HIGHLIGHTS OF GOVERNOR'S PROPOSED 2012-13 MAY REVISION

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OVERVIEW

The Governor's May Revision of 2012-13 budget provides $16.7 billion in solutions to address a $15.7 billion General Fund (GF) deficit. The proposal results in a final reserve of $1 billion.

Why the problem has grown:

The deficit number has increased by $6.5 billion since the January budget was released. The chart below illustrates the components of that net increase:

 $4.3 billion Less Revenue
 $1.2 billion Proposition 98 Base Increase
 $1.2 billion Proposition 98 Backfill of Property Tax
 $1.7 billion Increased Expenditures
-$1.9 billion Expenditure Savings
 $6.5 billion Additional Problem

When added to the January $9.2 billion budget problem, the additional problem yields a revised $15.7 billion budget gap.

What are the $16.7 billion in solutions?

The May Revision proposes

2011-12 and 2012-13 General Fund Solutions
(in millions)

Source	January Proposal	May Revision	Total	Percent
Expenditure Reductions	$4,215.8	$4,087.7	$8,303.5	50%
Revenues	4,651.4	1,267.5	5,918.9	35%
Other	1,431.5	1,086.4	2,517.9	15%
Total	**$10,298.7**	**$6,441.6**	**$16,740.3**	

The May Revision would provide a reserve of $1 billion.

Revised Initiative Impacts Budget Plan:

The May Revision reflects that updated revenues from the revised tax initiative submitted by voters. The new initiative is expected to generate $5.6 billion in GF Revenue, $1.2 billion more than the $4.4 billion assumed in the January Budget. The initiative will also provide $2.9 billion in revenue for Proposition 98 purposes.

The May Revision increases the size of the proposed "Ballot Trigger Reductions" by $686.8 million to $6.1 billion and changes the component of the trigger. The trigger would look as follows:

2012-13 Ballot Trigger Reductions

Expenditure Reduction	**2012-13**
Proposition 98	$5,493.6
University of California	250.0
California State University	250.0
Developmental Services	50.0
Local Water Safety Patrol	10.6
CAL FIRE	10.0
Flood Control	6.6
Fish and Game: Non-Wardens	2.5
Park Lifeguards	1.4
Fish and Game: Wardens	1.0
Department of Justice	1.0
Park Rangers	0.1
Total	**$6,076.8**

About this report:

This report details the major changes proposed in the May Revision by policy area. This report is intended to provide an immediate understanding of the Governor's proposed budget in the limited timeframe available. More information will follow as the process moves forward.

SUMMARY OF CHARTS

2012-13 General Fund Summary

(in millions)

	2011-12	2012-13
Prior Year Balance	**-$2,844**	**-$2,535**
Revenues and Transfers	$86,809	$95,689
Total Resources Available	**$83,965**	**$93,154**
Non-Proposition 98 Expenditures	$53,988	$53,658
Proposition 98 Expenditures	$32,512	$37,729
Total Expenditures	**$86,500**	**$91,387**
Fund Balance	**-$2,535**	**$1,767**
Reserve for Liquidation of Encumbrances	$719	$719
Regular Reserve (SFEU)	-$3,254	$1,048
Budget Stabilization Account	-	-
Final Reserve	**-$3,254**	**$1,048**

2012-13 General Fund Revenue Sources

(in millions)

Source	Amount
Personal Income Tax	$60,268
Sales Tax	20,605
Corporation Tax	8,488
Insurance Tax	2,089
Estate Tax	45
Liquor Tax	337
Tobacco Taxes	90
Other	3,740
Total	**$95,689**

General Fund Expenditures
(in millions)

Category	2011-12	2012-13	Change	% Change
Legislative, Judicial, Executive	$2,541	$2,074	-$467	-18.4%
State and Consumer Services	619	689	70	11.3%
Business, Transportation and Housing	573	448	-125	-21.8%
Natural Resources	1,933	1,921	-12	-0.6%
Environmental Protection	51	46	-5	-9.8%
Health and Human Services	26,772	25,963	-809	-3.0%
Corrections and Rehabilitation	8,082	8,889	807	10.0%
K-12 Education	34,038	38,540	4,502	13.2%
Higher Education	9,770	9,516	-254	-2.6%
Labor and Workforce Development	354	342	-12	-3.4%
General Government:				
Non- Agency Depts.	443	485	42	9.5%
Tax Relief/Local Government	544	2531	1987	365.3%
Statewide Expenditures	780	-57	-837	-107.3%
Total	**$86,500**	**$91,387**	**$4,887**	**5.6%**

K-12 EDUCATION

Proposition 98 Adjustments

- 2011-12 Current Year Adjustments. Proposes to provide a revised funding level of $47 billion to reflect a lower minimum guarantee. Specifically, after making various technical adjustments, 2011-12 spending is $785 million above the Proposition 98 minimum guarantee. To reduce down to the minimum, the Governor proposes to redesignate $785 million in K-14 allocations. Specifically, of the $785 million total, $450 million of the overappropriation counts as prepayment of the 2012-13 Quality Education Investment Act (QEIA) obligation and $335 million counts as a settle-up payment. This does not change allocations to K-14 in the current year but instead reclassifies the funds as money that pays off an existing obligation.

