a link to other social and supportive services such as transportation, information and assistance, escort, employment, and education.

- ***Senior Community Employment Services*****.** The federal Senior Community Service Employment Program, Title V of the Older Americans Act, provides part-time subsidized training and employment in community service agencies for low-income persons, 55 years of age and older. The program also promotes transition to unsubsidized employment.

- ***Supportive Services and Centers.*** This program provides supportive services including information and assistance, legal and transportation services, senior centers, the Long-Term Care Ombudsman and elder abuse prevention, and in-home services for frail older Californians as authorized by Titles III and VII of the Older Americans Act. The services provided are designed to assist older individuals to live as independently as possible and access the programs and services available to them.

- ***Special Projects*****.** This program includes the community-based Health Insurance Counseling and Advocacy Program (HICAP). HICAP provides personalized counseling, community education and outreach events for Medicare beneficiaries. HICAP is the primary local source for accurate and objective information and assistance with Medicare benefits, prescription drug plans and health plans.

- ***Medi-Cal Programs.*** This program includes the Multipurpose Senior Services Program (MSSP) and Adult Day Health Care (ADHC) program, which will be eliminated effective February 29, 2012. The new Community-Based Adult Services (CBAS) program will begin March 1, 2012 and will provide necessary medical and social services to those in the elder community with the greatest need. The CBAS program is to be operated by the Department of Health Care Services, which will require a revision to the proposed budget to reflect this shift in program operation. The MSSP provides health/social case management to prevent premature and unnecessary long-term care institutionalization of frail elderly persons. The Department provides program oversight of the MSSP via an interagency agreement with the Department of Health Care Services.

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$32,218	$32,398	$32,591	193	0.6%
Federal Trust Fund	166,248	153,856	148,565	(5,291)	-3.4%
Reimbursements	7,585	8,649	8,571	(78)	-0.9%
State HICAP Fund	2,464	2,474	2,475	1	0.0%
Skilled Nursing Facility Quality and Accountability Fund	1,900	1,900	1,900	-	0.0%
Special Deposit Fund	507	1,187	1,188	1	0.1%
Mental Health Services Fund	206	-	-	-	-
Total Expenditure	**$211,128**	**$200,464**	$195,290	(5,174)	-2.6%
Positions	117.2	124.6	124.2	-	-0.3%

Budget Context

Severe reductions were made in the 2009-10 Budget for Aging programs. The Legislature had modified the administration's proposals at the time, which were to eliminate all General Fund within CDA. Despite this, Governor Schwarzenegger vetoed remaining General Fund for programs that had been fiscally stripped of resources over the course of several budget cycles.

The 2011-12 budget provided $33 million from the General Fund for the Department of Aging, a 1 percent decrease in funding compared to the revised 2010–11 funding level. Savings from a reduction in the Multipurpose Senior Services Program are largely offset by expiration of federal ARRA funding, which had previously been used to offset General Fund costs.

- ***Multipurpose Senior Services Program*.** The budget adopted a reduction of up to $2.5 million to MSSP and rejected the remainder of the Governor's proposal to eliminate the program, with budget bill language directing the administration to consult with the federal government about how to achieve the savings operationally and minimize any impacts on the number of clients served. The reduction amounted to an approximate 13 percent cut.

- ***Long-Term Care Ombudsman Program*.** The budget approved the Governor's proposal to shift funding for the Long-Term Care Ombudsman Program from the Federal Citations Penalties Account to a combination of the State Health Facilities Citation Penalties Account ($1.2 million) and the Skilled Nursing Facility Quality and Accountability Fund ($1.9 million). It also approved a corresponding statutory change to include the program as an allowable use of resources in the State Health Facilities Citation Penalties Account.

Major Provisions

Implications for MSSP as a result of the CBAS program are unknown at this time. Further details and information will be collected and presented in a future agenda during the subcommittee hearing process.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

Department Description

The mission of the Department of Community Services and Development (CSD) is to administer and enhance energy and community services programs that result in an improved quality of life and greater self-sufficiency for low-income Californians.

Overview of Department's Major Areas

***Energy Programs*.** The Energy Programs assist low-income households in meeting their immediate and long-term home energy needs through financial assistance, energy conservation, and weatherization services.

- The Low-Income Home Energy Assistance Program (LIHEAP) provides financial assistance to eligible households to offset the costs of heating and/or cooling dwellings, payments for weather-related or energy-related emergencies, and free weatherization services to improve the energy efficiency of homes. This program may include a leveraging incentive program in which supplementary LIHEAP funds can be obtained by LIHEAP grantees if non-federal leveraged home energy resources are used along with LIHEAP weatherization related services.

- The federal Department of Energy Weatherization Assistance Program provides weatherization related services, while safeguarding the health and safety of the household.

- The Lead Hazard Control Program provides for the abatement of lead paint in low-income privately owned housing with young children.

***Community Services*.** The Community Services Block Grant Program is designed to provide a range of services to assist low-income people in attaining the skills, knowledge, and motivation necessary to achieve self-sufficiency. The program also provides low-income people with immediate life necessities such as food, shelter, and health care. In addition, services are provided to local communities for the revitalization of low-income communities, the reduction of poverty, and to help provider agencies to build capacity and develop linkages to other service providers.

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
Federal Trust Fund	398,576	259,695	260,183	488	0.2%
Reimbursements	4	-	-	-	-
Total Expenditure	**398,580**	**259,695**	**260,183**	488	0.2%
Positions	123.0	128.5	128.5	0	0.0%

There are no major changes in the Governor's Budget for 2012-13 affecting CSD programs.

DEPARTMENT OF REHABILITATION

Department Description

The California Department of Rehabilitation works in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living, and equality for individuals with disabilities.

Overview of Department's Major Areas

***Vocational Rehabilitation*.** The Vocational Rehabilitation Services Program delivers vocational rehabilitation services to persons with disabilities through vocational rehabilitation professionals in district and branch offices located throughout the state. In addition, the Department has cooperative agreements with state and local agencies (education, mental health, and welfare) to provide unique and collaborative services to consumers. The Department operates under a federal Order of Selection process, which gives priority to persons with the most significant disabilities.

Persons with disabilities who are eligible for the Department's vocational rehabilitation services may be provided a full range of services, including vocational assessment, assistive technology, vocational and educational training, job placement, and independent living skills training to maximize their ability to live and work independently within their communities.

The Department also provides comprehensive training and supervision to enable persons who are blind or visually impaired to support themselves in the operation of vending stands, snack bars, and cafeterias. Prevocational services are provided by the Orientation Center for the Blind to newly blind adults to prepare them for vocational rehabilitation services and independent living.

The Department also works with public and private organizations to develop and improve community-based vocational rehabilitation services for the Department's consumers. The Department sets standards, certifies Community Rehabilitation Programs, and establishes fees for services provided to its consumers.

***Independent Living Services*.** The Department funds, administers, and supports 29 non-profit independent living centers in communities located throughout California. Each independent living center provides services necessary to assist consumers to live independently and be productive in their communities. Core services consist of information and referral, peer counseling, benefits advocacy, independent living skills development, housing assistance, personal assistance services, and personal and systems change advocacy.

The Department also administers and supports the Traumatic Brain Injury (TBI) Program. In coordination with consumers and their families, seven service providers throughout California provide a coordinated post-acute care service model for persons with TBI, including supported living, community reintegration, and vocational supportive services.

The Department also serves blind and deaf-blind persons through counselor-teacher services, purchase of reader services, and community-based projects to serve the elderly blind.

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$54,167	$54,554	$55,829	$1,275	2.3%
Federal Trust Fund	315,077	348,605	353,249	4,644	1.3%
Reimbursements	**6,150**	7,680	7,680	0	0.0%
Traumatic Brain Injury Fund	1,018	1,176	1,168	(8)	-0.7%
Vending Stand Fund	689	3,361	3,361	-	0.0%
Mental Health Services Fund	83	-	-	-	
Total Expenditure	**377,184**	**415,376**	**421,287**	5,911	1.4%
Positions	1,749.2	1,776.0	1,777.0	1	0.1%

Budget Context
In his 2011-12 Budget, Governor Brown proposed to eliminate the Rehabilitation Appeals Board (RAB), which hears appeals by applicants and consumers of Department of Rehabilitation services who wish to contest a denial of eligibility or are not satisfied with the services being provided to them. The Governor's proposal was to use administrative law judges to perform this function.

Disability rights advocates opposed the elimination, stating that a majority of members on the RAB must be persons with disabilities who are self-supporting and have overcome barriers to employment, making their expertise very difficult to cultivate in other quasi-judicial options. They also cite increased costs associated with adequately addressing consumer complaints and grievances with the department in the absence of the RAB. For its relatively low cost of $30,000, the RAB, they argue, performs extremely important functions that cannot be substituted through an option that has not developed expertise with issues specific to rehabilitation.

The Legislature chose to reject this proposal when it was forwarded in 2011.

Major Provisions

The Governor's Budget for 2012-13 again proposes to eliminate the Rehabilitation Appeals Board, which hears appeals by applicants and consumers of Department of Rehabilitation services who wish to contest a denial of eligibility or are not satisfied with the services being provided to them.

DEPARTMENT OF CHILD SUPPORT SERVICES

Department Description
The mission of the California Child Support Program is to enhance the well-being of children and the self-sufficiency of families by providing professional services to locate parents, establish paternity, and establish and enforce orders for financial and medical support.

The Child Support Program is committed to ensuring that California's children are given every opportunity to obtain financial and medical support from their parents in a fair and consistent manner throughout the state. The Child Support Program is committed to providing the highest quality services and collection activities in the most efficient and effective manner.

Overview of Department's Major Areas
The Department of Child Support Services is the single state agency designated to administer the federal Title IV-D state plan. The Department is responsible for providing statewide leadership to ensure that all functions necessary to establish, collect, and distribute child support in California, including securing child and spousal support, medical support and determining paternity, are effectively and efficiently implemented. Eligibility for California's funding under the Temporary Assistance to Needy Families (TANF) Block Grant is contingent upon continuously providing these federally required child support services. Furthermore, the Child Support Program operates using clearly delineated federal performance measures, with minimum standards prescribing acceptable performance levels necessary for receipt of federal

incentive funding. The objective of the Child Support Program is to provide an effective system for encouraging and, when necessary, enforcing parental responsibilities by establishing paternity for children, establishing court orders for financial and medical support, and enforcing those orders.

***Child Support Administration*.** The Child Support Administration program is funded from federal and state funds. The Child Support Administration expenditures are comprised of local staff salaries, local staff benefits, and operating expenses and equipment. The federal government funds 66 percent and the state funds 34 percent of the Child Support Program costs. In addition, the Child Support Program earns federal incentive funds based on the state's performance in five federal performance measures.

***Child Support Automation*.** Federal law mandates that each state create a single statewide child support automation system that meets federal certification. There are two components of the statewide system. The first is the Child Support Enforcement (CSE) system and the second is the State Disbursement Unit (SDU). The CSE component contains tools to manage the accounts of child support recipients and to locate and intercept assets from non-custodial parents who are delinquent in their child support payments. In addition, it funds the local electronic data processing maintenance and operation costs. The SDU provides services to collect child support payments from non-custodial parents and to disburse these payments to custodial parties.

***Fiscal Overview*:**

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$308,337	$320,414	$313,226	($7,188)	-2.2%
Federal Trust Fund	498,106	492,956	459,828	($33,128)	-6.7%
Child Support Collections Recovery Fund	**206,964**	217,125	225,621	$8,496	3.9%
Reimbursements	127	178	123	($55)	-30.9%
Total Expenditure	**1,013,534**	**1,030,673**	**998,798**	($31,875)	-3.1%
Positions	525.6	573.5	573.5	$0	0.0%

Budget Context

The 2011–12 budget package suspended the county share of collections for one year, which results in an increase in General Fund revenue of about $24 million in the budget year. Typically, when Local Child Support Agencies collect child support on behalf of families receiving CalWORKs, the county retains a portion (2.5 percent) of the collections. Most counties use these funds for the support of their CalWORKs programs.

Major Provisions

The Governor's Budget again suspends the county share of child support collections in 2012-13. The county share of collections is estimated to be $34.5 million in 2012-13. Under this proposal, the entire non-federal portion of child support collections will benefit the General Fund on a one-time basis. This will not reduce the revenue stabilization funding of $18.7 million ($6.4 million General Fund) counties receive for caseworker staff in order to maintain child support collections.

Additional Budget Detail

2012-13 State Operations

- State Operations budget $151.9 million
- Reduction of 19 positions and $15 million ($5 million GF) to meet the Control Section 3.91 statewide reduction target

2012-13 Local Assistance Expenditures

- $860.5 million ($267.3 million GF) in total Child Support Program Costs
- $761.1 million ($233.5 million GF) in Child Support Administration Costs
- $99.3 million ($33.8 million GF) in Child Support Automation Costs

Item	SFY 2011/12 (Dollars in 000's)	Change (Dollars in 000's)	SFY 2012/13 (Dollars in 000's)
Child Support Administration	$761,143	$0	$761,143
Child Support Automation	$103,823	-$4,480	$99,343
CCSAS - SDU	$19,446	-$4,480	$14,966
CCSAS - CSE	$84,377	$0	$84,377
Total	$864,966	-$4,480	$860,486

Child Support Administration**.** The 2012-13 Local Assistance Estimate includes a reduction of $266,000 General Fund (GF) due to a projected increase in federal funds for increased incentives. Overall funding remains the same as SFY 11/12.

Child Support Automation**.** DCSS recently completed procurement of a new Service Provider contract for the State Disbursement Unit (SDU). The new contract rates are lower than the existing rates resulting in savings of $4.5 million ($1.5 million GF) in SFY 2012 13.

Child Support Collections**.** Child Support Collections increased 0.5% in 2011 despite California's soft economy.

- $2.4 billion Total Collections
- $1.8 billion Non Assistance collections
- $564.4 million ($263.4 million SGF) in Assistance Collections

Item	SFY 2011/12 (Dollars in 000's)	Change (Dollars in 000's)	SFY 2012/13 (Dollars in 000's)
Assistance Collections	$541,702	$22,715	$564,417
General Fund	$253,465	$9,919	$263,384
Other Funds	$288,237	$12,796	$301,033
Non Assistance Collections	$1,767,133	$19,388	$1,786,521
Total	$2,308,835	$42,103	$2,350,938

Revenue Stabilization Update. Collection data for 2010-11 indicates the revenue stabilization funds continue to have a positive effect of maintaining statewide child support collections levels. In 2010 11, Local Child Support Agencies (LCSAs) were able to retain 239 of the originally retained 245 revenue generating caseworker staff with the revenue stabilization funding. This number was calculated based on a 2.4 percent reduction to actual total caseworker staffing in 2010-11. Child support collections would have declined by this amount had staff not been retained. This would have been 4.1 percent less than the 2009 10 collections for this same time period.

Collection Category	SFY 2010/11 Collections With Revenue Stabilization	SFY 2010/11 Collections Without Revenue Stabilization	SFY 2010/11 Amount Impact of Revenue Stabilization	SFY 2010/11 Percent Impact of Revenue Stabilization
Total Collections	$2,266.8 m	$2,136.9 m	$129.9 m	5.7%
Assistance Collections	$519.0 m	$500.0 m	$19.0 m	3.7%
General Fund Recoupment	$219.4 m	$210.4 m	$9.0 m	4.1%
Non-Assistance Collections	$1,747.8 m	$1,636.9 m	$110. 9 m	6.3%

In addition DCSS states that reports from the LCSAs indicate early intervention strategies are increasing the engagement of parents in their child support cases and positively influencing payment behavior.

FFY 2011 – Federal Performance Measures:

- ***Statewide Paternity Establishment Percentage (PEP)*** for California measured 107.0% for Federal Fiscal Year (FFY) 2011. California's performance increased in this measure by 4.4 percentage points from FFY 2010 to FFY 2011, a 4.3 percent change. Since FFY 2000, Statewide PEP has been above 100%.The national average for FFY 2010 was 94.7%.

- ***IV-D Paternity Establishment Percentage*** for California measured 92.2% for IV-D PEP in FFY 2011. California's performance increased in this measure by 3.6 percentage points from FFY 2010 to FFY 2011, a 4.1 percent change. The national average for FFY 2010 was 94.1%.

- ***Cases with Support Orders Established*** for California measured 85.8% for FFY 2011. California's performance increased in this measure by 3.3 percentage points from FFY 2010 to FFY 2011, a 4.0 percent change. The national average for FFY 2010 was 80.1%.

- ***Collections on Current Support*** for California measured 58.6% for FFY 2011. California's performance increased in this measure by 2.6 percentage points from FFY 2010 to FFY 2011, 4.6 percent change. The national average for FFY 2010 was 62.0%.

- ***Cases with Collections on Arrears*** for California measured 61.6% for FFY 2011. California's performance increased in this measure by 1.3 percentage points from FFY 2010 to FFY 2011, a 2.2 percent change. The national average for FFY 2010 was 62.1%.

- ***Cost Effectiveness*** for California measured $2.29 for FFY 2011. California's performance declined in this measure by $0.09 from FFY 2010 to FFY 2011, a 3.8 percent change. The national average for FFY 2010 is $4.86.

HEALTH AND HUMAN SERVICE AGENCY

Description of Agency

The primary mission of the Health and Human Services Agency (HHSA) is to provide policy leadership and direction to the departments, board and programs it oversees, to reduce duplication and fragmentation among HHSA departments in policy development and implementation, to improve coordination among departments on common programs, to ensure programmatic integrity, and to advance the Governor's priorities on health and human services issues.

The HHSA accomplishes its mission through the administration and coordination of state and federal programs for public health, health care services, social services, public assistance, health planning and licensing, and rehabilitation. These programs touch the lives of millions of California's most needy and vulnerable residents. The HHSA is committed to striking a balance between the twin imperatives of maintaining access to essential health and human services for California's most disadvantaged and at-risk residents while constantly pursuing ways to better manage and control costs.

The following departments and entities fall under the purview of the HHSA:

- Department of Aging
- Department of Child Support Services
- Department of Community Services and Development
- Department of Developmental Services
- Emergency Medical Services Authority
- Department of Health Care Services
- Department of Public Health
- Department of Rehabilitation
- Department of Social Services

- Department of State Hospitals
- Office of Statewide Health Planning and Development
- Managed Risk Medical Insurance Board

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$2,711	$3,454	$3,498	$44	1.3%
Federal Trust Fund	863	1,850	1,774	($76)	-4.1%
Reimbursements	24,960	3,284	3,326	$42	1.3%
Internal Health Information Integrity Quality Improvement Account	-	40	25	($15)	-37.5%
California Health Information Technology and Exchange Fund	15,187	17,697	10,500	($7,197)	-40.7%
Office of Systems Integration Fund	152,037	171,352	181,034	$9,682	5.7%
Central Service Cost Recovery Fund	780	835	839	$4	0.5%
Total Expenditure	$196,538	$198,512	$200,996	$2,484	1.3%

OFFICE OF SYSTEMS INTEGRATION

Description of Office

The Office of System Integration's (OSI's) mission is to procure, manage and deliver technology systems that support the delivery of health and human services to Californians.

In 2005, the Office of Systems Integration (OSI) was established to manage a portfolio of large, complex health and human services information technology projects. The OSI provides project management, oversight, procurement and support services for a multi-billion dollar portfolio of high criticality projects.

In this capacity, OSI coordinates communication, collaboration and decision making among project stakeholders and program-side sponsors of the projects. OSI manages the procurement, contract negotiations and contract management aspects of the acquisition of technology systems and services. After the procurement phase, OSI oversees the design, development, governance and implementation of IT systems which serve health and human services programs.

Since its inception, OSI has developed a track record of successfully managing and deploying large, complex, mission critical systems to support health and human services programs at the state, federal and local level.

Overview of Department's Major Areas

This Office provides project management services for automation projects for the Department of Social Services, and for the Employment Development Department, including:

- Child Welfare Services/Case Management System
- Statewide Automated Welfare System
- Statewide Fingerprint Imaging System
- Electronic Benefit Transfer System
- Case Management, Information and Payrolling System
- Unemployment Insurance Modernization Project

Fiscal Overview:

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$2,711	$3,454	$3,498	$44	1.3%
Federal Trust Fund	863	1,850	1,774	($76)	-4.1%
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Central Service Cost Recovery Fund	780	835	839	$4	0.5%
Total Expenditure	$196,538	$198,512	$200,996	$2,484	1.3%

Budget Context

As part of the 2011-12 Budget, the following took place for projects under the purview of OSI and the Department of Social Services.

- ***Suspension of Child Welfare Services Project*.** The Child Welfare Services/Case Management System Web (CWS/Web) project would build a modern, web–based system to replace the current system, which is based on outdated technology and does not fully comply with federal system requirements. Project staff planned to select a vendor and begin development work by late 2012–13 at a cost of about $70 million (all funds) annually for several years. Because the federal government is revising its requirements for such systems and escalating project costs, the Legislature suspended development of the CWS/Web project and canceled the current procurement. General Fund support for the project in the 2011–12 was reduced by $3 million, leaving $1 million for shutdown activities.

  In addition, trailer bill language directs DSS and the Office of Systems Integration, after consulting with stakeholders, to report by January 10, 2012 to the Legislature on (1) the current system's ability to support CWS practice, (2) the best approach to address missing functionality in the system, and (3) any next steps for implementing this approach, among other issues.

- ***Los Angeles Project Delay*.** The Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) replacement system is one of three county–led consortia that make up the statewide automated welfare system. The LEADER system is nearing the end of its useful life and procurement of a replacement system has been under way for several years. The consortium recently selected a vendor to build the new system at an estimated total cost of $485 million over the next four years.

  The administration proposed to indefinitely suspend the replacement project due to its high cost and indications that the federal government would not participate in funding its development until a long–term strategic plan for its three automated welfare systems was submitted and approved. Rather than indefinitely suspend development, the Legislature delayed the replacement project and reduced General Fund support by $14 million in 2010–11 and $13 million in 2011–12.

- ***Statewide Automated Welfare System (SAWS).*** Trailer bill language adopted in the summer of 2011 directed the Office of Systems Integration to oversee the future development of a new SAWS consortium that will include the 39 counties that currently comprise the C-IV consortium and Los Angeles County. The language required the Office of Systems Integration to include related information in its annual report on SAWS.

Major Provisions

- ***Semiannual Reporting Automation*.** This is a new premise reflecting the automation costs, $10.35 million General Fund, associated with implementing AB 6 of 2011, which includes the movement to Semiannual Reporting. It assumes automation will begin in April 2012 with the issuance of All-County Letter instructions. It also assumes automation changes will be complete by June 2013, therefore no grant costs or administrative savings are reflected in budget until 2013-14.

- ***CMIPS II*.** The Case Management, Information and Payrolling System II (CMIPS II) Project was created to award and administer a contract to design, develop, maintain and operate a replacement for legacy CMIPS. The CMIPS II solution will be used to administer the In-Home Supportive Services (IHSS) programs in the Department of Social Services and all 58 counties. This premise reflects the costs for contracting with the Health and Human Services Agency Office of System Integration for development, support, systems change, delay, and implementation of a new and enhanced IHSS CMIPS. The adjustments are a decrease of $2.3 million General Fund in the current year and an increase of $1.41 million General Fund in 2012-13.

- ***Statewide Fingerprint Imaging System*.** AB 6 of 2011 eliminated the fingerprinting requirement for the CalFresh and CFAP (non-assistance cases). This item reflects increased costs in TANF/GF as costs are reallocated to the remaining programs (CalWORKs and County GA/GR). The adjustments are an increase of $1.67 million General Fund in the current year and an increase of $3.31 million General Fund in 2012-13.

Natural Resources and Environmental Protection

Cap and Trade

The marquee issue in this area is the anticipated revenue from the Cap and Trade auction for greenhouse gas (GHG) emissions, slated to take place in August (the first of four auctions in the budget year). At the low-end, revenues from the auction are expected to exceed $650 million. The Governor's Budget requests up to $1 billion in expenditure authority, but does not include an expenditure plan for these funds. Instead, the budget proposal directs a plan, outlining specific expenditures, be jointly submitted by the Director of Finance and the Air Resources Board (ARB) not fewer than 30 days prior to allocating funds.

The budget does include broad categories of proposed spending, including clean and efficient energy; low-carbon transportation; natural resource protection; and sustainable infrastructure development. Trailer bill language, due February 1st, is likely to contain parameters for spending auction revenue. The ARB has suggested that any expenditure plan is likely to channel funding to existing programs, wherever possible, to reduce greenhouse gas emissions pursuant to AB 32, the Global Warming Solutions Act of 2006.

According to the Legislative Analyst's Office, the Governor's proposal raises several issues for legislative consideration. For example, since there are legal constraints on how revenues from Cap and Trade can be used, it will be important for the Legislature to consider any potential legal risks with the proposal. Revenues must be used either to mitigate GHG emissions or to mitigate the adverse effects of GHG. Moreover, the Administration's approach provides the Legislature with no opportunity to develop a detailed plan on the use of the revenues as part of the budget process in order to ensure that the plan is aligned with Legislative priorities.

Speaker Peréz has introduced AB 1532, a bill that will contain a comprehensive plan for spending Cap and Trade auction revenues in compliance with AB 32. According to the LAO, because the auction rules developed by ARB include both floor and ceiling prices for allowances, actual Cap-and Trade revenues for 2012-13 could range from roughly $650 million to almost $3 billion.

In addition to the proposed $1 billion that is included in the Governor's Budget, an additional $650 million would be generated in 2012-13 as a result of a free allocation of carbon allowances to the state's Investor Owned Utilities (IOUs). Specifically, ARB will give 65 million allowances to IOUs who are then mandated to consign those allowances to auction. If these allowances were to sell at the ARB's auction floor price of $10 per ton, the revenue generated would be $650 million. However, ARB has also included an auction ceiling price of $40 per ton and, as such, the sale of these allowances could result in higher revenues – potentially up to $2.6 billion.

The California Public Utilities Commission (CPUC) has opened an official proceeding to determine how the IOUs should use these revenues. While the Commission has yet to decide how these revenues should be spent, it has indicated that it believes, in general, that the funds should be used in ways that benefit electricity consumers in California, such as to augment investments in energy efficiency and renewable energy. The Legislature may wish to weigh-in on how these revenues are expended.

Park Closures

Due to reductions in last year's budget ($11 million) and similar reductions proposed this year, the Department of Parks and Recreation (DPR) will be unable to afford operating 70 state parks. The Department has been pursuing concessions, operating agreements, and other arrangements with public, non-profit, and private entities to keep as many parks operating as possible. DPR is hopeful that at least a dozen parks on the closure list will have agreements in place and avoid the July 2012 closure date. The Governor also has proposed incentives to provide the Department flexibility to implement new projects and/or new programs that generate additional revenues to pay to help keep parks open to the public.

Budget Triggers

The Governor's Budget contains a number of trigger cuts in the Resources area, if the Governor's tax proposal is not approved by voters in November. Of particular note are the triggers cuts to the Department of Forestry and Fire Protection (CAL FIRE), DPR and the Department of Fish and Game (DFG).

CAL FIRE's trigger cuts would reduce by 10 percent, or approximately $60 million, the Department's firefighting capabilities, including emergency air response program reductions and fire station closures. Over the next several months, CAL FIRE will be working to identify specific resources that will be impacted by a $60 million cut. The Department anticipates the impact to ground and air resources to be significant and will result in increases in E-fund costs.

The Governor's Budget also proposes trigger cuts to reduce 20 percent of game wardens and park rangers and eliminate all seasonal lifeguards. The elimination of seasonal lifeguards would essentially remove all the lifeguards from state beaches. The cuts to DPR, which would result in a reduction of 124 park rangers and 12 permanent peace officer positions, are expected to result in a savings of approximately $2 million in the FY 2012-13 budget and $8.7 million when fully implemented. These reductions at DPR would reduce public safety in state parks but the operational duties of rangers would be carried out by non-badged replacement staff. The cut to DFG is expected to result in savings of approximately $5 million.

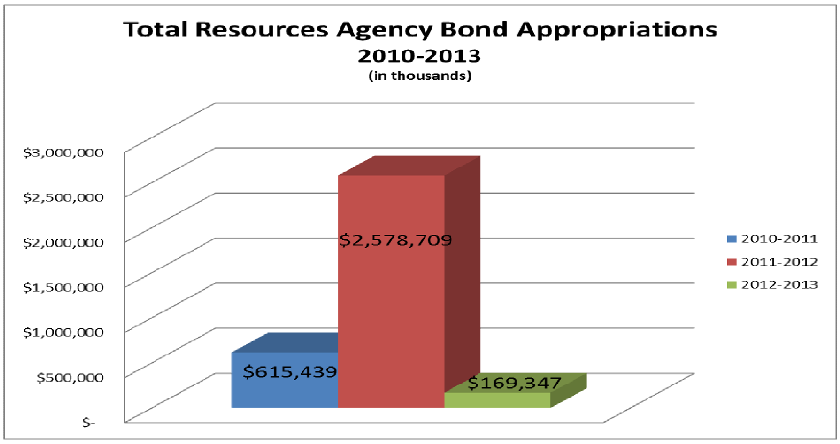
Should the Legislature choose to adopt the Governor’s proposed trigger cuts it may wish to consider giving departments the maximum flexibility over how cuts are implemented. Departments should have the ability to conduct a broad assessment of programmatic needs and administer cuts accordingly, rather than prescribing cuts on a program by program basis.

Bond Expenditures

In the state Resources area, overall, the Administration is asking for fewer bond appropriations in the budget year. While some of this can be explained by natural fluctuation year over year of bond usage, the principal reason appears to be a concerted effort to spend down bond cash on hand.

The Resources Agency had $3.79 billion in bond cash as of December 20, 2011. This is money that has already been appropriated, but not yet spent. The Agency has stated that it plans on spending $2 billion of this cash in the next year or two and predicts it won't need cash (bond sale) until 2013. The presumption is that Agency is focusing on getting this cash (and its attached backlog of projects) out the door rather than getting more funds appropriated.

The chart below shows the difference in bond expenditure over the past three budget years.

