



# SUMMARY OF GOVERNOR'S PROPOSED 2011-12 BUDGET

JANUARY 10, 2011

**Bob Blumenfield**

CHAIR, ASSEMBLY BUDGET COMMITTEE

## TABLE OF CONTENTS

Overview.....	2
Public Safety Realignment.....	3
K-12 Education.....	5
Higher Education.....	9
Transportation.....	17
Human Services.....	19
Health Care Services.....	24
Natural Resources and Environmental Protection.....	28
Public Safety.....	30
General Government.....	35
Local Government.....	38
Summary of Tax Solutions.....	39
Summary of Borrowing Solutions.....	41
Summary of Charts.....	42

## OVERVIEW

The Governor has released the 2011-12 budget that contains \$26.4 billion in solutions to address a projected \$25.4 billion General Fund deficit. The chart below illustrates the proposed solutions, by category:

### 2010-11 and 2011-12 General Fund Solutions (in millions)

Source	2010-11	2011-12	Total	Percent
Expenditure Reductions	\$422	\$12,075	\$12,497	47%
Revenues	3,163	8,864	12,027	46%
Other	506	1,379	1,885	7%
<b>Total</b>	<b>\$4,091</b>	<b>\$22,318</b>	<b>\$26,409</b>	

The proposed budget's reserve is \$1 billion.

The Governor's budget envisions that, by March, the Legislature would adopt some of the proposed programmatic changes and authorize two ballot measures for a June special election. The Governor's Budget also assumes that the actual budget bill will not pass until after the election in June.

The Assembly will begin the Subcommittee hearing process in January in order to begin vetting and considering the various details of the budget. The process will conclude in time to allow a Conference Committee and floor actions to be concluded in time for the special election deadline proposed by the Governor.

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.

## PUBLIC SAFETY REALIGNMENT

The Governor's budget assumes \$5.9 billion from the continuation of the Vehicle License Fee and Sales Tax rates of 2009, to allocate to local governments for public safety programs. The realignment proposal would be included in a Constitutional Amendment that would both stipulate the programs that would be assumed by the local governments, as well as the continuation of the tax revenues. The tax revenues, which would have ended this year, would be extended an additional five years but the State would commit to provide ongoing funding for these local programs. The following chart outlines the programs and revenues contained in this realignment package:

<u>Programs (\$ millions)</u>	<u>2011-12</u>	<u>2014-15</u>
Cal FIRE, Fire and Emergency Response Activities	\$250	\$250
Court Security	530.0	530.0
Vehicle License Fee	506.4	506.4
Local Jurisdiction for Lower Level Offenders and Parole Violators		
Local Costs	298.4	908.1
Reimbursement of State Costs	1,503.6	-
Realign Adult Parole to Counties		
Local Costs	113.4	409.9
Reimbursement of State Costs	627.7	-
Realign Remaining Juvenile Justice programs		
Local Costs	78.0	242.0
Reimbursement of State Costs	179.6	
Mental Health Services		
Early Periodic Screening, Diagnosis and Treatment	-	579.0
Mental Health Managed Care AB 3632	-	183.6
Existing Community Mental Health Services	-	1,077.0
Substance Abuse Treatment	184.0	184.0
Foster Care and Child Welfare Services	1,604.9	1,604.9
Adult Protective Services	55.0	55.0
Unallocated Revenue Growth	-	621.1
<b>Total</b>	<b>\$5,931.0</b>	<b>7,255.0</b>

1 Percent Sales Tax	4,549.0	5,567.0
0.5 Percent Vehicle License Fee	<u>1,382.0</u>	<u>1,688.0</u>
<b>Total Revenue</b>	<b>\$5,931.0</b>	<b>\$7,255.0</b>

The realignment proposal does not appear to dramatically expand the authority of counties to change the rules and operations of the programs targeted for realignment. Instead, the realignment proposal relies on existing flexibility already within most of these programs, and assumes that counties will use the enhanced financial discretion with the dedicated tax revenue to meet their community needs.

The Administration expects additional savings to the commensurate state departments of at least 25 percent that will be achieved over time.

**“Phase 2”**

The Administration alludes to a second round of realignment that would reflect the transfer of health care programs like Children’s Services and In Home Supportive Services to the State, in exchange with counties assuming all non-federal costs for CalWORKs, Food Stamp Administration, Child Support, and Child Care. This second round of realignment would be adopted with the implementation of the federal health care reform efforts.

## K-12 EDUCATION

### Overall Proposition 98

- Maintains the Proposition 98 funding level of \$49.7 billion for 2010-11. This was the funding level that was provided under the suspension of Proposition 98 last year.
- Provides \$49.3 billion in Proposition 98 funding for 2011-12. According to the Administration, this level of funding would have declined to \$47.3 billion, absent any policy changes. Further, by providing \$49.3 billion in 2011-12, the Administration maintains they are providing the same level of Proposition 98 programmatic funding in effect in 2010-11.
- Defers \$2.2 billion in K-12 and Community College costs to 2012-13.
- Stipulates that the funding level provided for 2011-12 is predicated upon about \$2 billion in additional revenues for Proposition 98 that are subject to voter approval.
- Does not provide cost-of-living adjustments (COLA), projected to be 1.67 percent, for 2011-12. This would have resulted in an increase of \$964.5 million for K-14 programs.

### K-12 Adjustments

- Provides \$7,344 per pupil (Proposition 98) in 2011-12, down from the \$7,358 per pupil provided in 2010-11.
- Withholds funding for the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Longitudinal Teacher Integrated Data Education System (CALTIDES), pending further review. The Governor's office intends to convene an interagency working group to conduct the review.
- Eliminates the Office of the Secretary of Education (OSE). This results in a net decrease of \$1.6 million to the General Fund (non-Proposition 98) for 2011-12 and \$400,000 for the current year. This decrease includes a transfer of \$274,000 from the General Fund for state operations under the State Board of Education.

- Provides \$89.9 million in ongoing Proposition 98 funding for reimbursement of state-mandated local costs. This funding is provided for mandates not included in the three-year suspension of mandates.
- Provides an increase of \$16.1 million (proposition 98) for charter school categorical programs due to growth in average daily attendance (ADA).
- Increases special education funding by \$7.4 million (proposition 98) to account for growth.
- Provides an increase of \$36.1 million in federal local assistance funds for the Child Nutrition Program to reflect growth.
- Proposes legislation to extend various flexibility options to school districts for an additional two years, including categorical flexibility, routine and deferred maintenance requirements, class size reduction, instructional minutes and local budget reserve requirements.

### **Child Care and Development Program (Proposition 98)**

#### General Fund Solutions

- Decreases direct child care services, except Preschool, by \$716 million in 2011-12 through the following actions:
  - Eliminates services for 11-and 12-year olds. Reduces by \$34 million CalWORKs Stage 1 (administered by Department of Social Services, savings reflected in that section) related to the elimination of this program.
  - Reduces eligibility to 60 percent of the State Median Income from 75 percent of the State Median Income.
  - Reduces the level of subsidies across the board.
- Provides greater flexibility at the local level to administer the remaining child care funding in order to implement the across-the-board reductions. In this regard, subsidized families would pay the difference between the subsidy and regular day care provider charges as a co-payment directly to the provider in lieu of the state's administrative agents (Alternative Payment agencies and Title 5 contractors) assessing and collecting current family fees.