- Minimum Guarantee up by $1.2 billion in 2012-13. Provides a Proposition 98 minimum guarantee of $53.7 billion for 2012-13. This is $1.2 billion above the amount provided under the Governor's January proposal. Although revenues are down in 2012-13, the year-to-year change in revenues has increased and this results in a higher maintenance factor payment. This funding level also assumes passage of the Governor's tax initiative.

- Redevelopment Agency Asset Liquidation. Assumes an increase of $1.4 billion in offsetting local property taxes for K-14 schools for 2012-13. These cash assets previously held by redevelopment agencies are instead provided to schools and offset the state's General Fund (GF) obligation to schools by the same amount.

- Trigger Reductions. Proposes $5.5 billion in Proposition 98 reductions if the ballot measure fails. This would bring funding down to $48.2 billion for 2012-13. This is a $700 million increase in reductions as compared to the January proposal. Of the $5.5 billion, $2.8 billion would come from not paying down deferrals. The remaining $2.7 billion would come as a programmatic cut to K-14. If the ballot measure fails, districts would be authorized to reduce the school year by a total of 15 days in 2012-13 and 2013-14. This would be in addition to the current flexibility districts have to reduce the school year by 5 days.

K-12 Adjustments (Proposition 98).

- Provides an increase of $351 million to pay down inter-year deferrals by a total of $2.5 billion.

- Provides $496 million to restore Home-to-School Transportation funding.

- Revises the savings associated with the proposed elimination of Transitional Kindergarten from $224 million down to $92 million. Further, the Administration proposes to explicitly use the savings to restore reductions to Preschool and support the expansion of preschool enrollment. The Assembly and Senate subcommittees took action to reject the Administration's January proposal.

- Provides $90 million for a hold harmless shift to the Weighted Pupil Formula (WPF) and proposes to phase the new formula in over seven years (rather than six). The Administration also proposes the following changes to the WPF proposal:

- Increases base amount from $4,920 to $5,421.

- Reduces the supplemental weight for disadvantaged students from 37 percent to 20 percent.

- Incorporates differential weights for different grade spans. (The K-3 rate would be adjusted to roll in the amount currently dedicated for K-3 CSR).

- Excludes two categorical programs from the WSF: Targeted Instructional Improvement Grant and Home-to-School Transportation.

- Requires that districts use supplemental (weighted) funding for disadvantaged (low income and EL) students.

- Makes phase in of the formula in 2012-13 contingent upon legislation that would make changes to the state's accountability system, including the provision of conditions that would be linked to incentive funding.

- Delays implementation if the Governor's tax initiative fails. Also delays phase-in in future years if that year's growth in Proposition 98 funding does not meet predetermined growth targets.

- Proposes intent language to restore the revenue limit deficit factor in tandem with phasing in the new formula in future years.

- Continues to provide $200 million for a Mandate Block Grant but proposes elimination of the mandate claiming process for those mandates funded under the block grant. The mandate block grant would provide $28 per ADA/FTE for all agencies (districts, charters, COEs, community colleges). This uniform rate requires a shift of $11 million from K-12 to Community Colleges.

- Modifies proposed trailer bill language related to charter schools as follows:

  - Limits the conveyance of surplus property to facilities with an educational purpose that were purchased with state funds.

  - Continues to propose the elimination of the SB 740 funding determination for non-classroom based charters but proposes to grandfather in the existing funding levels, including those receiving a reduced funding level until each charter school with a reduced funding level renews their charter.

  - Modifies the deferral exemption process to allow a charter to directly apply for an exemption but requires the charter to provide a copy of the request to the authorizer.

  - Authorizes country treasurers to loan charter schools money rather than requiring them to do so.

HIGHER EDUCATION

University of California

- Decrease by $38 million to the $90 million augmentation included in the Governor's January Budget for base operating costs that could be used to address costs related to UC's retirement program contributions or other needs. This revised proposal will provide $52 million in 2012-13, which matches the Governor's Budget augmentation for CSU retirement contributions, and delays the remaining $38 million augmentation until 2013-14.

- Increases the 2012-13 trigger reduction if the Governor's tax initiative fails passage on the November ballot, from $200 million to $250 million.

California State University

- Continues to propose that CSU pay for retirement costs from its base budget beginning in 2013-14. However, the May Revise modifies the January proposal by recognizing that certain costs are determined by CalPERs over which CSU has no control, and proposes to continue providing CSU with annual budget adjustments associated with the unfunded liability portion of its retirement costs, as outlined by CalPERs. The May Revise proposal will also adjust CSU's base budget to reflect incremental changes for 2012-13 employer contribution rates.

- Proposes trailer bill language that will provide CSU the same statutory authority to negotiate or set employee health care benefits that is provided to the Department of Personnel Administration (DPA) in setting such policies for other state employees. Currently, CSU has to pay 100 percent of the health care premiums for its employees and 90 percent for employees' family members. For most state employees, the state pays either 80 to 85 percent of employees' health care premiums and 90 percent for family members. State law specifies contribution rates for state and CSU employer payments for employee health care premiums. In 1991, state law provided DPA the ability to negotiate employer shares for health benefits for state employees, but a similar statutory change was not provided to CSU. This proposal is expected to provide CSU a tool to better manage and negotiate the entirety of its personnel costs.

