



# HIGHLIGHTS OF GOVERNOR'S PROPOSED 2011-12 MAY REVISION

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**OVERVIEW**

The Governor's May Revision of 2011-12 budget provides \$10.8 in solutions to address a \$9.6 billion General Fund deficit. The proposal results in a final reserve of \$1.27 billion.

The deficit number has shrunk significantly since January, mostly due to \$6.6 billion increase in projected revenues combined with \$14 billion in budget solutions achieved in the March budget package. The table below details how the changes since January have redefined the budget problem:

- \$26.6 billion original January Shortfall
- + \$14.0 billion from March budget package
- \$0.6 billion in various erosions of March solution
- \$1.0 billion Prop 10 litigation
- + \$6.6 billion in General Fund Revenues.
- \$2.0 billion in new costs (primarily Prop 98).
- \$9.6 billion remaining problem

The chart below illustrates the how the March budget package and the \$10.8 billion in the May Revision combine:

**2010-11 and 2010-11 General Fund Solutions  
(in millions)**

<b>Source</b>	<b>Adopted</b>	<b>May Revision</b>	<b>Total</b>	<b>Percent</b>
Expenditure Reductions	\$8,958	\$2,259	\$11,217	48.3%
Revenues	531	9,321	9,852	42.4%
Other	2,901	-745	2,156	9.3%
<b>Total</b>	<b>\$12,390</b>	<b>\$10,835</b>	<b>\$23,225</b>	

The proposed budget's reserve is \$1.271 billion.

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**

**2011-12 General Fund Summary**

(in millions)

	2010-11	2011-12
<b>Prior Year Balance</b>	<b>-\$6,950</b>	<b>-\$2,776</b>
Revenues and Transfers	\$95,740	93,623
<b>Total Resources Available</b>	<b>\$88,790</b>	<b>\$90,847</b>
Non-Proposition 98 Expenditures	\$55,875	\$50,481
Proposition 98 Expenditures	\$35,691	\$38,322
<b>Total Expenditures</b>	<b>\$91,566</b>	<b>\$88,803</b>
<b>Fund Balance</b>	<b>-\$2,776</b>	<b>\$2,044</b>
Reserve for Liquidation of Encumbrances	\$770	\$770
Regular Reserve (SFEU)	-\$3,546	\$1,274
Budget Stabilization Account	-	-
<b>Final Reserve</b>	<b>-\$3,546</b>	<b>\$1,274</b>

**2011-12 General Fund Revenue Sources**

**(in millions)**

<b>Source</b>	<b>Amount</b>
Personal Income Tax	\$54,329
Sales Tax	\$23,915
Corporation Tax	\$10,160
Insurance Tax	\$1,893
Tobacco Taxes	\$91
Liquor Tax	\$325
Other	\$2,467
<b>Total</b>	<b>\$93,623</b>

**General Fund Expenditures**  
(in millions)

<b>Category:</b>	<b>2010-11 Budget Act</b>	<b>Proposed 2011-12</b>	<b>Change</b>	<b>% Change</b>
Education (K-12)	\$35,849	\$38,252	\$2,403	6.7%
Health and Human Services	\$26,557	\$21,937	\$-4,620	-17.4%
Higher Education	\$11,608	\$10,737	\$-871	-7.5%
Business, Transportation and Housing	\$417	\$603	\$186	44.6%
Legislative, Judicial, Executive	\$3,145	\$2,546	\$-599	-19.0%
General Government:				
Non- Agency Depts.	542	491	-51	-9.4%
Tax Relief/Local Gov	977	1,003	26	2.7%
Statewide Exp.	144	398	254	176.4%
Corrections and Rehabilitation	\$9,623	\$9,768	\$145	1.5%
Resources	\$2,004	\$2,009	\$5	0.2%
Environmental Protection	\$75	\$62	\$-13	-17.3%
State and Consumer Services	\$583	\$626	\$43	7.4%
Labor and Workforce Development	\$42	\$371	\$329	783.3%
<b>Total</b>	<b>\$91,566</b>	<b>\$88,803</b>	<b>\$-2,763</b>	<b>-3.0%</b>

## **K-12 EDUCATION**

### **Overall Proposition 98**

- Provides \$52.4 billion in Proposition 98 funding for 2011-12, an increase of \$3 billion over the level assumed in the January budget.
- 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.
- Increases Revenue Limit Apportionment Adjustment by almost \$2.5 billion, this adjustment completely eliminates the \$2.1 billion deferral enacted in the March package, combined with \$434 million in existing enacted deferrals.
- Increase per pupil spending to \$7,733 per pupil, up from \$7,693 assumed in the March Budget package.

