



Summary

On July 28, 2009, the Governor signed a series of 26 bills that amended the FY 2009-10 State Budget which was originally enacted in February. This budget package provides \$23.7 billion in savings to address the continued deterioration of state revenues as projected in both the May Revision and subsequent updates to the state's revenue outlook.

This report summarizes the contents of the Legislature's budget package that provides \$23.7 billion in savings.

California's budget reflects the harsh reality of diminished resources forced by the recession and mirrors the difficult decisions millions of our residents must make in these lean times. However, this budget is shaped by several guiding principles that resonate throughout the actions that have been taken:

- ◆ **Bridges the Deficit:** The Legislature's plan bridges the projected \$23.1 billion deficit for FY 2009-10.
- ◆ **Reflects the Latest Revenue Projections:** Assumes \$3.5 billion less revenue than the May Revision level—reflecting net revenue loss in May and June combined with lower revenues expected throughout the 2009-2010 budget year projections.
- ◆ **Protects Institutions Californians Depend Upon:** Does not eliminate CalGrants, Healthy Families, State Parks, CalWORKs, Poison Control and long term care programs (Adult Day Health Care, Linkages, MSSP, Caregiver Resource Centers) targeted by the Governor.
- ◆ **Makes Deep Cuts in Every Area:** Over sixty percent of the total solution (\$15.3 billion) is through program reductions and savings in every policy area of state government.
- ◆ **Protects Education Funding, Now and In the Future:** Does not suspend Proposition 98 in 2009-10 and includes language to guarantee a maintenance factor—which guarantees that Proposition 98 spending will be \$11.3 billion higher annually in better fiscal years.
- ◆ **Protects California's Access to Federal Funds:** Targets cuts to avoid losing \$3.7 billion of TANF block grant funding, as well as millions of dollars from hundreds of other funds including enhanced Medi-caid matching funds, Ryan White Act funding, and other federal grants and revenues that would have been lost if the Governor's proposal had been adopted.

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- ◆ **Contains Major Policy Changes Requested by the Governor:** The budget package includes provisions to make major changes to: CalWORKs, In Home Supportive Services program integrity, Medi-Cal Managed Care, asset sale and leaseback, IT procurement, the centralization of eligibility for health and human services programs, and boards and commissions consolidations.

HOW THE GAP IS BRIDGED:

The Governor's original May Revision included \$24 billion of solutions, which targeted an expected \$21.3 billion deficit for FY 2009-10 (\$19.5 billion after accounting for the \$2 billion reserve). This deficit is the result of an additional projected shortfall of \$15.7 billion combined with the need to make up for \$5.8 billion of solutions that voters rejected during the May 19, 2009 special election. The Governor proposed a \$4.5 billion budget reserve.

As the budget deliberations ensued, the Governor updated the May Revision at several points throughout the process and also issued two revisions to his proposal in July. The July revisions reflected the Governor's belief that 2009-2010 revenues would be \$3 billion less than what was projected in the May Revision. In addition, the revision reflected actual May and June 2009 revenue numbers, which accounted for an additional shortfall of \$536 million.

The budget package provides \$23.7 billion of solutions to address the deficit. The Governor attempted to veto an additional \$500 million from the budget, to create a reserve of that amount. The chart below illustrates how the deficit is addressed:

	\$ Billions
Starting Reserve	2.0
Reduced May Revision Revenues	-12.3
Increased May Revision Expenditures	-3.1
Loss of Special Election Solutions	-5.8
May Revision Projected Shortfall	-19.2
Less \$3 billion in Projected Revenue Loss	-3.1
Less \$536 million Net 2008-2009 Loss	-0.5
Lost 2008-09 Solutions	-0.9
Projected Budget Shortfall	-23.7
Budget Solutions in Package	23.7
Vetoed*	0.5
Final Reserve	0.5

* Vetoes subject to pending legal challenge

How the package's \$24 billion of solutions are constructed:

- ◆ \$15.6 billion in program reductions and cuts. These solutions are detailed by policy area and reflect the targeted cuts to achieve efficiency and provide leaner

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levels of services in order to preserve California's public infrastructure.

- ◆ \$3.4 billion in revenue accelerations and fees, including the Governor's proposals to accelerate Personal Income Tax withholdings and quarterly Estimated Payments. Also includes the Governor's proposal to sell a portion of the State Compensation Insurance Fund's book of business.
- ◆ \$1 billion in fund shifts.
- ◆ \$2.2 billion in borrowing, mostly from local governments due to the suspension of Proposition 1A.
- ◆ \$1.4 billion of one-time savings by deferring the June 30th state employee paycheck to July 1st.

The chart below compares the Governor's May Revision proposal and the Conference Committee actions with the Final Budget Package:

Summary of Solutions by Area (in billions)

Area	Governor's May Revision	Conference Version	Final Version (including vetoed amounts)
Education	\$5.2	\$4.5	\$5.7
Higher Education	\$3.1	\$2.7	\$2.8
Human Services	\$3.3	\$0.9	\$1.2
Health	\$2.4	\$2.0	\$2.3
Transportation	\$1.6	\$2.1	\$0.8
Resources	\$0.4	\$0.5	\$0.5
Public Safety	\$1.4	\$1.0	\$1.0
General/Local Government	\$3.1	\$3.5	\$4.6
Taxes	\$0.0	\$1.9	\$0.0
Accelerations/SCIF/Other Revenues	\$3.4	\$4.5	\$4.3
Reserve (with updated revenues)	\$0.8	\$0.3	\$0.5
Total	\$23.9	\$23.6	\$23.7

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Governor Vetoes.

In his July 28, 2009 signing of the budget package, the Governor attempted to achieve \$500 million in savings from additional vetoes to the 2009-2010 state budget. These vetoes included adjustments to technical language that made expenditure reductions but were not an appropriation to the budget itself. The issue of whether the Governor may use his line-time veto authority beyond a budget appropriation, such as in a control section reduction, is currently being challenged in the courts.

Policy Proposals.

On June 28, 2009 the Governor unveiled a series of policy proposals deemed as "reforms" that were part of the budgetary negotiation. The following policy changes were adopted as part of the Budget Package from this effort.

CalWORKs

Makes significant changes, effective July 1, 2011, to the CalWORKs program including:

- ◆ **Increases Sanctions for Noncompliance.** Allows for deeper grant reductions for noncompliant families than provided in current law. Establishes that if a sanctioned family continues to be noncompliant after a county intervention, the families grant would be reduced by 25 percent. If a family remained noncompliant, this sanction would grow to 50 percent of the total grant.
- ◆ **Self Sufficiency Reviews.** Requires counties to conduct a self-sufficiency review six months after the determination of eligibility and with each annual re-determination. If the recipient does not attend the review without good cause, the family's monthly grant will be reduced by 50 percent.
- ◆ **Time Limit Changes.** Limits continuous eligibility for CalWORKs to 48 months, after this period the adult grant and CalWORKs services will not be provided for 12 months. Maintains current lifetime limit of 60 months of benefits. Time in sanction status would also count toward the lifetime time limit.
- ◆ **Cases on Aid for more than Sixty Months.** All families that have been on aid for more than sixty months will see their child portion of the grant reduced by 25 percent, unless the family can demonstrate that they have met work requirements or are exempt from them. Counties would be required to conduct an intensive assessment of families entering the safety net.