- Increases the 2012-13 trigger reduction if the Governor's tax initiative fails passage on the November ballot, from $200 million to $250 million.

California Community Colleges

- Proposes additional mandate reform changes, specifically it:

  - Proposes to distribute block grant funding to school districts, county office of education, charter schools, and community colleges equally based on average daily attendance for K-12 schools and funded full-time equivalent students for community colleges. Provides $33.4 million of the $200 million for community colleges, providing a uniform funding rate of approximately $28 per student.

  - Eliminates the claiming process as an option for both K-12 schools and community colleges to seek reimbursement for the mandates funded in the block grant.

Eliminating this option will ensure that K-12 schools and community colleges are reimbursed at the same rate for performing the same mandated activities.

- Proposes to add the Minimum Conditions for State Aid and Community College Construction mandates to the list of eligible mandates to be funded from the block grant while the state reviews the policy and fiscal implications. Also proposes to suspend the Discrimination Complaint Procedures mandate. These actions are expected to save millions of dollars in Proposition 98 General Fund (GF).

- Increases the colleges' apportionment funding by $30.8 million in 2011-12 and proposes a net decrease of $238.9 million in Proposition 98 in 2012-13. Specific adjustments include:
  - Increase by $30.8 million in 2011-12 to reflect a decrease in estimated local property tax revenues.
  - Decrease by $191.2 million in 2012-13 to reflect an increase in estimated local property tax revenues largely due to the recovery of cash assets held by redevelopment agencies.
  - Decrease by $125.4 million in 2012-13 to reflect an increase in estimated Education Protection Act revenues.
  - Increase by $95.1 million in 2012-13 to reflect the restoration of apportionment funding previously deferred. This brings the proposed paydown of deferrals from $218 million to $313 million.
  - Decrease by $15 million in 2012-13 to reflect an increase in estimated student fee revenue due to the recent policy change by the Board of Governors of the California Community Colleges to increase the need threshold for Part C fee waiver eligibility from $1 to $1,104.
  - Decrease by $2.4 million in 2012-13 to reflect an increase in estimated oil and mineral revenues.

- Reduces the Governor's current year estimate of property tax revenues from the elimination of redevelopment agencies, from $146.9 million to $116.1 million. A corresponding $116.1 million reduction to apportionment funding is reflected as GF savings for 2011-12. For the budget year (2012-13), the Governor increases his estimate of property tax revenues from one time liquid assets by $190.6 million for a total of $341.2 million.

California Student Aid Commission

- Proposes trailer bill language to modify the methodology for determining Cal Grant award levels to parallel the federal Pell Grant award methodology. Specifically, this proposal would allow the neediest of students to continue receiving the maximum award amounts (approximately 63 percent of Cal Grant recipients), but reduce Cal Grant awards to students with lower costs of attendance and/or higher family incomes, mirroring the Pell Grant award. This proposal would only affect students who apply to grants after July 2012.

- Proposes to reduce the maximum student loan cohort default rate allowable by a participating Cal Grant institution from 30 percent to 15 percent and a 30 percent minimum graduation rate standard for all participating Cal Grant institutions. Any institution that exceeds the loan default rate or drops below the graduation rate will be prohibited from participating in the Cal Grant program for one academic year. These requirements will not apply to any institution with 40 percent or fewer of their students borrowing federal student loans to attend college, such as community colleges. The estimates savings of this proposal is $38.4 million in GF for 2012-13.

- Decreases by $67.4 million in 2012-13, to reflect TANF funds available through an interagency agreement with the Department of Social Services pursuant to the Governor's January CalWORKs reductions. The Administration would then decrease by a like amount to generate GF savings.

- Increases by $30 million the Student Loan Operating Fund (SLOF), for a total of $60 million, and a like amount decrease of GF in 2012-13 to reflect the availability of SLOF funds to offset Cal Grant program GF costs.

- Acknowledges increases in costs to the Cal Grant Programs, specifically it:

  - Provides an increase of $27.7 million in 2011-12 and of $26.5 million in 2012-13 to allow students within the Cal Grant B program to switch to the Cal Grant A program when renewing their award.

  - Provides an augmentation of $31.2 million in 2012-13 as a result of a 9.1 percent tuition increase at CSU for the 2012-13 academic year.

CHILD CARE & DEVELOPMENT PROGRAMS

- Proposes to continue the reduction of $452.5 million in Non-Proposition 98 to the State's child care and development programs. However, the Administration proposes new or modified changes to his January Budget. Specifically, the May Revise proposes to:

    - Allow families who are engaged in education or training to receive child care services on that basis for up to two years. This proposal requires making an increase adjustment to funding by $180.1 million.

    - Reduce reimbursement rate ceilings for licensed voucher-based providers from the 85th percentile to the 40th percentile of the private pay market, based on the 2005 Regional market Rate (RMR) survey data. License-exempt providers will be reimbursed based upon 71 percent of the lowered licensed ceilings. This proposal generates $184.2 million in savings.