General Fund Policy Adjustments

- Sets aside \$52.6 million in 2010-11 from one-time Proposition 98 settle-up funding to continue services for Stage 3 families effective April 2011, at a service level consistent with the policy solutions proposed for 2011-12. These policy solutions affect age and income eligibility and reduce subsidy levels across the board for all direct service child care programs.
- Decreases by \$34.2 million in 2011-12 to reflect lower Stage 2 caseload projections to conform with the 48-month time limit that replaces long-term reforms as discussed in the Health and Human Services section.

General Fund Adjustments

- Increases CalWORKs Stage 2 by \$241.5 million in 2011-12 to reflect a \$4.2 million caseload increase and restoration of one-time funds used to support services in 2010-11 (\$201 million of Proposition 98 one-time savings and \$36.3 million American Recovery and Reinvestment Act (ARRA). Total base workload costs for Stage 2 is \$435.2 million.
- Increases CalWORKs Stage 3 by \$256.2 million in 2011-12 that reflects a caseload reduction of \$42.4 million, restoration of one-time funds used in 2010-11 totaling \$42.4 million (\$23.7 million of prior year federal funds and \$18.9 million ARRA), and restoration of the \$256 million partial-year veto. Total base workload cost for Stage 3 is \$342.4 million.
- Increases by \$83.1 million in 2011-12 to restore General Child Care, State Preschool, Migrant Child Care, and Allowance for Handicapped programs that were required to utilize excess contract reserves to meet costs in 2010-11.

Non-General Fund Adjustments

- Decreases the Child Care and Development Funds (CCDF) by \$18.5 million in 2011-12 to reflect removal of one-time carryover funds available in 2010-11 (\$24.4 million), an increase of \$3.2 million in carryover funds reserved for expenditures that promote quality improvement, and \$2.7 million in available base grant funds.
- Decreases the ARRA funds by \$110.1 million in 2011-12 to reflect the one-time nature of the fund source used for child care program for two years.

- Increases by \$58 million in 2010-11 from unanticipated prior year federal CCDF carryover funding in 2010-11 to reflect additional costs driven by a court order to extend the date for Stage 3 funding termination from November 1 to December 31, 2010.
- Decreases the Federal 21<sup>st</sup> Century learning Centers by \$23.1 million in 2011-12 to primarily reflect a change in prior year federal carryover funds utilized for this federally funded afterschool program in 2010-11.
- Increases the Early Learning Advisory Council by \$948,000 for state operations in 2011-12 from federal funds for the second year of the three-year federal grant recently authorized for the support of state early learning advisory councils.

## HIGHER EDUCATION

### University of California

#### General Fund Solution

- Decreases the University of California by \$500 million in 2011-12 to reflect necessary funding reductions to help solve the budget deficit. The Administration will work with the Office of the President and stakeholders to minimize fee and enrollment impacts on students by targeting actions that lower costs of instruction and administration.

#### General Fund Adjustments

- Restores one-time reduction of \$106 million in 2011-12 to backfill a like amount of one-time Federal American Recovery and Reinvestment Act (ARRA) funding received in 2010-11.
- Increases the Retired Annuitant Benefits by \$7.1 million in 2011-12 to fund additional costs for health and dental benefits to retired annuitants.
- Decreases the Lease Revenue Debt Services by \$1 million in 2010-11 and increases it by \$726,000 in 2011-12 for required lease payments used to pay lease revenue bonds issued for capital outlay projects.
- Decreases the Deferred Maintenance Loan Repayment by \$2.4 million in 2011-12, which are now fully paid.

#### Non-General Fund Adjustments

- Increases the University of California's budget by \$183.1 million in 2011-12 to reflect fee actions authorized by the Regents in November 2010, including an 8-percent increase for undergraduates and graduates (from \$10,302 to \$11,124) and increases in professional school fees that average 8-percent on a weighted basis (individual professional fees increase from zero to 31 percent).
- Removes \$107 million in 2011-12 to reflect the one-time nature of federal ARRA funding utilized to offset General Fund support costs in 2010-11.
- Decreases the Breast Cancer Research program by \$1.3 million in 2011-12 to reflect a decline in tobacco tax revenue.

- Increases the Lottery Revenue by \$2.8 million in 2010-11 and 2011-12 as a result of revised estimates of this fund source for the UC.
- Increases the umbilical Cord Blood Collection Program by \$4.6 million in 2011-12 from special funds for grants and contracts with licensed and accredited umbilical cord blood banks for the purposes of collecting and storing genetically diverse umbilical cord blood for public transportation purposes. Chapter 529, Statutes of 2010, transferred administration of the program to the UC from the Department of Public Health and increased birth certificate fees to fund its provisions.

### **California State University**

#### General Fund Solution

- Decreases the California State University by \$500 million in 2011-12 to reflect necessary funding reductions to help solve the budget deficit. The Administration will work with the Office of the President and stakeholders to minimize fee and enrollment impacts on students by targeting actions that lower costs of instruction and administration.

#### General Fund Adjustments

- Restores one-time reduction of \$106 million in 2011-12 to backfill a like amount of one-time Federal American Recovery and Reinvestment Act (ARRA) funding received in 2010-11.
- Increases funding for CalPERS Retirement costs by \$75.2 million in 2010-11 and 2011-12 to reflect higher employer share payments pursuant to Section 3.60 of the 2010 Budget Act.
- Increases Retired Annuitant Benefits by \$1 million in 2011-12 to fund additional costs for dental benefits to retired annuitants.
- Decreases the Deferred Maintenance Loan Repayments by \$2.3 million in 2011-12, which are now fully paid.

Non-General Fund Adjustments

- Increases the California State University budget by \$221.6 million in student fee revenue in 2011-12 to reflect actions of the CSU Trustees in November of 2010, annualization of the 5-percent mid-year fee increase for all students and a 10-percent fee increase for the budget year. Undergraduate fees thereby increase from \$4,230 to \$4,335 in the current year and up to \$4,884 in the budget year.
- Decreases the CSU budget by \$6.5 million in student fee revenue in 2010-11 based on revised estimates and enrollment patterns that offset the increased revenue generated by the 5-percent mid-year fee increase noted above.
- Removes \$107 million in 2011-12 to reflect the one-time nature of federal ARRA funding utilized to offset General Fund support costs in 2010-11.
- Increases Lottery Revenue by \$1.3 million in 2010-11 and 2011-12 as a result of revised estimates of this source for CSU.

**California Community Colleges**

Proposition 98 General Fund Solutions

- Decreases \$110 million to apportionments in 2011-12 as a result of increased local revenue from a \$10 proposed fee increase from \$26 per credit unit to \$36 per credit unit. A full-time student would pay \$1,080 per year for a full load – about one-third of the average fees charged by comparable community colleges in the nation – and would still rank California as the lowest in the nation based on 2009 data. Low-income students will continue to receive Board of Governors' fee waivers, which provide fee exemptions for approximately half of students attending CCC.
- Proposes to decouple the formula in current law for categorical fee waiver administration funding that is linked to the dollar value of fee waivers because it would require an increase in state expenditures that does not relate to a change in administrative workload. This change would eliminate \$2.9 million in additional costs for the fee waiver administration program associated with the fee increase noted above.

- Decreases Apportionments by \$400 million in 2011-12 along with reforms to census accounting practices to provide better incentives for maximizing academic course sections available for students seeking vocational certificates and transfer to four-year colleges within the diminished level of funding.
- Decreases Apportionments by \$129 million in 2011-12 as a result of deferring another \$129 million of community college apportionment payments to the 2012-13 fiscal year. This brings total year-to-year deferrals to \$961 million, which provides a one-time savings in Proposition 98 funding to help resolve the 2011-12 state budget deficit.