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In Home Supportive Services

Adopts major policy changes to enhance program integrity, including:

- ◆ **Fingerprinting and Criminal Background Check Requirements.** Requires that all providers go through a criminal background check process, including fingerprinting. Recipients will be required to submit a fingerprint to the county. Both the provider and recipient will be required to submit fingerprints as part of the timecard submission process.
- ◆ **Unannounced Visits.** Requires county social workers to conduct unannounced visits for certain high risk IHSS cases.
- ◆ **Timesheet Changes.** Establishes a civil penalty for time-sheet fraud. Requires that providers sign an acknowledgement of eligible recipient services. Requires in-person submission of provider employment documents to a county office.
- ◆ **Enhanced Fraud Detection and Prevention Changes.** Provides \$10 million for local anti-fraud investigations and activities. Provides additional positions at DSS and DHCS for anti-fraud activities. Requires counties to train staff in additional fraud-prevention efforts. Requires the county to issue targeted mailings in certain circumstances. Limits the ability of providers to receive a check at a post office box.

Centralized Eligibility.

Allows the Department of Health Care Services (DHCS) and the Department of Social Services (DSS) to develop a request for a proposal to centralize and contract various eligibility program processing functions currently performed by counties. This proposal sets specific deliverables that must be provided in the request that is made to the Legislature and requires a stakeholder process. Requires additional legislative authorization to begin the contracting process.

Cost of Living Adjustments.

Eliminates automatic cost of living adjustments (COLAs) for CaWORKs and SSI/SSP grants. Also eliminates COLAs for the budgets of UC, CSU, and other state departments. This does not impact Proposition 98 funding.

Managed Care Changes.

Requires the Department of Health Care Services to submit a waiver to the federal government in order to achieve the following: strengthen California's health care safety net, including disproportionate share hospitals; reduce the number of uninsured Californians; increase federal financial participation; improve health care quality and outcomes; and promote home and community based care.

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Requires the waiver to include Medi-Cal restructuring proposals in order for the program to better serve the most vulnerable beneficiaries, including seniors, people with disabilities, children with significant medical needs, and people with behavioral health conditions. The goals of restructuring care for these populations include: increase access to better coordinated and integrated care for these populations, improve health outcomes, and slow long-term growth of the Medi-Cal program. Restructuring will also seek to improve coordination between Medicare and Medi-Cal, improve integration of physical and behavioral health care, and use medical homes and specialty centers for children with significant medical needs. SB 6 X3 authorizes the waiver to seek authority to enroll beneficiaries into specified organized delivery systems, such as managed care, enhanced primary care case management, or a medical home model. This is subject to federal approval and may only occur after funds for this purpose have been appropriated by the Legislature. SB 6 X3 requires Department of Health Care Services to convene and consult with a stakeholder advisory group in developing the waiver and an implementation plan. Finally, it requires DHCS to submit an implementation plan to legislative policy and fiscal committees, prior to implementation of this waiver, and at least 60 days prior to an appropriation being made by the Legislature for this purpose.

Asset Management

The following proposals change the way the state holds, leases, and sells property as well as the way the state procures goods and services.

- ◆ **Long-Term Lease.** This proposal authorizes the Department of General Services (DGS) to lease property under control of a state agency, department or district agricultural association if the Director of DGS determines that the property is of no immediate need to the state. However, it prohibits the Director of DGS from leasing any property under the jurisdiction of: the State Lands Commission; the State Coastal Conservancy or any other state conservancy; Department of Fish and Game, Department of Parks and Recreation, and lands under the jurisdiction of the Department of Transportation, California State University System, or Regents of the University of California.
- ◆ **Orange County Fair Sale.** This proposal authorizes DGS to sell all or any portion of the Orange County Fairgrounds pursuant to a public bidding process that is designed to obtain the highest and most certain return for the state, as specified.
- ◆ **Surplus Reporting.** This proposal requires the state's annual report on its inventory of surplus property to include additional information relative to the programmatic uses of the property, to what extent the property is utilized, leasing information, if applicable, and projected uses over the next 5 years, as specified.
- ◆ **Sale Lease-Back.** This proposal authorizes DGS to enter into a sale or long-term lease of 17 specified state office buildings or properties. The Director of DGS is authorized to determine the terms and conditions for each sale and

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lease, and requires that each property sold pursuant to this authorization be for no less than fair market value, exempts these leases from CEQA when lease is made on an "as is" basis or is otherwise subject to CEQA through local government land use restrictions.

- ◆ **General Fund Loan.** This proposal authorizes the Director of Finance to loan up to \$10 million from the General Fund to the Department of General Services.
- ◆ **Procurement.** Certain state contracts require the winning bidder to meet specific statewide participation goals for disabled veteran business enterprises. This proposal requires the awarding department to award the contract to the lowest responsible bidder meeting specific participation goals, unless there is no bidder meeting those requirements, in which case the awarding department shall award the contract to the next lowest bidder making a good faith effort to meet participation goals. Current law allows the awarding department to simultaneously consider awarding the contract to the lowest bidder meeting the participation goals or the lowest bidder making a good faith effort to meet those goals.
- ◆ This proposal also makes two reforms related to Information Technology procurement. First, it authorizes DGS to make exceptions to a prohibition on contractors being awarded contracts for procurement of goods or services that result from advice they give under a contract with the state for consulting services, when related to IT projects, found to be in the best interest of the state and pose no conflicts of interest. It also allows DGS to withhold less from contractors when awaiting the complete delivery and acceptance of goods or services, based on a risk evaluation.

Boards and Commissions

The following provisions were enacted in an effort to streamline particular industry-specific oversight boards and commissions. The proposals do not result in any General Fund savings because industry-specific oversight state entities are funded by special funds which collect revenue through licensing fees. The idea is that professionals become licensed and simultaneously allow for a regulated professional field. The proposal:

- 1) Abolishes the Bureau of Naturopathic Medicine, creates the Naturopathic Medicine Committee, and requires the governor to appoint 2 additional members, for a total of 9 members to the Board of Osteopathic Examiners which must be licensed Naturopathic doctors.
- 2) Consolidates the Structural Pest Control Board within the Department of Pesticide Regulation, keeping the board and its licensing and regulatory functions intact.
- 3) Consolidates the Bureau of Electronic Appliance Repair and the Bureau of Home

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Furnishings and Thermal Insulation into the Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation.