- Continues to propose realignment of administration of child care services from the Department of Education (CDE) to the Department of Social Services (DSS). Specifically, the May Revise proposes to:

    - Establish a child care block grant, separate from the county single allocation, to ensure that eligible low-income working families can continue to access child care services.

    - Require county welfare departments to contract with Title 5 centers, based on the allocation of Title 5 center slots in 2012-13, as a condition of receiving child care block grant funds. Counties will be provided flexibility to deviate from this allocation up to 10 percent. After a specified period of time, unknown at this time from the Governor's budget summary, counties will be allowed to reallocate Title 5 center slots to voucher-based providers within the county.

    - Require that Title 5 centers maintain its designation through CDE, primarily through submitting an annual assessment of its education program.

    - Shifts funds from CDE to DSS to fund state operations costs associated with the transition of child care services to the county welfare departments, and to enable counties that are prepared to assume responsibility for these services to implement the transition in 2012-13.

    - Require DSS to develop a Quality Activities plan in 2012-13, in consultation with CDE that outlines the quality activities to be funded in 2013-14. The plan would reflect an allocation to county welfare departments to target quality funds to local needs and priorities.

- Redirects $95.1 million in savings from the proposed elimination of Transitional Kindergarten to the State Preschool Program. Specifically, the May Revise proposes to:

    - Restore the 10 percent reduction to the Standard Reimbursement Rate (SRR) *only* for the part-day preschool program ($34 million Proposition 98 General Fund).

    - Expand access to part-day preschool for 15,500 children from low-income families ($57.5 million Proposition 98 General Fund). However, this proposal continues to disassociate that the State Preschool Program is linked with the General Child Care Program, which allows families to fully maximize the utility of this service by providing full-day/full-year services.

TRANSPORTATION

Caltrans

- Transfers $184 million in 2011-12 and $128.8 million annually starting in 2012-13 from several special funds to the General Fund (GF).

- Reduces Capital Outlay Support staffing by $14.5 million and 330 positions to reflect a reduction in expected engineering, design, and construction oversight work from the expiration of federal American Recovery and Reinvestment Act funds.

- Provides $705,000 and 5 positions to establish the Northern California Unified Rail Service as part of the High Speed Rail Final Business plan. The Northern California Unified Rail Services would allow existing community and inter-city rail to use High Speed Rail infrastructure to increase the operating speeds of their trains.

Department of Motor Vehicles

- Provides a $300 million loan to the GF from the Motor Vehicle Account. In order to make this loan, the May Revision proposes to rescind the proposed $5 fee reduction proposal that was included in the January budget.

HUMAN SERVICES

CalWORKs

- Revises the Governor's January CalWORKs proposal in the following way, with policy changes that result in a revised reduction of $879.9 million General Fund (GF) from the program in 2012-13:

- Allows work participation requirements to be met through federally allowable activities for up to 48 months, rather than solely through unsubsidized employment for the period between 24 and 48 months, as was in the original proposal.

- Eliminates the retroactive counting of previously exempt and sanctioned months towards the adult recipient's 48-month time limit, which, in the original proposal, would have almost immediately pushed hundreds of thousands of families off of their current aid and into deep poverty. The vulnerability for these families going forward under the 24 and 48-month time limits as revised is unknown at this time. However, if the policy for exempt cases (e.g. grandmothers, those caring for a disabled relative, and others who have been deemed to not be required to meet the work standard) stands as it was proposed in January, then these families could see steep grant reductions going forward in spite of this modification.

- Beginning in October 2012, implements a "phased in approach" to re-engage cases previously exempted under the short-term reforms, associated with the $375 million single allocation reduction that is scheduled to sunset on June 30, 2012. It is unclear how this proposal relates to the single allocation, which is the funding for counties to administer and deliver welfare to work services, including child care, training, and educational services, or what it means for the cases that were exempt due to care for a young child or children.

  The CalWORKs May Revision proposal appears to be substantially similar to the January proposal, which was rejected by the Assembly in the Subcommittee process, with strategies toward work participation adopted instead, including adoption of the Work Incentive Nutritional Supplement (WINS) proposal and a revision to the Earned Income Disregard.

In-Home Supportive Services

- Reduces hours across-the-board for In-Home Supportive Services (IHSS) consumers by 7 percent, effective August 1, 2012, producing $99.2 million GF savings. A current across-the board reduction to hours of 3.6 percent went into effect in February of 2010 and is set to expire on July 1, 2012. IHSS serves disabled, frail, and elderly consumers and assists them with activities of daily living, allowing them to stay in their homes and avoid institutionalization. While the May Revision proposal to further reduce hours continues to allow recipients to direct the manner in which the reduction of authorized hours is applied to their previously authorized services, this is a dramatic reduction of hours that nearly doubles the cut sustained previously.

- Continues the proposal to eliminate Domestic and Related Services, as proposed in the January budget, for IHSS consumers residing in a shared living arrangement, revising the savings estimate from $206.2 million net GF to $125.3 million for 2012-13. This proposal was rejected by the Assembly during the Subcommittee process, citing, among other concerns, the federal restrictions, as raised by the Legislative Analyst, that would inhibit this kind of policy from taking effect.