#### Proposition 98 General Fund Workload Adjustments

- Increases the Deferral Payment by \$129 million in 2011-12 to reflect actions taken in the 2010 Budget Act to defer a like amount of apportionment payments to July of 2011. These funds were appropriated already in Chapter 724, Statutes of 2010.
- Increases Property Tax Payments by \$33.4 million in 2011-12 to reflect reduced property tax estimates. Current law intends that property tax should offset Proposition 98 General Fund costs for community college apportionments. Because property taxes are estimated to decline, General Fund costs are increased by a like amount. Although revised estimates of property taxes in 2010-11 are estimated to decline by \$14.7 million, there is no requirement to backfill shortfalls in law. Due to the state's large budget shortfall, no backfill is proposed.
- Increases Student Fee revenue by \$18.7 million in 2011-12 to reflect revised estimates resulting from higher than anticipated Board of Governors' fee waivers. Similar to property taxes, student fees are intended to offset the costs of apportionments.
- Increases the Financial Aid Administration by \$1.7 million in 2011-12 as a result of a higher estimate for fee waivers. Current law requires specified amounts be budgeted in a categorical program, based on the value of fee waivers, to help the colleges with the administrative costs of processing fee waivers.
- Decreases Lease Revenue Debt Services by \$5.1 million in 2011-12 to reflect revised costs of required rental payments used to pay lease-revenue bonds issued for capital outlay projects.

- Decreases the Oil and Mineral Revenue by \$1.1 million in 2011-12 as a result of a higher estimate of revenue from this source which offsets General Fund for apportionments similar to property taxes.

Proposition 98 General Fund Policy Adjustment

- Increases by \$110 million in 2011-12 for 1.9 percent apportionment growth to help preserve and expand course sections to meet the demand of students seeking transfer, career technical certificates, and retraining. This funding is sufficient to fund approximately 22,700 Full-Time Equivalent Students (FTES).

Non-General Fund Adjustments

- Increases Career Technical Education (CTE) by \$20 million in 2010-11 to reflect Proposition 98 Revision Account funding appropriated to the Department of Education that was allocated to the Chancellor's Office to augment the CTE Initiative pursuant to the Budget Act of 2010.
- Increases the Lottery Revenue by \$12.4 million in 2010-11 and 2011-12 for local assistance apportionments as a result of revised estimates of this revenue source.
- Increases the Oil and Mineral Revenue by \$1.1 million in 2010-11 and 2011-12 for local assistance apportionments as a result of revised estimates of this revenue source.
- Increases Bond Accountability by \$136,000 in 2011-12 for state operations to fund ongoing accountability for the use of general obligation bonds by the colleges.
- Decreases the Property Tax Revenue by \$14.7 million in 2010-11 and \$33.4 million in 2011-12 as a result of revised estimates of local property taxes that support local assistance apportionments.
- Decreases Student Fee Revenue by \$15.2 million in 2010-11 and \$18.7 million in 2011-12 as a result of revised base estimates primarily resulting from higher-than-anticipated fee waivers.
- Decreases the CCC budget by \$5 million in 2011-12 to reflect the one-time nature of federal ARRA funding utilized for a variety of categorical programs in 2010-11.

Non-General Fund Policy Adjustment

- Increases the Federal Care Certification Project by \$750,000 in 2010-11 and \$748,000 in 2011-12 as a result of the receipt of a new federal grant for training students to become personal care and home care aids. Of these funds, \$53,000 and \$75,000 is available for state operations in 2010-11 and 2011-12, respectively, with the remainder for local assistance.

**California Student Aid Commission**

General Fund Solutions

- Decreases by \$30 million in 2011-12 based on the expected receipt of a like amount from ECMC for Cal Grant costs. The U.S. Department of Education has indicated they expect to approve payments back to the state for this purpose from the revenue derived from the California federal student loan guaranty portfolio.
- Offsets \$946.8 million in 2011-12 of Cal Grant costs with Federal Temporary Assistance to Needy Families (TANF) Reimbursements. The TANF funds would be available through an interagency agreement with the Department of Social Services pursuant to CalWORKs reduction proposals discussed in the Health and Human Services section.

General Fund Adjustments

- Increases by \$147.2 million in 2010-11 to reflect revised estimates for the Cal Grant program. These adjustments include a significantly higher number of new Cal Grant entitlement awards than originally anticipated (\$141.4 million) and implementation of a 5-percent mid-year fee increase by the CSU Trustees that increases the award amount for students attending that segment (\$5.8 million).
- Increases by \$369.5 million in 2011-12 to reflect increased estimates of Cal Grant costs resulting from higher participation levels in the entitlement programs recognized in the current year that are projected to continue (\$279 million), annualization of the 5-percent mid-year CSU fee increase noted above (\$17.6 million), and higher award amounts conforming to the fee increases approved for 2011-12 by the CSU Trustees (\$25 million) and UC Regents (\$48 million).

- Increases by \$100 million in 2011-12 to backfill one-time surplus Student Loan Operating Fund revenues that were used for Cal Grant costs.
- Increases the Loan Assumption Program costs by \$1 million in 2010-11 and \$2.3 million in 2011-12 for anticipated costs in the APLE and other loan assumption programs.
- Increases by \$842,000 in 2011-12 for state operations for the ongoing cost of staff and operating expense costs approved in the Budget Act of 2010 for replacing the shared services formerly provide by EdFund, the auxiliary that formerly carried out the federal student loan guaranty activities for the CSAC.

#### General Fund Policy Adjustment

- Decreases by \$1.2 million in 2010-11 and \$842,000 in 2011-12 to reflect the replacement of shared services. Based on a new agreement with the successor guarantor agency for California, Educational Credit Management Corporation (ECMC), the shared services provided by EdFund will continue to be provided to the CSAC by the entity assigned by the U.S. Department of Education to take over the federal student loan guaranty functions.

#### Non-General Fund Adjustments

- Increases by \$52,000 for state operations and \$889,000 for local assistance from reimbursements in both 2010-11 and 2011-12 resulting from an interagency agreement with CalEMA that received a federal grant to administer and make awards for a new program designed to attract and retain qualified individuals to serve as public defenders and prosecutors.
- Increases the Federal Leveraging Educational Assistance Partnerships by \$389,000 in 2010-11 and decreases by \$5.6 million in 2011-12 as a result of federal reallocations and policy decisions, respectively, for these sources that offset the state's Cal Grant costs.

**Hastings College of the Law**

General Fund Solution

- Reduces Hastings budget by \$1.5 million in 2011-12 to reflect necessary funding reductions to help solve the budget deficit. The Administration will work with the Office of the President and stakeholders to minimize fee and enrollment impacts on students by targeting actions that lower costs of instruction and administration.

General Fund Adjustment

- Increases the Retired Annuitant Benefits by \$71,000 in 2011-12 to fund additional costs for health and dental benefits to retired annuitants.

Non-General Fund Adjustment

- Decreases \$1.6 million in student fee revenue in 2010-11 and \$638,000 in 2011-12 reflecting decreased enrollments and increased fee waivers. The change in 2011-12 also reflects actions by the Hastings Board of Directors to increase fees by 3 percent in the budget year that will raise annual professional fees from \$36,000 to \$37,080.