### **K-12 Adjustments**

- Shifts AB 3632 Mental Health Services from counties to schools. This proposal re-benchmarks the Proposition 98 level by an additional \$221.8 million to reflect the provision of mental health services, including out-of-home residential services. This May Revision also removes Mental Health Services from the Realignment proposal and reflects a permanent repeal of the AB 3632 mandate.
- Continues to withhold funding for the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Longitudinal Teacher Integrated Data Education System (CALTIDES), pending further review.
- Eliminates \$38.2 million of education mandates by adopting specific recommendations considered by the K-14 working group.
- Increases Charter School Categorical Block Grant and Economic Impact Aid by \$19.5 million.
- Provides \$8 million to provide "new" charter schools with supplemental categorical funding, in lieu of categorical funding that schools after 2008-09 could not receive.
- Includes \$3.2 million to support Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program.
- Increase Special Education funding by \$399,000 to reflect caseload growth.

- Reduces \$551.8 million in 2010-11 and \$690.3 million in 2011-12 reflecting better property tax revenues estimates resulting in less General Fund needed to achieve the Proposition 98 level.
- Increases child nutrition programs by \$2.5 million federal funds for increased workload associated with compliance reviews. As provides \$2 million federal funds to increase anticipated meals served in the Summer Food Service Program.
- Increases Title I federal Set Aside carryover funds by \$21.3 million for allocation to all Title I Local Education Agencies.

**Child Care and Development Programs**

- Decreases the child care and development programs by \$97.2 million, reflecting the following:
  - A net decrease of \$123.5 million due to revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care, primarily due to the implementation of the Stage 3 reduction included in the 2010 Budget Act;
  - A decrease of \$6.9 million to reflect a revised estimate of growth;
  - An increase of \$40.6 million to adjust the savings generated by child care reductions adopted by the Legislature in March based on new caseload estimates; and,
  - An increase of \$7.4 million in federal funds which will offset a like amount of General Fund.

While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. The Administration is proposing to retain \$56 million in the current year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside \$33.6 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the Department of Education.

- Proposes to eliminate the Early Learning Advisory Committee (ELAC) that was established through an executive order in 2009 to make California eligible for a three-year \$10.8 million planning grant to pilot a recommended quality rating improvement system and to develop a data tracking system for children ages 0-5, including preschool. While the elimination of this advisory council will result in the loss of the remaining federal grant funds, the council's work represents a new initiative that the state cannot presently afford. This results in a decrease of \$3.6 million in federal funds in 2011-12.

## **HIGHER EDUCATION**

- Increases the California Community Colleges apportionment by \$350 million that had been deferred by Chapter 7, Statutes of 2011. This augmentation reduces the amount of apportionment funding deferred from \$961 million to \$611 million.
- Increases the California Community Colleges property tax funding by \$57.8 million in 2010-11 and \$75.1 million in 2011-12 due to an increase in estimated local property tax and other local revenues.
- Proposes trailer bill language to eliminate duplicative audits required biennially at each of the 23 campuses of the CSU, which the university estimates will save \$1.6 million annually.
- Proposes to eliminate the California Postsecondary Education Commission (CPEC). This elimination would require that one federal grant program be moved to the State Department of Education. This results in a decrease of \$927,000 in 2011-12. The CPEC is the state's higher education coordinating and planning agency, providing policy analyses, advice, and recommendations to the Legislature and the Governor on statewide policy and funding priorities for colleges, universities, and other postsecondary education institutions.