- Proposes higher IHSS costs of $101.9 million GF in 2011-12 and $212.8 million GF in 2012-13 as a result of loss of savings associated with the extension of the sales tax to homecare services and implementation of the requirement regarding certification by a licensed health care professional.

Other Significant DSS Adjustments

- Proposes a decrease of approximately $65 million GF in 2011-12 and $180 million GF in 2012-13 as a result of decreased caseload projections in several DSS programs.

- Proposes to carryover $6.6 million in 2012-13 to counties under the Child Welfare Services Title IV-E Waiver.

- Increases funding by $36.5 million ($15.3 million GF) in 2012-13 to replace the existing Los Angeles Eligibility, Automated Determination, Evaluation and Reporting system.

Department of Developmental Services

- Proposes $200 million GF savings in 2012-13 and thereafter, fulfilling the Governor's proposal in January in response to the trigger set off by lower than anticipated revenue in the first half of 2011-12. DDS met with stakeholders in February and March towards the development of these proposals. The components of this $200 million package include:

    - Annualized components from the 2011-12 $100 million, which total $79.8 million for 2012-13.

    - $120.2 million related to new proposals, including increased eligibility for federal funding, increased insurance billing for certain autism-related services, redesigning options for consumers who are hard to serve in the community, and a 1.25-percent provider payment reduction. This last component stems from a 4.25-percent current provider payment reduction, which was set to sunset at the end of 2011-12.

- Reflects $40 million, resulting in equivalent GF savings, from the First 5 California Children and Families Commission for programs serving children ages birth through five, which is proposed to be used to support the DDS Early Start Program.

- Adds a $50 million unallocated cut for DDS to the ballot trigger reductions that would go into effect on January 1, 2013.

Department of Child Support Services

- Reduces Funding for Local Child Support Agencies (LCSAs) by $14.7 million ($5 million GF) in 2012-13, associated with a change in how LCSAs perform complaint resolution.

- Revises savings for the January proposal to suspend the county share of collections to $31.9 million GF in 2012-13 from $34.5 million.

- Reduces funding for the California Child Support Automation System by $5.5 million GF in 2011-12 and $1 million GF in 2012-13.

HEALTH SERVICES

Department of Health Care Services (Medi-Cal)

- Modifies the Coordinated Care Initiative proposed in January by: 1) phasing in long-term care benefits as each county transitions into managed care; 2) reduces phase one from ten to eight counties; and, 3) delays the start date from January 1 to March 1, 2013. Revised General Fund (GF) savings estimates are $663.3 million in 2012-13 and $887 million in 2013-14 and beyond.

- Reduces supplemental payments to private hospitals, eliminates public hospital grants, and eliminates increases to managed care plans for supplemental payments to designated public hospitals, for savings of $150 million GF in 2012-13 and $75 million in 2013-14.

- Delays implementation of the Diagnosis-Related Group (DRG) payment methodology for hospitals from January 1 to July 1, 2013.

- Redirects half of the unexpended prior year 1115 waiver funds to the state for GF savings of $100 million in 2012-13 and $9 million in 2013-14. The remaining funds are to be paid to designated public hospitals.

- Aligns the payment methodology for non-designated public hospitals with that used for designated public hospitals for inpatient Medi-Cal fee-for-service, for GF savings of $75 million in 2012-13 and ongoing.

- Rescinds the 2012-13 rate increase for nursing homes, for GF savings of $47.6 million, and retains the 1-percent set-aside, for supplemental quality-based performance payments, for GF savings of $23.3 million.

- Assumes $40 million, to be provided by the First 5 California Children and Families Commission, for programs serving children ages birth through five years, thereby resulting in $40 million in GF savings.

- Reduces the Medi-Cal budget overall by $200 million in 2011-12 and $700 million in 2012-13 to reflect revised, decreased caseload projections.

- Increases the Medi-Cal budget by $245.5 million in 2011-12 and $174.6 million in 2012-13 to reflect lost savings as a result of court rulings preventing the implementation of provider payment reductions.

- Increases the Medi-Cal budget by $555.3 million in 2012-13 to reflect lost savings as a result of the federal government rejecting copayments adopted in last year's budget.

- Implements copayments of $15 for non-emergency room visits and $1 and $3 copayments for pharmaceuticals for GF savings of $20.2 million 2012-13.

- Allocates $1,083.6 million in 2011-12 and $1,120.6 million in 2012-13 for realigned Existing Community Mental Health Programs.

- Allocates in 2012-13 $584.2 million for EPSDT and $196.7 million for Mental Health Managed Care, establishing the base for these realigned programs.

Department of Mental Health

- Reduces the estimated Current Year (2011-12) operating shortfall in the state hospitals' budget from $63 million to $41.7 million, reflecting a decrease in the estimated population census.

Department of Public Health

- Eliminates the Public Health Laboratory Training Program for savings of $2.2 million in 2012-13.

- Modifies the AIDS Drug Assistance Program (ADAP) January cost sharing proposal by: 1) eliminating the cost sharing requirement for private insurance clients; and, 2) delaying implementation by 90 days. As a result of these changes, the GF savings estimate for this proposal has been reduced from $14.5 million to $10.7 million in 2012-13.