4) Consolidates the Board for Geologists and Geophysicists under the Board for Professional Engineers and Land Surveyors and transfers two PY's to the Board for Professional Engineers and Land Surveyors to handle issues relating to geologists and geophysicists.

Education (Proposition 98)

- ◆ Provides approximately \$49.1 billion for the 2008-09 fiscal year and approximately \$50.4 billion for the 2009-10 fiscal year in total Proposition 98 funding. Funds at the minimum guarantee in both years and avoids suspension of Proposition 98.
- ◆ Captures \$1.6 billion in unallocated K-12 categorical program funds in 2008-09. Carries this cut into 2009-10 but instead of reducing categorical programs, makes a reduction to school district, county office, and charter school general purpose funds by \$1.5 billion and scoops \$100 million in program funds to offset the loss of prior year categorical funds.
- ◆ Reduces school district and county office of education revenue limits by \$2.4 billion in 2009-10, including a commensurate categorical reduction for Basic Aid Districts.
- ◆ Defers of \$1.7 billion in revenue limit payments from 2009-10 to 2010-11.
- ◆ Funds the Quality Education Investment Act (QEIA) in 2009-10 with ongoing Proposition 98 funds for General Fund savings of \$450 million. Reduces revenue limit funding for QEIA school districts by \$402 million. Authorizes eligible QEIA districts to apply for federal Title I funds to offset program reductions. Extends the QEIA program for an addition year, through 2014-15.
- ◆ Authorizes the next installment of American Recovery and Reinvestment Act (ARRA) funds, including about \$600 million in anticipated Stabilization Funds, to backfill K-12 reductions, including reductions for Basic Aid Districts.
- ◆ Provides several additional program and funding flexibility options, beyond what was provided in February, as follows:
 - Suspends the High School Exit Exam as a requirement for graduation for students with disabilities beginning in 2009-10;
 - Authorizes local education agencies (LEAs) to reduce the number of instructional days to 175 per year through 2012-13;

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- Suspends the requirement to purchase newly adopted instructional materials and suspends regular State Board of Education adoptions through 2012-13;
- Allows school districts to sell surplus property not purchased with state funds and use proceeds for general fund purposes for nearly three years;
- Suspends the remaining routine maintenance reserve requirement of one percent through 2012-13 for school districts that meet the facility requirements of the Williams settlement;
- Provides LEAs with access to additional, prior-year fund balances in 2009-10 beyond those provided in February. Additions include: Targeted Instructional Improvement Grants, Instructional Materials, California High School Exit Exam, Adult Education, ROC/P Facilities, and Deferred Maintenance.
- ◆ Changes the Charter School Facility Grant Program from a reimbursement program to a grant program.
- ◆ Lowers the minimum reserves for economic uncertainty to one-third of the currently required level for 2009-10 provided that LEAs make annual progress in fully restoring these reserves by 2011-12.
- ◆ Prohibits the assignment of a negative or qualified fiscal certification due to a substantial loss of federal Stabilization Funds in 2011-12 and 2012-13.
- ◆ Certifies the amounts of the Proposition 98 minimum guarantees and outstanding balances for the 2005-06 through 2008-09 fiscal years, including that the maintenance factor owed in 2008-09 is \$11.2 billion and provides that this amount will be restored to the Proposition 98 base as otherwise provided in the Constitution.

Child Care & Development (Proposition 98)

- ◆ Restores Child Care Services for CalWORKs families and families transitioning off CalWORKs.
- ◆ Rejects the Governor's proposal to increase family fees, which would have doubled fees for low income families.
- ◆ Denies the Governor's proposal to eliminate funding for ROC/P and Adult Education CalWORKs Services.
- ◆ Eliminates the Extended Day Care (Latchkey) program, but retains funding for services from July 1 until the start of school to ensure no children are immediately displaced, and adopts language to ensure that children receive priority placement in other subsidized programs.

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- ◆ Holds the Regional Market Reimbursement rates constant at the 2005 levels, reimbursing up to a maximum of the 85th percentile.
- ◆ Appropriates \$110 million in American Recovery and Reinvestment Act (ARRA) federal stimulus funds in order to both hold program levels constant and increase child care slots in the voucher program.
- ◆ Clarifies that reimbursements to child care service providers based on a daily rate may only be authorized under specified circumstances.

Higher Education

- ◆ Includes \$2 billion in cuts to UC and CSU, which is the same level as proposed by the Governor and reimbursement authority of \$1.2 billion in federal ARRA funds. However, this proposal treats the UC and CSU equally and retains academic preparation programs.
- ◆ Defers up to \$750 million in General Fund (GF) payments to the University of California (UC) that otherwise would have been dispersed from the State Treasury for the months of July, 2009 through September, 2009. Of this amount, \$250 million will be repaid to the UC in October 2009; the remaining payments will be repaid no earlier than April 2010 and no later than June 30, 2010 (as determined by the Director of Finance). This amount is in addition to the \$500 million cash deferral enacted by the Legislature in 2008, thus shifting approximately \$1.25 billion in payments throughout the fiscal year.
- ◆ Defers \$290 million in GF payments to the California State University (CSU) that otherwise would have been dispersed from the State Treasury for the month of July, and instead makes this payment in October, 2009.
- ◆ Increases, by \$163 million, the amount of Community College General Apportionment payments that are deferred from April and May 2010 to July 2010. With this additional deferral, the state will be deferring a total of \$703 million in Community College payments from one fiscal year to the next.
- ◆ Achieves about \$700 million in savings from Community Colleges, and offsets the reduction with an additional \$130 million in federal funds and \$80 million from restoring the fee increase to \$26 per unit.
- ◆ Provides the Community Colleges Categorical Program "flexibility" by allowing funding from selected programs to be moved to better meet the needs of the districts.
- ◆ Rejects the Governor's cuts to Cal Grants, but shifts \$32 million of General Fund costs to the student aid fund.
- ◆ Revises the Quality Education Investments Act (QEIA) allocation of \$48 million for the Community Colleges Career Technical Education program from 2010-11 through 2013-14.

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VETO:

- ◆ Reduces the Student Aid Commission's State Operations funds by \$6.3 million, of which \$4.3 million is being set aside to be restored contingent upon enactment of legislation that authorizes the decentralization of the Cal Grant Program and other financial aid programs. The \$2 million difference is the savings the Administration is scoring as a result from the decentralization of this agency. The impact will be reduced services during the time when financial aid distribution is expected, as students are beginning or returning to college for the academic year.
- ◆ Reduces Hastings College of the Law by an additional \$1 million, or 10 percent, which provides a funding level of \$8.3 million.