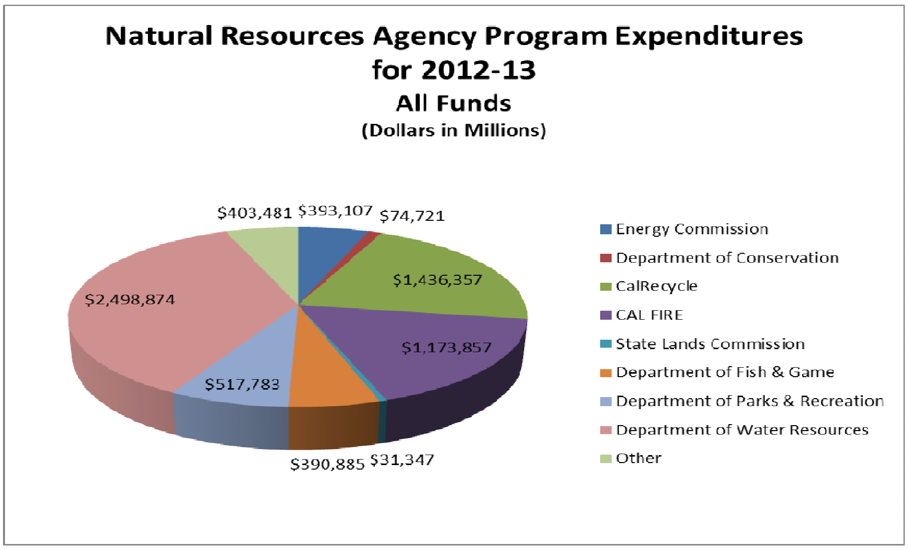


Timber Harvest Working Group

Late last year, the Assembly convened a timber harvest working group, composed of Members, legislative and budget staff, agency personnel, industry and environmentalists to address issues with the state's timber harvest regulatory program, including current General Fund costs of environmental reviews. The Governor echoed his commitment to improving the timber harvest plan process in his proposed budget. Resources Secretary John Laird stated that it is a priority for the Administration that the working group addresses ways that the State can improve its current review process through sustainable funding and administrative streamlining. The goal of the working group is to develop reforms in 2012.

RESOURCES AGENCY

The mission of the Resources Agency is to restore, protect and manage the State's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration and respect for all involved communities. The Secretary for Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 27 various departments, boards, commissions, and conservancies.



The Governor's Budget proposes $7.8 billion ($1.9 billion General Fund) and 19,762 positions in total spending for the various entities within the Resources Agency. Total proposed state funds, excluding federal funds, certain non-governmental cost funds, and reimbursements equals $4.6 billion. This represents approximately 3.4 percent of the state budget.

- **Reorganization.** The Governor's Budget proposes to eliminate the Department of Boating and Waterways and its Commission. The Department's functions will be transferred to DPR. Duties performed by the Commission will be absorbed by DPR.

  The budget also proposes transferring CalRecycle to the California Environmental Protection Agency (Cal/EPA). Because hazardous waste, electronic waste, used oil, used tires, and landfill permits are typically not considered “natural resources” but wastes, the Administration argues that it should be regulated under the Cal/EPA, not the Natural Resources Agency.

- **Consolidate Colorado River Board within the Natural Resources Agency.** The Board is responsible for developing a plan to maintain adequate water supplies from the Colorado River. The Governor proposes to eliminate the Board and transfer these responsibilities to the Natural Resources Agency.

- **Eliminate the State Geology and Mining Board and Transfer its Responsibilities.** The Board serves as a regulatory, policy, and appeals body representing the state's interest in geology, geologic and seismologic hazards, conservation of mineral resources, and reclamation of lands following surface mining activities. The Governor proposes to eliminate the Board and move the appeals process to the Office of Administrative Hearings, and the balance of the Board's responsibilities to the Office of Mine Reclamation within the Department of Conservation.

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The California Department of Forestry and Fire Protection (CAL FIRE) mission is to serve and safeguard the people and protect the property and resources of California. CAL FIRE provides all hazard emergency - fire, medical, rescue and disaster - response to the public. The Department provides resources management and wild land fire protection services covering over 31 million acres of the State. It operates 228 fire stations and, on average, responds to over 5,600 wildfires annually. The Department also performs the functions of a local fire department through reimbursement agreements with local governments. The state contracts with local entities in six areas to provide fire protection and prevention services.

The Governor's total budget includes $1.173 billion (including infrastructure expenditures) for the Department. The Department's proposed program budget is $1.075 billion, which represents an overall decrease of $11.3 million and 40.8 personnel years from the 2011-12 budget. Decreases in funding are largely the result of lower starting numbers for the Emergency Fire Suppression Fund (E-Fund).

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$633,001	$700,272	$653,052	($47,220)	(7%)
State Responsibility Area Fire Prevention Fee	-	50,000	76,303	26,303	53%
Reimbursements	284,130	289,804	293,404	3,600	1%
Other	36,554	46,517	52,502	5,985	13%
Total Expenditure	**$983,695**	**$1,086,593**	**$1,075,261**	**($11,332)**	**(1%)**
Positions	6,567	6,013	5,973	(40)	(1%)

Key Provisions

- **Department of Justice (DOJ) Civil Cost Recovery Legal Fees**. The Governor's Budget proposes an increase of $3 million in FY 2012-13 and an ongoing increase of $2 million to augment its Statewide Legal Services budget to fund DOJ legal services related to CAL FIRE's Civil Cost Recovery Program. The Program returns over $12 million annually from civil actions lodged against culpable parties.

- **SRA Fire Prevention Fee**. The Governor's Budget proposes $9,283,000 in FY 2012-13 and 29.5 permanent positions to implement AB 29 X1 (Blumenfield), Chapter 8, Statutes of 2011-12 First Extraordinary Session, which authorizes a new fee to be assessed on structures located within SRA in order to pay for fire prevention activities that specifically benefit owners of structures within the SRA. The Administration is continuing to evaluate the long-term structure of the fee, including supplementing the fee with a per-acre charge.

DEPARTMENT OF PARKS AND RECREATION

The mission of the Department of Parks and Recreation (DPR) is to provide for the health, inspiration, and education of the people of California by helping to preserve the State's extraordinary biological diversity, protecting its most valued natural, cultural and historical resources, and creating opportunities for high-quality outdoor recreation for current and future generations to enjoy.

The 2011 Budget Act includes an $11 million General Fund reduction. The reduction will grow to $22 million, which will result in the closure of up to 70 state parks effective July 1, 2012. The Governor's total budget proposes $517.8 million (including infrastructure expenditures and local assistance grants) for the Department. The Department's proposed program budget is $432 million, which represents an overall decrease of $745,933 million and 18.2 personnel years from the 2011-12 budget. Decreases in funding are largely the result of previously mentioned General Fund reductions ($11 million), cuts to the operating budget of Off-Highway Motor Vehicle Division ($10 million) and significant reductions in bond expenditures ($654,851 million).

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$117,458	$121,8311	$112,015	($9,816)	(8%)
Off-Highway Vehicle Trust Fund	77,534	113,912	75,233	(38,679)	(34%)
State Parks & Recreation Fund	114,339	139,316	132,286	(7,030)	(5%)
Bond Funds	157,824	679,762	24,911	(654,851)	(96%)
Other	61,198	123,580	88,023	(35,557)	(29%)
Total Expenditure	**$528,353**	**$1,178,401**	**$432,468**	**($745,933)**	**(63%)**
Positions	3,653	3,865	3,851	(14)	0%

Key Provisions

- **Revenue Incentive Opportunities**. The Governor's Budget proposes a $4.3 million State Parks and Recreation Fund increase in 2012-13 and shifting $11 million from its base budget to a continuous appropriation to provide the Department additional flexibility to implement new projects and/or new programs that generate additional revenues and help keep parks open to the public. The Department has been pursuing concessions, operating agreements, and other arrangements with public, non-profit, and private entities to keep as many parks open as possible.

- **Empire Mine State Historic Park - Erosion and Storm Water Measure**. The Governor's Budget proposes $4.5 million for the continued evaluation, analysis, and implementation of remedial actions required at Empire Mine State Historic Park. This request is mandated by current court orders.

DEPARTMENT OF FISH AND GAME

The mission of the Department of Fish and Game (DFG) is to manage California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend, for their ecological values and for their use and enjoyment by the public. This includes habitat protection and maintenance in a sufficient amount and quality to ensure the survival of all species and natural communities. The Department is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific, and educational uses. The Budget includes $390.9 million and 2,466 positions for the Department, which represents an overall decrease of $113 million from the 2011-12 budget. Decreases in funding are largely due to reductions in bond expenditures ($89 million).

- **Eliminations**. The Governor's Budget propose to eliminate various entities within the Department, including the Salton Sea Restoration Council, the California Advisory Committee on Salmon and Steelhead Trout, the Commercial Salmon Review Board, the State Interagency Oil Spill Committee, the State Interagency Oil Spill Review Subcommittee, and the Abalone Advisory Committee. These advisory groups provide public input and guidance to the Department in various program areas. According to the Administration, the information provided by these entities is either no longer useful or can be provided through other means.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$60,217	$61,139	$62,141	$1,002	2%
Federal Funds	60,467	70,378	78,461	8,083	11%
Fish and Game Preservation Fund	84,249	122,884	109,096	(13,788)	(11%)
Bond Funds	21,855	99,690	10,143	(89,547)	(87%)
Other	91,302	150,028	131,044	(18,984)	(13%)
Total Expenditure	**$318,090**	**$504,119**	**$390,885**	**($113,234)**	**(22%)**
Positions	2,328	2,451	2,466	15	1%

Key Provisions

- **Renewable Energy Projects Permitting.** The Governor's Budget proposes an increase of four positions to implement SB 78 (Budget and Fiscal Review Committee), Chapter 10, Statutes of 2011, and SB 16 (Rubio), Chapter 311, Statutes of 2011. These bills require the Department to approve or reject an incidental take permit application from an owner or developer of an eligible renewable energy project within 60 days and expand the types of projects under consideration to include wind and geothermal projects. These changes are intended to facilitate the development of renewable energy projects in the Colorado and Mojave deserts. The positions would be funded by a $6 million appropriation contained in AB 13 X1 (V. Manuel Pérez), Chapter 10, Statutes of 2011-12 First Extraordinary Session.

- **Oil Spill Response Program.** The Governor's Budget proposes an increase of $2.9 million Oil Spill Prevention and Administration Fund and 16 positions to implement AB 1112 (Huffman), Chapter 583, Statutes of 2011, which requires the Department to develop a statewide monitoring program to ensure vessels loading other vessels with fuel and lubricants and vessels transferring oil as cargo are doing so in a safe manner and are compliant with state laws.

- **Interoperable Narrowband Radio Infrastructure Modernization.** The Governor's Budget proposes a one-time augmentation of $1.5 million for FY 2012-13 to continue implementing and maintaining the Department's Critical Radio Infrastructure and Equipment Effort.

STATE LANDS COMMISSION

The Commission manages and protects California's sovereign public trust lands and other lands. These lands total more than 4.5 million acres, plus 790,000 acres of reserved mineral interests. The Budget includes $31.3 million and 216 positions for the Commission, which represents an overall increase of $2.2 million and 17 positions. The increases in budget are largely due to added funding and positions to implement royalty recovery and lease compliance and land exchanges for renewable energy projects discussed below.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$8,053	$9,484	$9,661	$177	2%
Oil Spill Prevention and Administration Fund	10,147	11,266	12,055	789	7%
Other	14,864	8,305	9,631	1,326	16%
Total Expenditure	**$33,064**	**$29,055**	**$31,347**	**$2,292**	**8%**
Positions	198	199	216	17	9%

Key Provisions

- **Royalty Recovery and Lease Compliance**. The Governor's Budget proposes an increase of $1 million General Fund and 9 positions for the Commission to increase financial audit activities related to management of oil, gas, and other mineral resources owned by the State, as well as to ensure compliance and prompt payment of rentals from surface leasing. The positions will focus on leases that have historically generated the most revenues and recoveries, as well as those that have had the most problems. With a potential 10:1 return for each Auditor position, these additional audits are expected to annually generate $6.6 million in General Fund. This proposal addresses the findings of the recent audit by the Bureau of State Audits.

- **Land Exchanges for Renewable Energy Projects**. The Governor's Budget proposes an increase of $686,000 School Land Bank Fund and 6 positions to execute land exchanges for renewable energy related projects as required by AB 982 (Skinner), Chapter 485, Statutes of 2011. This legislation directs the Commission to negotiate land exchanges with the federal government to consolidate non-contiguous school parcels owned by the state to promote the development of large-scale renewable energy projects. These positions will not require State funding as all costs are paid by project applicants and approved projects could substantially increase rents and royalties to the General Fund and State Teachers' Retirement Fund.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources protects conserves, develops, and manages California's water. The Department evaluates existing water resources, forecasts future water needs and explores future potential solutions to meet ever-growing needs for personal use, irrigation, industry, recreation, power generation, and fish and wildlife. The Department also works to prevent and minimize flood damage, ensure the safety of dams, and educate the public about the importance of water and its proper use.

The Budget includes $2.5 billion (including infrastructure expenditures) and 3,405 positions for support of the Department. The Department's proposed program budget is $2.2 billion, which represents an overall decrease of $2.6 billion and an increase of 144 personnel years from the 2011-12 budget.

DWR's budget has decreased by approximately $1.5 billion compared to FY 2011-12. The program areas that account for the decrease are the California Energy Resources Scheduling (CERS) and Proposition 1E, Disaster Preparedness and Flood Prevention Bond Fund of 2006. CERS' reduction is due to the power supply contracts expiring and the responsibility of power purchasing transferring back to the three Investor Owned Utilities (IOU). The reduction in the Proposition 1E budget is mostly because the Governor's Budget does not include any new major bond expenditures in anticipation of the release of the Governor's five year infrastructure report in the spring of 2012.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$99,665	$94,381	$98,228	$3,847	4%
Department of Water Resources Electric Power Fund	2,746,324	1,848,250	1,015,363	(832,887)	(45%)
Bond Funds	248,8590	1,627,762	97,208	(1,530,554)	(94%)
Other	954,439	1,297,794	1,055,841	(241,953)	(19%)
Total Expenditure	**$4,049,287**	**$4,868,187**	**$2,266,640**	**($2,601,547)**	**(53%)**
Positions	3,147	3,261	3,405	144	4%

Key Provisions

- **Delta Habitat Conservation and Conveyance Program**. The Governor's Budget proposes an increase of $25.4 million California Water Resources Development Bond Fund and 135 positions for preliminary engineering work to support the Delta Habitat Conservation and Conveyance Program. The program is a partnership between the Department and the U.S. Bureau of Reclamation to meet the dual goals of ecosystem restoration and water supply reliability identified by the Bay Delta Conservation Plan, including the preparation of the necessary Environmental Impact Report. The Plan is funded by a group of public water agencies that voluntarily signed an agreement with the Department to fund the program. The Plan, due in 2012, will promote the recovery of endangered, threatened and sensitive fish and wildlife species and their habitats in the Sacramento‑San Joaquin Delta in a manner that will also ensure water supply reliability. When completed, the Plan will provide the basis for the issuance of permits for the operation of the state and federal water projects.

- **FloodSAFE California Program**. The Governor's Budget proposes $14.9 million Safe Drinking Water, Clean Water, Watershed Protection and Flood Protection Act of 2000 (Prop 13); Disaster Preparedness & Flood Prevention Bond Fund 2006 (Prop 1E) and an extension of 49 existing limited-term positions to support FloodSAFE California.

- **OCAP BiOp Habitat Restoration Implementation**. The Governor's Budget proposes 10 positions (State Water Project Water Resources Development Bond Fund) in the Division of Environmental Services to support and implement the habitat restoration requirements in the U.S. Fish and Wildlife Services and National Marine Fisheries Services Operations Criteria and Plan (OCAP) Biological Opinions (BiOps) and DFG Incidental Take Permit (ITP).

- **Salton Sea Restoration Program - Species Conservation Habitat (SCH).** The Governor's Budget proposes $9 million in reimbursement authority for $7 million (FY 2012-13), $1 million (FY 2013-14), and $1 million (FY 2014-15) for a continuation of previously approved Salton Sea Restoration Program: SCH Project.

- **Sustainability of the SWP**. The Governor's Budget proposes 35 new positions (Water Resources Development Bond Fund) to continue implementation of the staffing augmentation plan approved in FY 2011-12 Critical Support for the SWP BCP. That plan proposed an augmentation of staffing levels by a total of 123 positions to support new SWP workload needs in the areas of sustainability, compliance, and safety.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery (CalRecycle) protects public health and safety and the environment through the regulation of solid waste facilities, including landfills, and promotes recycling of a variety of materials, including beverage containers, electronic waste, waste tires, used oil, and other materials. The Department also promotes the following waste diversion practices: 1) source reduction; 2) recycling and composting; and, 3) reuse. The Budget includes $1.4 billion and 678 positions for support of the Department. This represents roughly the same level of expenditures as the current year.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0%
California Beverage Container Recycling Fund	1,231,216	1,157,368	1,161,490	4,122	0%
Other	296,424	282,235	274,867	(7,368)	(3%)
Total Expenditure	**$1,527,640**	**$1,439,603**	**$1,436,357**	**($3,246)**	**0%**
Positions	613	670	678	8	1%

Key Provisions

- **Electronic Waste Fraud**. The Governor's Budget proposes a transfer of $588,000 Electronic Waste Recovery and Recycling Account and 5 positions from the Department of Toxic Substances Control to CalRecycle to consolidate and strengthen financial fraud investigation and enforcement activities in the Electronic Waste Program.
- **Product Stewardship Programs.** The Governor's Budget proposes an increase of $255,000 Carpet Stewardship Account and $255,000 Architectural Paint Stewardship Account to implement two new programs. Under the Carpet Stewardship Program and the Architectural Paint Recovery Program, carpet and paint manufacturers and retailers will be responsible for collecting and managing used carpet and leftover paint.

- **Out-of-State Beverage Container Importation Monitoring Program**. The Governor's Budget proposes to annually redirect $1.4 million (Beverage Container Recycling Fund) of existing authority to fund an Interagency Agreement with CDFA, Border Protection Stations to combat Program fraud associated with illegal CRV redemption of beverage containers imported into California from out of state.

DEPARTMENT OF CONSERVATION

The Department of Conservation administers programs to preserve agricultural and open space lands, promote beverage container recycling, evaluate geology and seismology, and regulate mineral, oil, and gas development activities. The Budget includes $74.7 million and 464 positions for support of the Department. Decreases in funding are largely due to reductions in bond expenditures ($86 million). Increases in positions are tied to a request from the Division of Oil, Gas, and Geothermal Resources to enhance onshore and offshore regulatory programs discussed below.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$4,165	$4,416	$4,469	53	1%
Oil, Gas, and Geothermal Administrative Fund	22,904	28,957	34,605	5,648	20%
Bond Funds	16,488	89,446	2,965	(86,481)	(97%)
Other	24,628	29,157	32,682	3,525	12%
Total Expenditure	**$68,185**	**$151,976**	**$74,721**	**(77,255)**	**(51%)**
Positions	391.2	447	464.1	17	4%

Key Provisions

- **Division of Oil, Gas, and Geothermal Resources (DOGGR) – Compliance**. The Governor's Budget proposes 18 permanent positions and a baseline appropriation of $2,500,000 ($2,292,000 ongoing) to enhance onshore and offshore regulatory programs by improving its construction site review, environmental compliance, and underground injection control programs.

- **DOGGR - Orphan Well Elimination.** The Governor's Budget proposes a 3 year, limited term appropriation of $1 million per year to plug orphan wells.

ENERGY COMMISSION

The Energy Resources Conservation and Development Commission (Energy Commission or CEC) is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment. Activities include: permitting energy facilities, designating transmission line corridors, assessing current and future energy demands and resources, developing energy efficiency standards, stimulating development of alternative sources of energy, analyzing transportation fuel supplies, prices, and trends and, maintaining capacity to respond to energy emergencies.

Decreases in the Commission's budget are largely due to the phasing down of the Public Interest Energy Research (PIER) Program and the Renewable Resources Trust Fund (RRTF) as a result of the failure to reauthorize the Public Goods Charge.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0
Federal Funds	57,721	67,787	51,595	(16,192)	(24%)
Renewable Resource Trust Fund	54,317	105,360	88,944	(16,416)	(16%)
Energy Resources Programs Account	58,725	65,074	67,988	2,914	4%
Alternative and Renewable Fuel and Vehicle Technology Fund	130,521	162,586	122,324	(40,262)	(25%)
Other	102,003	153,532	62,256	(91,276)	(59%)
Total Expenditure	**$403,287**	**$554,339**	**$393,107**	**(161,232)**	**(29%)**
Positions	560.6	626.3	595.6	(31)	(5%)

Key Provisions

- **Smart Grid Policy**. The Governor's Budget proposes continuing an existing 1 limited-term position for two additional years to continue to support the Commission's technical analysis and standards coordination needed to meet SB 17's goals of modernizing the electricity grid and developing a "smart grid".

- **Establishing and Audit and Investigation Unit**. The Governor's Budget requests to redirect 3 existing permanent positions from the Siting Division to establish an Audit and Investigation Unit to ensure that Federal and State Funds are spent in accordance with applicable requirements.

- **Implementation of Renewable Energy Development Grants Under AB 13 X1**. The Governor's Budget proposes 2 limited-term positions for one year to develop and administer $7 million in grants, mandated by AB 13 X1, to qualified counties for the development of policies that facilitate the development of eligible renewable energy resources.

ENVIRONMENTAL PROTECTION AGENCY

California Environmental Protection Agency programs restore and protect environmental quality, and protect public health. The Secretary coordinates the state's environmental regulatory programs and ensures fair and consistent enforcement of environmental law, which safeguards the state's residents and promotes the state's economic vitality. The Budget proposes total funding of $1.54 billion ($43.1 million General Fund and $1.5 billion other funds) and 4,294 positions for all programs included in this Agency. Total proposed state funds, excluding federal funds, certain non-governmental cost funds, and reimbursements equals $1.3 billion. This represents approximately 1% of the state budget.

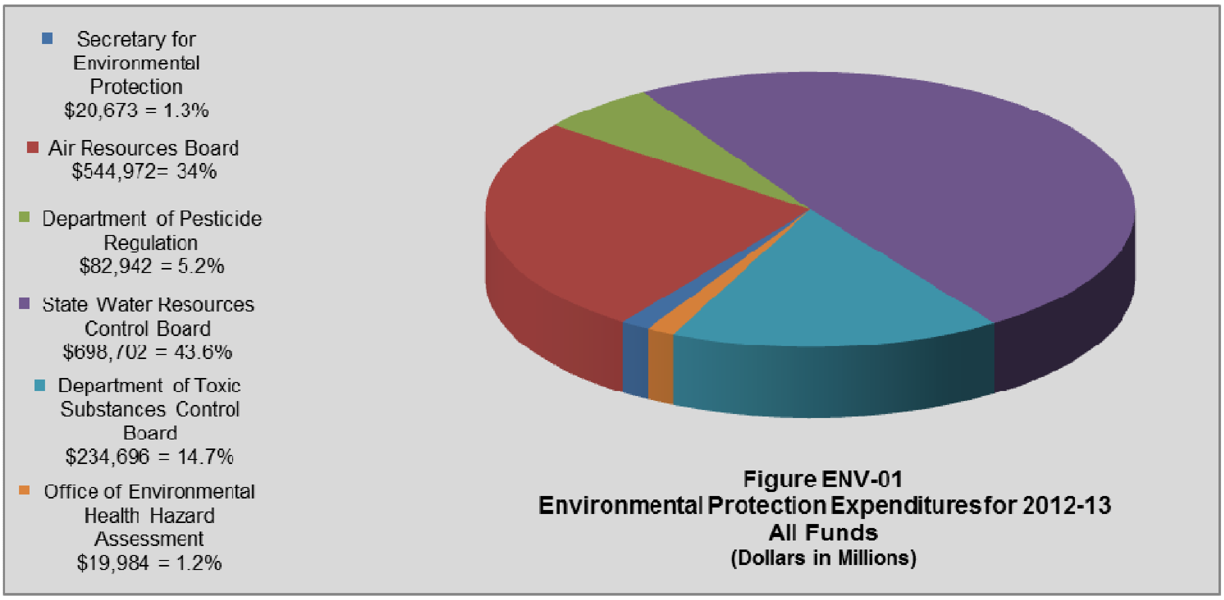


Figure ENV-01
Environmental Protection Expenditures for 2012-13
All Funds
(Dollars in Millions)

AIR RESOURCES BOARD

The Air Resources Board has primary responsibility for protecting air quality in California, as well as implementation of the California Global Warming Solutions Act of 2006 (AB 32). This responsibility includes establishing ambient air quality standards for specific pollutants, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and industrial sources established by the Board and local air pollution control districts. The Governor's Budget proposes $555 million and 1,223 positions for support of the Board.

While the proposed budget shows no big changes from last year, it does not included expected increase in expenditures due to anticipated Cap and Trade auction revenues. While it appears as though bond expenditures are up, the increase is merely a rolling forward of unexpended bond funds from previous years.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0%
Motor Vehicle Account, State Transportation Fund	111,172	115,137	117,414	2,277	2%
Air Pollution Control Fund	144,577	164,224	167,210	2,986	2%
Bond Funds	3,251	104,070	178,295	74,225	71%
Other	65,063	82,324	92,163	9,839	12%
Total Expenditure	**324,063**	**465,755**	**555,082**	**89,327**	**19%**
Positions	1,342.20	1,223.00	1,223.00	0	0%

Key Provisions

Cap and Trade Revenues Proposal. The goal of the State's climate plan is to reduce GHG emissions to 1990 levels by the end of this decade. The Cap and Trade program is a key element in this plan. It sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. As part of its program, ARB will give free allowances to the State's large industrial emitters as well as the State's electric utilities in order to reduce the economic impact of the Cap and Trade program.

In 2012-13, the ARB will begin auctioning GHG emission allowances as part of a market-based compliance mechanism. Fee proceeds from the Cap and Trade auctions are expected to be $1 billion in the first year of the program. In the coming years, the auctions will generate substantially more in fees as the program phases in other major GHG emitters. The budget proposes a framework to invest proceeds from Cap and Trade fees to reduce greenhouse gases consistent with AB 32, the Global Warming Solutions Act of 2006. Investments in the following areas will be proposed: Clean and Efficient Energy; Low-Carbon Transportation; Natural Resource Protection; and Sustainable Infrastructure Development.

The Budget includes $1 billion in Air Pollution Control Fund expenditure authority for programs to reduce greenhouse gas emissions pursuant to AB 32. It also assumes $500 million of the revenues would supplant existing general fund outlays for programs that meet the requirements of AB 32. That could potentially free up some general fund money for other programs, but the budget provides none of those details.

While ARB has indicated that an expenditure plan will likely be rolled out in the spring, the budget proposal states that further detail on specific program areas will be developed when there is more certainty of fees received from the Cap and Trade Program in late August 2011. Therefore, specific expenditures are not included in the budget. If the Legislature approves the spending authorization as proposed, that would mean that the uncategorized revenues from Cap and Trade would be part of the budget without any legislative or public review. The Legislature may want to insist that an expenditure plan for these revenues be submitted to the Legislature during the budget process with adequate time for such scrutiny.

THE DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation protects public health and the environment by regulating all aspects of the sale and use of pesticides and by promoting reduced-risk pest management strategies. The Department ensures compliance with pesticide laws and regulations through its oversight of County Agricultural Commissioners, who enforce pesticide laws at the local level. The Governor's Budget proposes $82.9 million and 400 positions for support of the Department.

Increases in funding are largely due to increased Local Assistance estimates. DPR's largest source of revenue is the mill assessment fee. Per statute, County Agricultural Commissioner's receive a set portion of this fee as Local Assistance to fund local enforcement of pesticide laws and regulations. Based on estimated revenues, the 2012-13 Local Assistance is estimated to increase by $943,000 over current year.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0
Department of Pesticide Regulation Fund	66,950	73,440	75,491	2,051	3%
Other	6,726	7,297	7,451	154	2%
Total Expenditure	**$73,676**	**$80,737**	**$82,942**	**2,205**	**3%**
Positions	384.3	398.8	400.7	2	0%

Key Provisions

- **Research Grants for Fumigant Alternatives.** The Governor's Budget proposes an increase of $713,000 Department of Pesticide Regulation Fund and 2 positions to provide funding for applied research grants for fumigant alternatives research projects. These grants will encourage and support development of alternative techniques, procedures, and processes for pest control, reducing the need for high-risk pesticides use and ensuring compliance with Federal Clean Air Act requirements for specialty crop pesticide use.

THE STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board and the nine Regional Boards preserve and enhance the quality of California's water resources and ensure proper allocation and effective use. The Governor's Budget proposes $713 million and 1,502 positions for support of the Board. Decreases in funding are largely due to reductions in bond expenditures ($133,585 million).

- **Eliminations.** The Governor's Budget proposes to eliminate the Watershed Coordinator Initiative Program. This program was created to prepare Watershed Management Initiative Plans in each region, which were completed in 2007. The Water Board now maintains the Plans, and Plan concepts have been incorporated into various Water Board programs.

- **Consolidation**. The Budget proposes to reduce the number of Regional Water Boards by merging two of the smaller existing regional water boards. The proposal also reduces the number of members on the boards from nine to seven.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$38,124	$18,388	$15,796	(2,592)	(14%)
Federal Funds	224,930	146,514	143,801	(2,713)	(2%)
Underground Storage Tank Cleanup Fund	301,003	324,467	329,817	5,350	2%
Waste Discharge Permit Fund	72,693	102,091	103,705	1,614	2%
Bond Funds	83,365	163,464	29,879	(133,585)	(82%)
Other	73,995	110,047	93,120	(16,927)	(15%)
Total Expenditure	**$794,110**	**$864,971**	**$716,118**	**(148,853)**	**(17%)**
Positions	1,415.70	1,513.30	1,502.10	(11)	(1%)

Key Provisions

- **Water Quality Grants for Small Disadvantaged Communities (SDAC).** The Governor's Budget proposes an increase of $11 million State Water Pollution Control Revolving Fund Small Community Grant Fund for grants to small and severely disadvantaged communities to address critical wastewater system needs. The grants will help SDACs achieve compliance with water quality regulations, protect surface and groundwater quality, and help eliminate threats to public health and safety.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control protects California citizens and environment from the harmful effects of toxic substances through restoring contaminated resources, enforcement, regulation and pollution prevention. The Governor's Budget proposes $234 million and 975 positions for support of the Department.