## **TRANSPORTATION**

- Increases Proposition 1B bond appropriations by \$1 billion, in addition to the \$2.3 billion in Proposition 1B bond appropriations contained in the March Budget package. The new funding would be used for \$536.6 million for corridor mobility, \$191.9 for trade corridors, \$122.9 million for public transit modernization, \$47.6 million for major highway rehabilitation, \$134.8 for State Route 99. The May Revision also includes a decrease of \$35.3 million for state-local partnership and \$8.2 million for local bridge seismic safety, due to fewer local projects being ready to start in 2011-12.
- Provides a temporary increase of 122 contracted positions for Capital Outlay support to address a short-term workload associated with design work for projects that are ready to be funded.
- Increases funding by \$2.4 million for 18 positions to complete Planning Program Project Initiative Documents.
- Increases funding by \$1.6 million for Caltrans review of Public Private Partnership (P3).

### **High Speed Rail**

- Provides \$3.9 million in additional funding for state operations and a decrease of \$46.3 million in capital outlay funding to reflect the authorities revised cost estimates and the carryover of \$47.4 million in current year funding.

## HUMAN SERVICES

### Child Welfare Services/Case Management System Web (CWS/Web) Project

- Proposes an indefinite suspension of the development of the CWS/Web Project for a savings of \$3.1 million in 2011-12. The federal Administration for Children and Families has recently indicated that it intends to revise its requirements for the statewide automated child welfare information system. The CWS/Web Project is currently in the planning and procurement phase and is currently scheduled to move to the system design and implementation phase in 2012-13.

### Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) Replacement System (LRS) Project

- Proposes an indefinite suspension of the LRS Project for a savings of \$26.2 million in 2011-12. LRS is currently in the planning and procurement phase and is planned to replace Los Angeles County's existing automated system for eligibility and benefit determination for CalWORKs, CalFresh, Medi-Cal and various social services programs.

### Seriously Emotionally Disturbed (SED) Cases

- Shifts responsibility for SED pupils to the California Department of Education in 2011-12, for total savings of \$168.5 million. This transfer from the Department of Social Services to schools also includes a decrease in county administrative costs for the program. Of the total amount of funding for SED, \$66.6 million is proposed to now be included in Proposition 98 General Fund for this program.

### Caseload Changes

- In the CalWORKs program, funds \$14 million in 2010-11 and \$80 million in 2011-12 due to an increase in the caseload projection and cost per case. The CalWORKs caseload is projected to be 586,900 average monthly cases in 2010-11 and 593,800 in 2011-12, an increase of 0.8 percent and 3.1 percent from previous projections respectively.
- In the In-Home Supportive Services (IHSS) program, proposes a decrease of \$6.9 million in 2010-11 and \$7 million in 2011-12 from a decrease in projected caseload, partially offset by an increase in cost per case. The IHSS caseload is projected to be 430,500 cases per month in 2010-11 and 438,000 in 2011-12, a decrease of 0.8 percent and 1.0 percent from previous projections respectively.

**Elimination of the Department of Alcohol and Drug Programs (DADP)**

- Proposes the elimination of DADP, accompanying the Governor's proposal to realign responsibility for the Drug Medi-Cal program to the counties. Indicates that those state functions that are necessary for the operation of Drug Medi-Cal will be moved to the DHCS, leaving DADP with federal block grants, licensing, prevention, and counselor and certification programs. Rather than maintaining a separate department, shifts these remaining functions to another existing department, to be determined during the development of the 2012-13 Governor's Budget.

## **HEALTH SERVICES**

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

- Integrates the Healthy Families Program into the Medi-Cal program for General Fund savings of \$31.2 million in 2011-12 and to comply with federal health care reform. The Administration believes this change will prepare the State for the implementation of federal healthcare reform.
- Includes \$25 million for transitioning current beneficiaries of Adult Day Health Care (ADHC) to other programs and services in preparation for elimination of ADHC as a Medi-Cal optional benefit. The Budget Act passed by the Legislature in March included \$85 million for this transition as well as for a new ADHC-like waiver program.
- Extends the existing hospital fee for one additional year, through June 30, 2012, resulting in \$320 million in General Fund savings in Medi-Cal.
- Achieves \$85.2 million in General Fund savings in 2010-11 by identifying additional options to claim waiver funds by using a combination of additional state-only costs and surplus certified public expenditures to be made available by public hospitals.
- Achieves \$34.2 million in General Fund savings in 2011-12 by assessing a fee equal to 20 percent of Inter-Governmental Transfers and using the remaining funds to match federal funds to provide rate increases in seventeen counties that operate Medi-Cal managed care plans.
- Achieves \$1.7 million in General Fund savings in 2011-12 by limiting the opportunity for Medi-Cal beneficiaries to switch managed care plans to once annually.