- Increases the ADAP budget by $4.8 million in 2011-12 ($1 million GF decrease and $5.8 million increase in other funds) and by $40.1 million in 2012-13 ($4.1 million GF decrease and $34.2 million increase in other funds) as a result of: 1) delays in ADAP clients enrolling in Low Income Health Programs; 2) an increase in federal Ryan White Part B funds; 3) a decrease in Safety Net Care Pool funds; and, 4) an increase in drug rebate collections.

- Increases the Women, Infants, and Children (WIC) Program by $26 million, reflecting an increase in the WIC Manufacturer Rebate Fund in 2012-13, resulting from a new contract award for infant formula rebates effective August 1, 2012.

- Increases $15 million in Mental Health Services Act fund in 2012-13 in order to provide a total of $60 million to the California Reducing Disparities Project.

Managed Risk Medical Insurance Board

- Reduces the savings estimate, from $64.4 million to $48.6 million, of the January proposal to reduce rates in the Healthy Families Program to Medi-Cal rates, as a result of revising the per member per month average cost of a Medi-Cal beneficiary from $76.86 to $83.91, reflecting administrative costs and carved-out mental health benefits.

- Increases the Healthy Families Program budget by $5.7 million GF in 2011-12 and $9.5 million GF in 2012-13 to reflect caseload shifts from lower-cost to higher-cost plans.

- Increases the Healthy Families Program budget by $42.4 million GF to reflect savings lost as a result of the federal government rejecting increased premiums and copayments adopted in last year's budget.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Timber Harvest Plan Reform Package

- Establishes a new lumber assessment will be applied to retail sales of certain wood products sold in California. The assessment will be used to support the regulatory activities of the Departments of Forestry and Fire Protection, Fish and Game, Conservation, and State Water Resources Control Board related to Timber Harvest Plan review.
- Extends the current time frame that Timber Harvest Plans are effective from three to five years.
- Limits the scope of damages for fire cases and prohibits double damages.

Energy Commission

- Increases by $2.1 million (Special Funds) for the administration and development of the Electricity Program Investment Charge program. The Electricity Program Investment Charge is intended to support cost-effective energy efficiency and conservation activities, renewable energy resources, and public interest research and development not adequately provided by competitive and regulated markets.

Department of Water Resources

- Proposes a $10 million continuous appropriation from the Harbors and Watercraft Revolving Fund to fund the state's obligations under the Davis-Dolwig Act, which requires the State to pay for recreational, fish and wildlife benefits at State Water Project facilities. The Harbors and Watercraft Revolving Fund is an appropriate funding source because a significant percentage of boating facilities in the state are at State Water Project facilities and Davis-Dolwig costs are primarily attributed to boating.

Department of Toxic Substance Control

- Decreases by $9.1 million (Special Funds) and 24 positions in 2012-13 and $12.6 million (Special Funds) and 59.8 positions ongoing to align expenditure authority with projected revenues. The Department is also shifting $6.2 million and 52.3 positions to federal funds, reimbursements, and other state funds. These actions will bring the account into structural balance while redirecting resources to implement high-priority activities under the Safer Consumer Products Program.

Department of Food and Agriculture

- Establishes a permanent, unallocated reduction of $2.5 million General Fund. This builds on the $31 million General Fund reduction already adopted. The Department will work with its stakeholders to prioritize its resources in determining which programs will be reduced to achieve the savings.

PUBLIC SAFETY

California Department of Corrections and Rehabilitation

- Reduces the CDCR's budget by roughly $2 million associated with implementation "The Future of California Corrections" plan. Major components of the plan include:

  Satisfying the Supreme Court's Order to Reduce Prison Crowding – The plan assumes that the Court will approve the CDCR's motion to increase the inmate population cap from 137.5 percent overcrowding to 145 percent overcrowding. If the three judge panel is not receptive of department's motion, the savings identified in the plan will likely be adversely impacted.

  The department's newly released spring population projections suggest that the department may fall short of meeting the final (June 2013) court-ordered crowding-reduction benchmark by a few percent. The department asserts that the measures proposed in the plan will allow the state to seek and obtain a modification to raise the final benchmark to 145 percent overcrowding. Otherwise, alternatives such as continuing to house inmates out-of-state will have to be considered.

  The department also argues that the reduced prison population has already substantially aided the department's ability to provide the level of care required by the courts; consequently, as population further declines, the department's ability to provide the required level of prison health care will continue to improve. Further, new health care facilities and enhanced treatment and office space at existing prisons will enable the department to maintain a health care system capable of providing this level of care for a higher density prison population than the Court originally contemplated. This plan will provide critical support for the state's ability to satisfy the Supreme Court's order without having to maintain expensive out-of-state prison beds or release inmates early.

  Inmate Classification Changes – The plan includes the reclassification of many inmates based on an updated set of criteria. An inmate's classification determines the housing and supervision conditions under which their time is served. Based on preliminary analysis and discussions, this proposal will likely result nearly 17,000 inmates becoming eligible to fill lower level beds left vacant by the Public Safety Realignment of 2011.