- **Eliminations.** The Governor's Budget proposes to eliminate the following programs because they have outlived their purposes, are underutilized, or have been superseded by other programs: Expedited Remedial Action Program Private Site Management Program California Land Environmental Restoration and Reuse Act Program Hazardous Waste and Border Zone Property Designations Abandoned Site Assessment Program Registered Environmental Assessor Program.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$21,800	$22,609	$21,000	($1,609)	(7%)
Federal Funds	24,485	29,720	31,273	1,553	5%
Hazardous Waste Control Account	43,201	48,765	49,085	320	1%
Toxic Substances Control Account	50,391	56,354	56,240	(114)	0%
Other	30,554	51,820	36,992	(14,828)	(29%)
Total Expenditure	**$170,431**	**$209,268**	**$194,590**	**(14,678)**	**(7%)**
Positions	933.2	981.9	975.9	(6)	(1%)

Key Provisions

- **Stringfellow Pre-Treatment Plant.** The Governor's Budget proposes an increase of $40.1 million in lease revenue bond authority for the construction phase of the New Stringfellow Pre-Treatment Plant. The plant will provide more effective, reliable methods to treat contaminated groundwater, satisfying the federal court-mandated restoration of the String fellow Site.

DEPARTMENT OF FOOD AND AGRICULTURE

The California Department of Food and Agriculture (CDFA) protects and promotes California's agricultural industry and ensures that only safe and quality food reaches the consumer. The Budget proposes approximately $65 million General Fund for a number of programs, such as agricultural plant and animal health, pest prevention, and food safety services.

The Governor's Budget proposes a permanent decrease to various department programs of $12 million in 2012-13, as part of a two-year effort to achieve $31 million in ongoing General Fund savings. The 2011 Budget Act reflected an initial decrease to the CDFA's budget of $19 million. This additional reduction primarily affects various programs relating to border control stations, pest prevention, and food safety activities. Some border station hours will likely be reduced.

A portion of the General Fund reduction will be replaced by the Recycling Fund for new efforts the border stations will be making to mitigate recycling fraud, which occurs when recycling material is brought into California for illegal redemption. Funding to counties for performance of pest trapping and incoming shipment inspection activities will be reduced. Other reductions will be offset by increasing fees associated with the certification of nursery stock and milk and dairy food safety, as well as by implementing several departmental efficiencies.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$122,949	$76,341	$65,100	(11,241)	(15%)
Federal Funds	81,163	105,775	106,455	680	1%
Department of Agriculture Account, Department of Food and Agriculture Fund	114,048	125,994	134,139	8,145	6%
Other	29,788	45,206	37,123	(8,083)	(18%)
Total Expenditure	**$347,948**	**$353,316**	**$342,817**	**(10,499)**	(3%)
Positions	1,950.00	2,010.60	2,009.70	(1)	0%

Key Provisions

- **Used Beverage Container Importation Data Collection Program.** Governor's Budget proposes ongoing reimbursement authority of $1,432,000 for CDFA from CalRecycle for participation in a cooperative agreement to detect and identify shipments of used beverage containers imported into California and illegally recycled for California Refund Value.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (CPUC) regulates critical and essential services such as privately owned telecommunications, electric, natural gas, and water companies, in addition to overseeing railroad/rail transit and moving and transportation companies. The CPUC is the only agency in the state charged with protecting private utility consumers. As such, the CPUC is responsible for ensuring that customers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy, which depends on the infrastructure the utilities and the CPUC provide. The Governor's Budget proposes $1.4 billion from special funds, almost entirely financed by utility ratepayers, and 1,037 positions for support of the Commission.

As mentioned previously, an additional $650 million will be generated in 2012-13 as a result of a free allocation of carbon allowances to the state's Investor Owned Utilities (IOUs). As part of its cap-and-trade program, ARB will give free allowances to the state's electric utilities. Specifically, ARB will give 65 million allowances to IOUs who are then mandated to consign those allowances to auction. If these allowances were to sell at the ARB's auction floor price of $10 per ton, the revenue generated would be $650 million. However, ARB has also included an auction ceiling price of $40 per ton and, as such, the sale of these allowances could result in higher revenues – potentially up to $2.6 billion.

The CPUC has opened an official proceeding to determine how the IOUs should use these revenues. The Governor's Budget does not include these expected increases in expenditures. Increases in funding and positions for the Commission are largely due to implementing new statutes and strengthening safety oversight and enforcement over gas, electric, communications and rail public utilities discussed below.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0%
Universal Lifeline Telephone Service Trust Administrative Committee Fund	207,331	367,097	354,985	(12,112)	(3%)
Gas Consumption Surcharge Fund	566,793	584,763	584,944	181	0%
Other	341,293	471,413	501,229	29,816	6%
Total Expenditure	**$1,115,417**	**$1,423,273**	**$1,441,158**	**$17,885**	**1%**
Positions	968	998.6	1,037.40	39	4%

Key Provisions

- **Global Safety and Enforcement Programs**. The Governor's Budget proposes 41 positions and $5,896,000 to strengthen safety oversight and enforcement over gas, electric, communications and rail public utilities. According to the CPUC, the San Bruno explosion was a game-changer in terms of how the Commission intends to conduct critical safety oversight going forward. Recommendations from gas safety experts, the Independent Review Panel and the National Transportation Safety Board, as well as our own lessons learned, apply across all industries under our jurisdiction. The Commission requests 41 positions to conduct safety field work, and to enhance risk assessment and enforcement functions as follows: 18 positions in Gas, Electric and Communications Safety; 12 positions in Rail Safety for four targeted areas (rail crossings, rail transit systems, railroads, and rail safety risk management); and 11 positions in Safety Enforcement.
  CPUC states that approving these new positions does not require an increase in the CPUC surcharge, and therefore does not impact ratepayers. The Commission deposits into the General Fund any fines or penalties collected from a provider through an enforcement action.

- **Gas Pipeline Emergency Response Standards**. The Governor's Budget proposes 2 positions and $217,000 to implement SB 44 (Corbett), Chapter 520, Statutes of 2011, which directs the Commission to establish emergency response standards that owners of gas pipeline facilities would be required to follow.

- **Natural Gas Service and Safety.** The Governor's Budget proposes 1 position and $102,000 to implement SB 705 (Leno), Chapter 522, Statutes of 2011, which directs the Commission to review and approve gas utilities' plans for the safe and reliable operation of gas pipeline facilities.

- **Gas Corporations Cost Recovery, Automatic Valves, Testing and Reporting Requirements**. The Governor's Budget proposes 2 positions and $322,000 to implement AB 56 (Hill), Chapter 519, Statutes of 2011, which directs the PUC to fast-track rule development and implementation gas safety provisions.

- **Adding Speech Generating Devices to Deaf and Disabled Telecommunications Program (DDTP)**. The Governor's Budget proposes 4.5 limited-term positions and $6,150,000 to implement AB 136 (Beall), Chapter 404, Statutes of 2011, which requires the CPUC to expand the DDTP to include speech generating devises for eligible subscribers.

GENERAL GOVERNMENT

RESTRUCTURING AGENCIES

The Governor's Budget proposes an extensive package of consolidations, eliminations and reorganization of state government. In addition to eliminating 39 state entities and nine programs, the Administration proposes reducing the number of state agencies from 12 to 10. Discussion of many of the proposed changes can be found in this document in the specific policy areas targeted.

A key question for legislative consideration is whether reorganizing state agencies is an appropriate issue to be addressed in the budget process. While reorganization could be achieved through a budget trailer bill, current statutes discuss two processes for governmental reorganization:

- Government Code Sections 12080-12081.2 calls on the Governor to examine the organization of all agencies to determine if changes should be made to improve management of state government, reduce expenditures and increase efficiencies, group agencies and functions together, and to reduce agencies to eliminate overlapping and duplication of effort. This statute calls on the Governor to submit a reorganization plan as a bill to the Legislature. The Speaker of the Assembly and the Senate Rules Committee are then required to submit the plan to a standing committee in their respective houses. Each committee must then prepare a report on the proposal, and the reorganization plan goes into effect 60 days after the Governor's submittal unless either house of the Legislature adopts a resolution by majority vote opposing the reorganization.

- Government Code Sections 8521-8525 describes the creation of the Milton Marks "Little Hoover" Commission on California State Government Organization and Economy and provides the Commission a role in reviewing proposed reorganizations. Under these statutes, the Governor submits a reorganization plan to the Commission at least 30 days before submitting the proposal to the Legislature. The Commission is then required to submit a report to the Governor and Legislature within 30 days of the date on which the Governor submits the plan to the Legislature.

Either of these processes might allow for a more thorough public discussion of the proposed reorganizations. Brief discussions of two of the Governor's three agency reorganization proposals are below. See the Transportation section in this document for a discussion of the proposed Transportation Agency.

The Governor's proposal would eliminate the California Volunteer Agency, shifting its programs to the Office of Planning and Research. The proposal also would eliminate the California Emergency Management Agency, reconstituting it as an office reporting to the Governor. In addition, the plan eliminates the California Technology Agency, making it a department within the new Government Operations Agency. The Governor also eliminates the State and Consumer Services Agency and the Business, Transportation and Housing Agency and creates two new agencies:

The Business and Consumer Services Agency
The Governor proposes the creation of a Business and Consumer Services Agency that would house departments that license or regulate industries and business activities. The Governor argues that placing consumer protection entities under one agency will help the public more easily access these services. The new agency would include the departments of Consumer Affairs, Housing and Community Development, Fair Employment and Housing, Alcoholic Beverage Control, and the newly structured Department of Business Oversight.

The Government Operations Agency
The Governor proposes the creation of a Government Operations Agency that would house control agencies relating to state administration, including procurement, information technology, and human resources. This new agency will include the departments of General Services, Human Resources, Technology, the Office of Administrative Law, the Public Employees' Retirement System, the State Teachers' Retirement System, and the newly restructured Department of Revenue. It also will include the State Personnel Board and the Government Claims Board.

The Administration has provided few details about these reorganization proposals, but the Legislature may wish to consider these questions as the discussion proceeds:

- The Legislature has made multiple changes during the past decade to information technology oversight, in an effort to improve procurement and implementation of increasingly complex projects. Legislation was unanimously approved in 2010, and signed by Gov. Arnold Schwarzenegger, that created the California Technology Agency, establishing a powerful organization with multiple, important duties in overseeing the state's IT infrastructure. Is another change necessary, and will eliminating agency status reduce its effectiveness?

- The Administration has provided no information on whether any of the three proposed agency reorganizations would result in savings. What are the costs or savings associated with these moves?

- Through AB 32 (Nunez and Pavely), Chapter 488, Statutes of 2005-06 and SB 375 (Steinberg), Chapter 728, Statutes of 2007-08, the Legislature has concluded that land use, housing and transportation are inter-connected in the state's efforts to reduce greenhouse gas emissions. Will the decoupling of state transportation and housing programs hinder coordination on programs aimed at greenhouse gas reduction?

BOARD OF EQUALIZATION

The State Board of Equalization (BOE) is comprised of five members: four members each elected specifically to the Board on a district basis, plus the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of FTB decisions on personal income and corporation taxes.

The Governor's budget proposes resource support of $518.1 million ($291.6 million General Fund), and 4,586.2 positions for the BOE in fiscal year 2012-13, as shown in the following table. The budget proposes a total funding increase of $26.0 million (5.3 percent), and General Fund support increase of $12.9 million (4.6 percent), compared with spending estimates for the current year. Proposed staffing in the budget would increase by 99.8 positions (2.2 percent) from the current-year estimate.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$232.6	$278.7	$291.6	$13.0	4.6
Special Funds	57.8	67.5	76.8	9.3	13.8
Reimbursements	135.2	145.9	149.7	3.8	2.6
Total Expenditure	**$425.6**	**$492.1**	**$518.1**	**26.1**	**5.3**
Positions	4,021.8	4,486.4	4,586.2	99.8	2.2

The BOE is responsible for overseeing and administering taxes that contribute a significant share of state revenues, as well as various local revenues. Two overriding concerns have developed over the last couple of decades and the more recent budget difficulties have exacerbated these problems.

- First, there is a significant 'tax gap'—defined as the difference between taxes owed and taxes paid—for taxes administered by BOE. The ability of the agency to ensure compliance with various taxes and to enforce such compliance when necessary has become increasingly important. There are a number of items in the budget that address this issue as discussed below.

- Second, technology has become vital in ensuring access to information, reducing processing and enhancing performance for the agency. The board continues to lag in this area and should develop alternative methods for financing and implementing technology improvements. The state other major tax agency—the Franchise Tax Board—has made strides in this area.

Major Provisions

Narrowing the Tax Gap
The budget provides for additional activities to address the continuing tax gap for the sales and use tax and other taxes administered by the BOE. The initiative funded by the additional resources consists of an educational campaign regarding the use tax, additional desk audits of registered taxpayers, and expanded bankruptcy collections. The budget provides $4.4 million ($2.9 General Fund and $1.5 million Reimbursements) and an additional 18 positions as part of this program. The efforts in this area are expected to result in additional General Fund revenues in the budget year of $10 million, plus added special fund and local government revenues.

Several years ago, the BOE developed a comprehensive assessment of the tax gap for the taxes it administers along with general strategies to narrow the gap. Since that time, the BOE has proposed and been funded for several specific programs to address this compliance issue. The Legislature may request that the BOE update this plan and assess overall progress that has been made to date.

Collecting Use Tax—The "Amazon Tax"
The Legislature passed and the Governor signed as part of the 2011-12 budget, AB 28 X1 (Blumenfield), Chapter 7, Statutes of 2011, which required that out-of-state businesses with certain connections to California —such as making sales using affiliates or the presence in the state of related companies—be required to collect the use tax on behalf of the state. Subsequently, the operative date of this bill was delayed until fiscal year 2012-13 through the passage of AB 155 (Charles Calderon and Skinner), Chapter 313, Statutes of 2011, depending upon the outcome of certain federal actions.

The budget proposes additional resources of $3.2 million ($2.1 million General Fund and $1.1 million special funds) and 28 positions to implement the collection of the use tax by out-of-state business. These additional resources will be used to identify out-of-state business required to collect the use tax and institute compliance programs for the initiative. The program is expected to generate an additional $107 million in General Fund revenues in 2012-13.

Fire Prevention Fee
As a component of the current year budget, the state will impose fire prevention fees on the owners of habitable structures in state responsibility areas (SRAs) beginning in 2011-12. This fee is to be imposed pursuant to AB 29 X1 (Budget Committee), Chapter 8, Statutes of 2011, which requires the fee of $150 per structure to be used to support the fire prevention activities of the Board of Forestry and the California Department of Forestry and Fire Prevention.

Under the legislation, the BOE is assigned the responsibility of collecting the fee and remitting the proceeds, upon legislative appropriation, to the agencies named above. The BOE has requested additional resources of $6.4 million in special funds and 57 positions for 2012-13 to administer this new program. There is also a request for partial funding for 2011-12. The source of the special funds is proceeds from the fee.

Financial Institutions Records Match

The budget includes revenues derived from expanding the Financial Institutions Records Match (FIRM) to the BOE (and to the Employment Development Department, as well). This program would primarily focus on unpaid sales and use debts, and represent an expansion of an approach already successfully employed by the Franchise Tax Board with respect to unpaid income taxes. The program entails using information provided by financial institutions regarding assets of non-compliant taxpayers that could be used to pay off outstanding taxes. The program is expected to begin January 2013 and result in additional General Fund revenues of $4 million in 2011-12 and $11 million in 2012-13, as well as special fund and local government revenues. There is no request for additional resources in the budget, but such a request may be received at a subsequent time.

Key Provisions

Rent Increase. The BOE headquarters building has a long and unfortunate history of problems. Construction was completed in 1993. The original owner was CalPERS, and the state leased the building on behalf of BOE. The state purchased the building several years ago because financing a purchase appeared more cost-effective than ongoing lease payments. The state Pooled Money Investment Board (PMIB) advanced BOE $88 million from Pooled Money Investment Account (PMIA) to purchase the building from CalPERS. The PMIA was repaid with a recent bond sale. The budget calls for a $6.2 million increase ($3.1 million General Fund, $1.5 million special funds, and $1.6 million reimbursements) to pay for a rent increase associated with the issuance of debt to finance the purchase of the building. Prior to the issuance of the binds, BOE was paying interest; with the refinancing the principal and interest will result in an annual increase from $10.9 million to $17.1 million.

- **Natural Gas Programs.** The budget includes a request for $227,000 in special funds and two, 2-year limited-term positions for additional workload associated with the surcharge on natural gas consumed in the state. The surcharge revenues fund low-income rate assistance, weatherization, energy efficiency, conservation, and public interest research programs. Additional resources and positions will be devoted to educational outreach and audits. The activities are expected to result in additional revenues to the program of $14 million.

- **State Pays for Dell Errors.** The BOE was named as a cross-defendant in a class action suit against Dell Computers. The action is based on the erroneous collection of use tax by Dell on the cost of optional extended warranty service contracts. Under law, an optional extended warranty service contract is a non-taxable transaction. An estimated $200-$250 million in use tax was erroneously collected from 10 million customers, 20 percent of whom are expected to file a claim for refund. BOE is now responsible for refunding the taxes erroneously collected by Dell, resulting in a resource request of $3.1 million ($2.1 General Fund and $1.1 special funds) and 10 limited-term positions for 2012-13.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board (PERB) administers and enforces the California public sector collective bargaining laws. The goal of PERB is to promote improved public sector employee-employer relations and to provide timely and cost effective methods through which employers, employee organizations, and employees can resolve labor disputes. Funding for the PERB is through the General Fund and a minor amount through reimbursements. The Budget calls for support of $6.3 million and 40 positions—basically level funding from the current year. PERB will meet its workforce cap plan goal through the downgrading of one position.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$5.8	$6.2	$6.3	0.1	1.6
Reimbursements	0.0	0.0	0.1	-0.8	0.0
Total Expenditure	**$5.8**	**$6.2**	**$6.3**	$0.1	1.6
Positions	**35.6**	**40.0**	**40.0**	**0.0**	**0.0**

STATE PERSONNEL BOARD

The five-member State Personnel Board (SPB) was established to ensure that the state civil service system is free from patronage and that employment decisions are based on merit. SPB's members are appointed by the Governor and it provides a variety of recruitment, selection, classification, appellate, goal setting, training and consultation services. SPB is supported by the General Fund primarily, with additional support from special funds and reimbursements. For the current year, its funding level is $25.6 million with 169.1 positions. SPB has met its workforce cap requirement through abolishing three positions and $736,000 reduction. The Governor's Budget proposes that SPB's operational activities be rolled into the new Department of Human Resources (DHR). SPB would retain the policy-related activities. SPB reorganized activities will be placed in the new Governmental Operations Agency (GOA).

DEPARTMENT OF PERSONNEL ADMINISTRATION/DEPARTMENT OF HUMAN RESOURCES

The Department of Personnel Administration (DPA) is responsible for managing the state personnel functions and represents the Governor as the employer in all matters concerning state employee-employer relations. DPA is responsible for issue relating to recruitment, selection, salaries, benefits, position classification, and provides a variety of training and consultation services to state departments and local agencies. DPA is funded through General Fund and special funds support. For the budget year, DPA will be budgeted $94.1 million and have 292.4 positions. This represents a significant increase over the current year budget, of

$79.6 million largely due to rolling-in the administrative and operational functions of SPB. DPA will become the Department of Human Resources (DHR) as a result of the reorganization. The department met its workforce cap requirements through abolishing 2.5 positions. The new department will be placed in the new Governmental Operations Agency (GOA).

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$7.4	$6.4	$8.2	$1.8	28.1
Special Funds and Reimbursements	64.3	73.2	86.0	12.8	17.5
Total Expenditure	**$71.7**	**$79.6**	**$94.1**	14.5	18.2
Positions	**206.7**	**218.0**	**292.4**	**74.4**	**34.1**

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

The California Public Employees Retirement System (CalPERS) administers the retirement benefits for state and local agency employees. CalPERS also provides health benefits for retired and active employee. CalPERS is governed by a Board of Administration that has authority over the administration of the retirement system. CalPERS receives funding from non-General Fund sources for administrative costs, largely from retirement fund resources themselves. The budget state operations for 2012-13 are $333.9 million and 2,434.6 positions compared to $334.0 million and 2,466.6 positions in the current year. The workforce cap goals will be met through a reduction in the Public Employees Contingency Reserve Fund of $319,000. CalPERs will be placed in the new Governmental Operations Agency (GOA) under the Governor's reorganization plan.

Budget year payments for CalPERS will be $1.777 billion General Fund, $911 million special funds, $402 million from governmental cost funds. In addition, CalPERs payment for California State University will total $404 million General Fund and $0.3 million other funds. These "non-add" amounts are not reflected in the figure below. Expenditures noted below largely consist of benefit payments to retirees.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	0.0
Public Employees' Retirement Fund	16,306.9	17,707.3	18,966.8	1,259.5	7.1
Public Employees' Health Care Fund	1,783.0	1,986.4	2,219.9	233.5	11.8
Other Retirement Funds	102.2	113.3	117.5	4.2	3.7
Total Expenditure	**$18,192.1**	**$19,807.0**	**$21,304.2**	1,497.2	7.6
Positions	**2,291.7**	**2,466.6**	**2,434.6**	**-32.0**	**-1.3**

Major Provisions

Pension Reform

The Governor has called for long term changes to pensions to ensure "continued viability of the system." Last year the Governor put forth a 12-point plan to put the state on a "more sustainable path" for providing retirement benefits. However, to date no additional specifics regarding the 12-point plan have been developed or shared with the Legislature as part of the 2012-13 budget.

Health Cost savings

The budget includes language indicating that CalPERS will take steps that result in General Fund savings of $45 million ($67 million total) in health costs as a result of the introduction of a core health plan or other cost savings measures. CalPERS indicated similar cost savings measures in the current year but failed to achieve ongoing savings by the designated date. CalPERS now indicates savings in the current year of $62.6 million ($20 million on-going). For the budget year, CalPERS indicates savings of $107.2 million ($34.2 million on-going) stemming from this proposal.

CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM

The California State Teachers Retirement System (CalSTRS) administers the retirement benefits for active and retired elementary school and community college district teachers. The CalSTRS board has exclusive control over investment and administration of the retirement fund. The twelve member board consists of Superintendent of Public Instruction, State Treasurer, State Controller, Director of Finance, five members appointed by the Governor, and three members elected by active CalSTRS members. The primary responsibilities of CalSTRS are:

maintain a financial sound retirement system, maintain an efficient operational program, and improve the delivery of benefits and services to members. CalSTRS is responsible for the determination and payments of benefits to members, retirees, and their beneficiaries. CalSTRS receives funding from non-General Fund sources for administrative and operational costs, largely from retirement fund resources themselves. For 2012-13, the state operations budget is $177.0 million and 904.4 positions versus $165.8 million and 885.5 positions in the current year.

General Fund contributions to the retirement fund for 2012-13 is budgeted to be slightly less than $1.358 billion: $584 million for purchasing power protection (also called "Supplemental Benefit Maintenance"); and $717 million for the base 2.017 percent contribution. The proposed funding in 2012-13 would be an increase over the $1.316 billion funding in 2011-12. These "non-add" General Fund payments are not reflected in the figure below

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	0.0
Teachers Retirement Fund	10,466.4	11,489.6	12,510.8	1,021.2	8.9
Other Retirement Funds	42.9	57.3	61.0	3.7	6.5
Total Expenditure	**$10,509.3**	**$11,546.9**	**$12,571.8**	1,024.9	8.9
Positions	**826.0**	**885.5**	**904.4**	**18.9**	**2.1**

Major Provisions

Pension Spiking
The Budget proposes $746,000 (special funds) permanent funding and seven positions to create a special unit within CalSTRS to identify and prevent pension spiking. Pension spiking is the illegal payment of compensation intended to enhance a benefit when the compensation increase is not reflective of prior compensation level.

Services Improvements
CalSTRS is continuing to improve systems and production and has requested permanent funding augmentation of $2.5 million (special funds) for the acquisition of system production support services for the Corporate Accounting and Resource Management and Penalties and Interest systems. These systems will provide help desk support, problem management, upgrades, enhancements and business process support.

Support and Operations
CalSTRS proposes several steps that will improve operations, including $628,000 in special funds and redirection to support six permanent positions to address backlogs; $1.8 million in special funds for technology maintenance and licensing costs; and new language to ease the completing of multi-year, multi-stage projects

Key Provisions

Additional Service Center.
CalSTRS will be replacing its contracted member services (with County offices of Education and local schools) with a staffed services center in the Bay Area. The Cal STRS-staffed member service center will require an augmentation of $1.8 million (special funds) and seven full-time permanent positions.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and provides employment and training programs under the federal Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

The Governor's Budget proposes total spending of $14.3 billion ($438.8 million General Fund), a decrease of $6.1 billion (30 percent) compared to the current year, and 10,073.1 positions, a decrease of 24 positions compared to the current year. The large decrease in expenditures is due to major reductions in the Unemployment Fund, as a result of the possible end of federal extensions of Unemployment Insurance benefits.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	Change from CY	% Change
General Fund	$38,943	$344,379	$438,758	$94,379	27
Unemployment Fund	$20,126,321	$13,045,759	$6,743,504	($6,302,255)	(48)
Other Funds (8)	$6,810,028	$7,047,168	$7,149,453	$102,285	1
Total Expenditure	$26,975,292	$20,437,306	$14,331,715	($6,105,591)	(30)
Positions	11,237.1	10,097.1	10,073.1	(24)	(.2)

Major Provisions

Unemployment Insurance Fund Loan Interest
The Governor's Budget proposes both a continuation of the strategy used in FY 2011-12 to address the insolvency of the Unemployment Fund and a new proposal.

The Unemployment Insurance Program is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. Benefits range from $40 to $450 per week depending on the earnings during a 12-month base period, with a current average of $278 per week during 2011. The Budget proposal includes $6.7 billion for unemployment benefit payments, a 48 percent decrease from 2011-12 projected spending.

The UI program benefits are financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first $7,000 in wages paid to each employee in a calendar year. Employers responsible for a high number of unemployment claims pay the highest tax rate. Estimated receipts for unemployment benefits in calendar year 2011 are $5.7 billion.

Because of continuing double-digit unemployment rates, the state's UI Fund was exhausted in January 2009 due to an imbalance between the benefit payments and annual employer contributions. To make UI benefit payments without interruption, the EDD began borrowing funds from the Federal Unemployment Account (FUA) to pay benefits to an increasing number of unemployed claimants. California is one of 32 states forced to borrow money from the federal government to handle surging unemployment during the past five years, and a 2010 report by the Legislative Analyst noted that the state's recession and high unemployment, not structural problems with the UI Fund, may be the biggest factor in the UI Fund's recent imbalance. At the end of 2009, the UI Fund had a projected deficit of $6.2 billion. Based on Department of Finance economic assumptions, EDD anticipates that California will have an Unemployment Fund deficit of $11.7 billion at the end of 2012.

Beginning in September 2011, the state was required to pay interest on the outstanding federal loan. The interest must come from state funds, and the state faces dire consequences if the interest is not paid: federal unemployment insurance taxes on employers would skyrocket (about $6 billion annually), and the federal government would stop covering administrative costs for unemployment insurance. The Governor proposed and the Legislature approved a plan in 2011-12 to use General Fund monies to pay interest due in September 2011. To offset the General Fund expenditure, a loan was approved from the Disability Insurance (DI) Fund to the General Fund, resulting in no net cost to the General Fund. Provisional budget language required that the loan from the DI Fund to the General Fund be repaid with interest during the next four years. The Administration made an interest payment to the federal government of $303.5 million in September 2011.

The Governor's Budget proposes a similar strategy for the next loan payment, due in September 2012, by: 1) making an interest payment of $417 million from the General Fund; and, 2) immediately covering the cost to the General Fund with a loan of the same amount from the DI Fund. This would bring the total loan from the DI Fund to $720.5 million.

In addition to the loan mechanism first approved in 2011-12, the Governor also proposes a new strategy to pay for future interest payments. The Governor calls for a new employer surcharge, estimated to increase costs to employers by $40 to $61 per employee, to begin covering interest payments to the federal government in 2013-14 and begin paying back the DI Fund. The exact amount of the surcharge each year would be based on EDD's projections of interest costs in the following year. EDD estimates the first surcharge, which would be effective January 1, 2013, would cost employers a total of $472.6 million.

The Administration acknowledges that implementing this proposed surcharge will require the support of two-thirds of the Legislature.

The Governor also proposes to increase the earnings threshold an unemployed worker must satisfy to qualify for UI benefits. Presently, to qualify for UI benefits, an unemployed worker must have earned at least $900 in the highest quarter or $1,300 in any one quarter of his/her 12-month base period. Under the Governor's proposal, these limits would be increased to $1,920 and $3,200 respectively. The EDD estimates that this change would reduce annual UI benefit payments by $30 million by prohibiting 40,000 unemployed workers from receiving benefits.

Issues for legislative consideration include:

- **The DI Fund appears capable of covering a second loan, but this strategy is not a long-term solution.** The Administration believes the DI Fund has enough of a balance to cover a second loan and continue to fund its core mission, which is providing benefits to workers due to pregnancy or a non-work related illness or injury. An October 2011 DI Fund Forecast published by EDD in October 2011 projected the DI Fund would have a $2.5 billion balance at the end of 2012. However, continuing to use the DI Fund for loans is not a viable long-term solution, and shifts responsibility for UI costs from employers – who traditionally pay UI costs – to employees, who pay DI costs.

- **The proposed employer surcharge would come at the same time as employers' federal unemployment taxes increase.** Due to the UI Fund's insolvency, federal UI-related taxes on employers are slated to increase annually until the loan is repaid. The first such increase was imposed in January 2012 and added $289.8 million to employers' federal UI tax bills. An additional state surcharge would come on top of the federally-imposed tax increases.

- **The proposed eligibility changes would provide little relief for UI Fund costs and impact the lowest-earning workers.** EDD estimates the proposed changes, designed to limit eligibility for UI benefits, would reduce annual UI benefit payments by $30 million –less than 1 percent of the UI Fund's projected deficit in 2012. EDD also notes that the workers most impacted by these changes would be industries with the lowest wages, including agriculture, retail and food service.

- **The Legislative Analyst notes that the Governor's proposal does not address long-term UI insolvency.** The Governor's proposal would be limited to repayment of interest on the loans – both to the DI Fund and the federal government – to keep the UI fund solvent. In its initial analysis of the Governor's budget, the LAO notes the proposal does not address paying down the principal of the loan.