Health

Department of Health Care Services

- ◆ Adopts the May Revise proposal to reduce funding for Medi-Cal by \$323.2 million General Fund as an unallocated cut.
- ◆ Adopts Budget Bill Language to reduce up to \$1 billion in General Fund upon receipt of increased federal funds for Medi-Cal.
- ◆ Adopts the May Revise proposal to reduce payments to private Disproportionate Share Hospitals by 10 percent (\$18.4 million General Fund savings) and also reduces the Distressed Hospital Fund by \$23.9 million (General Fund).
- ◆ Adopts several Medi-Cal pharmacy reforms included in the May Revise for a savings of approximately \$109 million General Fund.
- ◆ Adopts the May Revise proposal to expand long-term care fees for an additional \$18 million in revenue and reduce long-term care rates for a savings of \$75.7 million General Fund.
- ◆ Rejects the May Revise proposal to eliminate Adult Day Health Care (ADHC) benefits and adopts reforms to ADHC programs including a temporary 3-day cap, minimum standards on medical necessity, on-site Treatment Authorization Requests, and anti-fraud measures for approximately \$25 million in General Fund savings.
- ◆ Reduces General Fund support for community clinic programs, specifically: Rural Health Services (\$2.2 million); Seasonal Migratory Worker Program (\$1.9 million); American Indian Health Program (\$1.5 million); and Expanded Access to Primary Care Program (\$4.5 million General Fund and \$3.9 million Proposition

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99 funds).

- ◆ Adopts the Governor's proposal to require the department to apply to the federal government for a Medi-Cal waiver in order to implement reforms to the Medi-Cal program including utilizing managed care or other specialized delivery systems of care for vulnerable populations including seniors, people with disabilities, children with significant medical needs, and people with behavioral health problems.
- ◆ Adopts the Governor's proposal to, subject to the approval of the Legislature, require the Department of Health Care Services and the Department of Social Services to develop a plan to centralize eligibility functions of the Medi-Cal, CalWORKs, and Food Stamps programs at the state-level.
- ◆ Authorizes DHCS to maximize federal claiming by claiming federal reimbursements for: 1) expenditures in programs funded by realignment funds including, but not limited to, the County Medical Services Program; 2) expenditures in programs funded by the County Mental Health Services Act; 3) other public expenditures; and, 4) state-only funded programs.

VETO:

- ◆ Eliminates all remaining General Fund support for various community clinic grant programs, for an additional savings of \$25 million.
- ◆ Reduces support for county administration of Medi-Cal by 6.7 percent for savings of \$60.569 million General Fund (\$121.138 million Total Funds).

Department of Public Health

- ◆ Eliminates, on a one time basis, all \$18 million in General Fund dollars for the Immunization Program.
- ◆ Reduces \$4.1 million in General Fund support for domestic violence shelter programs.
- ◆ Reduces General Fund support for Maternal, Child and Adolescent Health (MCAH) programs, specifically: Black Infant Health Program (\$.9 million), Adolescent Family Life Program (\$1.75 million), Local County Maternal and Child Health Grants (\$2.1 million) and MCH state support (\$3.5 million).
- ◆ Adopts the May Revise proposal to suspend the Children's Dental Disease Prevention Program for a General Fund savings of \$2.9 million.
- ◆ Adopts the May Revise proposal to eliminate Proposition 99 funds for County

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Health Services for a savings of \$25.6 million.

- ◆ Adopts the May Revise proposal to reduce \$438,000 in Proposition 99 funds from the Asthma Program.
- ◆ Reduces General Fund support for the Alzheimer's Research Centers of California by 50 percent, from \$6.2 million to \$3.1 million.
- ◆ Reduces General Fund support for Office of AIDS Programs, specifically: AIDS Drug Assistance Program (\$.5 million); Therapeutic Monitoring (\$.7 million); Education and Prevention (\$2.2 million); Counseling and Testing (\$0); Early Intervention (\$0); Home & Community Based Care (\$.5 million); Surveillance & Epidemiologic Studies (\$1 million); Housing (\$.1 million); and state operations (\$3.4 million).

VETO:

- ◆ Eliminates all remaining General Fund support for maternal, child, and adolescent health programs for additional savings of \$12 million.
- ◆ Eliminates all remaining General Fund support for domestic violence shelter programs for additional savings of \$16.3 million.
- ◆ Eliminates a \$6.8 million transfer of Proposition 99 funds to the Tobacco Control Program for a media campaign and grant program.
- ◆ For an additional savings of \$52.1 million, eliminates all General Fund support for all Office of AIDS (OA) programs except the AIDS Drug Assistance Program (ADAP) and Epidemiologic Studies/Surveillance. The budget, including the vetoes, reduces OA Programs by \$87.1 million General Fund and backfills with \$25 million in ADAP rebate funds, resulting in a net reduction to the programs of \$62.1 million. All of these programs, with the exception of Therapeutic Monitoring, receive federal funds and therefore will continue operating on a smaller scale. The budget, as adopted by the Legislature, includes a \$.5 million reduction to ADAP. Please see the chart below for more detail.

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**Table: Office of AIDS Budget Detail
(Dollars in Millions)**

PROGRAM NAME	2008-2009			2009-2010		
	GF	FF	TOTAL	GF	FF	TOTAL
Education & Prevention	\$24.6	\$6.4	\$31	\$0	\$6.4	\$6.4
HIV Counseling & Testing	\$8.2	\$2.5	\$10.7	\$0	\$2.5	\$2.5
Epidemiological Studies/Surveillance	\$8.6	\$1.5	\$10.2	\$7.6	\$1.5	\$9.2
Early Intervention	\$7.4	\$6.9	\$14.4	\$0	\$6.9	\$6.9
Therapeutic Monitoring	\$8	\$0	\$8	\$0	\$0	\$0
AIDS Drug Assistance Program	\$96.3	\$88.4	\$356.3	\$70.8	\$92.9	\$414
Housing	\$1.1	\$3.5	\$4.6	\$0	\$3.5	\$3.5
Home & Community Based Care	\$6.3	\$5.4	\$11.7	\$0	\$5.4	\$5.4

Emergency Medical Services Authority

- ◆ Rejects the May Revise proposal to eliminate all General Fund support for the California Poison Control System but reduces General Fund support by 50 percent, from \$5.9 million to \$2.95 million.

Managed Risk Medical Insurance Board

- ◆ Rejects the May Revise proposal to eliminate the Healthy Families Program and to reduce program eligibility from 250 to 200 percent of the federal poverty level.
- ◆ Reduces \$124 million in General Fund support for the Healthy Families Program and adopts intent language that outside sources of funding support the program.
- ◆ Adopts the May Revise proposal to eliminate \$2.7 million in General Fund support for Certified Application Assistance for the Medi-Cal/Healthy Families joint application.
- ◆ Adopts the May Revise proposal to reduce \$4.9 million in Proposition 99 funding for the AIM program.

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- ◆ Adopts the May Revise proposal to reduce \$6.6 million in Proposition 99 funding for the MRMIP program.

VETO:

- ◆ Reduces General Fund support for the Healthy Families Program for additional savings of \$50 million.