  Return Out-of-State Inmates – The department began contracting with out of state prisons to house California's inmates when overcrowding was at its worst in 2007. Currently, there are nearly 10,000 of California's inmates serving their sentences outside of California. The department is expecting to bring these inmates back as the prison population continues to drop, classification changes are made, and additional housing units are constructed at existing facilities. The department also contends that returning these inmates to California will stop the flow of taxpayer dollars to other states, and is expected to save the state $318 million annually.

  Standardized Staffing Model – The plan implements a new staffing model for officers based on the design of each correctional facility. This is a shift from ratio based staffing. This new staffing model is expected to create stability and better oversight for the security budget.

Construction – In addition to new construction, the plan calls for closure of the California Rehabilitation Center—one of CDCR's oldest, most costly (approximately $160 million per-year), and inefficient prisons to operate. The plan includes the following new construction changes:

- Three Infill Projects (approx. 800 beds each) - $810 million (Request for new funding authority).
- Medical Upgrades - $600 million - $700 million (AB 900)
- DeWitt Conversion (1,133 beds, including 953 health care beds) – Approximately $167 million (AB 900)
- Eliminates approximately $4.1 billion in AB 900 lease revenue bond authority. This reduction is expected to avoid $2.2 billion in new operating costs and facility debt service costs.

Rehabilitative Programs – The plan enables the department to improve access to rehabilitative programs and place at least 70 percent of the department's target population in programs consistent with their academic and rehabilitative needs. Increasing access to rehabilitative programs will reduce recidivism by better preparing inmates to be productive members of society. In doing so, it will help lower the long-term prison population and save the state money.

The department is proposing the establishment of reentry hubs at certain prisons to concentrate program resources and better prepare inmates, as they get closer to being released. It will also designate enhanced programming yards, which will incentivize positive behavior. For parolees, the department is proposing to build a continuum of community-based programs to serve, within their first year of release, approximately 70 percent of parolees who need substance-abuse treatment, employment services, or education.

Health Care – In recent years, numerous measures have been implemented that have significantly improved the quality of the department's health care system. The Inspector General regularly reviews and scores the department's medical care system, and these scores have been steadily rising. In addition, the capacity of the health care system will soon increase. Slated for completion during the summer of 2013, the California Health Care Facility in Stockton is designed to house inmates requiring long-term medical care and intensive mental health treatment. Its annex, the DeWitt Nelson Youth Correctional Facility, is expected to open in the summer of 2014 to create a unified Stockton complex, allowing both facilities to efficiently transition inmate-patients between the two, while avoiding transportation and security costs as well as the need for expensive services in community hospitals and clinics. The Administration's position is that these projects, in addition to ongoing mental health and dental projects and new plans to increase medical clinical capacity at existing prisons, will satisfy court imposed requirements.

The plan makes numerous changes aimed at getting the state out of from under the numerous court cases (medical, mental health, dental). Many of these changes are based on the assumption that the courts and plaintiffs agree with the Administration's approach.

Parole – The plan implements a newly zero based budget for parole that takes into account the realignment of most parolees. The plan also includes parole staff reduction as the parole population is expected to decrease from the current 88,000 to 30,000 by 2015-16.

Inmate Population – The plan projects total inmate population to be 133,768 (institutions and fire camps) on June 30, 2012 and 127,674 (institutions and fire camps) on June 30, 2012.

- Decrease the Division of Juvenile Justice's (DJJ) budget by $9.1 million General Fund in 2012-13 based on updated population estimates
- Increase of $11.2 million associated with the withdrawal of the Governor's Budget proposal to realign Juvenile offenders.
- Decrease of $4.8 million associated with the following savings options:
    - Reduce administrative staff within headquarters and DJJ facilities.
    - Eliminate DJJ parole ion January 1, 2013 instead of July 1, 2014.
    - Reduce DJJ's age of jurisdiction from 25 to 23.
    - Implement a new fee structure to charge counties $24,000 per year for each offender committed by a juvenile court to DJJ.

- Increase of $295 million GF in 2011-12 and $128.4 million GF in 2012-13 to support the Receiver's projected expenditures for inmate medical costs and operation of the California Health Care Facility in Stockton.

Board of State and Community corrections

- Increase of $20 million GF for new grant program directed at city police departments.
- Increase lease revenue bond authority by $500 million for acquisition, design, and construction of local jail facilities.

Department of Justice

- Increase GF revenue by $292 million by using proceeds from the National Mortgage Settlement to offset GF costs associated with Department of Justice programs assisting homeowners and protecting consumers. Specifically, the revenue would be used to support the following:
    - $41.1 million paid as a civil penalty into the unfair Competition Law Fund to offset the costs of various DOJ programs.
    - $44.9 million to support the DOJ's Public Rights and Law Enforcement programs relating to public protection and consumer fraud enforcement and litigation.
    - $8.2 million for the Department of Fair Employment and Housing's ongoing efforts to prevent and eliminate unlawful discrimination in housing and the prosecution of violations under the Fair Employment and Housing Act.
    - $198 million to offset GF costs for housing bond debt service for those programs funded with proposition 46 and proposition 1C housing bonds to assist homeowners.

- Decrease of $10 million GF through the elimination of the GF transfer to the DNA Identification Fund. The Administration is proposing to replace this funding by increasing the penalty assessment by $1 for every $10 of a base fine. Revenues to the DNA Identification Fund are lower than expected; thus, these changes are needed to continue support of DNA and forensic laboratories.