- **Federal proposals have been introduced to address nationwide problem.** In response to UI fund insolvency in numerous states, at least three proposals have been introduced in Congress to make changes to the UI program and address states' deficits. According to the LAO, at least two of those proposals would likely eliminate California's UI fund deficit. It is unclear whether any of these proposals will be enacted.

Eliminating the California Unemployment Insurance Appeals Board
The Governor's Budget proposes the elimination of the California Unemployment Insurance Appeals Board's seven-member board. The proposal would restructure the second-level appeals process, with administrative law judges, instead of board members, issuing decisions. The proposal also establishes a process for precedent decisions, provides for review of decisions, and reorganizes the leadership structure to function without the board. The Governor's Budget suggests this change would result in $600,000 in savings in 2012-13 ($3,000 General Fund), and $1.2 million ($6,000 General Fund) annually after that.

The California Unemployment Insurance Appeals Board (CUIAB) was established by the Legislature in 1943 to provide due process for claimants and employers who dispute Employment Development Department benefit determinations related to Unemployment Insurance, Disability Insurance, and payroll tax petitions. Currently, a seven-member board oversees more than 900 employees who handle first- and second-level appeals.

The board consists of five members appointed by the Governor and confirmed by the state Senate and two members appointed by the Legislature. Two members must be attorneys. The Governor appoints one of the members as a chairperson. While two levels of appeals are not required by the federal government, it is encouraged and funded: the board's budget, which is proposed for 2012-13 to be $102.1 million, is 93 percent federal funding. California is one of 49 states with two levels of appeals.

First-level appeals are handled by administrative law judges. Second-level appeals are reviewed by a separate administrative law judge, who reviews the case and prepares a proposed decision, which is then reviewed by two members of the board who act as a panel. The panel issues a decision, or if they cannot agree, the chairperson breaks the tie.

The Governor's proposal would abolish the seven-member board and create the California Unemployment Insurance Appeals Bureau. A director appointed by the Governor would head the bureau. Under the proposed process, decisions on second-level appeals would be made by administrative law judges. Four newly-created Presiding Administrative Law Judge positions would conduct routine reviews of decisions to ensure quality, and a new Precedent Decisions Committee would be created to have oversight of precedent decisions.

Key Provisions

- **Workforce Investment Act Funding**
  The Governor's Budget proposes a decrease of $39.5 million in federal funding for the Governor's discretionary WIA funding. This decrease reflects a reduction in discretionary funds from 15 percent to 5 percent, which was enacted by the federal government.

- **Automated Collection Enhancement System (ACES).** The Governor's Budget proposes a one-time augmentation of $8.8 million, all Special Funds, and 41 positions to continue final implementation of the ACES project. The Governor also proposes a continuous appropriation of $5.7 million and 22 positions in 2013-14 for ongoing ACES support. ACES provides an automated tax collection system that allows EDD's Tax Branch to better administer its program to collect taxes on businesses to pay for EDD programs such as Unemployment Insurance and Disability Insurance. ACES allows EDD to improve its efforts to locate delinquent taxpayers, and has generated almost $75 million in additional revenue since it was first implemented.

- **California Unemployment Insurance Appeals Board Administrative Consolidation.** EDD and the California Unemployment Insurance Appeals Board (CUIAB) have consolidated administrative functions, shifting duties such as business services and personnel from CUIAB to EDD. The result is a cost savings of $2 million in Special Funds and General Fund and the reduction of 17.4 positions. This consolidation has already occurred and will remain in place regardless of the Legislature's action on the Governor's proposal to eliminate CUIAB.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations protects the workforce in California, improves working conditions, and advances opportunities for profitable employment. The Department is responsible for enforcing workers' compensation insurance laws, adjudicating workers' compensation insurance claims, and working to prevent industrial injuries and deaths. The Department also promulgates regulations and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, assists in negotiations with parties in dispute when a work stoppage is threatened, and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor's Budget proposes total spending of $425.1 million ($4.4 million General Fund) for the Department, a 3 percent increase from 2011-12, and 2,717.3 positions, less than 1 percent increase from 2011-12.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$4,235	$4,556	$4,392	($164)	(3.6)%
Workers Comp Admin Fund	$149,145	$162,394	$166,562	$4,168	2.6
Federal Trust Fund	$39,287	$35,724	$36,035	$311	.9
Occupational Safety/Health Fund	$30,339	$40,624	$40,130	($494)	(1.2)
Labor Enforcement Compliance Fund	$32,782	$38,022	$41,745	$3,723	10.0
Other Funds (23)	$103,951	$131,075	$136,250	$5,175	4.0
Total Expenditures	$359,739	$412,395	$425,114	$12,719	3.1%
Positions	2,449.9	2,701.8	2,717.3	15.5	.6

Key Provisions

Consolidated Public Works Enforcement

The Governor proposes to consolidate functions related to investigating and enforcing public works issues such as prevailing wage, job safety, and apprenticeship standards. The consolidation will result in the reduction of 1 position and $231,000 in ongoing savings to the General Fund. Specifically, the Governor proposes eliminating the Division of Labor Statistics and Research (DLSR) and shifting its responsibilities to the Division of Labor Standards Enforcement (DLSE) and the Division of Occupational Safety and Health and creating a Public Works unit in DLSE that would conduct the public works investigation and enforcement functions of DLSE, the public works apprenticeship enforcement responsibilities currently performed by the Division of Apprenticeship Standards and the prevailing wage rate determination functions currently performed by DLSR.

The functions now handled by DLSR – the determination of prevailing wage rates and the maintenance of job safety records, reports and statistics – are unrelated, and the Governor's proposal suggests there is no rational reason to maintain this division and a director appointed by the Governor. Instead, the two functions will be placed within other divisions with a direct link to those functions.

In addition, the Governor suggests consolidating public works investigation and enforcement duties will enhance the efficiency and efficacy of the Department's efforts to ensure public works projects maintain prevailing wage and follow all applicable laws.

Key Provisions

- **Eliminate the Occupational Safety and Health Standards Board.**
  The Governor's Budget proposes eliminating the Occupational Safety and Health Standards Board and transferring the board's responsibilities to the Division of Occupational Safety and Health within DIR. The seven-member board, which includes members representing labor, management, occupational safety and occupational health, adopts and maintains occupational health and safety standards. This proposal was rejected by the Legislature last year.

- **Compliance Monitoring Unit Cash Flow.**
  The Governor's Budget proposes provisional language in the Budget Act to allow the State Public Works Enforcement Fund to borrow from the Uninsured Employers Benefits Trust Fund, the Labor Enforcement and Compliance Fund and/or the Construction Industry Enforcement Fund for cash flow purposes. SB 9 X2 established the Compliance Monitoring Unit to enforce prevailing wage requirements on specified projects funded by state-backed bonds. The unit is to be funded by bond funds, which can only be charged in arrears. Thus, the unit will require an annual cash flow loan to allow the program to review and investigate ongoing projects.

- **Employee/Employer Education and Outreach.**
  The Governor's Budget requests a three-year limited-term appropriation of $2.3 million in 2012-13 and $1.645 million in 2013-14 and 2014-15 from the Labor and Workforce Development Fund to provided focused training, outreach and communication to employees and employers on wage and health and safety laws, redirect staff to provide increased education and enforcement of labor laws, and to provide increased training for field staff. The Labor and Workforce Development Fund is comprised of funds collected through civil penalties assessed in legal cases brought by private attorneys on behalf of employees. The Governor's Budget suggests the fund has been under-utilized and therefore these new expenses can be covered by the fund.

- **AB 551- Prevailing Wage Violations.**
  The Governor's Budget requests 4 new positions and $765,000 in 2012-13 and $639,000 thereafter from the Labor Enforcement and Compliance Fund to comply with AB 551 (Campos), Chapter 677, Statutes of 2011. AB 551 increases the minimum and maximum penalty on contractors and subcontractors who fail to pay the prevailing wage on a public work, and the penalty for failing to timely produce certain payroll records. The bill also provides that a contractor or subcontractor failing to provide timely records will be subject to debarment proceedings. The Division of Labor Standards Enforcement, which will implement AB 551, argues that they will see an increase in workload due to stricter requirement for debarment proceedings, and an increased number of penalty assessments and appeals. They also suggest a new database system or modification of current systems will be necessary.

- **AB 1401 – Minor's Temporary Entertainment Work Permit Program.** The Governor's Budget requests 4 new positions and spending authority totaling $583,000 in 2012-13 and $307,000 thereafter to implement AB 1401, which establishes an online permit approval process to for the issuance of temporary work permits for minors working in the entertainment industry. The money needed to pay for this program will come from the Entertainment Work Permit Fund, a fee created by the bill.

- **SB 459 – Willful Misclassification of Independent Contractor.** The Governor's Budget requests 13 new positions and $1.7 million in 2012-13 and $1.65 million thereafter to implement SB 459, which prohibits the willful misclassification of an individual as an independent contractor rather than as an employee. SB 459 requires the Division of Labor Standards Enforcement to conduct investigations on any wage claim asserting misclassification, and assess penalties if the assertion is proven. The new program would be funded by the Labor Enforcement and Compliance Fund.

AGRICULTURAL LABOR RELATIONS BOARD (ALRB)

The Agricultural Labor Relations Board is responsible for: 1) conducting secret ballot elections so that farm workers in California may decide whether to have a union represent them in collective bargaining with their employer; and, 2) investigating, prosecuting, and adjudicating unfair labor practice disputes.

The Governor's Budget proposes $5.4 million ($4.9 million General Fund) for the board, a 7.8 percent increase from 2011-12, and 39.4 positions, the same number as approved in 2011-12.

Key Provisions

- **General Counsel staff augmentation for Unfair Labor Practice workload.** The Governor's Budget requests 4 positions and $500,000 from the Labor and Workforce Development Fund to address a persistent backlog in unfair labor practice investigations and hearings. The positions would be added to ALRB's three regional offices, where unfair labor practice charges are investigated and set for hearing if needed. ALRB states that its current staffing levels do not allow it to meet its goal of completing investigations within 90 days or setting hearings within 90 days of a completed investigation. Cuts to the board during the past eight years have reduced its workforce by one-third, or 18 positions. This augmentation would mark a shift from ALRB's current reliance on the General Fund to partial reliance on a Special Fund. The Labor and Workforce Development Fund is comprised of funds collected through civil penalties assessed in legal cases brought by private attorneys on behalf of employees. The Governor's Budget suggests the fund has been under-utilized and therefore these new expenses can be covered by the fund.

DEPARTMENT OF CORPORATIONS

The Department of Corporations (DOC), under the direction of the California Corporations Commissioner, provides consumer and investor protections by regulating a variety of non-financial institutions including securities broker-dealers, investment advisors and financial planners, and certain fiduciaries and lenders. DOC also oversees the sale of securities, franchises and off-exchange commodities. The mission of DOC is to ensure an orderly and transparent marketplace, promote financial literacy, foster a professional environment, and protect the public from fraud and abuse.

The department is funded from special funds and reimbursements, with the largest amount of support provided by the State Corporations Fund. The Budget calls for resources of $45.3 million, representing a slight decline from the current year level of $46.8 million. This support would provide funding for 314.7 positions, compared to 313.8 in the current year.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	-
State Corporations Fund	32.1	46.7	45.2	-1.5	-3.2
Reimbursements	0.0	0.2	0.2	0.0	0.0
Total Expenditure	**$32.1**	**$46.8**	**$45.3**	-1.5	-3.2
Positions	**275.4**	**313.8**	**314.7**	**0.9**	**0.3**

Major Provisions

Information Technology

The Budget calls for continuing funding of the department's information technology quality network project (DOCQNET). The request is for seven limited-term positions and $7 million (special fund and reimbursements) and two years to complete the project. The project was initiated in 2009 as a means to consolidate many of the department's specialized and unique programs that were developed in a variety of languages and are typically not linked. DFI is also requesting an extension of the original timetable.

Reorganization Plan
As part of the Governor's Budget, DOC is to be restructured by combining its duties with those of the Department of Financial Institutions. The new department will be known as the Department of Business Oversight and fall under the Business and Consumer Services Agency. Although no additional detail on this proposal has been received, the rationale is that since both existing agencies perform the mission of licensing and regulating financially-related business entities, their efforts should be combined.

Key Provisions

- **Workforce Cap.** DOC's workforce cap target was $1.3 million (special funds and reimbursements). As part of the proposal, DOC eliminated 12 vacant positions as well as the associated OE&E as part of 2010-11 budget process.

DEPARTMENT OF FINANCIAL INSTITUTIONS

The Department of Financial Institutions (DFI) is currently housed within the Business, Transportation and Housing Agency. The department is responsible for oversight, supervision, and regulation of financial institutions licensed by the state. These institutions include banks and trust companies, credit unions, savings and loans, and industrial banks. It also oversees local agency security, money transmitters, and business and industrial development corporations. The activities conducted by DFI are intended to ascertain and ensure the safety and soundness of financial institutions.

The Governor's Budget includes support for DFI of $35.2 million (special funds and reimbursements) and 263.1 positions. This would result in a slight increase in funding and no change in positions from the current year schedule. The department is largely funded by annual assessments on financial institutions.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	-
Local Agency Deposit Security Fund	0.3	0.4	0.4	0.0	0.0
Financial Institutions Fund	23.9	25.6	26.2	0.6	2.2
Credit Union Fund	6.6	7.3	7.5	0.1	1.4
Reimbursements	0.8	1.2	1.2	0.0	0.0
Total Expenditure	**$31.6**	**$34.5**	**$35.2**	0.7	2.0
Positions	**269.2**	**263.1**	**263.1**	**0.0**	**0.0**

As with many other state general government units, the department is attempting to make strides in the area of information technology. It is engaged in multi-year projects that are designed to improve their overall performance as well as improve service and responsiveness to the institutions that it oversees.

Major Provisions

Conversion of Examiner Positions—Credit Unions
The Budget calls for the conversion of three limited-term positions that focus on the condition of credit unions to permanent positions. The request is based on the argument that there are an increasing number of problem licensees resulting from the severe economic downturn. These economic conditions have not abated sufficiently to warrant the reduction in examiner staff. Given this, there has been an increase in the duration and complexity of examinations. Program cost is $314,000 in the budget year.

Conversion of Examiner Positions—Banks
The Budget calls for the conversion of five limited-term positions that focus on the condition of bank to permanent positions. The request is similar to the request noted above in that it is based on the argument that there are an increasing number of problem licensees resulting from the severe economic downturn. These conditions have not improved sufficiently to warrant the reduction in examiner staff. Given this, there has been an increase in the duration and complexity of examinations. Program cost is $529,000 in the budget year.

Reorganization Plan
As part of the Governor's Budget, DFI is to be restructured by combining its duties with those of the Department of Corporations. The new department will be known as the Department of Business Oversight and fall under the Business and Consumer Services Agency. Although no additional detail on this proposal has been received, the rationale is that since both agencies perform the mission of licensing and regulating financially-related business entities, their efforts should be combined.

Key Provisions

- **Workforce Cap.** DFI's workforce cap target was $1.3 million (special funds and reimbursements). As part of the proposal, DFI eliminated 12 vacant positions as well as the associated OE&E as part of 2010-11 budget process.

FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) administers the personal income tax and the corporation tax programs, the largest and third-largest contributors to the state's revenue, respectively. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. The FTB is governed by a three-member board, consisting of the Director Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the daily functions of the department.

The Governor's Budget proposed expenditures of $680.2 million ($649.6 million General Fund) and 5,426.9 positions for FTB. This represents a continuation of substantial increases in support for the agency compared to the 2009-10 fiscal year. Expenditures grew from $533.1 million in 2009-10 due primarily to reinstating some of the budget reductions from earlier years as well as new programs. The budget reinstatements were made to reverse negative revenue impacts of the prior administration's statewide cuts, which included the state's tax collection agencies. In addition, the budget calls for augmentations for specific tax compliance programs and technology improvements related to the department's revenue collection activities.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$506.7	$574.1	$649.6	$75.5	13.1
Special Funds and Accounts	26.4	35.1	30.5	-4.6	-13.1
Total Expenditure	**$533.1**	**$609.2**	**$680.1**	70.9	11.6
Positions	**5,499.3**	**5,330.8**	**5,426.9**	**96.1**	**1.8**

Tax administration and compliance has become increasingly driven by information, data and technology over the last couple of decades. The FTB processes more than 15 million personal income tax returns and one million business enterprise returns annually. Given the volume and complexity of tax returns, filings and programs, it has become imperative that tax agencies remain current in information technology in order to access and exchange information. Its operations are heavily reliant on effective storage and use of data from a variety of sources in order to maintain adequate compliance and enforcement activities. The FTB has made progress in this area, and this continues to be a focus of its activities. These efforts can also have a positive impact on the "tax gap" (the difference between taxes owed and actually collected) related to the tax programs administered by the agency.

Major Provisions

Enterprise Data to Revenue

The Budget provides for continued funding for it's the Enterprise Data to Revenue (EDR) project, which will address the agency's return processing and utilization of data, as well as provide connections among various systems. This request constitutes the fourth year of the EDR project and the second year of the primary solution provider (PSP) vendor contract. This budget request calls for $96 million General Fund support and 165 positions for the EDR project, which is expected to generate $151 million in revenues in the budget year. FTB indicates that it plans to finance the EDR Project using a benefit-funded approach. Contractor payment for system development and implementation will be conditioned on generating additional revenue that will more than cover the cost. Revenues from the project are expected to increase as additional features come on line, with estimated annual revenues of $1 billion once the project is fully built-out.

The EDR solution will introduce a new personal income tax and business entity return processing system including expanded imaging, data capture, and return verification with an enterprise data warehouse and common services. The EDR Project has three major goals.

First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (for example, county assessor data) to its data warehouse. The FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

Reorganization and Consolidation

As a component of the Governor's initiative to make government more efficient, the Budget calls for two significant changes that would affect the department's way of doing business. First, the Budget proposes consolidating the activities of the Employment Development Department (EDD) that relate to tax collection (primarily personal income tax withholding and payroll tax administration) with FTB activities into a new Department of Revenue (DOR). There are no details on this proposal, but in general this could make sense in an organizational context as well as increase the level of information exchange among the various programs. Some concerns relate to the potential of impairment of activities during the consolidation and the ease with which activities of EDD can be "split-off" from other functions that are not part of the consolidation.

The second major change is to include this new DOR in a newly the proposed Government Operations Agency (GOA). The GOA would combine activities related to procurement, information technology, human resources and administration and include General Services, Human Resources, Technology, Office of Administrative Law, the Public Employees Retirement System, State Teachers Retirement System, State Personal Board, Government Claims Board, and DOR. Similar to the FTB-EDD consolidation, no details are available on this proposal to date.

Addressing Accounts Receivable Inventory

FTB requests $8.5 million and the continuation of 125 positions associated with working down the existing inventory of accounts receivable. The proposal includes converting 111 positions to permanent and continuing 14 expiring positions for another two years. The inventory in accounts receivable increased substantially during the years when the agency's resources were curtailed due to furloughs, work force reductions and other types of retrenchment during the previous Administration. Additional collection activities, including new methods and programs, are expected to reduce the inventory and result in additional revenues of $120 million in 2012-13.

Key Provisions

- **Tax Scofflaws.** The Legislature approved AB 1424 (Perea), Statutes of 2011, Chapter 455, that expanded the list of delinquent taxpayers, required updating the list, and provided certain tax collection tools. To implement this legislation, the Budget includes $755,000 General Fund and seven, 3-year limited-term positions. The program will result in additional revenues of $19 million in 2011-12 and $24 million in 2012-13.
- **Matching Records.** As part of FTC compliance and collection activities, FTB has instituted the Financial Institutions Records Match (FIRM) that meshes tax data on non-compliant tax accounts with data on financial resources made available by banks and other institutions. The Budget provides $525,000 for costs associated with this tax gap program.

- **Workforce Cap.** The agency's workforce cap target was $8.8 million ($8.6 General Fund). As part of the proposal, FTB eliminated 155 vacant positions as well as the associated OE&E as part of 2010-11 budget process.

STATE CONTROLLER

The State Controller is the Chief Fiscal Officer of California. The State Controller's Office (SCO) is a separately established constitutional office. The Controller chairs or serves on 81 state boards and commissions, and is charged with duties ranging from participating in the oversight of the administration of the nation's two largest public pension funds, to protecting the coastline and helping to build hospitals. The Controller provides fiscal control for, and independent oversight of, more than $100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds.
- Determine legality and accuracy of claims against the State.
- Issue warrants in payment of the State's bills.
- Administer the Uniform State Payroll System.
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees.
- Audit state and local government programs.
- Inform the public of the State's financial condition.
- Administer the Unclaimed Property Law.
- Inform the public of financial transactions of city, county and district governments.

The SCO is funded through the General Fund as well as over 300 special funds and accounts and reimbursements. The Governor's Budget calls for resource support of $245.8 million ($88.6 million General Fund) and 1,544.5 personnel years. This represents a substantial increase from the current year, due largely to the 21st Century Project described below. In addition, several other initiatives and workload increases are budget for 2012-13.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$71.9	$75.4	$88.6	$13.2	17.5
Unclaimed Property Fund	26.8	27.9	33.3	5.4	19.4
Central Service Cost Recovery Fund	20.1	20.5	20.4	-0.1	-0.5
Other Special Funds and Accounts	45.0	40.0	44.8	4.8	12.0
Reimbursements	53.1	59.3	58.4	-0.8	-1.4
Total Expenditure	**$216.9**	**$223.2**	**$245.8**	22.6	10.1
Positions	**1,276.9**	**1,451.3**	**1,544.5**	**93.2**	**6.4**

Two important activities will characterize the SCO in the budget year. First and foremost, is the ongoing development of the 21st Century Project, described further below. The 21st Century Project is an ambitious revamp of the state's entire payroll processing and related services such as employment history, position management and leave accounting. The project is a complex and expensive multi-year, multi-phase project requiring a substantial commitment of resources. Second, the SCO is a key player in the wind-down of redevelopment agency (RDA) affairs. As described under the Local Government section, RDAs are dissolved effective February 1, 2012 with any remaining obligations to be paid off by property tax increment. The SCO will play a crucial role in auditing the activities and providing guidance to local officials.

Major Provisions

21st Century Project Funding

The 21st Century Project is an extensive revamp of the state's entire payroll processing and related services such as employment history, position management and leave accounting. The SCO is responsible for paying approximately 294,000 state employees through its existing legacy system. This employee population includes state civil service employees, as well as elected officials, judicial council members, judges and the California State University System (CSUS) employees. To support the state's ongoing needs, the Legislature in 2004 authorized the development and purchase of a new system that would provide a technically-advanced solution and create the functions required to support future growth and increased complexities in state government. This request is for 181 one-year limited term positions and $81.4 million ($46.9 million General Fund) for additional costs to the program.

Returning Property to Owners

Under current law, the SCO is responsible for safeguarding unclaimed property until it is reunited to the lawful owner. In recent years, there have been legislative and systems changes which increase the workload in the areas of financial accountability, corporate actions, and the collection of securities. The goal of the program and the resource enhancement is to expedite the return of property to owners by increasing the ability of the SCO to preserve the integrity of the ownership trail. There are several proposals in this area, including:

- Budget request for $1.3 million from the unclaimed property fund and 13.7 positions to address issues related to unclaimed property and life insurance companies and holder remit reports.

- Budget request for $2.3 million from the unclaimed property fund and 17.9 positions to address detection and prevention of payment fraudulent unclaimed property filings.

Increased Audit, Accounting and Reporting Workload

The SCO has an extensive audit program in order to monitor and evaluate the financial performance of various state programs. To this end, the budget calls for $1.3 million in reimbursements and the continuation of 12.6 positions to conduct federally-required audits of the Women, Infants and Children (WIC) program; $92,000 in reimbursements and the continuation of 1.1 positions to conduct specified audits of the California Department of Public Health (CDPH) and federal safe water programs; and $673,000 in reimbursements for Cal Trans audits related to the ARRA program. In addition to these activities, the SCO reports added workload related to statewide cash management accounting and local government cost plan reviews. The budget request related to these additional activities is $200,000 General Fund and 2.1 positions for the former and $107,000 in reimbursements and 1.1 positions for the later.

Technology and Information Systems

The SCO has requested additional support of maintain an existing information system for three departments (State Controller's Office, California Highway Patrol and California State Teachers Retirement System) while these departments complete their own technology improvements. The support will fund Office of Technology (OTech) Data Center cost and consists of $980,000 ($224,000 General Fund, $475,000 reimbursements and $281,000 special funds) in the current year and $1.1 million ($262,000 General Fund, $552,000 reimbursements and $326,000 special funds) in 2012-13.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The California Tax Credit Allocation Committee (CTCAC) allocates federal and state tax credits used to create and maintain affordable rental housing for low income households in the state by forming partnerships with developers, investors and public agencies. CTCAC works with public and private entities to assist with project development and also monitors project compliance. CTCAC coordinates its functions with state and local housing fund providers and with private fund investors in the provision and maintenance of affordable housing. CTCAC consist of seven members from state and local governments, with the State Treasurer serving as chair. Other members are the Governor (or Director of Finance), State Controller, Director of Department of Housing and Community Development, Executive Director of California Housing Finance Agency, and two representatives from local government.

The budget calls for $6.0 million and 39 positions for 2012-13. This represents a slight increase from the 2011-12 funding level of $5.6 million and 37 positions. CSCAC is funded through fees generated by the issuance of debt and reimbursement, with no General Fund support.

2012-13 Governor's Budget

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	-
Special Funds and Accounts	5.3	5.6	5.9	0.4	7.0
Reimbursements	0.1	0.1	0.1	0.0	0.0
Total Expenditure	**$5.4**	**$5.6**	**$6.0**	0.4	7.0
Positions	**34.4**	**37.0**	**39.0**	**2.0**	**0.5**

Major Provisions

Compliance Monitoring—Housing

As part of its activities, the CTCAC is required to perform Internal Revenue Code (IRC) compliance monitoring services. CTCAC is the largest nationwide user of the federal low income housing tax credit (LIHTC) program. Developers rely on federal, state and local funding sources to build affordable housing. The developers rely on the associated credits as being valid, and to ensure federal compliance and properly maintained properties, CTCAC must perform on-going monitoring activities. The budget includes $247,000 and two additional full-time permanent staff to maintain adequate monitoring presence and ensure compliance.

Compliance Monitoring—ARRA Projects

The American Reinvestment and Recovery Act (ARRA) included the tax credit exchange program (TCAP) and Section 1602 program. Both of these programs were designed to stimulate the production of rental housing for low income families and households. Part of the ARRA mandate requires that CTCAC preform asset management functions and ensure compliance, long-term viability and financial health of the projects funded. CTCAC staff will provide additional site visits to monitor ARRA funded projects, and outside services will be required for the management component. The budget includes $472,500 for outside asset management services.

CALIFORNIA SCHOOL FINANCE AUTHORITY

The California School Finance Authority (CSFA) provides facilities and working finance capital to school districts, community college districts, county offices of education, and charter schools. CSFA consists of the following members: State Treasurer, who serves as chair, the Superintendent of Public Instruction, and the Director of the Department of Finance. CSFA currently administers and oversees the following programs: Smart Bonds, Charter Schools Facilities, Charter Schools Facilities Incentive Grants and Credit Enhancement and Qualified School Construction Bonds.

Budgeted expenditures for 2012-13 are $21.3 million, representing a slight increase from the current year expenditures of $21.2 million. This represents flat funding compared to the current year. There is one position request (but no additional funding) to administer the Charter Schools Facilities Grants Program.

SECRETARY OF STATE

The Secretary of State (SOS), a statewide elected official, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the Office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe At Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

The Governor's Budget proposes total spending of $101.9 million ($31.6 million General Fund) for the SOS in 2012-13, a decline of 38 percent compared with estimated spending for the current year. The General Fund portion of the SOS budget is proposed to increase by 1.8 percent. Proposed staffing totals 451 personnel years (PYs), an increase of 2.8 PYs (0.6 percent), compared with the current year. The large decrease in proposed expenditures is due to 77 percent decrease in Federal Trust Fund monies, which largely reflects counties' use of federal voting improvement funds. Counties' use of this money fluctuates annually.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$70,063	$30,989	$31,558	569	1.8
Business Fees Fund	36,887	38,653	40,231	$1,578	4.1
Federal Trust Fund	4,787	82,315	18,849	(63,466)	(77.1)
Other Funds	24,234	12,019	11,226	(793)	(6.6)
Total Expenditure	$135,971	$163,976	$101,864	($62,112)	(37.9)%
Positions	462.3	448.2	451	2.8	.6

In addition to overseeing local and state elections and the presidential election in 2012, the SOS also is implementing two large-scale information technology (IT) projects designed to improve voting procedures and business registration processes and continues to implement the federally-funded Help America Vote Act of 2002 (HAVA).

Major Provisions

Improving Business Registration Processes

The SOS processes more than 2 million business filings per year. The agency's ability to quickly review these filings can help California businesses open their doors, hire employees, generate revenue and pay taxes. The SOS currently relies on an antiquated paper-based database, causing major backlogs: turnaround times for filings took 71 days on average as of June 2011. To address this problem, SOS has initiated a major IT project – California Business Connect – to bring business filings on-line, and been authorized to hire additional staff. The Governor's Budget continues both of those solutions.

California Business Connect.

The Governor's Budget proposes authorization of $2.4 million to continue the IT solution to this problem. Beginning in July 2011, California Business Connect will allow real-time filing and retrieval of business documents and a centralized database for all business records. The project is expected to cost $23.7 million through FY 2016-17 and will be funded entirely through business filing fees. The SOS has stated that filing fees will not need to be raised to fund this project. Funding for FY 2012-13 will be used to contract for software customization, a test manager and an information security vendor, continue contracting services for project management and independent oversight, and pay for other operating expenses. A Special Project Report (SPR) is expected to be completed during FY 2012-13.

Additional Staffing and Overtime.

Beginning in FY 10-11, the SOS was authorized to increase personnel and pay for overtime to address backlogs related to business filings. With $500,000 in FY 10-11 and $140,000 in FY 11-12, the average turnaround time was reduced from 115 days to 71 days. The Governor's Budget seeks a two-year limited-term augmentation of $1.1 million to keep the existing extra positions filled, hire more temporary help, and allow for paid overtime.

Help America Vote Act Implementation

The federal Help America Vote Act (HAVA) of 2002 – passed in response to controversy surrounding the presidential election of 2000 - requires that states comply with a series of federal election requirements that are intended to insure a fairer and more accurate federal election process. Such requirements include: replacing punch-card and lever operated voter equipment; allowing voters to verify their ballots; providing voters with provisional ballots; providing access for voters with disabilities; and creating a statewide voter registration database.