### **Department of Mental Health**

- Eliminates the Department of Mental Health, folding its state hospital responsibilities into a new department to be created called the Department of State Hospitals. This is associated with the Governor's public safety realignment proposal.
- Includes \$98.6 million in one-time Mental Health Services Act funds for AB 3632 – mental health services for special education pupils – (as approved by the Legislature in March), and realigns these services to school districts.
- Includes \$50 million General Fund to address the 2010-11 shortfall in the state hospitals' budget.
- Includes \$9.5 million and 78 new positions in 2011-12 to increase safety and

security at Napa, Metropolitan, and Patton State Hospitals.

- Includes \$1.4 million and 8 new positions in 2011-12 for planning and support of the new California Health Care Facility under the authority of the California Department of Corrections and Rehabilitation.

**Department of Public Health**

- Eliminates the Public Health Advisory Committee, which provides advice and recommendations to the Department on public health policy and programs.

**Managed Risk Medical Insurance Board**

- Eliminates the Managed Risk Medical Insurance Board and transfers its programs to the Department of Health Care Services.
- Integrates the Healthy Families Program into the Medi-Cal program for General Fund savings of \$31.2 million in 2011-12 and to comply with federal health care reform.
- Integrates the Access for Infants and Mothers (AIM) program into the Medi-Cal program.
- Achieves savings of \$103.3 million in 2011-12 by extending the authority for collecting taxes assessed on managed care organizations from the current expiration of June 30, 2011 to December 31, 2013.

**California Children and Families ("First 5") Commission**

- Restores \$1 billion in funding to the First 5 state and local commissions, and replaces this funding with \$1 billion in General Fund in the Medi-Cal program. This reflects the Governor's conservative, cautious approach to legal challenges against the state in response to this fund shift approved in March 2011.

**California Medical Assistance Commission (CMAC)**

- Achieves savings of \$129,000 General Fund in 2011-12 by eliminating the California Medical Assistance Commission and transferring its responsibilities to the Department of Health Care Services.

**Emergency Medical Services Authority (EMSA)**

- Achieves \$9,000 General Fund savings in 2011-12 by eliminating the Commission on Emergency Medical Services, which provides advice to the EMSA and approves regulations proposed by EMSA.

**Office of Statewide Health Planning and Development (OSHPD)**

- Achieves savings of \$85,000 Special Fund in 2011-12 by eliminating the California Health Policy and Data Advisory Commission, which advises the OSHPD on data collection and dissemination and outcome reporting programs.
- Eliminates the Healthcare Workforce Policy Commission.

**Department of Developmental Services**

- Proposes an increase of \$3.6 million in 2011-12 to address the Legislature's adoption of a \$15 million reduction to Developmental Centers. Through savings associated with staff reductions and program consolidations the Department achieved \$11.4 million, but fell short by \$3.6 million in 2011-12.
- Proposes an increase of \$28.5 million in 2011-12 for Regional Centers, associated with the proposals to achieve the \$174 million reduction. Due to the time necessary to implement some of the proposals, the savings in 2011-12 only account to \$145.5 million, therefore, to achieve the full savings an increase is proposed.

## **NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION**

### **Proposition 1E**

- Shifts \$16 million to Proposition 1E funds in 2011-12 to support flood management activities. Proposition 1E authorizes \$4.09 billion in general obligation bonds to improve flood protection in California.