**California State Library**

- Decreases the General Fund assistance for local libraries by \$30.4 million in 2011-12, resulting in the elimination of General Fund for the following programs: Public Library Foundation, California Library Literacy and English Acquisition Services, and the California Library Services Act.

## TRANSPORTATION

### Gas Tax Swap

- Proposes to maintain General Fund savings achieved in the Transportation Gas Tax Swap by using revenues from Weight Fees, rather than the Fuel Excise Tax as was approved in the Transportation Gas Tax Swap (Tax Swap), to fund transportation related general obligation bond debt service. This shift is necessary since the passage of Proposition 22 prohibits the State from using Fuel Excise Tax revenue for bond debt service. This action will achieve a General Fund savings of \$262.4 million in 2010-11 and \$700 million 2011-12. Additionally, the Governor proposes to use \$77.5 million in transportation revenues that are not restricted by the constitution to reimburse the General Fund for debt service payments made on Proposition 116 transit bonds. Both proposals will together achieve the same level of General Fund savings that was provided for in the 2010 Budget Act.
- Proposes to reenact with a 2/3rds vote the fuel excise tax increase and fuel sales tax decrease that was approved in the 2010-11 Tax Swap. By approving it with a 2/3rds vote, rather than a majority as it was approved in the 2010, this action will protect this revenue source for transportation funding and General Fund relief from being rescinded by the passage of Proposition 26.
- Proposes statutory changes to maintain current funding levels for Local Transit Assistance funding that were approved in the Tax Swap. Proposition 22 reduced the amount of diesel tax revenue that is allocated to Local Transit Assistance from 75 percent to 50 percent. This proposal would increase funding from the State Highway Account to Local Transit Assistance to bring funding back to the 75 percent ratio that was approved in the Tax Swap. Additionally, this proposal will ensure that other non-article XIX revenue allocations that were approved in the 2010-11 Budget Act are sustained.
- Proposes to loan \$494 million in weight fee revenues to the General Fund in 2010-11 and \$166.3 million in 2011-12.

**Other Caltrans Proposals**

- Proposes a reduction in staffing for the Department of Transportation (Caltrans) of \$3 million (State Highway Account) and 35 positions as a result of efficiencies gained through the implementation of the Enterprise Resource Planning Financial Infrastructure (E-FIS) program).
- Proposes to increase overall funding to Caltrans' budget by \$2.4 million and 18 positions to complete Project Initiation Document (PID) workload for state and locally funded projects on the state highway system. This augmentation includes a reduction of \$4.9 million in State Highway Account funds and an increase of \$7.2 million in reimbursements from local agencies to fund PIDs.
- Appropriates \$2.3 billion (Prop 1B) to Caltrans for capital funding of bond projects, including \$631.2 million for corridor mobility, \$972.3 million for trade corridors, \$117 million for public transit modernization, \$200 million for state-local partnership projects, \$22 million for local bridge seismic safety, and \$391 million for State Route 99.

**High Speed Rail**

- Augments the High Speed Rail Authority's (HSRA) budget by \$1 million in 2011-12 for increased oversight and review of the program Management team's work products and schedules.
- Augments the HSRA's budget by \$1.136 million as a result of interagency agreements with the Department of Justice and the Department of General Services.
- Reduces the HSRA's budget by \$37 million as a result of a reduction in the cost of the contract with the Program Management Team.
- Approves a total of \$89.7 million in Federal Funds to the HSRA for partial design and environmental work for the project. While the HSRA has been awarded several billion dollars in Federal Funds for construction, details of the grants have not been finalized and appropriation of these funds may not be needed until 2012-13.

## HUMAN SERVICES

### Department of Social Services

#### CalWORKs

- Eliminates monthly CalWORKs benefits for families that have received aid for 48 months or more. Child-only benefits, provided now when the adult is removed from the case, would continue beyond the 48-month time limit for families fully meeting work participation requirements. Child-only benefits would also continue for families with unaided adult recipients of SSI/SSP and non-needy caretaker relatives. Currently, California provides aid to eligible families up to 60 months and provides benefits to children until the age of 18 years. This new, shorter time limit of 48 months would result in a \$698.1 million reduction to the program in 2011-12. This proposal assumes enactment of legislation by March 1 and implementation on July 1, 2011.
- Reduces CalWORKs grants by 13 percent, resulting in a lowering of the maximum monthly grant for a family of three in a high-cost county from \$694 to \$604 effective June 1, 2011, for a savings of \$13.9 million in 2011-11 and \$405 million in 2011-12. This proposal assumes enactment of legislation by March 1 to effectuate the June 1 implementation. The current grant level is lower than grants in 20 other states after adjusting for housing costs and has not been adjusted over time to match inflation or increases in the cost of living, thus making it lower than it was in 1989, dollar for dollar. CalWORKs provides benefits to more than 580,000 families with over 1 million children.
- Continues the reduction in the CalWORKs single allocation for 2011-12, resulting in savings of \$376.9 million. The single allocation is the funding for CalWORKs employment services, child care, and county administration, the programmatic elements that make the CalWORKs program a welfare-to-work model to enable self-sufficiency over time for unemployed parents and low-income families. This funding reduction severely inhibits the ability for counties to assist needy families in their search for and ability to maintain work that would allow them to meet work participation standards and continue to receive basic assistance to meet shelter, food, clothing, transportation, and other living needs.

**Supplemental Security Income/State Supplementary Payment (SSI/SSP)**

- Reduces monthly SSP grants for individuals to the federally required minimum payment standard. The maximum monthly SSI/SSP cash grant for individuals would be reduced by \$15 per month, from \$845 to \$830, beginning June 1, 2011. SSP grants for couples were previously reduced to the federal minimum in November 2009. This proposal would result in savings of \$14.7 million in 2010-11 and \$177.3 million in 2011-12. These savings are net of increased General Fund costs necessitated in the Department of Developmental Services budget as a result of the SSP grant cut. This proposal assumes enactment of legislation by March 1 to effectuate the June 1 implementation.

**In-Home Supportive Services (IHSS)**

- Proposes a series of reductions in IHSS as outlined below. Each reduction proposal assumes enactment of legislation by March 1 and implementation of each proposal by July 1, 2011.
- Imposes an 8.4 percent reduction to assessed hours for all IHSS recipients, numbering 429,000 in 2009-10, for General Fund savings of \$127.5 million in 2011-12. This proposal, combined with the 3.6 percent reduction enacted in the 2010-11 Budget, brings the total across-the-board reduction in assessed hours for IHSS recipients to 12 percent. The Governor states that qualified recipients at risk of out-of-home care placement due to the reduction could apply for supplemental hours. The Governor's budget estimates that approximately 21,000 recipients will receive full restoration of their assessed hours as a result.
- Eliminates domestic and related services, which includes meal preparation, meal cleanup, laundry, grocery shopping, and housework, for consumers living with their provider. In addition, this proposal would eliminate domestic and related service hours for recipients under 18 years of age who live with a parent who is able and available to provide the named services. The proposal provides an avenue for an IHSS applicant/recipient to petition for authorized domestic and related services hours if a medically verified condition inhibits the ability for other members of the household or the parent of the applicant/recipient child to perform these tasks. The Governor's budget estimates that this will impact 300,000 recipients and result in General Fund savings of \$236.6 million in 2011-12.