VoteCal Registration Database.

The Governor's proposed budget includes $14.4 million for the VoteCal database, which will replace the existing CalVoter statewide voter database with a more centralized and technologically advanced VoteCal database. Currently, the state and the counties are operating with an interim approach that has been approved by the federal government on a temporary basis. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California, which requires integration with all of the county voter registration systems. VoteCal also will have linkages to various official databases in order to confirm voter identity (such as the Department of Motor Vehicles, and the Social Security Administration), and to vital records and criminal justice records in order to validate information on deaths and felony convictions. Proposed activities in FY 2012-13 include the procurement process and vendor selection. The original vendor selected in 2010 was terminated, and a new procurement process has been delayed due to disagreements between SOS and the Department of General Services.

The current estimated cost for VoteCal is $53.5 million, with SOS currently estimating the project will be completed by May 2015. The project is completely funded by the federal government. Operating costs – which SOS estimates will be $4 million annually - will eventually be assumed by the state.

Spending Plan for Help America Vote Act Expenditures.
The Governor's Budget includes $4.4 million in federal fund spending authority to continue implementing HAVA. The funds will be used to continue voter accessibility programs, voter education, voting system testing and approval, and election assistance. Most of the funds are spent through contracts with counties. To date, California has received $391 million in federal HAVA funds.

Key Provisions

- **Printing Costs.** The Governor's Budget includes an increase of $1 million from the General Fund to pay for increased printing costs related to the Voter Information Guide published by the SOS. SOS notes that the Department of General Services has instituted a 20 percent increase in printing costs, necessitating this augmentation.

- **SB 636 Personal information: Internet Disclosure Prohibition – Safe at Home Program.** The Governor's Budget includes $42,000 from the General Fund for a .5 PY augmentation to implement SB 636 (Corbett), Chapter 200, Statutes of 2011. The legislation prohibits the intentional posting, trading or sale of personal information of a Safe at Home participant or other persons living at the same address for the purpose of inciting a third-party to commit harm or threaten the participant, and creates a mechanism for the participants to seek injunctive relief.

- **SB 201 Flexible Purpose Corporations.** The Governor's Budget includes $64,000 from the Business Fees Fund for a .5 PY augmentation to implement SB 201 (DeSaulnier), Chapter 740, Statutes of 2011. The legislation created a new type of corporation called "Flexible Purpose Corporations," and the new position will review new filings for legal compliance and handle other legal issues related to this new entity.

DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with more than over $119 billion in direct premiums written in the state. The department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially able to meet their obligations to policyholders and claimants. The department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combating insurance fraud.

The Governor's Budget proposes total spending of $225.3 million (No General Fund) for the Department of Insurance in 2012-13, an increase of .4 percent compared with estimated spending for the current year. Proposed staffing totals 1,269.5 personnel years (PYs), a decrease of 1.9 PYs compared with the current year.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	CY to BY Change	% Change
Insurance Fund	$204,424	$223,468	$224,305	$837	.4%
Federal Trust Fund	-	559	721	162	30
Reimbursements	369	250	250	0	0
Total Expenditures	$204,793	$224,277	$225,276	$999	.4%
Positions	1,106.4	1,271.4	1,269.5	(1.9)	(.1)

Key Provisions

- **Paperless Workflow Project.** The Governor's Budget includes an increase of $302,000 in FY 2012-13 and $202,000 ongoing to convert two limited-term positions and to fund one-time post-implementation consulting services related to the Paperless Workflow Project. The project, begun in FY 2008-09, is automating many paper-based processes within the department. The department has spent more than $7.8 million on the project and will fully implement the new system in FY 2012-13. The two positions will provide ongoing maintenance and support.

DEPARTMENT OF CONSUMER AFFAIRS (DCA)

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, privacy, and economic well-being and by promoting legal and ethical standards of professional conduct. The department helps to promote good business practices and to ensure that California's consumers receive quality services by establishing minimal competency standards for more than 230 professions involving approximately 2.3 million professionals. The department is also an advocate on consumer and business issues.

The Budget splits the Department of Consumer Affairs into two budget categories: Department of Consumer Affairs, Boards; and Department of Consumer Affairs, Bureaus. The Governor's Budget proposes total spending of $276.4 million (No General Fund) for the Department of Consumer Affairs, Boards in 2012-13, an increase of 2.9 percent compared with estimated spending for the current year. Proposed staffing totals 1,495.3 personnel years (PYs), an increase of 4.4 PYs compared with the current year. The Governor's Budget proposes total spending of $223.5 million (No General Fund) for the Department of Consumer Affairs, Bureaus, in 2012-13, a decrease of .5 percent compared with estimated spending for the current year. Proposed staffing totals 1,373.3 personnel years (PYs), a decrease of 1 percent compared with the current year.

Key Provisions

- **BreEZe System.** The Governor's Budget proposes $8.4 million for continued support of the BreEZe information technology project. BreEZe will replace two legacy systems within DCA and will support all of DCA's applicant tracking, licensing, renewal, enforcement, monitoring, cashiering and data management needs. The project began in 2009, and a Special Project Report was approved by the California Technology Agency in July 2011. A vendor has been selected and the project is expected to implement in three phases, with different boards and bureaus coming online between July 2012 and September 2013.
  Funding in 2012-13, all from Special Funds, will go toward project consulting services, the IT program, and a credit card fee that will allow BreEZe to interface with a third-party payment processor which will allow DCA to accept credit card payments from licensees.

- **Consolidate Professional Licensing Functions within DCA.** The Governor's Budget proposes eliminating the Department of Real Estate, the Office of Real Estate Appraisers, the Structural Pest Control Board and the Board of Chiropractic Examiners. All four agencies would be re-constituted as bureaus within DCA in order to achieve administrative savings and efficiencies. The administration has provided no further discussion of these changes and the savings they would achieve.

- **Fingerprinting Requirement and SB 543 Implementation.** The Governor's Budget requests the redirection of $219,000 in 2012-13 and ongoing to establish 1 office technician position at the Board for Professional Engineers, Land Surveyors and Geologists to support the fingerprinting requirements established in SB 543 (Chapter 448, Statutes of 2011). SB 543 requires the board to use applicants' fingerprints for a criminal history check before approval. The legislation also eliminated the structural engineer supplemental California specific examination; the resources used for that exam will be redirected to this new position.

- **Enhanced Fleet Modernization Program.** The Governor's Budget proposes 12 two-year limited-term positions and $720,000 for the Bureau of Automotive Repair (BAR) to continue administration of two emissions reductions programs authorized by AB 118 (Chapter 750, Statutes of 2007.) The proposal also requests $36.3 million to be used as payments to consumers who participate in the program. BAR administers a program that offers consumers $1,000 to $1,500 to retire older, high-emissions vehicles. BAR also works with the California Air Resources Board to administer a program in two local air districts that offers $2,000 to $2,500 to retire vehicles. The programs anticipate retiring more than 25,000 vehicles. The program is funded by a fee assessed on new vehicle purchases.

- **Operation Safe Medicine.** The Governor's Budget proposes 6 positions and $513,000 to be redirected within the Medical Board of California to permanently establish the Operation Safe Medicine Unit, which expired June 30, 2011 at the end of a two-year limited-term basis. The unit was established to investigate and prosecute unlicensed individuals who portray themselves as licensed medical practitioners and violations of laws related to the use of lasers for cosmetic procedures. The Medical Board argues unregulated "clinics" and issues surrounding lasers in cosmetic surgery are a persistent problem that requires a specialized unit.

FAIR POLITICAL PRACTICES COMMISSION (FPPC)

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature.

The Governor's Budget proposes total spending of $8.8 million ($8.8 million General Fund) for the Fair Political Practices Commission in 2012-13, an increase of 5.9 percent compared with estimated spending for the current year. Proposed staffing totals 81.4 personnel years (PYs), an increase of 3 PYs compared with the current year.

Key Provisions

- **Durkee Case Impact.** The Governor's Budget includes an increase of $767,000 in FY 2012-13 and $384,000 in FY 2013-14 to handle increased workload due to the Kinde Durkee embezzlement case. Durkee, a prominent political campaign treasurer in California, was arrested in September 2011 for allegedly embezzling millions of dollars from numerous campaign accounts in California. The FPPC was heavily involved in the investigation, and has now seen a dramatic increase in requests for advice. The FPPC believes it must update its instructional materials to campaigns to prevent future problems. The FPPC is seeking six limited-term positions.

DEPARTMENT OF GENERAL SERVICES (DGS)

The Department of General Services (DGS) is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. The department consists of 6 divisions, 23 operational offices, 4,000 employees and a budget of over of half a billion dollars. Its diverse functions include e-commerce and telecommunications; acquisition, development, leasing, disposal and management of state properties; architectural approval of local schools and other state buildings; printing services provided by the second largest government printing plant in the U.S.; procurement of supplies needed by other state agencies; and maintenance of the vast fleet of state vehicles.

The Governor's Budget proposes total spending of $1 billion ($2.7 million General Fund) for the Department of General Services in 2012-13, a decrease of 4.6 percent compared with estimated spending for the current year. Proposed staffing totals 3,658.5 personnel years (PYs), a decrease of 58.5 PYs compared with the current year.

Key Provisions

- **Board of State and Community Corrections: Budgeting and Accounting Contract Services.** The Governor's Budget requests 3 new staff and $250,000 to perform budgeting and accounting functions for the newly-created Board of State and Community Corrections. The board is replacing the Corrections Standards Authority, which was located within the California Department of Corrections and Rehabilitation

(CDCR). The new board will be independent of CDCR and therefore wishes to utilize DGS for budget and accounting services.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL (ABC)

The Department of Alcoholic Beverage Control is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution and sale of alcoholic beverages in the State of California. The Department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

The Governor's Budget proposes total spending of $56.2 million (No General Fund) for the Department of Alcoholic Beverage Control in 2012-13, an increase of 3.3 percent compared with estimated spending for the current year. Proposed staffing totals 427.9 personnel years (PYs), the same number as the current year.

Key Provisions

- **Alcoholic Beverage Control Radio System Upgrade.** The Governor's Budget proposes spending $1.9 million from Special Funds to upgrade the department's vehicle-mounted and hand-held radio communication equipment to allow department personnel to communicate with the California Highway Patrol (CHP) and other law enforcement personnel. ABC's current system will become obsolete in 2012, upon completion of CHP's Enhanced Radio System.

ALFRED E. ALQUIST SEISMIC SAFETY COMMISSION

The mission of the Alfred E. Alquist Seismic Safety Commission is to lower earthquake risk to life and property of Californians. The Commission works with federal, state, and local agencies as well as the private sector on a variety of activities that guide and stimulate earthquake risk reduction and management. There are 20 appointed Commissioners who provide policy guidance, topical expertise, and perspectives from the private sector, academia, and local government. The Commission is responsible for: (1) advising the Governor, Legislature, school districts, and the citizens of California on seismic safety policies and issues, (2) maintaining and encouraging the implementation of the five-year California Earthquake Loss Reduction Plan, including the Earthquake Risk Reduction Research and Projects Program, (3) reviewing the adequacy of earthquake and tsunami safety policies and programs and providing recommendations for improvement, (4) using existing knowledge and conducting studies where necessary to develop and publish information to improve the performance of structures in California, (5) preparing and disseminating guides to the public identifying earthquake weaknesses and other issues related to residential and commercial buildings, and (6) fostering the development and use of new and emerging technologies.

The Governor's Budget proposes total spending of $3.2 million (No General Fund) for the Seismic Safety Commission in 2012-13, an increase of .9 percent compared with estimated spending for the current year. Proposed staffing totals 6.4 personnel years (PYs), the same number as the current year.

Key Provisions

- **Continued Funding Support.** The Governor's Budget proposes eliminating the sunset date of the Commission and seeks to permanently extend support funding of $1.3 million from the Insurance Fund. Existing law provides funding until July 1, 2012. The Commission maintains one office in Sacramento and 6.4 positions, and seeks to continue that staffing level.

COMMISSION ON THE STATUS OF WOMEN

The Commission on the Status of Women is an independent, non-partisan agency working to advance the causes of women. Toward that end, the Commission influences public policy by advising the Governor and the Legislature on issues impacting women and educating and informing its constituencies-thereby providing opportunities that empower women and girls to make their maximum contribution to society.

The Commission consists of a 17-member body including the Superintendent of Public Instruction, the Labor Commissioner, three Assemblymembers and three Senators. Nine of the 17 members are public members: one appointed by the Speaker of the Assembly, one by the Senate Committee on Rules, and seven are appointed by the Governor. Public members serve four-year terms and are reimbursed for necessary expenses.

Key Provisions

- **Elimination of the Commission.** The Governor's Budget proposes eliminating the Commission for a savings of $270,000 General Fund and a reduction of 2.1 personnel years. This is similar to a proposal made by the Governor in the 2011-12 May Revision Proposal, which was rejected by the Legislature. The Commission is the only agency that looks at all issues impacting women, and has recently focused on the impact of the recession on women, unemployment among women, female veterans' issues, sexual assault, and human trafficking.

CALIFORNIA LAW REVISION COMMISSION AND COMMISSION ON UNIFORM STATE LAWS

The California Law Revision Commission has the responsibility to make a continuing substantive review of California statutory and decisional law, to recommend legislation to make needed reforms, and to make recommendations to the Governor and Legislature for revision of the law on major topics (as assigned by the Legislature) that require detailed study and cannot easily be handled in the ordinary legislative process. The Commission consists of seven gubernatorial appointees plus one Senator, one Assembly Member, and the Legislative Counsel.

The California Commission on Uniform State Laws presents to the Legislature uniform laws recommended by the National Conference of Commissioners on Uniform State Laws and then promotes passage of these uniform acts. The Commission consists of one Senator, one Assembly Member, six gubernatorial appointees, the Legislative Counsel, and life members based on service as a member of the Commission.

Key Provisions

- **Consolidate the California Law Revision Commission and the Commission on Uniform State Law within the Legislative Counsel Bureau.** The Governor's Budget proposes to support both Commissions through reimbursements from the Legislative Counsel Bureau, for a savings of $799,000 General Fund.

CALIFORNIA ARTS COUNCIL

The California Arts Council consists of eleven members, nine appointed by the Governor and one appointed by the President pro Tempore of the Senate and the Speaker of the Assembly. The Council establishes general policy and approves program allocations. The Council recognizes that the arts are essential for the cultural, educational, social and economic development of California. The Council seeks to further its mandates and services to the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community, which are broad-based and extended across the state from its largest metropolitan areas to its most rural areas.

The Governor's Budget proposes total spending of $5.6 million ($1 million General Fund) for the California Arts Council in 2012-13, an increase of 8.2 percent compared with estimated spending for the current year. Proposed staffing totals 17.5 personnel years (PYs), the same number as the current year.

Key Provisions

- **Consolidate the California State Summer School for the Arts within the California Arts Council.** The Governor's Budget proposes consolidating the California State Summer School for the Arts within the Arts Council to streamline administrative operations. The school annually provides California high school students with an intensive arts learning experience.

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

The Financial Information System for California (FI$CAL) Project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI$CAL will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, will reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent.

The Governor's Budget proposes $39.1 million for FI$CAL, an increase of $790,000 over the previous year's amount. The proposed staffing of 75.1 positions for FI$CAL remains unchanged from the prior year. FI$CAL's costs is distributed to approximately 100 different funding sources, including $26.7 million of General Fund proposed for the budget year.

Major Provision

Automation Contract Award

At the center of the FI$CAL project is the automation contract, which will replace the existing Enterprise Resource Planning system. The contract will be awarded using a Fit-Gap selection process. Three vendors were awarded contracts to develop prototypes of the new system, and in the next few months, the State will choose one of these three vendors to construct the new system.

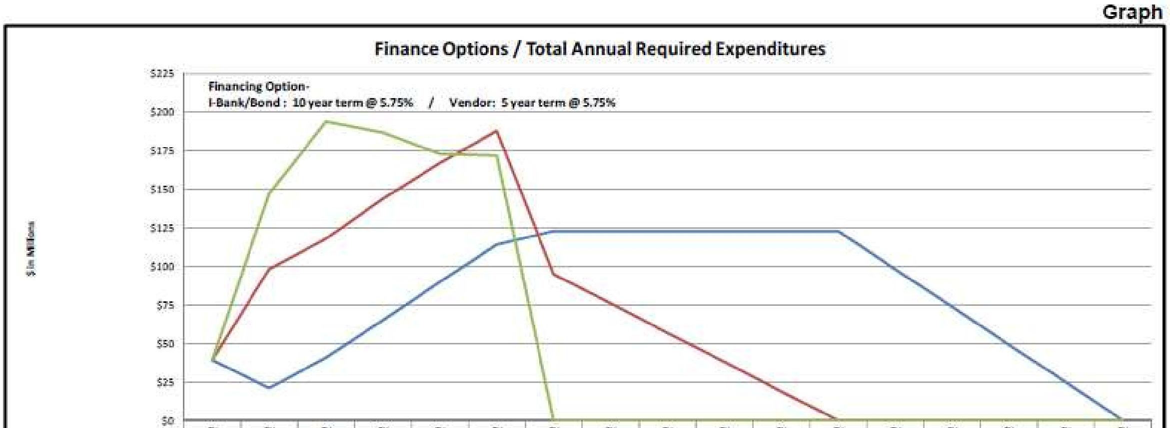
The January budget does not include funding for the contract, that information will be forthcoming later in the fiscal year. In addition, it is likely that FI$CAL unveils the financing mechanism for the system, which has been hinted discussed in a white paper issued by the project. The paper outlines three principle methods of funding the FI$CAL project and provided rough cost estimates of these options. The three options are:

- **Pay-Go:** Fund project costs in the budget as these costs are incurred, which results in the lowest overall project costs, but requires huge up-front costs in the 2012-13 to 2017-18.

- **Vendor Financing:** Some of the contract costs would be financed through the vendor to help reduce the initial costs and spread out the costs over an additional five years.

- **IBank/Bond Financing:** Provides the lowest up-front costs, but has the highest overall costs by spreading costs over 15 years.

Graph 1



	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
I-Bank / Bond Financing	$39	$21	$41	$65	$90	$114	$123	$123	$123	$123	$123	$123	$98	$74	$49	$25	$0
Vendor Financing	$39	$98	$118	$144	$167	$188	$95	$76	$57	$38	$19	$0	$0	$0	$0	$0	$0
No Financing (Pay-As-You-Go)	$39	$147	$194	$187	$173	$172	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT GO-BIZ)

AB 29 (Pérez), Chapter 475, Statutes of 2011-12, created the Governor's Office of Business and Economic Development to better coordinate and promote business development and foster job growth and private-sector investment in California. The Governor's Budget proposes to transfers the Infrastructure Bank, the Film and Tourism Commissions, the Small Business Centers, and the Small Business Guarantee Loan Program to the Governor's Office of Business and Economic Development to this new department.

The Administration believes GO-Biz would provide a single point of contact for economic development, business assistance, and job creation efforts. The GO-Biz would work with companies and organizations across the state to market the benefits of doing business in California, recruit new businesses, and support private sector job growth. According to Department of Finance (DOF), GO-Biz would serve as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth.

The proposed budget for this new department is in the table below:

Program	2012-13 Positions	2012-13 Funds
GO-BIZ	12.3	$1,947
California Business Investment Services	11.4	1,642
Offices of the Small Business Advocate	2.9	465
Total	26.6	$4,054

CALIFORNIA TECHNOLOGY AGENCY (CTA)

The California Technology Agency (CTA) establishes and enforces statewide information technology strategic plans, policies, standards, and enterprise architecture, and oversees information technology projects and public safety emergency communications systems for all state departments. The Agency's overall growth reflects the growth in customer service needs, as reflected below in the following budget chart.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$3,230	$3,561	$4,156	$595	16.7%
State Emergency Telephone Number Account	120,017	124,928	113,013	(11,915)	-9.5%
Federal Trust Fund	502	1,931	1,931	-	0.0%
Reimbursements	4,205	3,175	3,181	6	0.2%
Technology Services Revolving Fund	307,627	338,409	379,294	40,885	12.1%
Central Service Cost Recovery Fund	3,203	3,670	3,136	(534)	-14.6%
Total Expenditure	**$438,784**	**$475,674**	**$504,711**	**$ 29,037**	**6.1%**
Positions	**1,149.70**	**1,261.80**	**1,266.50**	**4.7**	**0.4%**

Key Provisions

- **Rate Reduction.** The Budget reflects a $13 million revenue reduction that will result from a planned rate reduction for data center services. The Budget includes specific budgetary goals for the California Technology Agency and the Department of General Services that will result in reduced rates charged to other state agencies. This will result in more efficient government by making these services less expensive for both General Fund and special fund departments.

- **Reorganization.** The Governor's Budget proposes to eliminate the California Technology Agency and makes it a department under the new Government Operations Agency. The budget also proposes to eliminate: 1) the State 911 Advisory Board, which advises on policies and procedures of CTA's 911 Emergency Communications Office; and, 2) the Technology Services Board, which is responsible for the oversight and approval of the Office of Technology Services budget and rates.

- **IT Infrastructure Budget Proposals**. The CTA has submitted nine budget change proposals as part of their budget submission. These proposals reflect the projected utilization of the State IT infrastructure in the budget year.

OFFICE OF PLANNING AND RESEARCH (OPR)

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. The OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, and resource protection. The OPR acts as the state's liaison to a variety of entities including local government, planning professionals, small business, and the military. The OPR houses the Advisor on Military Affairs and supports the Strategic Growth Council. The mission of California Volunteers is to increase the number and impact of Californians involved with service and volunteering throughout the state. California Volunteers is administered through the OPR but for all intents and purposes is a standalone entity.

The Governor's Budget proposes $36 million ($2 million General Fund) for OPR, a decrease of $19.2 million ($175,000 General Fund) from the previous year's amount. The reduction is a result in less Office management less federal funds in the budget year. The proposed staffing of 50.7 positions for OPR is 3.6 positions less than in the current year budget.

Key Provisions

- **Elimination of California Volunteer Agency.** The budget proposes to eliminate the California Volunteer Agency and return the functions of the Agency to OPR. The California Volunteer Agency was established in the 2010 budget package.
- **Elimination of Governor's Mentorship Program.** This program is operated by California Volunteers. This proposal would eliminate the program because the Administration states that there are other community programs that provide similar services.

HOUSING

Despite a major decline in housing prices, California still lacks an adequate supply of affordable housing. The state faces several major housing issues, including:

- The continuing foreclosure crisis;
- Steady population growth versus stagnant housing construction;
- A mismatch between existing housing stock and the demand for housing by type and location; and
- An unmet need for affordable rental housing for lower-income households.

Future housing policy must grapple with all of these issues, as well as how housing policy can impact the state's effort to reduce greenhouse gas emissions.

The state's role in housing funding and policy is likely to be a major discussion point in future years, as two key funding mechanisms – state-backed bonds approved by voters in 2002 and 2006, and the housing component associated with redevelopment agencies – run out or are altered. State housing agencies and the Legislature have had some discussion on a permanent source of funding for housing in the past few years, but there is no consensus.

Proposition 46, approved by voters in 2002, and Proposition 1C, approved by voters in 2006, remain important funding sources for housing programs, even as both wind down. Both propositions, also called the Housing and Emergency Shelter Trust Fund Acts, authorized bonds to fund construction and renovation of rental housing, offer low-interest loans or grants to help low- and moderate-income Californians make down payments on homes, fund construction or renovation of farmworker housing, fund emergency homeless shelters and transitional housing, and support other housing programs.

Both propositions authorized multi-billion dollar expenditures: $2.1 billion for Proposition 46 and $2.8 billion for Proposition 1C. Of those amounts, only $10 million in Proposition 46 and $205 million in Proposition 1C remain un-awarded, based on projections in the Governor's Budget disencumbrances in the two programs total $281 million. The Governor's Budget proposes no new housing bond awards in 2012-13.

The Legislature should maintain oversight focus on both programs, however, as many programs and projects have yet to draw down funding. The Department of Housing and Community Development currently has a cash balance of about $811.8 million in Proposition 1C funds. The cash balance represents bonds sold but not yet dispersed to projects. Because most projects draw down bond funds after work has been done, the high cash balance may indicate some projects have been delayed or may be in danger of failing.

In addition to a permanent funding source for housing and the continued oversight of remaining housing funds, other issues for legislative consideration including housing's role in the implementation of AB 32 (Nunez), Chapter 488, Statutes of 2006 and whether a recent 50 percent cut to the policy unit within the Department of Housing and Community Development (HCD) will leave the department able to fulfill its critical role in reviewing local governments' housing plans.

Beginning in 2010-11, HCD has received a small amount of funding from the AB 32 fee imposed on greenhouse gas-generating industries. AB 32 calls for reducing greenhouse gas emissions to 1990 levels by 2020, and one strategy outlined in the AB 32 Scoping Plan calls for strategies to transform California's land use and development to more sustainable patterns. The position at HCD performs multiple tasks as the state implements AB 32, such as working to integrate local housing planning processes with regional transportation plans to ensure land-use policies are in line with greenhouse gas reduction goals. HCD has one position out of the 167.4 PYs funded by AB 32 in the Governor's proposed budget.

HCD's policy unit, which reviews local government's efforts to ensure land use policies help the housing market meet the needs of current and future residents, was reduced from 20.9 PYs in 2010-11 to 10.5 PYs in 2011-12. This reduction comes as HCD is preparing for an influx of new housing plans, called the housing element, in the next two years. According to HCD, more than 80 percent of local governments must soon update their housing elements to coordinate housing policies with Regional Transportation Plans to ensure greenhouse gas reductions. HCD predicts it will be required to complete over 800 housing element reviews during a two-year period, compared to an average of 218 reviews annually. The Committee may wish to question whether HCD's policy unit has a plan to handle this influx.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

The mission of the Department of Housing and Community Development (HCD) is to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians. The HCD: (1) administers housing finance, economic development and community development programs; (2) develops housing policy and advocates for an adequate housing supply; and (3) develops building codes and regulates manufactured homes and mobile-home parks. The HCD also provides technical and financial assistance to local agencies to support housing development.

The Governor's Budget proposes total spending of $275.4 million ($7.4 million General Fund) for HCD in 2012-13, a decline of 56 percent compared with estimated spending for the current year. The General Fund portion of the HCD budget is proposed as almost the same as the current year, increasing by .3 percent. Proposed staffing totals 542.1 personnel years (PYs), a slight decrease of 1.4 PYs, compared with the current year. The large decrease in proposed expenditures is due to the lessening availability of bond funds and the Governor's proposal to freeze HCD bond awards in 2012-13.

Major Provisions

No new bond awards

The Governor's Budget proposes no new bond awards in 2012-13, which would leave $215 million in unused funding in Propositions 46 and 1C for future years. HCD is seeking to re-award some disencumbrances in 2011-12. Disencumbrances occur when a project is awarded money but then does not come to fruition; the awarded money then becomes available for another project. Below are two tables showing the status of both propositions:

Proposition 46 (Dollars in Millions)

Program Millions	Total Available	Awarded, 2002/03 – 2010/11	Disencumbrances	Proposed 2011/12	Remaining
Cal HFA Programs (5 Programs)	290	256	0	$34	0
Homeownership Programs (3 Programs)	205	173	(24)	$27	$10
Multifamily Housing	800	744	(18)		0
Supportive Housing	195	171	(7)	$11	0
Emergency Housing – Capitol Development	195	177	(6)	$3	0
Other	415	343	(18)	$8	
Total	$2,100	$1,867	(73)	$83	$10

Proposition 1C (Dollars in Millions)

Program Millions	Total Available	Awarded, 2006/07 – 2010/11	Disencumbrances	Proposed, 2011/12	Remaining
Homeownership Programs (6 Programs)	725	558	(31)	134	26
Multifamily Rental Housing Programs (3 Programs)	590	552	(138)	128	5
Infill Infrastructure Grant	850	790	(10)	0	13
Transit Oriented Development	300	274	(28)	18	0
Housing Related Parks	200	0	0	25	161
Other	185	0	(1)	17	
Total	$2,850	$2,174	(208)	$322	$205

Notes: Awarded, Proposed, Disencumbrances and Remaining amounts do not include state administrative costs and default reserves

Proposition 1C programs with significant funds remaining un-awarded include the Affordable Housing Innovation Program, which is within the Homeownership Programs depicted in the chart, and the Housing Related Parks Program.

The Affordable Housing Innovation Program, which has $67 million in funds that HCD hopes to award in the current year, provides financing for pre-qualified developers and local housing trust funds to create or preserve affordable housing, provide homeownership opportunities for low-income Californians, and reduce insurance rates for condominium development by promoting best practices in construction quality control.

The Housing Related Parks Program, which has so far awarded only $8.8 million out of $200 million available, provides grants to local governments to create, develop or rehabilitate parks as a reward for the construction of affordable housing.

CALIFORNIA HOUSING FINANCE AGENCY (CALHFA)

The mission of the California Housing Finance Agency, which was statutorily chartered in 1975 to be the State's affordable housing bank, is to create safe, decent, and affordable rental housing and to assist first-time homebuyers in achieving the dream of home ownership by providing affordable first and secondary mortgage loans and mortgage insurance. The agency is financially self-supporting, setting loan interest rates slightly above its cost and charging fees for specific services to cover its lending costs and risks.

The Governor's Budget proposes total spending of $52.6 million (No General Fund) for CalHFA in 2012-13, an increase of 3.3 percent compared with estimated spending for the current year. Proposed staffing totals 328.4 personnel years (PYs), the same number as the current year. CalHFA is not subject to Budget Act appropriation.

Major Provisions

Transferring CalHFA into Department of Housing and Community Development

The Governor's Budget proposes moving CalHFA into the Department of Housing and Community Development (HCD). The administration notes that both CalHFA and HCD assist in the development and financing of affordable housing, and both administer general obligation bond programs. The proposal suggests the state will achieve administrative efficiencies by moving CalHFA into the Department. The administration has provided no other details of this proposal. It is unclear how moving CalHFA into the Department would impact bond programs for either the state or CalHFA. CalHFA's tax-exempt bonds are not currently backed by the state because it is a stand-alone, Public Enterprise Funded entity.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING AND FAIR EMPLOYMENT HOUSING COMMISSION

The Department of Fair Employment and Housing is responsible for protecting the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The Department's jurisdiction extends to individuals, private or public entities, housing providers, and business establishments within the State of California.