Judicial Branch

- Decrease of $300 million GF (one-time) and offset each trial court's allocation by their available reserves.

- Decrease $240 million GF (one-time) by redirecting the same amount from court construction funds to support trial court operations.

- Decrease $4 million GF by increasing the retirement contribution for state court employees from five percent to eight percent, consistent with other state employees.

REALIGNMENT

- Increase of $3.9 million for Substance Abuse Treatment Programs (included in the Behavioral Health Subaccount).

- Increase of $5.5 million for Foster Care, Child Welfare Services, and Adult Protective Services (included in the Protective Services Subaccount).

- Increase of $14.8 million for Existing Mental Health Programs in 2011-12.

- Decrease of $43.8 million for Existing Mental Health Programs in 2011-12 (note: Mental Health programs will continue to receive dedicated growth).

- Increase of $48.1 million for Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program and the Mental Health Managed Care program (Included in the Behavioral health Subaccount).

- Increase of $53.9 million for Foster Care and Child Welfare Services for 2012-13, 2013-14, and 2014-15. This increase reflects the implementation of AB 12 (Beall), Chapter 559, Statutes of 2010, which expanded foster care benefits eligibility up to age 21 (Included in the Protective Services Subaccount and will be phased in over a three-year period beginning in 2012-13).

GENERAL GOVERNMENT

Reducing State Government

- Eliminates 22 boards, commissions and advisory groups. These proposals, along with those made in the 2011 Budget Act, would bring the total number of state entities eliminated since 2010-11 to 80.

Department of General Services

- Reduces DGS expenditures by $108.4 million in special funds and 45.5 positions by reducing $75 million in expenditure authority for the Natural Gas Program and making reductions in the Office of State Printing, Real Estate Services Division, Building Regulation Services, and administrative costs.

California Technology Agency

- Reduces rates for data center services by $13 million ($1.9 million GF), based on reduced costs in the mainframe and mid-range service areas. This would be in addition to a $21.4 million ($3.1 million GF) rate reduction in 2011-12.

Employment Development Department

- Reduces the interest payment by $104.4 million to be used to pay the federal government for the Unemployment Insurance loan. The payment from the General Fund (GF) is offset by a loan from the Disability Insurance Fund. The amount proposed in January was $417 million, but the federal government lowered interest rates, resulting in a new amount of $312.6 million.

- Increases expenditure authority by $16.9 million to continue implementation of the Unemployment Insurance Modernization Project, which is automating processes related to filing for unemployment insurance. The funds come from the Contingent Fund ($11.6 million), federal funds ($5.3 million), and a redirection of $6.3 million from the UI Administration Fund.

- Increases expenditure authority by $33.8 million for the continued support of the Disability Insurance Automation Project, which automates the processes related to disability insurance. The funding comes from the Unemployment Compensation Disability Fund.

STATE WORKFORCE

- Reduces state employee compensation by $839.1 million ($401.7 million GF), which is about a five percent reduction in pay for state workers. The Administration states that it intends to avoid furloughs and layoffs and will negotiate with labor organizations to pursue the implementation of a four-day, 38-hour workweek for the majority of state employees. This would lead to longer work days for state employees and longer hours of operation for state offices for four days a week. The Administration will seek commensurate reductions in work hours and pay for employees of state entities that must operate around-the-clock.

- Reduces the size of the state workforce by eliminating 11,000 positions. This is in addition to 15,000 positions that were eliminated during 2011-12.

- Reduces the state's reliance on external contracts by decreasing vendor support for information technology oversight and transition those duties to the state workforce. In addition, the Department of General Services will review all personal services consultants, including janitorial and security services, and transition that work to state employees where appropriate.

- Eliminates the non-essential hiring of retired annuitants by directing all departments to review their use of retired annuitants and other temporary employees and allowing top remain only those deemed critical to the department's core mission.

TAXATION AND REVENUE

Franchise Tax Board

- Changes rules for FTB wage garnishment to allow FTB to garnish wages without requiring FTB to record a tax lien. This proposal is expected to generate $11 million in additional General Fund (GF) Revenue in 2011-12 and $27 million in 2012-13.

- Imposes a penalty for fraudulent refund claims. Consistent with federal law, the May Revision would create a penalty for filing a fraudulent claim for refund, generating $1 million in GF revenue in 2011-12 and $3 million in 2012-13.

REDEVELOPMENT

- Proposes language to create a framework for successor agencies to transfer cash assets that are not obligated to cities, counties, special districts, and K-14 schools.

- Estimates that $2 billion will flow to K-14 schools, offsetting the State's Proposition 98 obligation. Of this amount, $1.4 billion would be shifted in 2012-13 and the additional $600 million in 2013-14.

BORROWING

- Reduces 2012-13 debt service expenditures by $162.5 million to reflect a smaller recent bond sale and $92.1 million from a recent mortgage settlement to targeted housing debt service costs.

- Reduces 2011-12 debt service expenditures by $172.8 million to reflect adjustments to actual costs and $105.9 million from the mortgage settlement funding.