Human Services

Department of Social Services

- ◆ Rejects the Governor's May Revision proposal to eliminate the CalWORKs program and instead cuts roughly \$510 million from the program (\$370 million of which is from the county single allocation), primarily from allowing local control to streamline services to meet current economic realities. Rejects the Governor's proposed additional grant reduction, safety net elimination, and child-only elimination.
- ◆ Effective July 1, 2011, adopted reforms in the CalWORKs programs to require self-sufficiency reviews, create a "sit out" period after 48 months of aid, require additional grant sanctions for noncompliance, and count months in sanction toward the time limit. These changes are outlined previously in this report under the title "Major Policy Changes Contained in Budget Package."
- ◆ Effective October 1, 2009, further reduces SSI/SSP grants for couples by \$82 to the federal minimum, pursuant to the Governor's proposal, and reduces grants for individuals by \$5 per month to save \$155 million on an annual basis and \$108.2 million in 2009-10. With this reduction, the maximum monthly grant for individuals will be \$845 per month, approximately 94 percent of the federal poverty level (FPL), and the maximum monthly grant for couples will be \$1,407 per month, approximately 116 percent of the FPL.
- ◆ Makes the cost-of-living adjustments in CalWORKs and SSI/SSP inoperative unless the Legislature takes action in a future year to change this.
- ◆ Rejects the May Revision proposals to eliminate virtually all funding for the In-Home Supportive Services (IHSS) Program and to reduce state participation in wages to the minimum wage, but includes savings of over \$100 million for various changes to the program. Effective October 1, 2009, eliminates the Share of Cost state buyout program for those who received it after July 1, 2009. Effective September 1, 2009, limits domestic and related services for recipients with FI rankings in these services below 4 and eliminates services for those with FI scores below 2. These service limitations included exemptions for high-need

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and medically fragile recipients, e.g. those under protective supervision, those receiving paramedical services, and those authorized to receive over 120 hours of service per month.

- ◆ Makes various changes in IHSS to prevent and combat fraud in the program, including requirements of unannounced visits, fingerprinting clients, background checks of providers, making timecard changes, additional provider training, and providing additional resources to the Department of Health Care Services, the Department of Social Services, and to counties to bolster fraud investigation and quality assurance efforts. These changes are outlined previously in this report under the title "Major Policy Changes Contained in Budget Package."
- ◆ Starts the process toward the development of a centralized eligibility process, convening as an inclusive stakeholder steering committee to advise on this as a comprehensive plan is developed by the administration. Requires that procurement steps only be taken once the comprehensive plan is approved by the Legislature. This plan must be received 45 days prior to a request from the administration on an appropriation for this purpose. These changes are outlined previously in this report under the title "Major Policy Changes Contained in Budget Package."
- ◆ Rejects the Governor's proposal to eliminate the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program. CAPI recipients' grants are aligned with those in SSI/SSP, so the CAPI share of this reduction is approximately \$1 million General Fund.
- ◆ Approves the May Revision proposal to reduce rates by 10 percent for Group Homes, Foster Family Agencies, and Seriously Emotionally Disturbed for a savings of \$26.6 million General Fund without federal stimulus funds taken into account. Rejects the 10 percent reduction to the Supplemental Clothing Allowance and the Specialized Care Increment rates.
- ◆ Approves a reform for the Adoption Assistance Program to tie benefit levels to need, rather than automatically increase them by age, scoring savings of \$900,000 General Fund. Additionally, adopts a \$5 million General Fund reduction to the Transitional Housing Program-Plus programs on a one-time basis.
- ◆ Rejects the May Revision proposal to overhaul Community Care Licensing and eliminate all General Fund support, allowing for Family Child Care Homes to self-certify. Instead rescinds Subcommittees' previous action to approve positions for specific activities and retains a 10 percent fee increase to raise \$2.1 million in revenue to offset General Fund spending. Takes additional General Fund savings of \$5.3 million as a result of additional federal stimulus funds.

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VETO:

- ◆ The Governor vetoed \$28.9 million associated with funding the exemptions for high-need and medically fragile recipients under the new service limitations adopted for the IHSS program. It remains unclear which of the exemptions are waived in association with this veto.
- ◆ The Legislature had reduced funding for IHSS Public Authority Administration by 20 percent of \$4.5 million, leaving a balance of \$18 million for 2009-10. The Governor vetoed an additional \$8.7 million from Public Authorities.
- ◆ The Governor vetoed \$80 million General Fund as an unallocated reduction to Child Welfare Services, requiring counties to decide where in their local child welfare services programs this reduction will be implemented. The Legislature had acted to reject the May Revision proposed reduction to Child Welfare Services of \$70.7 million General Fund.

Department of Aging

- ◆ Rejects the Governor's proposed elimination of all General Fund support for the Multipurpose Senior Services Program, so funding for this program remains unaffected in the Budget.
- ◆ The Legislature acted to reject the General Fund elimination from the Brown Bag program and approved smaller reductions than proposed by the May Revision for the Linkages Program, or \$2.5 million General Fund from a local assistance budget of \$6 million, and the Alzheimer's Day Care Resource Centers, or \$1.2 million General Fund from a local assistance budget of \$2.84 million.

VETO:

- ◆ The Governor vetoed all remaining General Fund of \$3.96 million from the Linkages Program and \$2.3 million collectively from the Brown Bag Program and the Alzheimer's Day Care Resource Centers, again eliminating all General Fund support for these programs, consistent with his May Revision proposals.

Department of Alcohol and Drug Programs

- ◆ Approves the May Revision proposed reduction of Drug Medi-Cal rates by 10 percent for a General Fund savings of \$8.8 million.
- ◆ Approves the May Revision proposal to eliminate General Fund, or \$90 million, for the Prop. 36 Substance Abuse and Crime Prevention Act and rejects the reduction proposal for the Offender Treatment Program, maintaining \$18 million General Fund. Federal funds are expected to be used to provide similar services

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to make up about half of the reduction that is sustained here.

Department of Developmental Services

- ◆ Adopts the May Revision proposal to reduce General Fund support for the statewide developmental services system by \$234 million through a variety of reforms affecting regional center services and developmental centers, including drawing down additional federal financial participation for particular services and recipients.

VETO:

- ◆ The Governor vetoed an additional \$50 million from the DDS Regional Centers Purchase of Services program for services provided to eligible children up to the age of 5. Services affected include Early Start and services provided under the Lanterman Act to this population of children.

Department of Mental Health

- ◆ Adopts the May Revision proposal to eliminate state support in the Mental Health Managed Care program for services other than federally required inpatient hospitalization and medication services, resulting in \$64 million in General Fund savings.
- ◆ Adopts the May Revision proposal to reduce Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program funding related to county programs developed in 2007-08 and 2008-09, and funded by counties using Mental Health Services Act funds, resulting in \$28 million in General Fund savings.
- ◆ Adopts the May Revision proposal to defer payments to mandated mental health services to students with serious emotional disturbances enrolled in special education (AB 3632), resulting in \$52 million in General Fund savings.