- Eliminates IHSS services for recipients without a physician's written certification that personal care services are necessary to prevent out-of-home care. The proposal requires a medical review for all IHSS applicants/recipients to ensure services are needed to avert out-of-home placement. The Governor's budget assumes that this proposal would result in the loss of services for 43,000 recipients, yielding General Fund savings of \$120.5 million in 2011-12.
- Eliminates state funding for IHSS advisory committees for General Fund savings of \$1.6 million in 2011-12. The Governor states that counties would continue to have the option to continue advisory committees at their own expense and that those counties that choose to do so would be eligible for matching federal funds.

### **Child Welfare Services**

- Reduces funding for the Transitional Housing Program by \$19 million General Fund in 2011-12 by reducing funding for Transitional Housing Program-Plus services. The Governor states that his intent is to save General Fund while allowing those 18- and 19-year-old youth wishing to participate in a transitional housing program to move to the recently enacted AB 12-funded program for which the state is able to draw down federal funds.

### **Realignment**

- Proposes to realign funding and primary program responsibility for California's Child Welfare Services (CWS) system, which includes Foster Care, Adoptions, and Child Abuse Prevention programs. As part of the Governor's Phase One Realignment, \$1.6 billion would be realigned in 2011-12, with this amount sustained through full implementation of realignment in 2014-15. Currently, the federal government's role is to establish overall programmatic requirements and goals, provide funding, and ensure compliance with federal standards. The state supervises and monitors these program activities while counties administer services. The Governor states that this shift of funding and responsibility to counties will provide flexibility to operate the program and better serve vulnerable children.

- Proposes to realign the Adult Protective Services (APS) program, which provides services to persons aged 65 and older who are functionally impaired, unable to meet their own needs, and who are victims of abuse, neglect, or exploitation. As part of the Governor's Phase One Realignment, \$55 million would be realigned in 2011-12, with this amount sustained through full implementation of realignment in 2014-15. Currently, APS is administered by the 58 local APS agencies with oversight provided by DSS. The Governor states that the transfer of this entire program will give counties full flexibility to determine the appropriate level of service and priority for their community.

### **Department of Child Support Services**

- Proposes to suspend the county share of child support collections in 2011-12, withholding \$24.4 million from local child support agencies, allowing the entire non-federal portion of child support collections to benefit the General Fund. The Governor states that this would not reduce the revenue stabilization funding of \$18.7 million (\$6.4 million General Fund) that counties currently receive.

### **Department of Alcohol and Drug Programs - Realignment**

- Proposes to realign all Department of Alcohol and Drug Programs activities currently implemented via contracts with 57 counties to provide inpatient and outpatient alcohol and drug treatment services. As part of the Governor's Phase One Realignment, \$184 million would be realigned in 2011-12, with this amount sustained through full implementation of realignment in 2014-15. The Governor states that this movement of funding and responsibilities would enable counties to implement creative models of integrated services for the new probation population and for those who suffer from the dual diagnosis of mental health and substance abuse problems, as well as for other low-income persons currently receiving treatment services.

**Health and Human Services Agency - Realignment**

- Indicates that, consistent with the Governor's Realignment proposal, it is the Administration's goal to eventually reduce state operations for affected programs by at least 25 percent, which will result in hundreds of state positions being eliminated. The Governor indicates that the state will continue to act as the single state agency for federal purposes, maintain data collection for oversight, serve as the fiscal and program reporting entity to the federal government, retain licensing and certification responsibility, and maintain minimum federal audit requirements.

**Department of Aging**

- Eliminates funding for the Multipurpose Senior Service Program (MSSP) for a General Fund savings of \$19.9 million in 2011-12. Local MSSP sites provide case management services for elderly clients who qualify for placement in a nursing facility but who wish to remain in the community. The program has 41 sites statewide and services approximately 11,789 recipients per month. Recipients are 65 years of age or older, currently eligible for Medi-Cal, in need of case management services, and certified or certifiable for placement in a nursing facility.

## HEALTH CARE SERVICES

### Department of Health Care Services (Medi-Cal)

- Includes dollar caps on various services, for savings of \$9.8 million in 2011-12, pending federal approval. The Administration estimates that these will affect 10 percent of the Medi-Cal populations that utilize each of the following:
  - Hearing aids (\$1,510)
  - Durable medical equipment (\$1,604)
  - Incontinence supplies (\$1,659)
  - Urological supplies (\$6,435)
  - Wound care (\$391)
- Limits prescriptions (except life-saving drugs) to six per month, for savings of \$11.1 million in 2011-12.
- Limits doctor visits to ten per year, for savings of \$196.5 million in 2011-12. The Administration estimates that this would reduce the number of physician visits from 3.3 million to 2 million annually. This would require Federal approval.
- Includes mandatory copays including:
  - \$5 copay for physician, clinic, dental, and pharmacy services (\$3 on lower-cost preferred drugs), for savings of \$294.4 million in 2011-12;
  - \$50 copay for emergency room services, for savings of \$111.5 million in 2011-12; and
  - \$100 per day (\$200 maximum) for hospital stays, for savings of \$151.2 million in 2011-12.
- Eliminates adult day health care, for savings of \$1.5 million in 2010-11 and \$176.6 million in 2011-12. 27,000 people utilize adult day health care services.
- Eliminates over-the-counter cough and cold medications and nutritional supplements, for savings of \$556,000 in 2010-11 and \$16.6 million in 2011-12.

- Reduces Medi-Cal rates by 10 percent for physicians, pharmacy, clinics, medical transportation, home health, adult day health care, certain hospitals, and nursing facilities, homes and other long-term care facilities, for savings of \$9.5 million in 2010-11 and \$709.4 million in 2011-12. The Administration states that this proposal assumes the state prevails in pending rate litigation.
- Replaces \$1 billion in General Fund with Proposition 10 (First 5) funds for health care for children ages 0 -5, subject to voter approval.
- Extends the existing hospital quality assurance fee for an additional six months (December 31, 2010 – June 31, 2011), for additional savings of \$160 million.
- Includes General Fund increases resulting from the loss of other funds including: expiration of \$2.9 billion of federal economic stimulus funds; and expiration of \$1.1 billion in revenue from the hospital fee.

### **Department of Mental Health**

- Includes \$98.6 million General Fund to cover mental health services for students, mandated under federal law, for prior year costs incurred by counties per a state mandate created by AB 3632.
- Shifts Proposition 63 funds to the Department of Mental Health, to replace General Fund, for AB 3632 services, Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program and Mental Health Managed Care (MHMC), for General Fund savings of \$861.2 million in 2011-12.
- Realigns to counties AB 3632, EPSDT, and MHMC and replaces Prop 63 funding with dedicated revenue.

### **Department of Public Health**

- AIDS Drug Assistance Program (ADAP)
  - Increases General Fund by \$22.1 million in 2010-11 and \$55.1 million in 2011-12 to cover projected increases in prescription drug costs and caseload, and includes a one-time General Fund decrease of \$76.3 million in 2010-11 as a result of additional federal funds available through the safety Net Care Pool.

- Increases client share-of-cost to the maximum allowed under federal law and lowers cost-sharing for clients with private insurance or Medicare Part D, for savings of \$16.8 million.
- Every Woman Counts Program (Breast and Cervical Cancer Screening).
  - Reduces \$10.6 million in 2010-11, and re-appropriates these funds in 2011-12, due to a five-month delay in implementing the program reforms adopted in the 2010 Budget Act.
  - Increases \$7.7 million General Fund in 2011-12 to meet expected caseload projections.