### **Department of Water Resources**

- Shifts \$1.23 million to reimbursements in 2011-12 to support the Watermaster Program. The Department of Water Resources currently administers the Watermaster Program to ensure that water is allocated by an impartial third party according to legal water rights established by the courts. This proposal will eliminate General Fund support for the Watermaster Program and instead would fully support the program through fees paid by those who benefit from the service, consistent with existing statute.
- Reduces General Fund support by \$1.8 million in 2011-12 for water data collection, support for the Central Valley Flood Board, and flood control activities.

### **Department of Conservation**

- Increases by \$4.7 million the Oil, Gas, and Geothermal Administrative Fund and 32.4 positions in 2011-12. California oil and gas operators have been experiencing significant delays in project approval, permitting, and construction site review. This proposal will enable the Department of Conservation to address additional permitting workload and enhance the Department's existing regulatory oversight of oil and gas development in the state.

### **California Energy Commission**

- Increases by \$646,000 the Renewable Resources Trust Fund and 5.0 positions in 2011-12 to implement a 33 percent Renewable Portfolio Standard (RPS) by 2020. The enabling legislation requires the CEC to adopt regulations specifying enforcement of renewable energy procurement requirements for publicly owned utilities (POU), and to monitor POU planning and compliance with renewable energy procurement requirements.

**Boards, Commissions, and Task Forces**

- Eliminates the following Boards, Commissions and Task Forces:
  - Colorado River Board;
  - Salton Sea Council;
  - State Mining and Geology Board; and,
  - Nine Advisory Committees and Review Panels at the Department of Fish and Game: Commercial Salmon Fishing Review Board; Commercial Sea Urchin Advisory Committee; Dungeness Crab Review Panel; Recreational Abalone Advisory Committee; California Advisory Committee on Salmon and Steelhead Trout; State Interagency Oil Spill Committee Review Subcommittee; State Interagency Oil Spill Committee; Striped Bass Advisory Committee; and Abalone Advisory Committee.

**Tahoe Conservancy**

- Eliminates General Fund support for the Conservancy.

**Department of Toxic Substances Control**

- Reduces General Fund spending of \$802,000 for the Clandestine Drug Lab Cleanup Program. The Department has sufficient illegal Drug Lab Cleanup Account expenditure authority in the pending budget bill to cover these costs.



## **PUBLIC SAFETY**

### **California Department of Corrections and Rehabilitation**

- Increases \$414.9 million in 2010-11 to address various structural and operational shortfalls.
- Increases \$291.7 million to reflect the shifting of workforce cap savings from the California Department of Corrections and Rehabilitation's (CDCR) budget to Control Section 3.93. In addition, the CDCR's workforce cap savings are reduced to \$194.5 million to reflect the reduced size of their budget after realignment is fully implemented.
- Increases \$19.2 million, on a one-time basis, to repay a loan from the Pooled Money Investment Board, which funded the design of the San Quentin Condemned Inmate Complex project. The Administration is not moving forward with this project and, as such, the CDCR must repay loans associated with the design of the project.
- Decreases \$6.5 million in 2010-11 and increases \$342,000 in 2011-12 for various costs directly related to changes in the budgeted populations of adult inmates, juvenile wards, and adult and juvenile parolees.
- Decreases \$36.2 million related to Board of Parole Hearing revocation workload reductions that will occur as a result of moving revocation hearings to the Judicial Branch (see Judiciary below). This is consistent with AB 109, in which the Board will no longer be responsible for final revocation decisions for offenders who violate the terms of their parole.
- Increases \$30 million for the California Community Corrections Performance Incentive Act. The Act established a system of performance-based funding that shares state general fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison for committing new crimes or violating the terms of probation. As of May Revision, approximately 6,200 felony probationers were successfully kept out of state prison as a result of this program.

### **Judiciary**

- Provides \$41.8 million for court workload resulting from the shift of responsibility for parole and post-release supervision revocation hearings to the Judicial Branch. Of this amount, \$2.5 million is added to the amount provided for court security realignment. This shift of responsibility to the courts is pursuant to AB 109 (Budget Committee), Chapter 15, Statutes of 2011.