VETO:

- ◆ The Legislature had acted to reduce funding for the Caregiver Resource Centers from \$10.5 million to \$7 million for 2009-10. The Governor further reduced this in his vetoes by \$4.1 million leaving the program funded at \$2.9 million.

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Natural Resources and Environmental Protection

- ◆ Reduces funding for the Department of Parks and Recreation's operations budget by 10 percent, or \$14.2 million (\$8 million in cuts enacted by the legislature and \$6.2 million vetoed by the Governor). Partnered with a combination of special fund loans and reversions of prior year unexpended funds that, this proposal will result in \$76.2 million in General Fund savings and the closure of roughly 50-100 state parks. By September, it is anticipated that the Department will determine through a cost benefit analysis which parks will be closed and when.
- ◆ Reduces funding for local non-profit conservation corps recycling programs by \$8.25 million. The Legislature approved a \$16.5 million loan from AB 118 funds to maintain current funding levels for Local Conservation Corps recycling programs. The Governor vetoed \$8.25 million of the loans. Total remaining funding for the local corps for recycling programs is \$11.25 million.
- ◆ Abolishes the California Integrated Waste Management Board, and transfers its duties and responsibilities as well as the California Beverage Recycling Program to the newly created, Department of Resources, Recycling, and Recovery.
- ◆ Approves an \$8 increase in fees for the optional Environmental License Plate and rejects cuts to various resources programs proposed by the Governor.
- ◆ Shifts \$4.4 million in baseline funding for the Department of Fish and Game to implement the Marine Life Protection Act from General Fund to Proposition 84 bond funds.
- ◆ Shifts on a one time basis \$30 million from the Fish and Game Preservation Fund to replace General Fund funded activities at the Department of Fish and Game.
- ◆ Approves 15 positions on a 2-year limited term basis to support the Department of Water Resources' Delta Habitat and Conveyance Program with budget bill language stating that no funding can be used for the construction of an alternative conveyance facility.
- ◆ Approves \$100 million in budget year revenue that will be generated with the enactment of a lease to drill for oil in the Tranquillion Ridge Field from an existing platform in federal waters. In exchange for the approval of the lease, the Plains Exploration and Production Company will decommission 3 existing platforms by 2017, shut down and convey Gaviota and Lompoc processing facilities, offset all greenhouse gas emissions from the project and donate 3900 acres of land on the Gaviota coast and in Lompoc Valley to the public.
- ◆ Maintains current levels of funding for the Office of Health Hazard Assessment but shifts \$4.1 million from the General Fund to Special Funds.

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Public Safety

- ◆ Approves \$169 million reduction to the Judicial Branch, which will be absorbed (along with previous cuts to the Judicial Branch's budget that total approximately \$414 million) by such measures as one-day per month court closures, redirection of funds designated for court initiatives such as IT projects and construction, utilizing trial court reserves, and various increases to court fees.
- ◆ Approves total reduction for the Department of Corrections and Rehabilitation (CDCR) of \$1.2 billion (which includes \$400 million vetoed from the budget passed in February).
- ◆ Reduces \$50 million by capping the amount that the CDCR can reimburse providers for outside contract medical services.
- ◆ Restores \$20 million to the Department of Justice's (DOJ) budget to support forensic lab services.
- ◆ Restores \$20 million to DOJ's budget to support the DOJ's Bureau of Narcotics Enforcement.
- ◆ Governor vetoed budget bill language that required the CDCR to report to the Legislature on certain information related to overtime expenditures for custody staff, including drivers of overtime costs and plans to control overtime expenditures in the future.
- ◆ Governor vetoed budget bill language that restricted General Fund appropriations for specific purposes, pursuant to supplemental reporting, and required unspent funds revert to the General Fund.
- ◆ Governor vetoed budget bill language that prohibited the CDCR from encumbering or expending funds for the San Quentin Condemned Inmate Complex until certain conditions were met (legality of double-celling condemned inmates, resolution of federal court litigation on prison overcrowding, completion of environmental impact review)

General Government

- ◆ Eliminates \$55 million (\$25 million GF) from Augmentation for Employee Compensation to eliminate funding for increases in employee health care costs. Departments will still be required to pay those increased costs for employees, but will have to absorb those costs within their existing budgets.
- ◆ Accepts the Governor's proposal to sell a portion of the State Compensation Insurance Fund (SCIF), which is expected to generate about \$1 billion in revenues.

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- ◆ Rejects the Governor's proposal to cut state employee compensation by another 5 percent (state employees are already experiencing a pay reduction of over 9 percent), but instead defers the June 30 pay check until July 1 to generate a one-time savings estimated to be \$1.2 billion. This would be similar to the roughly \$4 billion of deferrals included in the Proposition 98 budget.
- ◆ Sweeps the Workforce Development Fund for \$6 million in General Fund revenue.
- ◆ Eliminates the Rural Health Care Equity Program for \$17.2 million in savings in 2009-10, with ongoing savings of approximately \$15 million.
- ◆ Scores \$100 million in savings from a 2 month holiday in PPO premiums for the state.
- ◆ Shifts \$40 million in General Fund costs for the Department of Industrial Relations to Special Funds funded through fees for 4 years.
- ◆ Suspends funding of Capitol repairs for a one time savings of \$5 million.
- ◆ Scores \$100 million to recognize savings from the Governor's IT Reorganization Plan.
- ◆ Scores \$50 million in savings from lower than expected health premium rates for state employees.
- ◆ Approves a \$6.8 million General Fund loan, to be repaid within the 2009-10 fiscal year out of American Recovery and Reinvestment Act (ARRA) funding, to establish an ARRA Task Force and Inspector General within the Department of Finance.
- ◆ Approved \$3 million to provide funding necessary to meet the requirements of the Citizens Redistricting Initiative (Proposition 11).
- ◆ Approves \$450,000 of Proposition 63 funding to support mental health needs of the California National Guard.
- ◆ Prohibits automatic increases in funding for the UC, CSU, judiciary, and state operations unless otherwise provided for in the budget act.
- ◆ Approves \$1.8 million to establish the California National Guard Education Assistance Award Program to enhance retention within the California National Guard.
- ◆ Generates \$2.8 million by removing the income caps on member fees for all levels of care at California Veterans Homes, establishing a separate fee structure for the Residential Care for the Elderly level-of-care in which the member income

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contribution percentage is set to 55 percent, as well as setting a new level of member fees for non-veteran spouses who enter veteran's homes on or after July 1, 2009.

State Controller

- ◆ Approves the May Revision increase of \$22.4 million (\$7.2 million General Fund) and 7 positions to implement the first year of a re-procurement of the Human Resources Management System (21st Century Project). This amount is in addition to \$9.6 million (General Fund) and 80.6 positions included as a placeholder in the 2009-10 enacted budget. The former primary contractor for this information technology project was terminated for non-performance. Continuation of the project will make use of work already done and protect the state's claims against the former contractor.