The Governor's Budget proposes total spending of $21.6 million ($16 million General Fund) for the department in 2012-13, an increase of 3 percent compared with estimated spending for the current year. The proposed staffing totals 184 personnel years (PYs), a slight increase (.4 percent) as the current year.

The Fair Employment and Housing Commission is a quasi-judicial body responsible for the promotion and enforcement of the state's civil rights laws concerning discrimination in employment, housing, and public accommodations; family, medical, and pregnancy disability leave; hate violence, and threats of violence. The seven members of the Commission are appointed by the Governor and confirmed by the Senate.

The Governor's Budget proposes total spending of $580,000 ($496,000 General Fund) for the Commission in 2012-13, a 49 percent decrease compared to the current year. The proposed staffing totals 2.5 personnel years (PYs), a 50 percent decrease from the current year.

Major Provisions

Eliminate the Fair Employment and Housing Commission

The Governor's Budget proposes eliminating the Fair Employment and Housing Commission and transferring its adjudicatory and regulatory functions into the Department of Fair Employment and Housing. The administration calls for the adjudication of employment and housing discrimination cases to be handled by a separate and distinct division within the Department of Fair Employment and Housing. The change would save $579,000 ($495,000 General Fund), according to the proposal. No other details are provided.

VETERANS

California is home to more than 2.1 million veterans, and as the nation's two current wars wind down, it is estimated that more than 37,000 veterans will return annually from military service to California. State and local agencies working to help connect veterans to federal benefits, employment, housing and other services will likely face growing demand during coming years, requiring improved efficiencies and efficacy. Many veterans are eligible for disability compensation and pension benefits, and despite improvement in recent years, California remains below the national average in the percentage of veterans receiving these benefits and the amount they receive. (Nationally, veterans receive on average $2,104 per month, while California veterans receive on average $1,929 per month.) While the California Department of Veterans Affairs (CDVA) has a small unit (40.7 projected PYs in 2012-13) dedicated to helping veterans secure benefits, much of the work is done by County Veterans Service Offices (CVSOs). CVSOs receive a small amount of funding from the state, but work directly for counties. The Governor's budget proposes directing $2.6 million in General Fund to CVSO's.

Multiple state-led efforts are underway to improve the number of California veterans who receive benefits: Based on direction implemented in the 2010 Budget Act, a Memorandum of Understanding between CDVA and the Department of Motor Vehicles (DMV) was signed that allows veterans to identify themselves when they apply for driver's licenses. DMV will then pass along veterans' information to CDVA, which will lead efforts to provide outreach to veterans to ensure they're aware of potential benefits. CDVA also is completing an information technology project to better connect with CVSOs and track veterans and outcomes. Additionally, the Assembly in 2011 contributed money from its budget to help CDVA launch an academy to train more personnel in filing claims for benefits. Improving the percentage of veterans who receive federal benefits and the amount they receive can provide a small boost to the state economy.

Employment opportunities remain a challenge for veterans, as California's recession lingers. The overall veterans' unemployment rate was 10.8 percent in November 2011, slightly lower than the state's overall unemployment rate. But unemployment rates for younger veterans are alarmingly high: 34 percent for veterans ages 20-24 and 18.7 percent for veterans ages 25-34, according to statistics kept by the Employment Development Department (EDD). EDD – not CDVA – is largely responsible for programs designed to help connect veterans to jobs. According to a March 2011 report to the Legislature, EDD operates five different programs that provide job placement or employment training services to veterans. Those programs accounted for more than $109 million in funding, all from federal sources. Similarly to federal benefits rates, California lags behind other states in its efforts to connect veterans with employment. Data from 2010 show that 33 percent of veterans who came into contact with job-training or placement programs entered the workforce, compared to 45 percent nationally. California veterans placed in jobs through these programs earned an average of $21,597 annually.

President Obama in November 2011 announced several federal initiatives intended to help veterans improve employment outcomes, including providing personalized case management services at One-Stop Career Centers and creating a federal on-line jobs bank to connect employers with veterans searching for jobs. The state could seek to capitalize on this federal initiative to improve its services.

Other ongoing veterans' issues include the Governor's proposal to delay opening two new Veterans Homes, a state pilot project that seeks to identify veterans receiving Medi-Cal who could be eligible for health care services provided by the federal Veterans Administration, and efforts by CDVA to ensure Rector Dam and other land assets at its Yountville property are generating maximum revenue.

The Committee may wish to question whether veterans' services are properly structured to effectively serve veterans. A 2009 report by the California State Auditor noted that CDVA provides few direct services to veterans, aside from operating Veterans Homes and providing home and farm loans. The Committee also could seek updates on several efforts to improve results in employment and benefits programs.

CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CDVA)

The California Department of Veterans Affairs (CDVA) provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the CDVA include:

1. Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans using proceeds from the sale of general obligation and revenue bonds;

2. Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents; and,

3. Operating veterans' homes in Yountville, Barstow, Chula Vista and Greater Los Angeles and Ventura County with several levels of medical rehabilitation services, as well as residential services.

The Governor's Budget proposes total spending of $362.3 million ($250.3 million General Fund) for the Department of Veterans Affairs, a 4 percent increase from the current year, and 2,250.4 PYs, an increase of 9.1 percent from the current year.

Fund Source (000s)	**Last Year**	**Current Year**	**Budget Year**	**BY to CY Change**	**% Change**
General Fund	$180,681	$217,151	$250,331	$33,180	15
Veterans Farm/Home Building Fund	$86,992	$124,403	$103,938	($20,465)	(16)
Federal Trust Fund	$1,415	$1,854	$4,305	$2,451	132
Other Funds	$3,443	$3,892	$3,729	(163)	(4)
Total Expenditures	$272,531	$347,300	$362,303	$15,003	4%
PYs	1,770.8	2,060.6	2,250.4	189.8	9.1

Nearly 68 percent of CDVA's proposed expenditures in 2012-13 would go to operating Veteran's Homes. CDVA also proposes spending $103.9 million in 2012-13 on home and farm loans for veterans.

Key Provisions

- **Further Delay Opening of Veterans Homes in Redding and Fresno.** The Governor's Budget proposes the continuation of an agreement made in the 2011-12 budget that would delay the opening of new Veterans Homes in Redding and Fresno. Construction will be completed on both homes in 2012, and original plans called for both homes to open this year. The 2011 Budget Act called for a delay in this opening, and the Governor calls for a continuation of this delay through 2012-13. CDVA estimates this would save approximately $25 million in General Fund costs in 2012-13.

- **Yountville Veterans Home: Veterans Cemetery Renovation Reappropriation.** The Governor's Budget requests reappropriation of $2.4 million in Federal Trust Fund authority approved in the 2011 Budget Act for the construction phase of the Veterans Home of California-Yountville cemetery renovation project. Preliminary plans took longer than expected, and construction is now scheduled to begin in August 2012.

- **Sharing Agreements to Civil Service Positions.** The Governor's Budget requests authority to convert contract positions in pharmaceutical, medical services and medical supply at the Veterans Homes of California, Greater Los Angeles and Ventura County to civil service positions. The proposal would convert 22 already-funded contract positions into civil service positions with no net impact on the General Fund. The contract positions at the homes were part of a sharing agreement between the state and the federal government, but the contracts are being cancelled due to funding difficulties related to differing state and federal fiscal calendars. The funds encumbered for the sharing agreements will be used to fund the civil service positions.

LOCAL GOVERNMENT

Substantial changes will occur with respect to local governments as a result of the realignment of various programs and the elimination of redevelopment agencies. Realignment issues are addressed in the introduction and in the section on public safety. Additional issues are raised by the proposed suspension and, in some cases, proposed repeal, of various mandates.

REDEVELOPMENT AGENCIES

As part of the 2011-12 budget agreement, the Legislature took action to eliminate redevelopment agencies (RDAs) in AB 26 X1 (Blumenfield), Chapter 5, Statutes of 2011-12 First Extraordinary Session, and institute a new alternative voluntary redevelopment program in AB 27 X1 (Blumenfield), Chapter 6, Statutes of 2011-12 First Extraordinary Session. By virtue of AB 27 X1, RDAs could avoid elimination if the communities that formed them agreed to participate in the alternative voluntary redevelopment program that called for them to remit annual payments to K-12 education.

Following the passage of AB 26 X1 and AB 27 X1 by the Legislature and their signature by the Governor, the California Redevelopment Association challenged the constitutionality of both pieces of legislation. After an expedited review, the California Supreme Court released its ruling December 29, 2011, which held that AB 26 X1 was valid and AB 27 X1 was invalid. The Court decision will result in the dissolution of RDAs on February 1, 2012 and the take-over and wind-down of their affairs by a successor agency, generally the city or county that created them.

The elimination of RDAs will result in property tax revenues being used to pay required payments on existing bonds and other obligations and make pass-through payments to local governments. Any remaining property tax revenues will be allocated to cities, counties, special districts and school and community college districts. The budget assumes that approximately $1.05 billion will be received by K-14 education and serve to offset the state's Prop 98 General Fund obligation. Property taxes will also be received by counties ($340 million), cities ($220 million) and special districts ($170 million). As RDA assets are monetized, additional funds will be distributed to local governments, including schools.

New redevelopment activities under the existing program may not be undertaken; however, as part of AB 26 X1, successor agencies may be able to complete projects that are already well under way. Whether partially-completed projects can be finished and paid for as RDA enforceable obligations depends on the specific circumstances. Projects largely complete (e.g., just need to put on the roof) with outstanding contracts would likely be completed. Projects in earlier stages or with only a development agreement may be terminated even if some liability must be paid. The successor agencies and oversight boards (also established in the legislation) will make these determinations, subject to Department of Finance review.

LOCAL MANDATES/COMMISSION ON STATE MANDATES

The Commission on State Mandates (COSM) is charged with the duties of examining claims and determining if local agencies and school districts are entitled to reimbursement for increased costs for carrying out activities mandated by the state. COSM was created as a quasi-judicial body and made up of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members of local public bodies appointed by the Governor and approved by the Senate. This budget item appropriates the funding for staff and operations costs of COSM and appropriates non-education mandate payments to local governments. The Governors' Budget calls for expenditures of $52.9 million, representing a slight increase from $52.3 million from the current year. State operations and administrative costs are approximately $1.6 million and the number of personnel years would remain stable, compared to the current year, at 11.0.

2012-13 Governor's Budget

Fund Source (Millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$48.9	$49.3	$50.4	$1.1	2.2
Motor Vehicle Account	1.0	2.9	2.5	(0.4)	(14.9)
Other Funds	0	0.1	0	0	0
Total Expenditure	**$49.9**	**$52.3**	**$52.9**	**0.6**	**1.1**
Positions	10.8	11.0	11.0	0	0.0

Major Provisions

Suspension and Repeal of Mandates

The Governor's Budget achieves substantial savings by the continued suspension of various mandates that are not associated with law enforcement or property taxes. In total, 56 mandates are slated for suspension, resulting in a savings in the budget year of $375.7 million. In addition, expired mandates result in an additional savings of $295.1 million and deferral of certain deferred mandates results in savings of $57.9 million. These result in total savings of $728.8 million for budget year. The budget proposes to continue to defer the payment of the pre-2004 mandate obligations, resulting in additional savings of $99.5 million. Under statute, these pre-2004 mandate obligations must eventually be paid by 2021, although no payment schedule has been established.

Certain suspended mandates have been slated for repeal, as shown in the table below. (Mandates slated for repeal are in bold italics). The estimate cost savings in the budget year associated with suspension and repeal is identical.

2012-13 Suspended Mandates (000s)	
Adult Felony Restitution	$0
AIDS/Search Warrant	1,596
Airport Land Use Commission/Plans	1,595
Animal Adoption	46,296
Conservatorship: Developmentally Disabled Adults	349
Coroners Costs	222
Crime Victims' Domestic Violence Incident Reports II	1,959
Deaf Teletype Equipment	0
Developmentally Disabled Attorneys' Services	1,198
DNA Database & Amendments to Postmortem Examinations: Unidentified Bodies	310
Domestic Violence Information	0
Elder Abuse, Law Enforcement Training	0
Extended Commitment, Youth Authority	0
False Reports of Police Misconduct	10
Filipino Employee Surveys	0
Firearm Hearings for Discharged Inpatients	157
Grand Jury Proceedings	0
Handicapped Voter Access Information	0
Inmate AIDS Testing	0
Judiciary Proceedings	274
Law Enforcement Sexual Harassment Training	0
Local Coastal Plans	0
Mandate Reimbursement Process	6,419
Mandate Reimbursement Process II (includes suspension of consolidation of the two)	0
Mentally Disordered Offenders': Treatment as a Condition of Parole	4,910
Mentally Disordered Offenders' Extended Commitments Proceedings	7,232

Mentally Disordered Sex Offenders' Recommitments	340
Mentally Retarded Defendants Representation	36
Missing Persons Report	0
Not Guilty by Reason of Insanity	5,214
Open Meetings Act/Brown Act Reform	96,090
Pacific Beach Safety: Water Quality and Closures	344
Perinatal Services	2,338
Personal Safety Alarm Devices	0
Photographic Record of Evidence	291
Pocket Masks	0
Post-Conviction: DNA Court Proceedings	410
Postmortem Examinations: Unidentified Bodies, Human Remains	1,180
Prisoner Parental Rights	0
Senior Citizens Property Tax Postponement	481
Sex Crime Confidentiality	0
Sex Offenders: Disclosure by Law Enforcement Officers	0
SIDS Autopsies	0
SIDS Contacts by Local Health Officers	0
SIDS Training for Firefighters	0
Stolen Vehicle Notification	1,117
Very High Fire Hazard Severity Zones	0
Victims' Statements-Minors	0
Fifteen-Day Close of Voter Registration	0
Absentee Ballots	50,924
Permanent Absent Voters	2,686
Absentee Ballots-Tabulation by Precinct	68
Brendon Maguire Act	0

Voter Registration Procedures	2,452
In-Home Supportive Services II	449
Crime Statistics Reports for the Department of Justice and CSR for the DOJ Amended	138,722
Total Savings from Suspended Mandates	**375,669**

Mandates to be Funded

The Governor's Budget proposes to fund most mandates relating to law enforcement and property taxes. These funded mandates are listed below:

2012-13 Funded Mandates (000s)	**2012-13 Total Estimate**
Threats Against Peace Officers	26
Custody of Minors - Child Abduction and Recovery	12,999
Medi-Cal Beneficiary Death Notices	10
Sexually Violent Predators	20,963
Domestic Violence Treatment Services	1,944
Domestic Violence Arrest Policies	7,608
Unitary Countywide Tax Rates	267
Allocation of Property Tax Revenues	727
Rape Victim Counseling	349
Health Benefits for Survivors of Peace Officers and Firefighters	1,695
Crime Victims' Domestic Violence Incident Reports	167
Peace Officer Personnel Records: Unfounded Complaints & Discovery	657
Domestic Violence Arrests and Victims Assistance	1,374
Total Funded Costs	**$48,786**

Suspension List Includes Brown Act

One of the suspended mandates is the Open Meetings Act/Brown Act Reform. The core provisions of the act are not mandates subject to reimbursement by the State, since their adoption occurred in 1953 as part of the Brown Act, and prior to mandate law. These core provisions require that all meetings of a legislative body of a local agency be open and public and all persons be permitted to attend any meeting of the legislative body. Because this act preceded mandate law, its provisions are not state-reimbursable mandates. In 1986, the Brown Act was modified to require local agencies to prepare and post agendas for public meetings. In 1993, the legislature added provisions regarding closed sessions. These more recent provisions are referred to as Open Meetings/Brown Act Reform reimbursable mandate. Last year, this mandate was suspended and not funded in the budget. The issue was referred to the constitutional amendment process. The Governor's ballot initiative addresses this issue by including language that would specify that the Brown Act would no longer be a state-reimbursable mandate.

Key Provisions

- **Mandate Redetermination.** The budget proposal puts forth a redetermination of the Sexually Violent Predators reimbursable state mandate. The voters approved Jessica's Law (Proposition 83), which restated several of the provisions of the reimbursable mandate and since mandates imposed by voter approved initiatives are not reimbursable state mandates, the Administration will submit a request to the CSM to adopt a new test claim decision for the mandate to reflect this change.

- **Program Delay.** Also Included is a delay of program participation requirements for specified probationers for enhanced sentencing of sex offenders. The Budget proposes to implement a two-year delay, from July 2012 to July 2014, of the requirement that probationers who are registered sex offenders participate in a sex offender management program. The enhanced sentencing terms and parole lengths that were part of the bill, which basically required longer sentences for sex offenders, would remain in place.

- **Baseline Budget.** The budget requests additional funding of $52,000 to its baseline budget of $1.5 million, largely to be used for OE&E, including rent and other expenses.

- **Workforce Cap.** As part of the proposal, COSM left vacant positions and reduced expenditure by $64,000 in the 2010-11 budget.

Revenues, Loans and Debt

REVENUE PROPOSALS

The Budget is based on the passage of the Governor's Constitutional Amendment to raise additional revenues from the personal income tax (PIT) and the sales and use tax (SUT) that will be placed on the November 2012 ballot. The Governor’s proposed initiative at the November election would temporarily increase the personal income tax on the state’s higher income taxpayers and temporarily increase the sales tax by one-half percent. The measure would guarantee these new revenues to schools and constitutionally protect the 2011 Realignment funds for local public safety. The proposed tax increases would generate an estimated $6.9 billion for 2012-13. The PIT increase would result in an additional $2.3 billion in revenues in 2011-12 and $3.5 billion in 2012-13. The SUT increase would result in additional revenues of $1.2 billion in 2012-13. After accounting for the increased Proposition 98 minimum guarantee, it will provide $4.4 billion in net benefit to the General Fund budget.

Major Provisions

Personal Income Tax Increase

The Governor's proposal would increase the tax rate on all taxpayers with taxable income in excess of $500,000 joint filers and $250,000 single filers with the applicable rate increase dependent on income levels. The personal income tax increase would be effective for tax years 2012 through tax year 2016. The specifics of the Governor's proposal are shown below.

Personal Income Tax Increase Proposal		
Filing Status	**Income Subject to Higher Rate**	**Additional Rate**
Single	Between $250,000 and $300,000	1 percent
	Between $301,000 and $500,000	1.5 percent
	Over $500,000	2 percent
Joint	Between $500,000 and $600,000	1 percent
	Between $601,000 and $1,000,000	1.5 percent
	Over $1,000,000	2 percent
Head of Household	Between $340,000 and $408,000	1 percent
	Between $408,001 and $680,000	1.5 percent
	Over $680,000	2 percent

California's PIT rate structure is progressive in profile at lower and middle-income levels, but then flattens out. Current law results in the tax being levied at rates between 1 percent and 9.3 percent (plus a 1 percent rate for taxable incomes in excess of $1 million). For tax year 2010, the top rate was effective for taxable incomes in excess of $93,532 for married couples or domestic partners filing jointly. Thus, for many taxpayers (and the great majority of tax revenue) the PIT is essentially levied at a flat rate over a broad span on income. Thus, the marginal tax rate for a taxpayer with a taxable income of $100,000 is the same as the marginal tax rate on a taxpayer with a taxable income of $750,000 (effective tax rates on total income would differ). California's PIT incorporates all of the various tax expenditure items included in the federal system as well as additional tax expenditure items only available through California PIT.

California has had income tax rates in excess of 9.3 percent in numerous instances in the past. From the period 1935-42, the top rate was 15 percent. From 1967-72, the top rate was 10 percent and increased to 11 percent from 1973 through 1986. In the early 1990s, the rates were also increased such that the top rate was 11 percent from 1991 through 1995. In 2005, the 1 percent rate on incomes in excess of $1 million went into effect. The most recent period of increased rates was during tax years 2010 and 2011, when the top general income rate was 9.55 percent (10.55 percent for taxable incomes in excess of $1 million).

Sales and Use Tax Increase

The Governor's proposal to increase the SUT would also be included as part of the initiative. This measure temporarily increases the state SUT rate by 0.5 percent. The higher tax rate would be in effect for four years, from January 1, 2013 through the end of 2016.

California's SUT is levied on the final purchase price of tangible consumer goods, except for food and certain other items. The SUT rate consists of both a statewide rate and a local rate. The current statewide rate is 7.25 percent. Approximately half of the revenue derived from the statewide rate is deposited into the General Fund, while the remainder is allocated to local governments. Localities also have the option of imposing, with voter approval, add-on rates to raise revenues for cities, counties, or special districts. As a result, current SUT rates in California differ by county and locality, with an average rate of about 8.1 percent. Under the measure, the statewide average SUT rate would increase to 8.6 percent.

Key Provisions

- **Other Revenue Solutions.** There are a handful of other minor revenue proposals in the Governor's budget, including: improvement in the State Controller's Office management of the unclaimed property programs (revenues of $21 million); transfer of additional weight fee revenues to the General Fund to be used to offset future debt service costs on transportation bonds (resources of $349.5 million); continued paying the interest on the loan from the federal government for unemployment insurance payments from the Unemployment Compensation Disability Fund (revenues of $417 million); and suspension the county share of child support collections (revenue of $34.5 million). These measures are described more fully in each of the relevant sections.

LOANS AND DEBT

Major Provisions

Budgetary Borrowing

The budget includes items related to budgetary borrowing as well as borrowing for cash flow purposes. At the time of the 2011 May Revision, a total of $34.7 billion in budgetary borrowing was identified. By the end of 2011-12, this amount will total $33 billion, as shown in the figure below.

Budgetary Borrowing Amounts ($ billions)	
Deferred payments to schools and community colleges	10.4
Economic Recovery Bonds	6.3
Loans from special funds	3.4
Unpaid costs to local governments, schools, and community colleges for state mandates	4.5
Underfunding of Proposition 98	3.4
Borrowing from local government (Proposition 1A)	2.1
Deferred Medi-Cal costs	1.3
Deferral of state payroll costs from June to July	0.8
Deferred payments to CalPERS	0.5
Borrowing from transportation funds (Proposition 42)	0.3
Total	**33.0**

Note that under the Governor's proposal, the Prop 1A loans would be paid off for a one-time expenditure of $2.1 billion. These moneys were borrowed from local governments in 2009-10. The local governments securitized the state repayment obligations, so local governments did not lose revenue in that year. Thus, the state's payment will go to investors.
Of the $3.4 billion in loans from special funds, roughly $485.9 million will be due in the budget year, and carry an interest cost of approximately $39 million. In the current year, $509.9 will be due at an interest cost of $52.5 million. The interest on loans borrowed from internal sources is generally Pooled Money Investment Account rate and is due upon the due date of the loan. The repayment of certain internal loans totaling $630.5 in face amount will be delayed, and constitute a component of the budget balancing proposal of the Governor.

Cash Flow Borrowing

The state regularly borrows on the credit markets for short term cash flow purposes. These loans due not constitute a budget solution, as they are repaid with the fiscal year. Rather, they provide for cash during cash poor periods over the course of the fiscal year, for example, during the period just prior to personal income tax payments in the spring. The state also borrows from internal sources for cash flow purposes

The budget includes $178 million General Fund in interest costs associated with internal and external borrowing. This consists of $78 million in interest costs associated with internal borrowing and $100 million for interest costs associated with the issuance of external notes known as Revenue Anticipation Notes or RANs. Interest on RANs is typically tax exempt to the purchaser and is payable when the note is due.

Bond Debt Service

General Fund debt service expenditures will increase by a net of $24.6 million (0.46 percent), to a total of $5.4 billion, as compared to the revised current year estimate. This net increase is comprised of a decrease of $36.5 million for general obligation (GO) debt service ($4.6 billion total) and an increase of $61.1 million for lease revenue bonds ($745.5 million total). The change in GO debt service reflects estimated debt service costs for bonds issued in 2012 ($188.2 million). Program costs reflect a slight decrease compared to the current year because the Treasurer’s Office has structured bond redemptions to accommodate the $1.9 billion Proposition 1A financing obligation due June of 2013. General Fund offsets from the Transportation Debt Service Fund increased slightly to $703.3 million. The state current has about $81.0 billion in outstanding GO debt outstanding, approximately $7.7 billion of which is self-liquidating, including water resources bonds.

Realignment

In 2011-12, the State began a process to realign certain Public Safety, Health, and Human Services programs to counties. As originally envisioned, the realignment was to be coupled with a Constitutional amendment that would guarantee ongoing funding for the programs that would have been before voters in June of 2012. Because the June 2011 Special Election did not occur, the process for realigning responsibilities for these programs to counties was started, but it is still being implemented in the 2012-13 budget. The budget did dedicate 1.0625 percent of State sales tax and $462 million of Vehicle License Fee revenue for the realigned costs in 2011-12.

The Governor's temporary tax initiative would provide the Constitutional protection for this revenue dedicated to Realignment and guarantee that it would continue. This initiative would shield local governments from some future costs, as well as provide mandate protection for the state.

The 2011 Realignment included a diverse basket of programs, these included:

- Custody of Low-Level Offenders
- Juvenile Justice
- Adult Parole
- Court Security
- Mental Health Services
- Substance Abuse Services
- Foster Care and Child Welfare Services
- Adult Protective Services

The 2011-12 also included only a one-year temporary funding structure for the realigned programs which essentially funded them at the same level as the prior year and did not allow counties flexibility to move funds from one program to another.

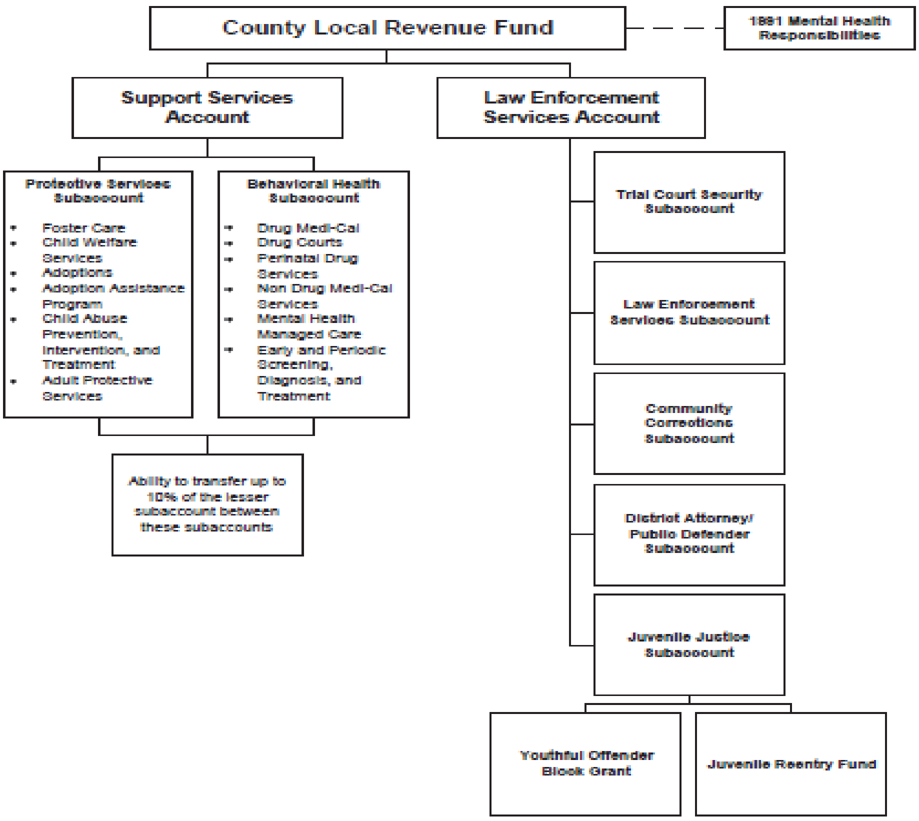
The 2012-13 Budget includes a permanent funding structure and revenue allocation mechanism for realignment. This mechanism will address three major issues:

1) How much flexibility will counties have in moving money between programs?
2) How will funding be allocated to counties?
3) What happens to natural growth in the dedicated sales tax revenue?

Funding Structure

At this time, only limited detail of the proposal is available, including the following chart:

2011 Realignment Funding Structure



The Administration states that the proposed funding structure is intended to provide local entities with a stable funding source for realigned programs. Within each Subaccount, counties will have the flexibility. Counties will also be able to use their funds to draw down the maximum amount of federal funding for these programs.

Overall, the administration provided the following table to illustrate overall funding levels for Realigned programs:

2011 Realignment Funding
(Dollars in Millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	$496.4	$496.4	$496.4	$496.4
Local Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	957.0	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Mental Health Services				
Early and Periodic Screening Diagnosis and Treatment	-	544.0	544.0	544.0
Mental Health Managed Care	-	188.8	188.8	188.8
Existing Community Mental Health Programs	1,104.8	1,164.4	1,164.4	1,164.4
Substance Abuse Treatment	179.7	179.7	179.7	179.7
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,562.1	1,562.1
Adult Protective Services	54.6	54.6	54.6	54.6
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Program Cost Growth	-	180.1	443.6	988.8
Total	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**
Vehicle License Fee Funds	462.1	496.3	491.9	491.9
1.0625% Sales Tax	5,107.0	5,320.0	5,748.0	6,228.0
Total Revenues	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**

Growth Funding
The budget also proposes to distributes program growth on a roughly proportional basis, first among accounts, and then by subaccounts. Within each subaccount, federally required programs should receive priority for funding if warranted by caseload and costs. Growth funding for the Child Welfare Services (CWS) program would be a priority once base programs have been established. Over time, CWS would eventually receive an additional $200 million per year.

PUBLIC SAFETY

California's Public Safety system is comprised of numerous state departments, agencies, offices, boards, commissions, and branches. These entities include: The Judicial Branch, The Commission on Judicial Performance, The Office of the Inspector General, The Judges' Retirement System Contributions, The California Emergency Management Agency, The Department of Justice, The California Victim Compensation and Government Claims Board, The California Department of Corrections and Rehabilitation, The Board of State and Community Corrections, The Commission on Peace Officer Standards and Training, The Office of the State Public Defender, The Military Department, and The California Highway Patrol.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities. The CDCR is organized into the following Adult and Juvenile programs:

- Corrections and Rehabilitation Administration;
- Corrections Standards Authority;
- Adult Corrections and Rehabilitation Operations: Security; Inmate Support; Contracted Facilities; Institution Administration;
- Parole Operations: Adult Supervision; Adult Community Based Programs; Administration;
- Board of Parole Hearings: Adult Hearings; Administration;
- Adult: Education, Vocation, and Offender Programs: Education; Substance Abuse Program; Inmate Activities; Administration;
- Adult Health Care Services; and,
- Juvenile: Operations and Offender Programs; Academic and Vocational Education; Parole Operations; Health Care Services.