**California Emergency Management Agency**

- Reduces \$1.8 million, on a one-time basis, to reflect the planned purchase of fire engines using federal funds.
- Reduces \$779,000 by eliminating General Fund support for the annual Golden Guardian Exercise and state agency training, which will now be offered on a reimbursement basis.
- Reduces \$20.0 million to reflect historical funding levels associated with disaster assistance, as well as additional analysis and evaluation that the Agency will undertake before recommending disaster declarations.

**Department of Justice**

- Transfers \$10.0 million from the General Fund to the DNA Identification Fund, and restores \$4.1 million for lease revenue payments on regional forensic laboratories. These actions are necessary to ensure regional forensic laboratories are able to continue to perform critical public safety work and were taken because revenues to the DNA Identification Fund have not come in as projected.

**Military**

- Reduces \$1.5 million to reflect lower costs associated with military retirements.

**PUBLIC SAFETY REALIGNMENT**

The May Revision continues to assume the enactment of the Public Safety Realignment, but reduces the size from \$5.9 billion to \$5.6 billion in 2011-12. The realignment would be funded by the continuation of the 0.4 percent of the Vehicle License Fee and \$.01 Sales Tax rates of 2009, to allocate to local governments for public safety programs. The revised Realignment proposal would no longer shift AB 3632 Mental Health Services, CalFIRE costs, or mandates costs to counties.

## **GENERAL GOVERNMENT**

### **Reducing State Government**

- Eliminates 43 boards, commissions, task forces, office and departments, including the California Commission on the Status of Women, the Office of the Insurance Advisor, Office of Privacy Protection within the State and Consumer Services Agency and the Fair Employment and Housing Commission.

### **Department of Community Development and Housing**

- Appropriates Proposition 1C Funds with an increase of \$63 million in appropriation in 2011-12. This amount includes \$ 25 million for the Housing Urban-Suburban-and Rural Parks Program, \$18 million for Transit-Oriented Development Program and \$20 million for Building Equity and Growth in Neighborhoods (BEGIN) Program. Eliminates proposed budget language that would have restricted the Department from making new awards for bonds programs with continuous appropriation authority. Allows the Department to approve pending and future awards.
- A decrease in of 123,000 General Funds and 1.4 personnel years in 2011-2012 for HCD. Eliminating funding for oversight and redevelopment agency low- and moderate income housing funds and an annual report on housing funds and activities.
- Reduces \$1.3 million General Fund and 8.5 personnel years in 2011-2012 in the division of Housing Policy Development in HCD.

### **Employment Development Department**

- Reduces the interest payment by \$42.8 million, which was authorized in the March budget process to borrow from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI interest expense that had been estimated at \$362.3 million.
- Increases by \$620.6 million the Unemployment Fund in 2010-11 in the UI benefit payments, primarily due to recently enacted federal incentives. With the adjustment, total benefit payments in 2010-11 will be \$22.2 billion. No changes are proposed for 2011-12.
- Increases by \$48 million the Unemployment Fund in 2010-11. Trailer bill language to amend the 2010 Budget Act is required to appropriate \$48 million from the American Recovery and Reinvestment Act incentive funds tied to implementation of an Alternative Base Period (ABP) methodology for calculating UI benefits. These funds will be used to support program operations through fiscal year 2014-15.

- Increases by \$15.6 million Unemployment Fund in 2011-12 to provide continued support for the Single Client Database Conversion and the ABP Project.
- Proposes to eliminate the Unemployment Insurance Appeals Board, and the Administration will consult with stakeholders and evaluate options to phase out the full-time board that handles high-level appeal decisions. This collaborative process will culminate in the elimination of seven board members in 2012-13.
- Proposes to eliminate the separate OSH Standards Board and transfer responsibility to the Division of Occupational Safety and Health within the Department of Industrial Relations, similar to the federal model for standards development, including stakeholder advisory panels. This results in a decrease of \$324,000 other funds and 1.9 personnel years in 2011-12.
- Decreases by \$677,000 reimbursement and 3.8 personnel years in 2011-12 to reflect a net reduction of four positions within the Labor and Workforce Development Agency and the relocation of the office from leased space to existing space within the Employment Development Department. This reduction includes one position currently assigned to support the Economic Strategy Panel. The relocation from leased space to state-owned space will also result in rental savings of \$210,000 other funds in 2011-12 within the Department of Industrial Relations.