California Tax Credit Allocation Committee

- ◆ Approves May Revision increase of \$517 million of federal funds provided by the American Recovery and Reinvestment Act (ARRA) for tax credit programs to stimulate the production of affordable rental housing for low-income families and households. This amount is in addition to \$550 million in the current year, which was the subject of a recent Section 28.00 notification to the Legislature—making a total of \$1.1 billion of new tax credit financing available for low-income housing.

Franchise Tax Board

- ◆ Reduces by \$4.8 million and 69 positions to reflect the suspension of the Senior Citizens' and Disabled Homeowners and Renters Assistance Program. Funding for payments under the program was vetoed in the current year and was not included in the 2009 Budget Act. This reduction recognizes administrative savings due to program suspension.
- ◆ Approves \$5.2 million, as requested in an April Finance Letter, for the Enterprise Data to Revenue (EDR) Project. This cost will be offset by \$7 million of additional revenue in 2009-10. More significantly, this multiyear information technology project will generate an estimated \$2.8 billion of revenue over the project timeline. The budget also includes reporting language.
- ◆ Adds \$354,000 to implement backup withholding to conform to federal practice (see discussion in the Revenue section of this report).

State Board of Equalization

- ◆ Rejects a May Revision proposal to redirect \$965,000 (\$454,000 General Fund) savings resulting from increased e-filing to implement the Return Process Efficiencies information technology project because the return on this

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expenditure is relatively low in the context of the current budget shortfall.

- ◆ Rejects an April Finance Letter request to reallocate \$6.4 million of sales tax administrative costs from local governments to the state General Fund and \$880,000 for additional staff. These requests were related to implementation of the temporary 1-cent increase in the state sales and use tax rate adopted in February. Although, the normal cost allocation methodology would have shifted the cost to the state due to temporary increase in state revenues, there was no actual increase in costs. Trailer bill language provides an exception to the usual cost allocation methodology for this temporary sales tax increase.
- ◆ Reduces by \$285,000 (\$129,000 General Fund) to correct over budgeting for workstations.
- ◆ Adds \$9.6 million (General Fund) to register non-retail businesses in order to increase compliance by businesses with the use tax (see discussion in the Revenue section of this report).

Business Transportation and Housing Agency

- ◆ Eliminates authority from the Business Transportation and Housing Agency to make new loans and investments from the California Small Business Expansion Fund and Trust Fund. Additionally, allows the Department of Finance to transfer funds to the General Fund that is not needed to guarantee existing loans. This transfer will provide \$10 million in General Fund savings.
- ◆ Transfers all unencumbered funds and proceeds from future loan repayments from the Chrome Plating Pollution Prevention Fund to the General Fund. This transfer will provide \$3.5 million to the General Fund in 2009-10.

Contingencies and Emergencies

- ◆ Veto Reduction. The 2009-10 Budget passed by the Legislature included \$44.1 million from the General Fund requested by the Governor for allocation by the Department of Finance to address unforeseen contingencies or emergencies. The Governor reduced this amount by \$24 million in order to increase the General Fund reserve and based on the fact that only \$18 million was spent from this appropriation in 2008-09. However, this item only covers relatively minor funding deficiencies. Larger unanticipated expenses generally are funded through supplemental appropriation legislation, which provided \$510 million for unanticipated General Fund expenses in 2008-09.

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Local Government

- ◆ **Proposition 1A Suspension.** Approves the Governor's proposal to borrow \$1.935 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension will divert an amount equal to 8 percent of the total property tax revenues received by cities, counties and special districts in 2008-09 (excluding debt levies). This amount will be redirected from local agencies to a Supplemental Revenue Augmentation Fund (SRAF) in each county to be used by the County Offices of Education during 2009-10, as directed by the Department of Finance, to reimburse the state for a portion of the cost of Medi-Cal and other state services provided within each county and for additional property tax allocations to K-12 school districts in each county in an amount that will reduce state General Fund Proposition 98 obligations to the maintenance of effort level required by the federal American Recovery and Reinvestment Act.
 - **Securitization.** The state will repay the suspension amounts with interest no later than June 30, 2013, as required by the constitution. However, the trailer bill (AB 15 X4) includes a securitization mechanism that is intended to avoid any actual reduction in local revenues. Under this mechanism, a joint powers authority will issue notes backed by the state's repayment obligation and use the proceeds to replace the diverted property taxes of all of the local agencies that choose to participate in the securitization. Moreover, the state will pay all of the costs of the securitization; including payment of an interest rate of up to 8 percent for an issuance amount of up to \$2.25 billion (the principal amount cap includes the potential cost of credit enhancements and issuance in addition to the \$1.935 billion suspension amount). The trailer legislation appropriates money from the General Fund to make the Proposition 1A repayments or pay off the securitization borrowing. As an alternative to participating in the joint securitization, local agencies may choose to take their property tax reduction in 2009-10, and then be repaid by the state directly at an interest rate that will be set by the Department of Finance above the rate earned by the Pooled Money Investment Account (the state's short-term investment pool for idle funds), subject to a cap of 6 percent. Currently, the Pool earnings rate is under 2 percent annually. This option is intended to provide an incentive for local agencies that have adequate resources of their own or that have better credit than the state to finance their suspension amount on their own, rather than as part of the joint securitization, which essentially will be a state credit and probably will be expensive given the state's poor credit rating.
 - **Hardship and Special Provisions.** The trailer bill includes an extreme hardship provision that allows local agencies in or in danger of bankruptcy or unable to provide core services to apply to the Department of Finance for a reduction or elimination of their property tax suspension. The department may grant hardship suspension reductions or eliminations

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totaling up to 10 percent of the total suspension amount in any county. Any hardship amounts will be reallocated to all of the other local agencies in the county, so the total suspension amount remains unchanged. However, hardship reallocations should not be necessary, assuming that the securitization takes place since there would not be any (or only a brief temporary) loss of revenue to the participating local agencies in that case. The legislation also includes provisions allowing the City of Long Beach to borrow from its tideland trust subsidence fund and for counties to borrow from their redevelopment agencies to cover the suspension amounts if they choose to do so.