As one of the largest departments in state government, CDCR operates 36 youth and adult correctional facilities and 44 youth and adult camps. In addition, the CDCR contracts for multiple adult parolee service centers and community correctional facilities. The CDCR also operates family foundation facilities, adult prisoner/mother facilities, youth and adult parole units and sub-units, parole outpatient clinics, licensed general acute care hospitals, regional parole headquarters, licensed correctional treatment centers, hemodialysis clinics, outpatient housing units, a correctional training center, a licensed skilled nursing facility, and a hospice program for the terminally ill. In addition, the CDCR has 6 regional accounting offices and leases more than 2 million square feet of office space. The CDCR's infrastructure includes more than 40 million square feet of building space on more than 26,000 acres of land (40 square miles) statewide.

The Governor's Budget proposes $8.9 billion ($8.7 billion General Fund) and 58,528.2 positions for CDCR operations in 2012-13. This reflects a decrease of $364.2 million ($316.1 million General Fund) and 2,621.9 positions from the 2011-12 Budget Act. The Governor is also proposing $1.3 billion ($52 million General Fund) for infrastructure needs. This reflects a decrease of $1 billion ($28 million General Fund) from the 2011-12 Budget Act.

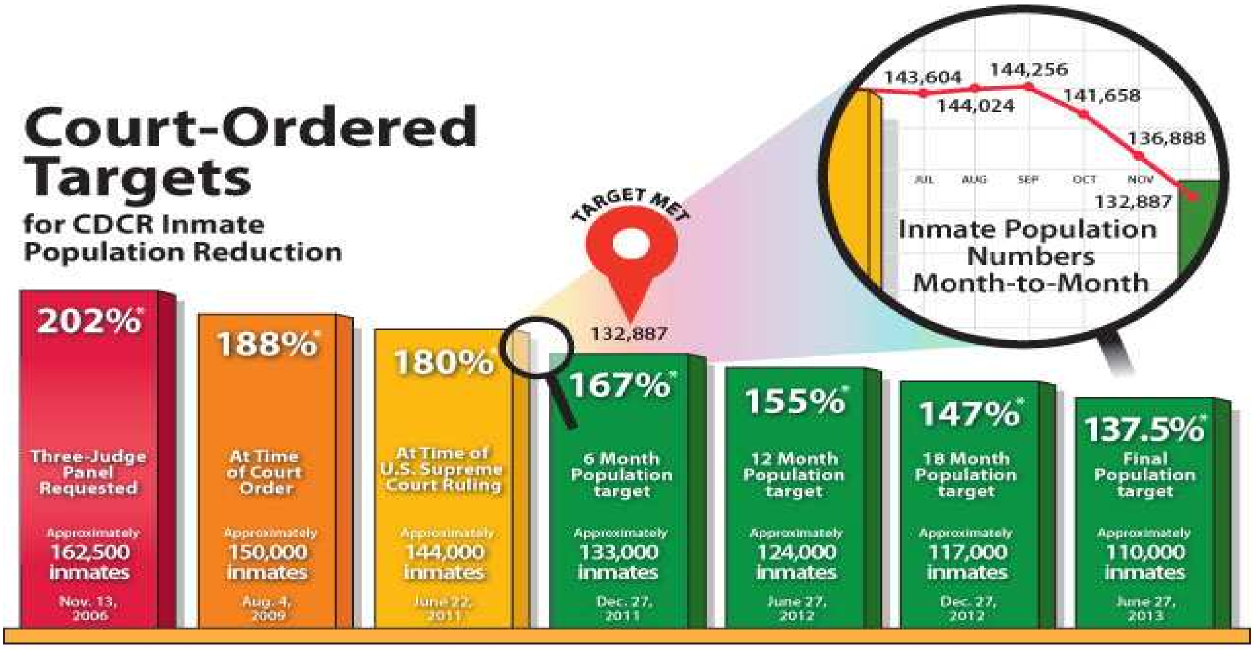
Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$ 9,481,820	$ 8,980,824	$ 8,664,771	$ (316,053)	(4)%
General Fund, Proposition 98	24,510	23,623	21,229	(2,394)	(-10)
Other Funds	214,963	247,604	201,832	(45,772)	(-18)
Infrastructure Funding	564,616	2,272,277	1,262,102	(1,010,175)	(44)
Infrastructure Funding General Fund (Non-add)	20,436	23,852	51,835	27,983	117
Total Expenditure	$10,285,909	$11,524,328	$10,149,934	$(1,374,394)	(12)%
Positions	57,620.6	61,150.1	58,528.2	(2,621.9)	(4)

The 2011 budget included a major realignment of funding and policy responsibilities from the State to counties for several public safety, health, and human services programs. Specifically, the Public Safety Realignment shifted funding (see realignment funding chart below) and responsibility for housing non-violent, non-sexual, and non-serious offenders and parole violators from state prisons to county jurisdictions. The Public Safety Realignment also shifted funding (see realignment funding chart below) and responsibility for the community supervision of lower-level offenders upon the completion of their state prison sentences to counties. Upon full implementation, the Public Safety Realignment is projected to result in roughly $1.5 billion in annual prison system savings for the state. Realignment will enable the state to meet the U.S. Supreme Court decision that requires California to reduce the prison population by over 30,000 inmates within the next two years. Realignment will aid the State in accomplishing this goal in a manner that improves public safety by providing funding for local support services, rehabilitation programs, and law enforcement while enabling California to avoid the wholesale release of inmates from prison.

The Governor has committed to providing an ongoing funding source for Realignment. Thus, the Administration is proposing the following allocation schedule to support continuing local public safety efforts.

Public safety Realignment Funding - Final Budget ($'s in Millions)				
Program	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Court Security	$496.4	$496.4	$496.4	$496.4
Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction of Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	956.7	0.0	0.0	0.0
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	0.0	0.0	0.0
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Total	**$2,667.6**	**$1,942.6**	**$2,102.7**	**$2,037.5**

In December 2011, California met the first of four population reduction benchmarks by reducing California's prison population to 167 percent of design capacity (133,016 inmates). The remaining population benchmarks displayed on the following chart:



*Percent of design capacity
Design capacity is the number of inmates a prison can house based on one inmate per cell, single-level bunks in dormitories, and no beds in spaces not designed for housing. The current design capacity of CDCR's 33 adult facilities is 79,858.

(For additional discussion on population, see Adult Inmate and Parole population section)

The Governor is also proposing to stop all new juvenile offender commitments to the Division of Juvenile Justice (DJJ), effective January 1, 2013. The Administration's plan assumes deterioration of the remaining DJJ population through attrition, ultimately resulting in complete closure of the remaining DJJ facilities. The Administration has not yet provided a comprehensive plan for implementing this proposal; however, discussions with local governments and stakeholders are currently underway. (For additional discussion on this issue see the DJJ section below.)

Major Provisions

Adult Inmate and Parolee Population

Current CDCR population estimates show an adult average daily institution population decline from the 2011-12 level of 150,038 to 132,167 in 2012-13, a 12-percent decrease. Current projections also reflect a decrease in the average daily parolee population from 84,862 in 2011-12 to 56,440 in 2012-13. These population changes are expected to result in state savings of $453.3 million in 2011-12 and $1.1 billion in 2012-13.

In the wake of Realignment and the associated population declines, the Administration has introduced numerous operational changes aimed at better addressing the needs of the remaining population. Included in these changes is the conversion of the Valley State Prison for Women to a male facility by July 2013. The Administration is proposing this change in response to significant declines in the number of female inmates. The department is also in the process of reducing the amount of reception beds due to a decline in the intake and release of inmates. The lower demand for reception beds is allowing the Department to convert existing statewide reception center capacity to house inmates on a more long term basis.

Population declines have also allowed CDCR to significantly reduce the amount of non-traditional beds utilized in the state's male facilities. To date, CDCR has deactivated roughly 5,000 non-traditional beds, leaving less than 1,300 non-traditional beds in use statewide. This equates to 7 gymnasiums and 1 dayroom compared to the 72 gyms and 125 dayrooms in operation at the peak of over-crowding in August 2007. These changes have significantly improved prison safety and access to programing facilities.

Realignment has also afforded CDCR an opportunity to reassess future prison facility needs as funded under AB 900 (Solorio), Chapter 7, Statutes of 2007. Based on current population projections, the primary driver of AB 900 is no longer a pressing issue. Accordingly, the Governor's Budget assumes savings of $125 million related to infrastructure projects authorized by AB 900 that are no longer needed due to realignment.

Alternative Custody for Women

Approximately 70 percent of the current female inmate population is classified as non-violent offenders with convictions for property or drug-related crimes. Additionally, a majority of the women in state prison, including those with prior serious or violent convictions, are classified as low-risk. The Governor's Budget provides for the expansion of the Alternative Custody for Women program to include women who have a prior serious or violent conviction. The Alternative Custody for Women program allows these offenders to be placed in community-based treatment programs in an effort to achieve successful outcomes and reduce recidivism among this population. Savings resulting from this shift in the female inmate population have been earmarked to support associated cost increases in the Alternative Custody for Women program.

Mental Health Program

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. The Budget includes funding 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 fiscal impact of funding these mental health program positions is an increase of $34.3 million in 2011-12 and $27.3 million in 2012-13.

CDCR Construction

The Governor's Budget includes a reduction of $1.9 million General Fund and 16.4 positions in 2011-12 in addition to a reduction of $44.5 million General Fund and 405.5 positions in 2012-13 and ongoing to reflect the cancellation of plans to activate the Estrella Correctional Facility. Based on current population trends, the Administration has determined that there is no longer a need for the additional Level I and II beds this project would have provided. The Administration is also seeking resources to support a "warm shutdown" of the Estrella facility to ensure ongoing facility maintenance while long term plans for the facility are identified.

The Governor's Budget includes $10.9 million and 74.9 positions for pre-activation and activation staffing for the California Health Care Facility (CHCF) based on the expectation that the first phase of construction will be completed by May 22, 2013. CHCF intake is expected to begin July 22, 2013 and the facility is expected to be fully operational by December 2013.

The Governor's Budget also includes $810,000 general obligation bond funds for CDCR infrastructure needs. This amount includes $60,000 for completing the design of Security Housing Unit Small Management Exercise Yards at the California Correctional Institution.

Juvenile Ward and Parolee Population

The average daily juvenile ward population is projected to decrease from 1,174 in 2011-12 to 1,149 in 2012-13, a decrease of 25 wards, or 2.1 percent. The decrease in ward population is primarily due to fewer parole violators being housed in the DJJ's four remaining facilities as a result of SB 81 (Budget and Fiscal Review Committee), Chapter 175, Statutes of 2007, which shifted the supervision of wards released from DJJ to the counties beginning in January on 2011.

The average daily juvenile parolee population is projected to decrease from 850 in 2011-12 to 656 in 2012-13, a decrease of 194 parolees, or 22.8 percent. The decrease in the ward parole population is also primarily a result of SB 81. The fiscal impact of these population declines is a reduction of $82,000 in 2011-12 and $51,000 in 2012-13.

Juvenile Justice Realignment

In 2007, the DJJ underwent a realignment which limited DJJ commitments to juveniles who are violent, serious, and/or sex offenders, pursuant to SB 81. As a result, the state's fifty-eight counties developed county-specific approaches to address the needs of their local juvenile populations including housing, rehabilitation, and prevention programs. In the 2012-13 Governor's Budget, the Governor is proposing to further realign juvenile justice activities by stopping the commitment of new juvenile offenders to the DJJ, effective January 1, 2013. The assumption is that remaining population counts will eventually erode through attrition.

In order to prepare counties for this change, the Governor's Budget includes the suspension of a current year budget trigger reduction requiring counties to pay an annual fee of $125,000 per ward housed with the DJJ. The Governor is also proposing a $10 million General Fund augmentation to support local planning and transition efforts.

Although the Administration has not yet provided a comprehensive proposal, stakeholders and the Legislative Analyst's Office have identified a number of issues that should be addressed in the final proposal. These issues include 1) creating a funding formula for the payments to counties, 2) identifying whether counties have or could develop sufficient capacity to house additional serious juvenile offenders, 3) developing incentives for increased efficiency and improved outcomes (such as reduced recidivism of these juvenile offenders); and, 4) assessing potential unintended consequences of this proposal (such as a possible increase in the number of juveniles tried as adults and sentenced to state prison).

Transfer Resources to the Board of State and Community Corrections
The Governor's Budget includes a reduction of $54.3 million ($8 million General Fund) and 62.3 positions to reflect the transfer of resources from the Corrections Standards Authority to the newly established Board of State and Community Corrections, pursuant to SB 92 (Budget and Fiscal Review Committee), Chapter 36, Statutes of 2011. (For additional discussion on the Board of State and Community Corrections, see section on this new entity below.)

Key Provisions

- **Community Corrections Performance Incentive Grants.** The Budget includes an increase of $49 million, bringing total funding for the California Community Corrections Performance Incentive Act of 2009, SB 678 (Leno), Chapter 608, Statutes of 2009 to $138.2 million. SB 678 established a system of performance-based funding that shares state General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison because of committing new crimes or violating the terms of probation.

- **Pharmaceutical Costs.** The Governor's Budget includes $59.9 million for adult inmate pharmaceutical costs, primarily driven by an increase in drug prices.

- **Restoration of Rehabilitation Services Funding.** The Budget includes $101 million to restore a prior one-time reduction to rehabilitation services programs.

- **Inmate/Ward per capita costs and staffing ratios.** (See chart below for specific details)

Summary of Adult and Juvenile Per Capita and Staff Ratios

	Actual 2010-11*	Estimated 2011-12*	Proposed 2012-13*
Institutions			
Per Capita Costs[1, 2, 3, 4, 7]	$48,895	$49,366	$55,527
Average Daily Population (ADP)	147,438	138,640	121,731
Inmate to Staff Ratio[5]	3.02	2.60	2.30
Parole			
Per Capita Costs[1]	$6,904	$6,679	$9,887
ADP[6]	107,167	100,270	60,685
Parolee to Staff Ratio[5]	24.76	20.36	13.62
Community Correctional Centers/Facilities			
Per Capita Costs[1, 7, 9]	$25,829	$26,444	$19,323
ADP[8]	6,299	2,411	930
Inmate to Staff Ratio[5]	41.69	23.99	17.65
Out of State (COCF)			
Per Capita Costs[1, 7, 9]	$30,690	$27,758	$26,437
ADP	9,899	9,389	9,858
Inmate to Staff Ratio[5]	57.12	29.57	30.06
Juvenile Justice Facilities			
Per Capita Costs[1]	$202,566	$189,183	$162,956
ADP	1,340	1,174	1,149
Ward to Staff Ratio[5]	0.67	0.73	0.73
Juvenile Justice Parole			
Per Capita Costs[1]	$13,577	$16,831	$13,788
ADP	1,554	850	656
Parolee to Staff Ratio[5]	13.81	37.12	67.63

[1] Includes General Fund - including Prop 98, Federal Funds, and Reimbursements.
[2] Excludes employees and costs of Inmate Welfare Fund and local assistance.
[3] Includes camp operations and the cost of operating reception centers.
[4] Excludes lease payments and lease reimbursements.
[5] Includes overtime costs and personnel year equivalents.
[6] Parole ADP includes Felon, Non-Felon, Co-ops, Pre-parole credit, and Pending Revocation.
[7] CCC/F and Institution's figures exclude local assistance.
[8] CCC/F figures include inmates housed at the Santa Rita Jail and the Rio Consumnes Correctional Center.
[9] Administrative costs are incorporated in the development of the per capita cost.

DEPARTMENT OF JUSTICE

The constitutional office of the Attorney General, as chief law officer of the state, has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ).

The DOJ is responsible for providing skillful and efficient legal services on behalf of the people of California. The Attorney General represents the people in all matters before the Appellate and Supreme Courts of California and the United States; serves as legal counsel to state officers, boards, commissioners and departments; represents the people in actions to protect the environment and to enforce consumer, antitrust, and civil laws; and assist district attorneys in the administration of justice. The DOJ also provides oversight, enforcement, education and regulation of California's firearms/dangerous weapon laws; provides evaluation and analysis of physical evidence; regulates legal gambling activities in California; supports the telecommunications and data processing needs of the California criminal justice community; and pursues projects designed to protect the people of California from fraudulent, unfair, and illegal activities.

The Governor's Budget proposes $723.4 million ($201.2 million General Fund) and 4,653.3 positions. This reflects an increase of $51.6 million ($32.5 million General Fund) and a decrease of 135.9 positions as compared to the 2011-12 budget.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$287,455	$168,633	$201,152	$32,519	19%
Other Funds	379,082	503,165	522,226	19,061	4
Total Expenditure	$666,537	$671,798	$723,378	$51,580	8%
Positions	4,564.5	4,789.2	4,653.3	(135.9)	(3)

The 2011 Budget Act identified the elimination of all General Fund expenditure authority for the DOJ's Division of Law Enforcement (DLE) as one of the many solutions for closing the $26.6 billion budget gap projected for the 2011-12 fiscal year.

This reduction was reflected as a General Fund reduction of $36.8 million beginning in 2011-12 and $71.5 million in 2012-13 and ongoing. General Fund resources for the forensic laboratory program, the Armed Prohibited Persons Program, and investigation teams to assist the Department's legal services division were maintained.

The 2012 Budget proposal includes a partial restoration of DLE funding contingent on passage of the Governor's ballot proposal on taxes. Failure of the Governor's tax proposal would trigger a reduction that would undo the partial restoration of DLE funding.

Major Provisions

Division of Law Enforcement

The Governor's Budget includes an $11.8 million ($4.9 million General Fund) augmentation and 51.0 positions to partially restore the DOJ's DLE and create the California Bureau of Special Investigations within the DLE. This proposal would support special investigations, the prosecution of foreign crimes, and resources to address a backlog in Armed Prohibited Persons System entries.

Ballot Trigger

If the Governor's tax measure fails passage by California's voters in November 2012, the DOJ's budget will be reduced by $1 million General Fund in 2012-13 and $4.9 million in 2013-14 and ongoing. Such a reduction would undo the partial restoration of General Fund resources currently proposed for the DLE.

Armed Prohibited System Workload

The Governor's Budget includes a $1.6 million augmentation from the Dealers' Record of Sale Account and 8.0 positions on a three year limited-term basis. The requested resources would support an investigatory workload increase resultant from an increase in the number of Armed Prohibited Persons identified. The primary driver of the projected increase is the assumption that the DOJ will make significant progress in processing backlogged files.

Eliminate General Fund support of the Armed Prohibited Persons Program and replace with Dealers' Record of Sale Funds

The Governor's Budget proposes to shift support for the Armed Prohibited Persons System from the General Fund to the Dealers' Record of Sale Account. This would result in a $4.9 million reduction in General Fund expenditures and a corresponding increase in Dealers' Record of Sale Account expenditures beginning in 2012-13. SB 819 (Leno), Chapter 743, Statutes of 2011, expanded the allowable uses of the Dealers' Record of Sale Account to include regulatory and enforcement activities related to possession of firearms, thus permitting the shift in funding source for this program.

Key Provisions

- **AB 809 (Feuer), Chapter 745, Statutes of 2011 – Firearms.** The Governor's Budget includes a one-time $486,000 augmentation from the Dealers' Record of Sale Account to fund information technology costs associated with AB 809. AB 809 extended handgun reporting and retention of records regulations to include long guns, effective January 1, 2014.

- **Update DOJ Legal Services Items.** The Governor's Budget includes numerous technical changes to the DOJ's Legal Services Items to provide additional transparency and clarity on interdepartmental legal services billings. This proposal also includes a $600,000 augmentation from the Indian Gaming Special Distribution Fund to address legal services workload associated with tribal gaming.

JUDICIAL BRANCH

The mission of the Judicial Branch is to resolve disputes arising under the law and to interpret and apply the law consistently, impartially, and independently to protect the rights and liberties guaranteed by the Constitutions of California and the United States, in a fair, accessible, effective, and efficient manner.

The Governor's Budget includes $3.1 billion ($1.3 billion General Fund) and 2,042.1 positions for Judicial Branch operations in 2012-13. This reflects an overall decrease of $104.1 million and .4 positions from the 2011-12 budget Act (including a $41 million General Fund increase). The Governor's Budget also includes $559 million (all special funds) for infrastructure needs. This reflects a decrease of $140.1 million from the 2011-12 Budget Act.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$ 1,652,278	$ 1,228,382	$ 1,269,407	$ 41,025	3%
Trial Court Trust Fund	1,508,344	1,649,386	1,467,416	(181,970)	(11)
Other Funds	310,167	337,682	374,508	36,826	11
Infrastructure Funding	128,134	698,654	558,552	(140,102)	(-20)
Total Expenditure	$3,598,923	$3,914,104	$ 3,669,883	$ (244,221)	(6)%
Positions	1,856.3	2,042.5	2,042.1	(0.4)	0

The 2011 Budget Act included a $350 million reduction to the Judicial Branch's General Fund expenditure authority as one of the many solutions for closing the $26.6 billion budget gap projected for the 2011-12 fiscal year. The 2011 Budget also included a $15 million reduction to the Vertical Prosecution Grants program, triggered by lower than projected General Fund revenues.

The 2012 Budget includes $50 million in unspecified fee and fine increases and an additional $2.8 million General Fund to partially restore Judicial Branch operational funding. The proposal also includes a trigger reduction of $125 million contingent on passage of the Governor's ballot proposal on taxes. Failure of the Governor's tax proposal in November 2012 would trigger the reduction.

Major Provisions

Judicial Council Authority to Allocate Budget Reductions
The Judicial Council is proposing the establishment and/or increase of civil fees and fines to generate $50 million in new revenue. This proposal is intended to fund Court operations and partially offset recent budget reductions. At this juncture, there is no specific plan for reaching the $50 million revenue target. However, the Judicial Council has indicated that they are currently working with stakeholders to identify an appropriate combination of fees and fines.

The Judicial Council's proposal also includes new budget provisional language that would give the Judicial Council authority to reallocate ongoing General Fund reductions to the Judicial Branch.

Ballot Trigger
If the Governor's tax measure fails passage by California's voters in November 2012, the Judicial Branch's budget will be reduced by $125 million General Fund in 2012-13. While the Judicial Branch would determine how to implement this reduction, it is the equivalent of court closures equal to three days per month.

Trial Court Non-Sheriff Security Funding
The Governor's Budget includes a $2.8 million General Fund augmentation to support non-sheriff trial court security costs. The Administration has indicated that the initial allocation for this purpose was inadvertently included with the funds realigned to counties; thus, this request would backfill the funding loss to the Judicial Branch.

BOARD OF STATE AND COMMUNITY CORRECTIONS

The mission of the Board of State and Community Corrections (BSCC) is to provide statewide leadership, coordination, and technical assistance to promote effective state and local efforts and partnerships in California's adult and juvenile criminal justice system, including providing technical assistance and coordination to local governments related to realignment. This mission reflects the principle of aligning fiscal policy and correctional practices, including prevention, intervention, suppression, supervision, and incapacitation. The goal is to promote a justice investment strategy that fits each county and is consistent with the integrated statewide goal of improved public safety through cost-effective, promising, and evidence-based strategies for managing criminal justice populations.

The BSCC is organized into the following programs:

- Board of State and Community Corrections Administration and Program Support;
- Corrections Planning and Grant Programs;
- Local Facility Standards and Operations; and,
- Standards and Training for Local Corrections.

SB 92 (Budget and Fiscal Review Committee), Chapter 36, Statutes of 2011 as amended by AB 116 (Budget Committee), Chapter 136, Statues of 2011, abolished the Corrections Standards Authority (CSA) within the CDCR and established the BSCC as an independent entity, effective

July 1, 2012. The BSCC will absorb the previous functions of the CSA as well as various other public safety programs previously administered by the California Emergency Management Agency.

The Governor's Budget proposes $109.1 million ($16.9 million General Fund) and 70.3 positions for the establishment of the BSCC through the transfer of position and expenditure authority from CDCR and the California Emergency Management Agency.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$16,923	$16,923	100%
Other Funds	0	0	92,238	92,238	100
Total Expenditure	$0	$0	$109,161	$109,161	100%
Positions	0	0	70.3	70.3	100

Effective July 1, 2012, the BSCC will be responsible for providing statewide leadership, coordination, and technical assistance to promote effective state and local efforts and partnerships in California's adult and juvenile criminal justice system. Of specific importance will be the BSCC's role in coordinating with and assisting local governments as they continue with implementation of the 2011 Public safety Realignment over the next several years.

A primary goal of the BSCC will be to guide statewide public safety policies and ensure that all available resources are maximized and directed to programs that are proven to reduce crime and recidivism among all offenders.

Major Provisions

Establishment of the Board of State and Community Corrections

The Governor's Budget includes the transfer of $54.3 million ($8 million General Fund) and 62.3 positions from the CDCR and $46 million and 8.0 positions from the California Emergency Management Agency for the establishment of the BSCC. This transfer is being proposed pursuant to SB 92 (Budget and Fiscal Review Committee), Chapter 36, Statutes of 2011 as amended by AB 116 (Budget Committee), Chapter 136, Statues of 2011, which abolished the Corrections Standards Authority within CDCR and established the Board of State and Community Corrections, effective July 1, 2012. The Board will absorb the previous functions of the Corrections Standards Authority as well as various other public safety programs and initiatives currently managed by the California Emergency Management Agency.

Key Provisions

- **Vertical Prosecution Grant (2011 Budget Trigger Reduction).** The Governor's Budget reflects an ongoing reduction of $15 million for vertical prosecution grants consistent with a reduction taken when the vertical prosecution grant program was managed by the California Emergency Management Agency.

CALIFORNIA EMERGENCY MANAGEMENT AGENCY

The principal objective of the California Emergency Management Agency (Cal EMA) is to reduce vulnerability to hazards and crimes through emergency management and criminal justice to ensure a safe and resilient California. The Cal EMA coordinates emergency activities to save lives and reduce property loss during disasters and to expedite recovery from the effects of disasters. Cal EMA provides leadership, assistance, and support to state and local agencies in planning and preparing for the most effective use of federal, state, local, and private sector resources in emergencies. This emergency planning is based upon a system of mutual aid whereby a jurisdiction relies first on its own resources, and then requests assistance from its neighbors. The Cal EMA's plans and programs are coordinated with those of the federal government, other states, and state and local agencies within California.

During an emergency, the Cal EMA functions as the Governor's immediate staff to coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It of a comprehensive state strategy related to all hazards that includes prevention, preparedness also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the Cal EMA is responsible for the development and coordination of a comprehensive state strategy related to all hazards that includes prevention, preparedness, and response and recovery.

The Governor's Budget proposes $1.3 billion ($113.1 million General Fund) and 545.2 positions. This reflects a decrease of $85 million ($2.5 million General Fund) and 26.1 positions as compared to the 2011-12 budget.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$144,450	$115,575	$113,107	$(2,468)	(2)%
Other Funds	1,203,280	1,224,920	1,141,947	(82,973)	(7)
Total Expenditure	$1,347,730	$1,340,495	$1,255,054	$(85,441)	(6)%
Positions	561.7	571.3	545.2	(26.1)	(5)

Major Provisions

Transfer Resources to the Board of State and Community Corrections

The Governor's Budget includes a reduction of $46 million and 8.0 positions to reflect the transfer of resources from the Cal EMA to the newly established Board of State and Community Corrections. This transfer is being proposed pursuant to SB 92 as amended by AB 116, which also abolished the Corrections Standards Authority within CDCR and established the Board of State and Community Corrections, effective July 1, 2012. The Board will absorb the previous functions of the Corrections Standards Authority as well as various public safety programs and initiatives currently managed by the Cal EMA.

Relocation of the California Specialized Training Institute

The Governor's Budget includes a reduction of $1.5 million ($0.2 million General Fund) and 9.5 positions associated with the relocation of the California Specialized Training Institute (CSTI) from San Luis Obispo to sites in southern and northern California. The CSTI coordinates Cal EMA's emergency management training programs. CSTI provides training to state, local, federal, private sector and foreign partners. CSTI's training curriculums include the state's standardized Emergency Management System, hazardous material response and contingency planning, radiological incident response and management, law enforcement officer training, disaster recovery operations, homeland security, crisis communications, and disaster mitigation. A portion of the CSTI's training courses are conducted at the San Luis Obispo facility while the majority is provided at remote sites throughout the state.

Specifically, the Administration's proposal would eliminate the CSTI facility in San Luis Obispo and move CSTI oversight to the Mather facility just outside of Sacramento. The proposal also calls for the establishment of two regional training facilities; one in Southern California and one in Northern California. This proposal assumes that creating regional facilities would provide greater access, reduce travel related costs, and allow curriculum to be better specialized to address regional issues.

Key Provisions

- **Administration of Byrne/JAG Stimulus Grant.** The Budget includes $300,000 and 3.0 temporary positions to aid in administering a $135 million Federal Byrne/JAG grant awarded pursuant to the American Recovery and Reinvestment Act of 2009. Under this proposal, a portion of the interest accrued on these funds would be leveraged to support the requested positions.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol's (CHP's) mission is to ensure the safe, convenient, and efficient transportation of people and goods across the state's highway system and to provide the highest level of safety and security to the facilities and employees of the State of California.

The Governor's Budget proposes $1.9 billion (no General Fund) and 11,316.2 positions. This reflects a decrease of $8.1 million and 0.0 positions as compared to the 2011-12 budget.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	$0	0%
Motor Vehicle Account, State Transportation Fund	1,683,550	1,720,676	1,727,564	6,888	0
Other Funds	159,974	197,826	199,060	1,234	1
Total Expenditure	$1,843,524	$1,918,502	$1,926,624	$8,122	0%
Positions	11,167.1	11,316.2	11,316.2	0	0%

Key Provisions

- **Rent Augmentation.** The Governor's Budget includes $3.5 million to support moving expenses and rent costs for office placements in Grass Valley, Mojave, and Tracy. These three sites were approved in the 2007-08 and 2008-09 budget and are included in the 2012-13 Five-Year Infrastructure plan.

- **Information Technology Augmentation.** The Governor's Budget includes $344,000 to support increased Integrated Data Management System rates.

CALIFORNIA MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to provide: 1) mission ready forces to the federal government as directed by the President; 2) emergency public safety support to civil authorities as directed by the Governor; and, 3) support to the community as approved by proper authority. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns.