**State Property**

- The May Revision includes proposals to "Reduce the State Government's Property Footprint" that would result in savings in 2012-13. These proposals include reviewing and disposing of properties with no state programmatic use or that is underutilized, consolidating of under-utilized office space, and developing a comprehensive policy for fairgrounds.

## **LOCAL GOVERNMENT**

The May Revision continues to 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 May Revision maintains the Governor's proposal to eliminate redevelopment agencies and shift in property taxes to other local entities. The proposal calls for:

- De-establish 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 2011-12
- 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.

## TAXATION AND REVENUE

The May Revision keeps largely intact—but makes modifications to—the Governor's January proposal for tax and revenue solutions that would be used for General Fund purposes. Under the May Revision proposal, the personal income tax (PIT) surcharge and the reduction in the PIT dependent exemption credit would continue for the next five years (except the PIT surcharge would trigger off for 2011 and then trigger back on in 2012).

The January Budget proposal included 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. The May Revision retains the proposed change in apportioning income of multistate corporations; however, the proposal to eliminate enterprise zone credits would be substantially altered to a proposal to reform this tax program.

The May Revision also calls for a partial exemption from the sales tax for equipment purchases and changes to the state's existing tax hiring tax credit. In the budget year, these proposals would together result in additional net General Fund revenues of \$5.2 billion over the two-year period. Specifically, the May Revision proposals are:

- **Personal Income Tax Surcharge.** The 0.25 percent PIT surcharge imposed for tax years 2009 and 2010 would continue for 2012 through 2015. (The surcharge would not be in effect for tax year 2011.) This measure is expected to result in additional revenues of \$1.343 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 \$799 million in 2010-11 and \$1.371 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 and bring about certain technical changes in the assignment of sales, resulting in revenues of \$470 million in 2010-11 and \$950 million in 2011-12.
- **Enterprise Zones Program.** 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 reformed, under the May Revision. The policy changes would result in relative minor savings of \$23 million in 2010-11 and \$70 million in 2011-12. Annual savings would increase as the reform measures took hold.

- **Sales Tax Exclusion for Equipment Purchases.** The proposal calls for an exemption from a portion of the General Fund state sales tax. Most business would get a 1 percent exemption and start-up firms would be eligible for a 5 percent exemption. The exemption would apply to the purchase of capital equipment beginning in 2012-13. The expanded exemption for small business would be dependent on adopting changes to the single sales factor. The proposal is intended to encourage investment in the state, particularly by new businesses engaged in manufacturing. There would be no impact in 2010-11 and 2011-12.
- **Expanded Hiring Credit.** The state instituted a hiring tax credit for small businesses as part of the 2009 budget. The May Revision implements an expanded credit by increasing the size of the credit as well as the size of the firms able to use the credit. The proposal also calls for sunsetting the program in 2012. This is expected to result in decreased revenues of \$29 million in 2010-11 and \$65 million in 2011-12.

The May Revision incorporates additional revenue for the Local Revenue Fund to support realigned programs and services proposed in January. 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 \$4.520 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 \$1.350 billion in 2011-12. Most of this revenue--\$1.079 billion—would be dedicated to funding realigned programs and \$270 million of this amount would go to the General Fund.

The call to extend the PIT, SUT, and VLF would provide revenues for the General Fund and realignment would be subject to voter approval.

## **BORROWING**

The May Revision would institute several changes to the January budget plan as part of an initiative to pay down the amount of budgetary borrowing. Currently, state budgetary borrowing totals roughly \$35 billion, comprising deferred payments to schools, settle-up moneys for education, economic recovery bond debt, and loans from state special funds.

The Governor proposes beginning a process to reduce the size of this debt by:

- Reversing \$3 billion of deferrals to education; and,
- Reducing state special fund borrowing by \$744 million.

In prior actions, the sale of state buildings (a form of borrowing) were cancelled, with lost resources replaced with additional loans of \$411 million in 2010-11 and \$464 million in 2011-12. The administration also proposes a reduction in the amount of long-term borrowing by the state in the fall.