**Emergency Medical Services Authority (EMSA)**

- Eliminates \$5.8 million in annual support funds for mobile field hospitals.

**Managed Risk Medical Insurance Board (MRMIB)**

- Eliminates vision coverage for children in the Healthy Families program, for savings of \$11 million.
- Increases premiums for families in the Healthy Families program for savings of \$22 million. Premiums were increased in 2005 and twice in 2009. The premiums would increase as follows:

Family Income (% FPL)	Current Per Child Premium	Proposed Per Child Premium	Proposed Per Child Increase	Current Family Maximum	Proposed Family Maximum	Proposed Family Max Increase
Under 150	\$7	No change	N/A	\$14	No change	N/A
150-200	\$16	\$30	\$14	\$48	\$90	\$42
200-250	\$24	\$42	\$18	\$72	\$126	\$54

- Increases Healthy Families copayments, for savings of \$5.5 million, as follows:
  - Emergency room visits: \$15 to \$50
  - Hospital stays: \$0 to \$100 per day (\$200 maximum)

- Extends and makes permanent the tax on managed care plans for savings of \$97.2 million in 2011-12.

**Department of Developmental Services**

- Decreases 2010-11 by \$69.4 million General Fund as a result of revised population estimates and increases 2011-12 by \$61.5 million General Fund given current population estimates.
- Proposes a \$750 million General Fund unallocated reduction. The General Fund is proposed to be alleviated in the following ways: (1) pursuit of \$10 million in federal funds for treatment services to individuals residing in the secure facility at Porterville Developmental Center, (2) extension of the 4.25 percent reduction to regional center and service provider payments, (3) \$50 million in Prop 10 funds, (4) savings from increased accountability and transparency, (5) increase efforts to maximize federal funds including Money Follows the People, the federal 1915(i) and multiple waivers, and (6) tasks the Department to work with the stakeholder group to establish service standards for purchase of services and achieve the remaining savings.
- Increases funds by \$134.1 million in general funds due to the end of federal stimulus funds that will end.
- Includes savings in 2010-11 and 2011-12 from Workforce Force Cap adjustments and Personnel Cost savings by extending furlough days to employees without contracts.
- Increases general fund contribution in 2010-11 by \$1.5 million, as a result of establishing mandatory co-payments for all health related visits.
- Includes an increase of \$54 million general fund in 2011-12, in anticipation of the eliminating ADHC and reducing SSI/SSP grants.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION****CAL FIRE**

- Reduces CAL FIRE's budget by \$30.7 million (General Fund) in 2011-12 as a result of reducing staffing levels to three firefighters per engine, rather than four. Beginning in 2003, CAL FIRE increased staffing levels from three to four firefighters per engine during peak fire season in the summer and early fall. The Administration reports that these increases in staffing have not measurably changed CAL FIRE's initial attack effectiveness.
- Proposes to realign fire protection services in the most highly populated state responsibility areas to local governments. This proposal detailed further in the realignment section of the review.
- Increases funding for CAL FIRE by \$10.6 million (General Fund) to fund additional unemployment insurance claims for seasonal firefighters.
- Augments CAL FIRE's budget by \$1.7 million (General Fund) and 9 positions in 2011-12 to investigate and pursue cost recoveries for wildfires caused by negligence or illegal activity. As a result of these efforts, CAL FIRE has been able to recover over \$10 million annually. It is anticipated by the Department that this augmentation will generate a net General Fund savings of \$5.1 million.

**Department of Parks and Recreation**

- Reduces funding for the Department of Parks and Recreation by a net of \$4 million 2011-12. In the 2010-11 Budget, the department incurred a one-time reduction of \$7 million. Under this proposal, this reduction is restored but the overall budget is reduced by \$11.0 million on an ongoing basis. It is expected that this cut will result in the closure, or partial closure of various parks – the amount is unknown at this time. The Department is currently working with stakeholders and local communities to explore partnership opportunities and the Administration anticipates that closures and transfers of state parks will ultimately produce \$22 million in ongoing General Fund savings.

**California Environmental Protection Agency**

- Augments the Department of Food and Agriculture (CDFA) budget by \$2.6 million from the Department of Pesticide Regulation fund for enhanced analytical chemistry analyses and equipment of pesticides.
- Proposes to shift \$12.8 million in funding for the State Water Resources Control board (Water Board) from the General Fund to increased Waste Discharge Permitting Fees. In order to achieve this savings, this proposal also includes a statutory change to authorize the inclusion of basin planning activities as an allowable expenditure for Waste Discharge Permit Fees.
- Shifts \$2.3 million in funding for the Office of Environmental Health Hazard Assessment from Safe Drinking Water and Toxic Enforcement Fund to the General Fund. This shift will sustain the program pursuant to Proposition 65 as authorized by the voters.

## PUBLIC SAFETY

### Department of Corrections and Rehabilitation

- Increases \$395.2 million to correct previous budget shortfalls and more accurately reflect the operational costs within the adult institutions' budgets. This augmentation for the Department will:
  - Fund the salary and wages of authorized Correctional Officers, Sergeants, and Lieutenants, which is critical to ensuring that the adult institutions have the resources to pay security staff. The augmentation also provides funding to correct for a decline in the number of overtime hours available to the California Department of Corrections and Rehabilitation (CDCR) to use within its adult institutions. The decline in funded overtime hours has been a primary cause for redirections of funding from other activities.
  - Allow the adult institutions to operate a minimal level of "swing space beds" — empty beds necessary to allow for the continuous population movements that take place between CDCR institutions and between the counties and local jails. This augmentation will provide funding for an adequate level of staff to maintain a reasonable number of empty "swing space" beds.
  - Address the medical guarding and transportation deficits that have occurred consistently from the increased usage of outside medical care, and fully fund the Office of Legal Affairs for the costs they incur related to settlements, judgments and other court ordered costs associated with the Department's various class action lawsuits.

- Increases of \$98.6 million General Fund in 2010-11 and \$161.3 million in 2011-12 for various costs directly related to changes in the budgeted populations of adult inmates, juvenile wards, and adult and juvenile parolees, including increased funding resulting from smaller population reduction projections compared to previous savings estimates. These changes reflect an increase of 118 adult inmates in the current year, compared to previous projections, and a decrease of 529 in the budget year, for a total of 163,799 in 2010-11 and 163,152 in 2011-12. The projection also reflects decreases in the estimated parolee population of 5,510 in 2010-11 and 12,198 in 2011-12, declining to a total of 113,690 in the current year and 107,002 in 2011-12. For juveniles, the population funding request projects a decrease of 95 wards and an increase of 34 parolees in the current year and a decrease of 130 wards and 56 juvenile parolees in the budget year, resulting in totals of 1,304 wards and 1,554 parolees in 2010-11 and 1,269 wards and 1,464 parolees in the budget year.
- Increases \$200 million in 2010-11 and 2011-12 to reverse a population savings adjustment included in the 2010 Budget Act. Population decreases that would have been necessary to achieve this reduction have not materialized and are not expected.
- Increases \$643.4 million in 2010-11 and \$562.8 million in 2011-12 to restore a large portion of the savings included in the 2010 Budget Act associated with the delivery of medical care to inmates. The Budget included a reduction to the Medical Services Program of \$820 million. However, the Receiver indicates that the Program will only be able to achieve \$94 million of the target, and has requested a restoration of \$726 million. While the Budget recognizes much of the unrealized savings, the Administration believes the Medical Services Program can achieve a greater level of savings than proposed by the Receiver. As such, the Budget restores less than the Receiver has requested by \$82.6 million in 2010-11 and \$163.2 million in 2011-12, which represents five-percent and ten-percent reductions, respectively. Through administrative actions and statutory changes, the Receiver has implemented a utilization management program to reduce the reliance on costly outside medical care, centralized its pharmacy operations to provide a more efficient and effective dispensing process, and reduced costs of outside hospital and specialty care by capping reimbursement rates and contracting with a provider network.