- ◆ **Redevelopment Payments.** Provides \$1.7 billion of General Fund savings in 2009-10, and \$350 million in 2010-11 by requiring payments by redevelopment agencies (RDAs) to counties for allocation to K-12 schools and county offices of education to help support schools and programs that serve residents of the redevelopment areas or that live in redevelopment-financed housing. Redevelopment agencies may suspend their contributions to their Low and Moderate Income Housing Funds in 2009-10 in order to help finance their payments or they may use other available funds or borrow from their parent city or county. Any RDA that fails to restore their Low and Moderate Income Housing Funds by June 30, 2015 will be subject to a 5 percent increase in their required annual housing set-aside (generally increasing the set-aside from 20 percent to 25 percent). RDAs may extend their time limits for plan effectiveness and for receipt of tax increment revenues by one year after they meet their payment obligation for 2009-10. County auditors will reduce the "AB 8" basic property tax allocations to school districts in an amount equal to the additional property tax payments to schools financed from the RDA payments, and, instead, deposit these amounts into the Supplemental Revenue Augmentation Fund (SRAF) in each county, to be used to offset state General Fund costs in the same manner as the Proposition 1A suspension funds discussed above.
- ◆ **State Mandated Local Programs.** Adopts most of the Legislative Analyst's recommended revisions to the May Revision proposal to defer payments by suspending 31 local mandates. The budget package suspends 25 mandates and defers \$65.6 million of payments to local governments for the past costs of carrying out those mandates. The budget package retains mandates requiring consistent voting procedures, including making absentee ballots available to all voters. It recasts one victims' rights mandate to reflect recent voter-approved measures (thereby eliminating future state payment obligations), retains the Open Meetings Act mandate and suspends the enhanced holding period under the animal adoption mandate (while retaining the prior 3-day holding requirement). Deferred payments will continue to be state obligations to local governments but will be deferred to a future time. Proposition 1A (of 2004) generally requires the Legislature to suspend mandates if valid claims from prior years are unpaid. For suspended mandates, local governments would not be required to comply with them in 2009-10 and would not be entitled to future

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reimbursements for any costs that they choose to undertake that year. The \$76.4 million of funding that would remain is the amount needed to pay claims received by the state for past costs of carrying out essential law-enforcement, tax administration and voting process mandates in order to avoid suspension of those mandates in 2009-10.

- ◆ **Williamson Act.** Reduces state subventions to local governments (primarily counties) under the Williamson Act Program by 20 percent from the amount provided in the 2009-10 Budget Act. This results in a General Fund savings of \$6.9 million. Under this longstanding program, the state backfills a portion of the revenue lost by local governments when they enter into contracts with land owners to limit property tax assessments for lands that are maintained as open space or agriculture lands.
 - *Veto Suspends Funding.* The Governor eliminated all but \$1,000 of the \$27.8 million appropriation for these subventions—effectively suspending the subventions for 2009-10. This suspension has no direct effect on open-space contracts or the property tax benefits received by the contracting landowners. The suspension of the subventions might possibly result in some counties deciding not to renew contracts, but such action would not have any immediate effect because the contracts generally have a 10-year term that is renewed annually. The state will continue to backfill property tax losses to K-14 Education through regular education funding mechanisms, such as Proposition 98 and revenue limit apportionments.

Revenue

General Fund Tax Enforcement and Acceleration Provisions

- ◆ Enacts budget trailer legislation (AB 17 X4) to adopt the Governor's May Revision proposal to accelerate \$610 million of Personal Income Tax and Corporation Tax revenues into 2009-10 by increasing the June (second) quarterly estimated payment from the current 30 percent of annual tax liability to 40 percent, beginning June 2010. The percentage due with the first quarterly estimated tax payment (due in April) is 30 percent, so the total amount due in the first half of the year would be 70 percent. However, the proposal would eliminate the third quarterly estimated payment (now 20 percent of annual liability) and increase the final quarterly payment (due in December) from the current 20 percent to 30 percent of annual tax liability.
- ◆ Adopts the Governor's May Revision proposal to increase payroll withholding schedules by 10 percent, effective November 2009, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10 (also in AB 17 4X).
- ◆ Requires non-retailers with receipts over \$100,000 annually to register with

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Board of Equalization. Businesses that provide services will be required to register with the board and file annual use tax returns by April 15. The annual use tax return and payment applies to purchases on which sales tax was not collected (generally from out-of-state sellers), excluding vehicles, vessels and aircraft. This provision increases compliance, but does not change tax liabilities. The estimated General Fund revenue gain is \$26 million in 2009-10, \$122 million in 2010-11, and potentially larger amounts in future years as compliance improves. There will also be increased local sales and use tax revenues.

- ◆ Requires backup withholding. This generally conforms California to federal income tax backup-withholding rules related to various non-wage payments. Requires a business to withhold 7 percent of reportable payments of interest, dividends, compensation for services, and other forms of income if the IRS determines a condition for withholding exists (such as significant underreporting of non-wage payments by the recipient on tax returns). The requirement of improved compliance results in an annual revenue gain of \$26 million.

Transportation

- ◆ Accepts the Governor's proposal to shift approximately \$300 million of public transit funds from home-to-school transportation to repay public transportation bonds. Most of the funds for home-to-school transportation will be made up through Proposition 98 funds.
- ◆ Recognizes the updated revenue estimates of the February budget cut to public transportation, which provides over \$300 million in General Fund savings.
- ◆ Includes the LAO proposals to borrow \$134 million from the State Highway Account, which will be repaid within three fiscal years, and transfer \$70 million from the Motor Vehicle Account to the General Fund.
- ◆ Suspends local airport grants for \$4 million in savings.
- ◆ Provides full funding to the High Speed Rail Authority (\$139 million) from Proposition 1A bond funds.

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**General Fund Budget Package Summary
With Solutions
(Dollars in Millions)**

	2008-09	2009-10
Prior Year Balance	\$4,071	-\$3,379
Revenues and Transfers	<u>\$84,097</u>	<u>\$89,541</u>
Total Resources Available	\$88,168	\$86,162
Non-98 Expenditures	\$57,495	\$49,551
Prop-98 Expenditures	\$34,052	\$35,032
	<u> </u>	<u> </u>
Total Expenditures	\$91,547	\$84,583
Fund Balance	-\$3,379	\$5,579
Budget Reserves:		
<i>Reserve for Liquidation of Encumbrances</i>	\$1,079	\$1,079
Final Reserve	-\$4,458	\$500

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Budget Package Bill List

Bill #	Description
	4th Extraordinary Session
AB 1	Budget Bill Jr
AB 2	Ed/Higher Ed
AB 3	Education
AB 4	Human Services
AB 5	Health
AB 6	Medi-Cal Managed Care
AB 7	Centralized Eligibility
AB 8	CalWORKS Reforms
AB 9	Developmental Services
AB 10	Transportation
AB 11	Resources
AB 12	General Government
SB 13	Judiciary/Public Safety
AB 14	Prop 1A Suspension
AB 15	Prop 1A Suspension Implementation
SB 16	Cash Deferrals
AB 17	Revenue Acceleration
AB 18	Revenue Compliance
AB 19	In Home Supportive Services Reforms
AB 20	Boards, Consolidations, and Eliminations
AB 21	Procurement
AB 22	Asset Management
AB 25	State Treasurer Cash Management
AB 26	Redevelopment Fund Shift
	Regular Session
SB 63	Integrated Waste Management Board Consolidation
SB 90	Supplemental Appropriations
SB 116	State Warrants