The Governor's Budget proposes $130.8 million ($43.6 million General Fund) and 797.7 positions. This reflects a decrease of $9.6 million and 12.5 positions as compared to the 2011-12 budget (including a $627,000 General Fund increase).

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$43,938	$42,991	$43,618	$627	1%
Other Funds	78,152	97,332	87,155	(10,177)	(10)
Total Expenditure	$122,090	$140,323	$130,773	$(9,550)	(7)%
Positions	743.4	785.2	797.7	12.5	2

In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense. The following table shows the funding that flows directly from the Department of Defense and the positions funded by this funding source.

Military Other Federal Funds

	Positions			Expenditures		
	Actual Positions 2010-11	Estimated Positions 2011-12	Proposed Positions 2012-13	Actual Expenditures 2010-11*	Estimated Expenditures 2011-12*	Proposed Expenditures 2012-13*
10 Army National Guard	2,384.0	2,384.0	2,384.0	$607,612	$465,853	$475,903
20 Air National Guard	1,536.0	1,536.0	1,536.0	291,931	291,931	298,062
30 Office of the Adjutant General	189.0	189.0	189.0	12,100	12,700	12,700
Total Other Federal Funds [1]	4,109.0	4,109.0	4,109.0	$911,643	$770,484	$786,665

[1] These federal funds are displayed for informational purposes but are not included in the program or statewide totals because the funds are not deposited in the State Treasury.

Major Provisions

STARBASE Programs
The Governor's Budget includes 10.0 new positions to support the establishment of three new Science and Technology Academics Reinforcing Basic Aviation and Space Exploration (STARBASE) program facilities. The Department of Defense has awarded California $1 million on an ongoing basis to support this effort. The Military Department has identified sufficient existing federal fund authority to absorb the proposed increase.

The STARBASE Academy was established in 1993 with the goal of adding value to communities through a focus on science, technology, engineering, math, team building, goal setting, and personal growth. California's existing STARBASE academy is located in Sacramento and serves more than 3,000 students annually from nine surrounding school districts. Over 44,000 students and 1345 teachers have participated in the program to date. This proposal would serve 9,000 additional students per year.

The Administration is proposing to house the three proposed programs at the Joint Forces Training Base in Los Alamitos, the Fresno Air National Guard Base, and the Defense Language Institute in Monterey. If California elects not to go forward with the establishment of the new STARBASE programs, the $1 million federal allotment will be forfeited.

Key Provisions

- **Air National Guard Fire Protection.** The Governor's Budget includes 3.0 new firefighting positions to fully staff air fire crews pursuant to National Fire Protection Agency criteria. The proposed positions are 100% federally funded and the Military Department has identified sufficient existing federal fund authority to absorb the proposed increase.

- **State Active Duty Employee Compensation.** The Governor's Budget includes $1.1 million ($495,000 General Fund) to support state active duty personnel cost increases. In accordance with Sections 320 and 321 of the Military and Veterans code, pay for state active duty personnel must be aligned with federal military pay scales granted by Congress.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General (OIG) oversees the state's correctional system through contemporaneous monitoring and special reviews of the policies, practices, and procedures of the California Department of Corrections and Rehabilitation. Although the duties required of the OIG's Office are complex, its mission is clear: to protect public safety by safeguarding the integrity of California's correctional system.

The OIG has regional offices in the northern, central, and southern regions of California, which allow staff to quickly respond to issues arising at California's prisons, youth facilities, and parole regions, located throughout California. This regional model works effectively for the OIG's contemporaneous oversight of the California Department of Corrections and Rehabilitation's internal affairs investigations and employee disciplinary process, as well as contemporaneous oversight monitoring of all deadly force incidents, certain custodial death incidents, and other significant critical incidents. In addition, the OIG is statutorily responsible for conducting use of force monitoring, policy and performance reviews, the vetting of wardens and superintendents, sexual abuse in detention reviews, retaliation complaint reviews, independent intake (complaint) processing, and medical inspections. As required by statute, the OIG's monitoring and oversight activities are reported publicly several times per year.

The California Rehabilitation Oversight Board is also housed within the OIG. The Board's mandate is to examine the California Department of Corrections and Rehabilitation's various mental health, substance abuse, educational, and employment programs for inmates and parolees. The Board meets quarterly to recommend modifications, additions, and eliminations of offender rehabilitation and treatment programs. The Board also submits biannual reports to the Governor, the Legislature, and the public to convey its findings on the effectiveness of treatment efforts, rehabilitation needs of offenders, gaps in offender rehabilitation services, and levels of offender participation and success.

The Governor's Budget proposes $14.6 million General Fund and 86.4 positions. This reflects a decrease of $2.1 million General Fund and 13.6 positions as compared to the 2011-12 budget.

Fund Source (000s)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$18,346	$16,732	$14,589	$(2,143)	(13)%
Other Funds	0	0	0	0	0
Total Expenditure	$18,346	$16,732	$14,589	$(2,143)	(13)%
Positions	125.3	100.0	86.4	(13.6)	(14)

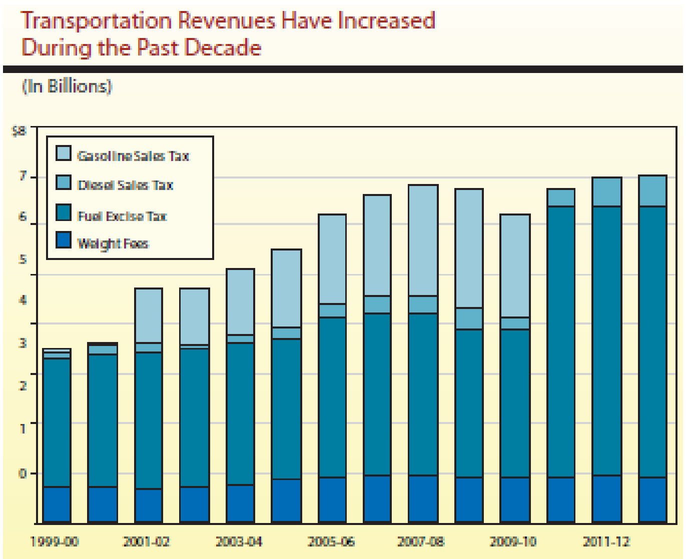
A series of budget actions in 2011 reduced the OIG's operating budget from $26.1 million in 2010-11 to $16.7 million in 2011-12 and $14.6 million in 2012-13 and ongoing. This is a total reduction of $11.6 million (44-percent).

The aforementioned reductions resulted in the elimination of peace officer status for OIG personnel and a reduction in the OIG's investigative workload. Further, the OIG's duties were narrowed to include: 1) the existing functions of the Bureau of Independent Review; 2) reviews requested by the Governor, Senate Rules Committee, or the Speaker of the Assembly; and, 3) conducting medical inspections, consistent with the current medical inspection program conducted by the office. To accomplish this reorganization/downsizing, the Administration is proposing to abolish existing bureaus and further regionalize the OIG into northern, central, and southern regions.

TRANSPORTATION

California has the most complex and highly utilized transportation system in the country, including highways, roads, railways, airports, bridges, seaports, border crossings, and public transit systems. This system continues to grow and increase in complexity, as California's population grows, its economy transforms, and its land use changes. The challenge of meeting the growth needs as well as maintaining the existing systems fall to a unique partnership between the federal government, large regional transportation planning entities, local governments, special districts and the State.

Overall funding for transportation has continued to increase, with over $7 billion available in the budget year, more than double the level of funding in 2000-01. As this LAO chart below illustrates, the elements of this funding has changed, in part due to the gas tax swap.



The State of California's role in transportation policy is derived from several of the key functions it serves. The State:

- Owns all State highways and is responsible for maintaining, rebuilding, and expanding these highways.
- Serves as the point of contact and fiscal agent for most federal transportation funds.
- Allocates state funding, including bond funds.
- Programs a portion state funding for state run-projects.
- Owns the High Speed Rail Authority and is responsible for constructing, operating, and maintaining the system.
- Administers state-supported intercity rail funding on three corridors and local transit funding for some rural local entities.

As the Budget Committee considers transportation policy this year, it helps to be mindful of our central role in the intergovernmental partnerships necessary to tackle the host of challenges faced by our transportation network.

Governor's Transportation Reorganization Plan

The Governor has proposed to create a new stand-alone Transportation Agency to oversee California's transportation departments. There are three governance changes in the 2012-13 budget proposal related to transportation:

Movement of Caltrans, Department of Motor Vehicle (DMV), California Highway Patrol (CHP), Board of Pilots, and Office of Traffic Safety from the Business, Transportation, and Housing Agency to a new stand-alone Transportation Agency.

1. Movement of the High Speed Rail Authority to the new Transportation Agency. Currently the Authority reports directly to its Board and to the Governor.

2. Eliminating the Office of Traffic Safety as a stand-alone department and folding its functions into DMV.

Further details of this reorganization have not yet been released, other than a small reference in the Governor's Budget Summary document. As details emerge, there are some key points to consider:

- Given the complexity of this proposal, the Assembly should consider if the budget process is the best venue to discuss these governance changes.

- The governance structure of the High Speed Rail Authority was the focus of several bills in 2011. This proposal may benefit from revisiting the discussions held last year about these bills. In particular, whether the new agency would have more power to manage and direct High Speed Rail Authority operations.

- The DMV does not seem like the obvious choice as the successor for the functions of the Office of Traffic Safety. While there are potential conflicts of interests of these functions being transferred to Caltrans and CHP, the new Transportation Agency may be a better fit.

- Regions are proposing their SB 375 (Steinberg), Chapter728, Statutes of 2008 plan for land use and transportation, the Assembly should consider how this new governance structure would interface with this planning effort. Does decoupling the administration of state transportation and housing programs make it harder for the state to coordinate its partnerships with these efforts over the long run?

The Future of Transportation Funding

On October 27, 2011, the California Transportation Commission issued the *2011 Statewide Transportation Needs Assessment*. This document paints a picture of State transportation funding needs over the next decade. The report concluded that California would need $538.1 billion, excluding the development of the High Speed Rail project, but that existing funding sources would provide $242.4 billion or 45 percent of the need over the same period. The chart below illustrates the needs.

Cost: ($ billions)	**Maintenance**	**System Expansion and Preservation**	**Total**
Highways	$ 79.7	$86.3	$165.9
Local Roads	102.9	26.5	129.3
Public Transit	142.4	32.2	174.5
Inter-City Rail	0.2	6.2	6.4
Freight Rail	0.1	22.3	22.4
Seaports	4.6	7.5	12.1

Airports	10.4	5.5	15.9
Land Ports	1	0	1
Intermodal Facilities	0	5.9	5.9
Bike/Pedestrian	0	4.5	4.5
Total	**$341.1**	**$197**	**$538.1**

The Needs Assessment provides a good picture of the State's policy changes involving transportation as it illustrates that a profound funding gap exists to continue the existing policy direction. However, this report may exaggerate this gap because it was not conducted with a uniform methodology or standard, to defining the "needs" i.e. what are the needs to achieve a level of traffic congestion. Therefore, it may be more of a "wants" assessment rather than a "needs" assessment. Further discussion and analysis should help further refined our needs.

It is very likely a more refined list of "must have" transportation projects exceed the available resources, especially if the needs of the High Speed Rail project are considered. Therefore, the Assembly needs to consider how to address this funding imbalance. One possible approach is to consider strategies to reduce the overall expected costs. The Legislative Analyst Office (LAO) has suggested that the State adopt two strategies as part of its transportation planning efforts that reduce costs. First, increase investment in preventative maintenance, which helps extend the useful life of the existing infrastructure. Second, collect and analyze data to fine tune expansion efforts, the LAO believes that additional data could help identify smaller and more targeted expansion to relieving congestion than our current methodology. Such analysis would allow the State to get more benefit from existing limited funding.

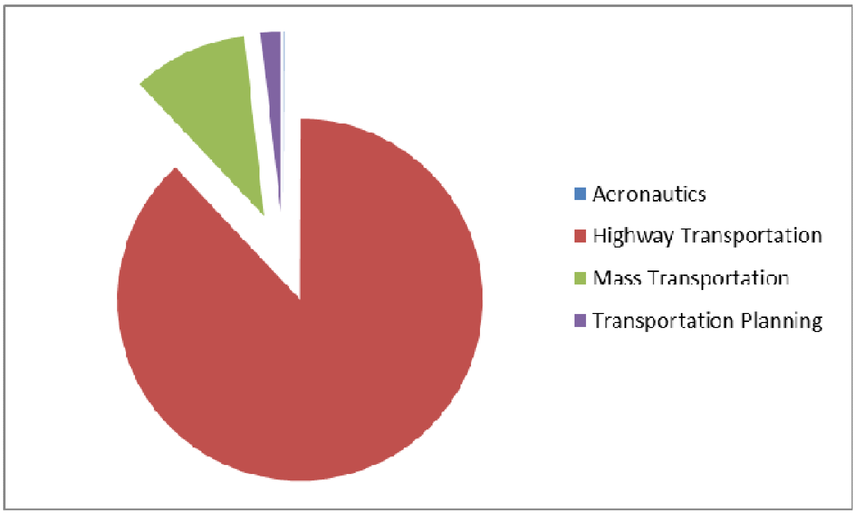
STATE DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's Budget proposes $11.9 billion, including $83.4 million from the General Fund. This reflects a decrease of $4.4 billion, reflecting the end of the federal ARRA stimulus funds and the Governor's desire to appropriate less bond funds than in previous years.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$83,416	$83,416	$83,416	0	0
State Highway Account	3,154,026	3,433,392	3,644,048	210,656	6.1
Public Transportation Account	286,307	313,428	182,155	(131,273)	(41.9)
Other Special Funds	118,538	55,781	37,079	(18,702)	(33.5)
Federal Funds	3,839,047	5,506,809	3,883,571	(1,623,238)	(29.5)
Reimbursements	336,504	2,011,584	1,521,067	(490,517)	(24.4)
Prop 1A Bond Funds	12,200	116,694	7,423	(109,271)	(93.6)
Prop 1B Bond Funds	992,643	4,089,871	1,833,253	(2,256,618)	(55.2)
Total Expenditure	**$8,822,681**	**$15,610,975**	**$11,192,012**	**(4,418,963)**	**(28.3)**
Positions	18,102.3	20,273.1	20,438.5	165.4	(0.1)

The bulk of Caltrans funding is spent on highways, with 17,250 positions dedicated to this function. The chart below illustrates Caltrans funding by program:



Major Provisions

Prop 1B Bond Funding

The Governor's Budget proposes to reduce appropriation of funds from Proposition 1B, the Highway, Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006 by over $1.8 billion. This proposed level of funding is similar to the level proposed in the 2011-12 budget, before this amount was augmented by the Legislature. The transportation related provisions of Proposition 1B are detailed in the chart below:

Fund	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
Public Transportation Modernization, Improvement & Service Enhancement Account	$78,336	$419,893	$829,844	$409,951	97.6
Corridor Mobility Improvement Account	267,681	1,465,787	689,669	(776,118)	(52.9)
Trade Corridors Improvement Fund	106,422	995,293	559,609	(435,684)	(43.8)
Transportation Facilities Account	265,567	484,144	46,097	(438,047)	(90.5)
Public Transportation Modernization, Improvement & Service Enhancement Account, Highway Safety, Traffic Reduction, Air Quality, & Port Security Fd of 2006	805	124,833	121,044	(3,789)	(3.0)
State-Local Partnership Program Account	80,790	270,726	82,802	(187,924)	(69.4)
Local Bridge Seismic Retrofit Account	1,217	25,506	1,360	(24,146)	(94.7)

Highway-Railroad Crossing Safety Account	74,336	131,773	699	(131,074)	(99.5)
Highway Safety, Rehabilitation, and Preservation Account	55,208	201,845	40,966	(160,879)	(79.7)
Local Streets & Road Improvement Congestion Relief & Traffic Safety	197,556	67,037	0	(67,037)	(100.0)
State Route 99 Account	136,844	386,450	281,484	(104,966)	(27.2)

In addition to these amounts, Proposition 1B funding are also appropriated for the Air Resources Board, California Emergency Management Agency.

In 2011-12 Proposition 1B accounted for 27.32 percent of all Caltrans and State Transit Assistance funding. As of December 2011, of the $19.9 billion authorized by the bond, $8.8 billion has been appropriated, leaving a remaining authorized unappropriated balance of $11.1 billion.

One rationale for the reduction in appropriation of Proposition 1B funding is the large existing appropriated, but unspent balance of these funds already available. As of November 30, 2011 over $2.2 billion of appropriated Prop 1B funding was still available.

In 2009 the State cash crisis derailed the Pooled Money Investment Account (PMIA) system, which used to lend capital projects state special fund balances to begin bond projects prior to the actual sale of bonds for these projects. Since that time, projects have had to wait until bonds were sold before they could get State cash to begin projects. The California Transportation Commission and Caltrans have both been examining the rate of expenditures of bond funds, which are now at an unprecedented slower rate. There is some evidence that other factors, like cash problems faced by local entities are contributing the lower levels of spending.

As the Assembly considers transportation funding, the analysis will need to consider whether the slower rate of spending is reflecting a delay in construction for approved projects or some accounting problem related to the billing of the bond funds. Delays in construction are a missed opportunity as California's depressed construction industry not only could use the work, but that the State can take advantage of historically low construction costs to stretch limited state funds.

Key Provisions

- **Intercity Rail Funding.** The Governor's Budget proposes appropriating $13.9 million ongoing to support for the three inter-city rail services operated by Caltrans.

- **Project Initiation Documents Zero-Based Budgeting.** The Governor's Budget proposes a $2.2 million and 67 positions increase related to providing project oversight for additional projects anticipated due to 2011 10-Year SHOPP plan.

- **Mass Transportation Program Zero-Based Budgeting.** The Governor's Budget proposes a $5 million and 58 position reduction to the Mass Transportation Program staffing due to the findings of the Zero Based analysis of the program.

- **Federalization of Pavement Preservation and Bridge Inspection Funds.** The Governor's Budget reflects the shift of $12.4 million of cost from State Highway Account funds to federal funds.

- **Construction Oversight of Federal project.** The Governor's Budget proposes a $1.3 million federal fund increase and 9 limited-term positions to oversee anticipated federal workload.

- **Legal Services for High Speed Rail.** The Governor's Budget proposes $2.1 million and 8 positions to provide legal support and services to the High Speed Rail Authority.

- **Workforce Cap.** The Governor's Budget reflects the loss of 323 positions that were reduced as part of the Administration's efforts to reach the 2011 Workforce Reduction Cap.

- **Continuation of Temporary Position.** The Governor's Budget proposes to continue 57 two-year positions associated with oversight of Proposition 1B projects and 24 limited-term positions associated with oversight of the Safe, Affordable, Flexible, Efficient Transportation Equity Act—Legacy for Users (SAFETEA-LU) federally-funded projects.

STATE TRANSIT ASSISTANCE

State Transit Assistance (STA) provides the budget for the State Transportation Assistance program, which provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation programs.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0
Federal Funds	0	398,952	420,429	21,477	5.4
Prop 1B Bond Funds	78,336	419,893	829,844	409,951	97.6
Total Expenditure	**$78,336**	**$818,845**	**$1,250,273**	**$431,428**	**52.7**
Positions	0	0	0	0	0.0

Key Provision

- **Increase in Prop 1B Funding.** As noted previously, the Governor's proposed budget substantially increases the Proposition 1B appropriation for Transit related projects.

CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission (CTC) advises and assists the Administration and the Legislature in formulating and evaluating State policies, plans and funding for California's transportation programs.

The Governor's Budget proposes $28.5 million for the CTC; an increase of about $43,000 revises current year funding. CTC has a staff of 18 positions, unchanged from the prior year.

BOARD OF PILOT COMMISSIONERS

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun licenses and regulates maritime pilots who guide vessels entering or leaving those bays and navigate on their tributaries to Sacramento and Stockton. Seven members of the Board are appointed by the Governor with the consent of the Senate, and the Secretary of the Business, Transportation, and Housing Agency is an ex officio member. All operational expenses of the Board are funded by a surcharge on pilotage fees set by the Board based on pilotage fees set by the Legislature. A pilot continuing education training program and a pilot trainee training program are funded by two separate surcharges on vessel movements set by the Board.

The Governor's Budget proposes $2.2 million for the Board of Pilot Commissions; an increase of about $39,000 from revises current year funding. The Board has 4 positions, unchanged from the prior year.

CALIFORNIA HIGH SPEED RAIL AUTHORITY

The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California.

While the Administration has committed to moving forward with the High Speed Rail project, the budget does not include any funding for the capital, as these costs will depend upon the final business plan, which is currently under review. The budget does include funding for administration of the California High Speed Rail Authority, although the budget documents suggest that these proposals may also need to be revisited once the final business plan is issued. The chart below illustrates the funding, as proposed in January.

Program	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
San Francisco to San Jose	$26,150	$23,175	?	?	?
San Jose to Merced	24,001	26,549	?	?	?
Merced to Fresno	15,781	24,392	?	?	?
Fresno to Bakersfield	38,461	20,839	?	?	?
Bakersfield to Palmdale	1,812	26,853	?	?	?
Palmdale to Los Angeles	33,600	9,089	?	?	?
Los Angeles to Anaheim	11,080	6,354	?	?	?
Los Angeles to San Diego	3,700	4,000	?	?	?
Merced to Sacramento	2,064	2,986	?	?	?
Altamont Pass	2,745	3,225	?	?	?
Total Capital	$159,394	$147,462	?	?	?
State HSRA Administration	$56,596	$16,418	$15,897	($521)	(3.2)
Positions	17.6	51.3	69.3	$18	35.1

Of the $15.9 million proposed for administration, $15.2 million would be from Prop 1A Bond funds, with the remaining $660 million from federal funds. There is no General Fund appropriated for the HSRA. Of the $9.95 billion authorized by Prop 1A, $499.3 million has been appropriated, leaving an unappropriated balance of $9.45 billion.

Major Provisions

High Speed Rail Business Plan

While the Authority has issued its draft Business Plan which proposes to begin construction on the Initial Construction Segment (ICS) in the Central Valley, the final business plan will dictate the expenditures in the budget. It is likely that these details will not be available until March or April.

The Draft Business Plan offered a vision for constructing the system, beginning with a singular focus on the Initial Construction Segment, which would create 130 miles of track-bed from 9 miles north of Bakersfield to just north of Fresno. The plan outlines the following plan for construction:

Segment	Timeline
Initial Construction Segment: Constructing a 130 mile Test Track in Central Valley	2012-17
Initial Operating Section: Providing High Speed Rail from Merced to San Fernando Valley (South) or from San Jose to Bakersfield (North).	2015-21
"Bay-to-Basin": Providing High Speed Rail from San Jose to San Fernando Valley	2021-26
"Blended Approach": Improving the existing rail systems to allow High Speed Rail service from Anaheim to San Francisco	2026-33

Why is this a good idea?

The advantage of starting in this manner is that it likely the cheapest path to complete the overall project. One of the biggest cost drivers for the project is the expense to acquire right-of-way in populated areas and accommodating existing populations through the use of expensive methods to mitigate the impact of the rail on established communities, like constructing tunnels and viaducts. Given the rate of growth of the State's population, acquiring the right-of-way in these less population and developed areas early reduces this risk to the project's costs.

Additionally, it is clear that the federal government expects that the roughly $3 billion federal funds promised for the High Speed Rail must be used in the Central Valley. The State committed to match these federal funds for the entire $6 billion High Speed Rail construction bond balance, but it is less clear whether the federal government would allow some of these matching funds to be used for other costs associated with the system.

The Authority also argues that it needs a clear and open test track to actually run the system at the high speeds that make the trail competitive with airlines. The only part of the proposed line that can serve this purpose is in the Central Valley.

Why is this not a good idea?

The Draft High Speed Rail Business Plan does not offer a tangible path to the beginning of operations for the system. The Initial Construction Section fall far short of the $27.2 billion projected need for the South Initial Operating Section (IOS-South), from Merced to the San Fernando Valley. The gap is the source of much of the criticism of the plan.

Another disadvantage to the approach in the Draft Plan is that it requires the public to wait over a decade to begin to see a return on investment with any level of High Speed Service. In addition, the High Speed Rail improvements that will also improve existing commuter and freight rail systems are the last to segment of the Stage 1 project plan, which means the secondary utility to this investment is also delayed. Critics point out, correctly, that if the existing money was invested into improving existing infrastructure in preparation of High Speed Rail that it would have more utility in the short run.

How do we pay for this?

The Draft Business Plan suggests that the State's participation in the High Speed Rail system will be capped by the amount of bonds that have already been issued. Most of the additional costs for the projects are assumed to be borne by the federal government. Historically major transportation projects have received 50-80 percent federal support, so this level of support has occurred in the past. However, the possibility that the State would need to provide additional support has caused an undercurrent of doubt about whether the system itself should go forward. As mentioned previously, the State may have as much as $500 billion in unmet transportation needs over the next ten years, which means that additional funds to support the High Speed Rail project are potentially competing with all of these existing needs.

What should be the State's Role in paying for any additional High Speed Rail costs?

It is impossible to know for certain whether the system can be completed without any additional state investment because of the uncertainties associated with a project that takes nearly thirty years to complete. Instead, it may add value to consider if and when it would be appropriate for state funding to be used for the High Speed Rail system in the future. By setting a policy and terms for which the State would be willing to consider participation in further system development, the Assembly can provide more certainty to the project as it considers the other risks and variables.

One possible framework could be:

- The State would not further participate, beyond the Prop 1A bond funds that have been approved, in the extension or continuation of the High Speed Rail ICS backbone. The expansion of this system from ICS to the IOS would need to be funded through other mechanisms. The State also would not subsidize operation of the system itself.

- The State would consider participating in project costs that facilitate the eventual use of High Speed Rail while improving or expanding existing commuter and freight rail corridors. As noted earlier, the CTC Need Assessment identifies $6.2 billion of commuter rail and $22.3 billion of freight expansion needs over the next ten years. The State should consider leveraging any of these future investments to work with the High

Speed Rail system, when such synergy exists. This could also mean that some of the "blended" functionality that the draft business plan would build towards the end of the project could be built much earlier—thus improving the service on heavily used corridors like CalTrain and MTA.

Setting such a framework limits the State's potential liability for the project. This means that the project can only move forward to the extent that other resources, like federal funds, the QTCP funding mechanism, and operator financing exist to support the project.

Funding Structure
The Administration has explored simplifying the capital budgeting for High Speed Rail to give the project more flexibility to use funding efficiently. Funding to date has been appropriated annually by project segment. The Administration has reported that in some cases the project has had to slow work in one segment because it lacked the ability to move funding between segments and that annual appropriate process leads to delays. The Assembly may wish to consider if there is an alternative budgeting structure that provides the transparency and oversight of the current structure but gives the Administration more flexibility to administer the funding.

Other Key Provision

- **Various Administration Proposals.** The Governor's Budget includes five BCPs for a total of $6.6 million and 19 positions to increase staffing, combined with proposals to continue funding for outreach, project management and financial contracts.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Department is currently reviewing its methods of providing services to the public and developing alternatives to visiting the field offices.

The Governor's Budget proposes $963.6 million, (Special Funds), an increase of $50.8 million from the revised current year budget. The budget also includes a reduction of 30.9 positions, mostly due to the anticipation that discounted mail in registration renewals would reduce staffing needs by 18.8 positions.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0
State Highway Account, State Transportation Fund	$52,498	$46,734	$49,700	$2,966	6.3
Motor Vehicle Account, State Transportation Fund	518,301	817,001	869,347	$52,346	6.4
Motor Vehicle License Fee Account, Transportation Tax Fund	303,411	24,911	18,200	($6,711)	(26.9)
Other Special Funds	3,108	6,456	4,459	(1,812)	(52.8)
Federal Trust Fund	4,975	3,832	7,482	3,650	95.3
Reimbursements	13,692	13,887	14,408	$521	3.8
Total Expenditure	**$895,985**	**$912,821**	**$963,596**	$50,775	5.6
Positions	**8,369.00**	**8,250.90**	**8,220.00**	(30.9)	(0.4)

Major Provisions

Discounted Mail-In Registration

The Governor's Budget includes a proposal to give a $5 discount to motorists that renew their registration through alternate methods that include mail, internet, self-service terminals, phone, or through a business partner. Because the DMV anticipates that this will result in 600,000 fewer field office renewal transactions per year, it estimates this proposal will result in savings of 18.8 positions and $531,000 in the budget year, growing to 25 positions and $706,000 in savings in future years.

Key Provisions

- **Centralized Customer Flow Management.** The Governor's Budget proposes $250,000 to begin the replacement of the Department's decade-old customer queue computer system. The updated system will allow implementation of new management practices; include creating "virtual queue," which allows the field office customer queue system to interface with the existing online appointment system. The replacement is expected to take four years to complete.

- **Automated Knowledge Testing Expansion.** The Governor's Budget proposes a $4.1 million federal spending authority appropriation to allow DMV to expand the automated driver knowledge management to all 168 field offices.

- **Facility-Related Budget Proposals**. The DMV has several facility-related requests, including a request for $760,000 for the consolidation of the Lancaster and Palmdale DMV field offices, a $873,000 request to relocate the San Francisco Investigations office that has lost its lease and must move, and $2 million for 5-year infrastructure upgrades of the Escondido, Newhall, Santa Maria, and Reedley Field Office. In addition, DMV has submitted a Capital Outlay request to continue the Grass Valley field office replacement for $526,000 this year.

- **Consolidation of Commercial License Testing**. The Governor's Budget includes a $20,000 appropriation to begin the establishment of one consolidated Commercial Driver License center in Northern California.

- **Operation Stonehenge Grant.** The Governor's Budget includes $521,000 reimbursement authority to allow DMV to continue to participate in the Operation Stonehenge Grant, a cooperative agreement with the federal Department of Homeland Security and the San Diego Sheriff's Office. In 2010-11 DMV's participation resulted in 255 felony arrests along the San Diego Boarder.

- **Implementation of AB 1215 (Blumenfield).** The Governor's Budget reflects a savings of $1.8 million from the implementation of AB 1215 (Blumenfield), Chapter 329, Statutes of 2011-2012, which requires vehicle sale and lease transactions by new vehicle dealers to be process utilizing an outside business partner. It is expected that the bill will also increase the revenue from the corresponding transaction fees by $5.7 million.

- **Workforce Cap.** The Governor's Budget includes an adjustment to reflect the $24.5 million and 213.6 positions eliminated in the 2011 Workforce Reduction cap.