### **CDCR Realignment**

- Decreases \$485.8 million by implementing a change in mission for the state's prison system, which includes proposing that offenders convicted of non-violent, non-serious, non-sex offenses, and without any previous convictions for such offenses, would fall under local jurisdiction. The realignment also includes parole violators serving their time locally and shifting responsibility for adult parole to counties. The savings amount also includes a one-time reduction of \$150 million for rehabilitative programs. Funding for rehabilitative programs would be restored in 2012-13, after CDCR has reconfigured its program delivery model in accord with its changed population mix. Upon full implementation, the proposal will save approximately \$1.4 billion. Additional revenue will be provided to support local governments and the provision of public safety services at the local level (detailed in Realignment section).
- Eliminates the Division of Juvenile Justice by June 30, 2014, and transfers jurisdiction for these offenders to local governments. This proposal builds upon the efforts by local jurisdictions to retain offenders at the local level, as well as the statutory changes from 2007 that prohibit counties from committing non-serious, non-violent, and non-sex offenders to the state. This will result in savings of \$78 million in 2011-12, and upon full implementation the proposal will save approximately \$250 million. The Budget also proposes to provide additional revenue to support local governments in making this mission change (detailed in Realignment section).

### **Courts**

- Reduces funding by \$200 million, on an ongoing basis, for the state's trial courts. The Administration proposes to work with stakeholders and the Judicial Branch to identify ways to implement this reduction in a manner that is least harmful to the courts and preserves service levels provided to the public. Some options include looking at potential duplication of some state operations functions, and evaluating the availability of fund reserve balances for short-term savings.

- Reduces \$17.4 million to reflect the elimination of statutory requirements to implement the Omnibus Court Conservatorship and Guardianship Act of 2006. Funds that would allow the courts to fully implement the Act have been deferred for several fiscal years on a one-time basis and as a result the program has never been operational statewide. This proposed change would relieve the courts of the mandated responsibilities under the Act, but would still allow for individual courts who have been implementing parts of the Act to continue doing so.
- Proposes shifting \$860 million in funds that historically would have gone to redevelopment agencies to offset trial court General Fund costs.

### **Courts Realignment**

- Transfers responsibility for the funding of court security to the counties. Revenue (\$530 million) will be provided through the extension of current tax measures (discussed further in the realignment section). Security for the trial courts is currently provided by county sheriffs with the exception of two small counties. In recent years, there have been several attempts to change the way court security has been provided and to contain costs. Currently, while the state has assumed the costs of operation of the trial courts, and there have been some modifications in the employment status of court employees, the function of court security largely remains a county sheriff responsibility. The state has a role in court security standards, but has no control over what level (and cost) of deputy is assigned to the court.

### **Department of Justice**

- Converts all of the Department of Justice's (DOJ) state clients to fee-for-service (billable). To accomplish this, the Budget includes a reduction of \$50.2 million General Fund and an increase of \$60.1 million Legal Services Revolving Fund. The Budget provides General Fund allocations to the 11 largest non-billable clients based on past actual hourly usage. The remaining clients will receive legal services from an allocation that the DOJ will reconcile annually to ensure that appropriate funds are being used to pay for legal services. The Administration expects that converting these remaining "non-billable" clients to the same system that has been used by many state departments for years will result in better management of legal workload.

**Local Law Enforcement**

- Proposes \$420 million General Fund for various local law enforcement programs, which will be backfilled on a dollar-for-dollar basis with realignment funding. In addition to these funds, the Budget also provides \$57 million General Fund for local grant programs administered through the California Emergency Management Agency and \$29 million General Fund for local grant programs administered by the Department of Corrections and Rehabilitation. These funds also will be fully backfilled with realignment funding. The \$420 million in funding in the General Government portion of the Budget will be distributed as follows:
  - \$107 million for the Citizens' Option for Public Safety
  - \$107 million for the Juvenile Justice Crime Prevention
  - \$35 million for Jail Booking Fee Subventions
  - \$152 million to support juvenile probation efforts at the county level.
  - \$19 million for the Small/Rural Sheriffs

## GENERAL GOVERNMENT

### Employment Development Department

#### Unemployment Insurance Program

- Increases the Unemployment Insurance Interest Payment by \$362.3 million in 2011-12 on funds borrowed from the federal government to pay California's UI benefits.
- Includes \$19.5 million in General Fund for continuation of the EDD's Automated Collection Enhancement System (ACES). The ACES will improve EDD's ability to track, collect, and audit the payment of employer payroll taxes, including unemployment and personal income taxes. The ACES solution is anticipated to increase General Fund revenue by \$27 million in 2011-12 by improving collection capabilities for delinquent accounts.
- Authorizes a loan from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI interest expense. The loan will be repaid by the General Fund over the next four fiscal years. This achieves a General Fund savings of \$362.3 million in 2011-12.

#### Disability Insurance Program

- Updates estimates for the payment of UI and DI benefits two times each year in October and April. The Budget reflects a decrease of \$171.2 million 2011-12 in 2011-12 for DI benefit payments and does not change the estimate for UI benefits payments.

### Department of Food and Agriculture

- Reduces \$15 million (General Fund) from the Department of Food and Agriculture's budget. The details of this reduction are not specified at this point and there is direction by the Administration to the Secretary of Agriculture to hold a consortium with stakeholders to determine how these reductions will be achieved.
- Eliminates state support, \$32 million (General Fund), from the statewide network of California fairs.

**Public Utilities Commission**

- Augments the budget for the California Public Utilities Commission by \$498,000 (PURA and Federal Funds) and 4 positions to increase natural gas inspections and oversight.

**Housing and Community Development**

- Decreases housing bonds by \$99 million in non-general fund, to reflect a one-time pause in the issuance of state bonds for new loans and grants – projects underway will not be affected.
- Decreases local assistance by \$106.8 million non-general fund, to reflect one-time funding for loans and grants.
- Shifts \$1.1 million from state operations to local assistance in the federal Community Development Block Grant program, to comply with federal regulator findings.

**Secretary of Business, Transportation and Housing**

- Reflects an increase of \$84.4 million in federal funds to the Small Business Loan Guarantee Program, and as a result, reverts \$20 million in General Funds.

**Inspector General**

- Eliminates the Inspector General, which was created by Governor Schwarzenegger to act as an additional oversight to the American Recovery and Reinvestment Act. The remaining well established oversight entities will continue to provide oversight (BSA, SCO and the Recovery Task Force).

**California Science Center**

- Reduces funds for support of the California Science Center by \$3.7 million general fund commencing in 2011-12, and authorizes the California Science Center to offset the reduction by implementing a nominal fee. This reduction is unallocated and ongoing.

**California Department of Veteran Affairs**

- Eliminated all General Fund support for County Veterans Service Offices (CVSO's) and Operation Welcome Home, totaling \$9.9 million general fund.

## LOCAL GOVERNMENT

The Governor's Budget proposals include substantial changes in local government funding, programs and responsibilities. As discussed elsewhere, the proposal requires a shift of programs and responsibilities from the state to local governments. As a part of this overall proposal for local governments, the Governor's Budget proposes a new funding mechanism for local redevelopment and a shift in property taxes to other local entities. The proposal calls for:

- A Constitutional amendment that would allow for 55 percent voter approval for limited tax increases and bonding against local revenues for development projects.
- De-establishment existing redevelopment authorities. Existing property tax revenue would continue to be used for debt service and used for core services provided by local government in the budget year.
- Additional property taxes in excess of debt service would be distributed on an on-going basis to cities, counties and K-14 education beginning in 2012-13.
- Increased property tax revenues would flow to local governments as existing redevelopment authority debt is retired.

The Governor's Budget does not include any local tax relief other than (1) the Constitutionally-mandated exemption of the first \$7,000 of the value of a principal residence, and (2) the Williamson Act subvention. The Williamson Act subvention is continued but the \$10 million appropriated as part of the 2010-11 budget is proposed to be eliminated and no funding of the subvention program is proposed in the budget year.

## SUMMARY OF TAX SOLUTIONS

The Governor's Budget includes substantial tax and revenue solutions that would be used for General Fund purposes. Under the budget proposal, the personal income tax (PIT) surcharge and the reduction in the PIT dependent exemption credit would continue for the next five years. The budget proposal also includes two permanent changes to the state's income taxes that would (1) affect how the income of multistate corporations is apportioned to California, and (2) eliminate tax benefits for businesses locating in enterprise zones. Finally, the Governor's proposal calls for two new tax administration programs that would result in increased compliance with and enforcement of the state's income taxes. In the budget year, these proposals would together result in additional General Fund revenues of \$4.8 billion. Specifically, the proposals are:

- **Personal Income Tax Surcharge.** The 0.25 percent PIT surcharge imposed for tax years 2009 and 2010 would continue for 2011 through 2015. This measure is expected to result in additional revenues of \$1.2 billion in 2010-11 and \$2.1 billion in 2011-12.
- **Dependent Exemption Credit.** As part of the 2009-10 budget the dependent credit exemption was reduced to equal the personal exemption credit for tax years 2009 and 2010. This reduced level would continue through 2015 and result in PIT revenues of \$725 million in 2010-11 and \$1.2 billion in 2011-12.
- **Mandatory Single Sales Factor.** The 2009-10 budget allowed as an option apportionment of multistate corporation income using only a sales factor for determining California taxable income. This proposal would eliminate the optional component and instead require such single sales factor apportionment, resulting in revenues of \$468 million in 2010-11 and \$942 million in 2011-12.
- **Repeal Enterprise Zones Programs.** Businesses located in designated enterprise zones throughout the state can benefit from such preferential tax treatment as a hiring tax credit, credit for sales taxes paid, a special wage credit and advantageous deduction for interest paid. These programs would be eliminated, generating revenues of \$343 million in 2010-11 and \$581 million in 2011-12.

- **Focused Tax Amnesty.** The proposal calls for a limited tax amnesty for taxpayers who participated in abusive tax shelters or underreported off-shore income. The measure would also include new enforcement tools and deterrence measures. The proposal will increase revenues by \$270 million in 2010-11 and a decrease (due to acceleration of revenues in the initial year) of \$50 million.
- **Financial Institutions Records Match.** The financial institutions records match (FIRM) would require financial institutions to provide on a timely basis taxpayer information to the Franchise Tax Board (FTB) to facilitate the collection of tax debts. This will generate revenues of \$10 million in 2010-11 and \$30 million in 2011-12.

The budget proposal incorporates additional revenue for the Local Revenue Fund to support realigned programs and services. As part of the Governor's Budget, there is a substantial proposal to realign certain programs to various local government entities. This realignment proposal will be partially funded by the continuation of the following temporary taxes enacted as part of the 2009-10 budget.

- **Sales and Use Tax.** The current 1 percent increase in the sales and use tax (SUT) set to expire at the end of 2010-11 would continue for an additional five years. This would generate \$4.6 billion in 2011-12 for funding realigned programs.
- **Vehicle License Fee.** The current 0.5 percent increase in the vehicle license fee (VLF) set to expire at the end of 2010-11 would continue for an additional five years. This would generate \$1.4 billion in 2011-12 for funding realigned programs.

## **SUMMARY OF BORROWING SOLUTIONS**

In addition to the major tax and revenue proposals, the Governor's Budget calls for transferring surplus balances in special funds to the General Fund. These actions are expected to result in revenues of \$12 million in 2010-11 and \$84 million in 2011-12.

The General Fund will also benefit from loans from special funds during both the current year and the budget year. These actions will result in addition resources for the General Fund of \$494 million in 2010-11 and \$516 million in 2011-12. The delay of repayment of prior loans to certain special funds will result in additional budget year resources of \$291 million.

## SUMMARY OF CHARTS

### 2011-12 General Fund Summary

(in millions)

	2010-11	2011-12
<b>Prior Year Balance</b>	<b>-\$5,342</b>	<b>-\$3,357</b>
Revenues and Transfers	\$94,194	\$89,696
<b>Total Resources Available</b>	<b>\$88,852</b>	<b>\$86,339</b>
Non-Proposition 98 Expenditures	\$56,000	\$48,593
Proposition 98 Expenditures	\$36,209	\$36,021
<b>Total Expenditures</b>	<b>\$92,209</b>	<b>\$84,614</b>
<b>Fund Balance</b>	<b>-\$3,357</b>	<b>\$1,725</b>
Reserve for Liquidation of Encumbrances	\$770	\$770
Regular Reserve (SFEU)	-\$4,127	\$955
Budget Stabilization Account	-	-
<b>Final Reserve</b>	<b>-\$4,127</b>	<b>\$955</b>

**2011-12 General Fund Revenue Sources**

(in millions)

<b>Source</b>	<b>Amount</b>
Personal Income Tax	\$49,741
Sales Tax	\$24,050
Corporation Tax	\$10,966
Insurance Tax	\$1,974
Tobacco Taxes	\$90
Liquor Tax	\$326
Other	\$2,549
<b>Total</b>	<b>\$89,696</b>

**General Fund Expenditures**

(in millions)

Category	2010-11 Budget Act	Revised 2010-11	Proposed 2011-12	Change	% Change
Education (K-12)	\$36,079	\$36,353	\$36,211	\$-142	-0.04%
Health and Human Services	\$26,346	\$26,961	\$21,175	\$-5,786	-21.5%
Higher Education	\$11,490	\$11,651	\$9,814	\$-1,837	-15.8%
Business, Transportation and Housing	\$905	\$507	\$691	\$184	36.3%
Legislative, Judicial, Executive	\$3,149	\$3,167	\$2,507	\$-660	-20.8%
General Government	-\$3,189	\$1,578	\$1,911	\$333	21.1%
Corrections and Rehabilitation	\$8,931	\$9,257	\$9,165	\$-92	-1.0%
Resources	\$2,108	\$2,032	\$2,066	\$34	1.7%
Environmental Protection	\$77	\$75	\$63	\$-12	-16.0%
State and Consumer Services	\$598	\$586	\$597	\$11	1.9%
Labor and Workforce Development	\$58	\$42	\$414	\$372	885.7%
<b>Total</b>	<b>\$86,552</b>	<b>\$92,209</b>	<b>\$84,614</b>	<b>\$-7,595</b>	<b>-8.2%</b>