



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2009-10 MAY REVISION

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OVERVIEW

Today, the Governor released his May Revision to his proposed 2009-10 state budget. Although the 2009-10 fiscal year budget was signed by the Governor on February 20, 2009, the revision recognizes that the continued degradation of the state revenues and the pending cash borrowing needs will require swift and immediate action.

The May Revision included two versions that project two scenarios—one in which all the measures on the May 19th ballot are successful and one in which all of the measures fail—as the success of the provisions is expected to generate \$5.8 billion difference in the State's fiscal position in 2009-10 fiscal year.

If the ballot measures **pass** the proposed budget would include \$86.3 billion in available General Fund revenues, \$84 billion in expenditures, and a reserve of \$1.1 billion

If the ballot measures **fail** the proposed budget would include \$88.6 billion in available General Fund revenues, \$85.5 billion in expenditures, and a reserve of \$2 billion

Revenue decline drives deficit

- The May Revision projects an additional shortfall of \$15.4 billion. The components of this number are as follows:
 - \$12.4 billion revenue decline – this is worse than the \$8 billion projected by the LAO in March.
 - \$3 billion in increased expenditures – this is due to need to backfill \$1 billion in lower property taxes for schools combined with cost increases for counter-cyclical programs like Medi-Cal and CalWORKs and increased costs for the Corrections Receiver.
 - If the ballot measures fail, this number increases by \$5.8 billion

Solutions if the ballot measures pass

- The \$15.4 billion shortfall is closed with the following rough estimate of solutions:
 - \$6 billion in Revenue Anticipation Warrants (RAW);
 - \$3 billion in cuts to education in both K-12 and community colleges.
 - \$1 billion in reductions to Higher Education.
 - \$1 billion in one-time savings from the sale a portion of the State Compensation Insurance Fund book of business to a private entity.
 - \$1.8 billion in major cuts to health and human services including:
 - \$750 million in Medi-Cal reductions. These reductions are achieved through rate reductions, benefit changes and a change to the long-term care program that would negotiated with the federal government;
 - Reduction of Developmental Services by an additional \$234 million;
 - Cuts to IHSS services and IHSS provider pay;
 - Elimination of "SSI-like" benefits elderly and disabled legal immigrants and limiting access to medical care to needy legal immigrants – all of whom have played by the immigration rules; and
 - Reduction of the SSI-SSP grant level to the minimum level allowed by the federal government; and
 - Adoption of various CalWORKS reductions.
 - \$100 million from the lease oil or gas extraction at the Tranquillion Ridge area off the Santa Barbara coast.
 - \$610 million in tax accelerations.
 - \$1 billion (approximately) in other solutions.

Additional solutions needed if measures fail

- If the ballot measures fail, the Governor would add the following solutions:
 - \$2.3 billion in additional reductions to Proposition 98
 - \$200 million in additional cuts to Higher Education.
 - Suspension of Proposition 1A for a \$2 billion savings.
 - \$282 million from corrections by reducing some crimes from felonies to misdemeanors and commuting the sentences of certain undocumented immigrants.
 - \$1.7 billion from adoption a 10 percent Personal Income Tax withholding increase.
 - Makes additional reductions of approximately \$864 million in major cuts to health and human services including:
 - Eliminating funding for Proposition 36;
 - Reducing foster care rates;
 - Additional reductions of \$300 million to the In Home Supportive Services program services;
 - \$100 million in reductions to various public health programs;
 - \$108 million in reductions to Healthy Family program by reducing eligibility to 200% of the federal poverty level; and
 - \$178 million in other additional reductions and fund shifts that will impact health and human services programs.
 - Adds an ERI fee to pay for CalFIRE costs for a savings of \$76 million.]
 - Reduce the RAW borrowing by \$500 million.

Some key questions facing the Assembly as it crafts its version of the budget over the next couple of weeks are as follows:

- How do we balance the need for thoughtful public policy deliberation on reductions that will permanently change California's government with the need to act quickly to help restore the state's cash reserves?
- Just because it is constitutionally permissible, does it make sense to cut schools, possibly by over \$5 billion – the single greatest cut in the entire proposed budget?
- During tough economic times does it make sense to take money out of the pockets of those that can least afford it with such proposals as cutting SSI payments, increasing student fees, increasing costs for IHSS recipients, and cutting the pay for IHSS workers to minimum wage while there is no similar sacrifice from those that can afford it in a way that will not impact the economy?
- Is it conscionable to eliminate critical benefits for needy aging and disabled legal immigrants that have played by the immigration rules?

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

SUMMARY OF CHARTS

Assuming the Passage of Propositions 1A -1F
 2009-10 May Revision
 General Fund Summary
 (in millions)

	2008-09	2009-10
Prior Year Balance	\$2,308	\$-4,248
Revenues and Transfers	\$85,947	\$90,518
Total Resources Available	\$88,255	\$86,270
Non-Proposition 98 Expenditures	\$58,195	\$44,769
Proposition 98 Expenditures	\$34,308	\$39,311
Total Expenditures	\$92,503	\$84,080
Fund Balance	-\$4,248	\$2,190
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Final Reserve	-\$5,327	\$1,111

**Assuming the Failure of Propositions 1A -1F
2009-10 May Revision
General Fund Summary
(in millions)**

	2008-09	2009-10
Prior Year Balance	\$2,308	\$-3,631
Revenues and Transfers	\$85,947	\$92,218
Total Resources Available	\$88,255	\$88,587
Non-Proposition 98 Expenditures	\$58,195	\$48,804
Proposition 98 Expenditures	\$33,691	\$36,652
Total Expenditures	\$91,886	\$85,587
Fund Balance	\$-3,631	\$3,131
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Final Reserve	-\$4,710	\$2,052

**2009-10 May Revision General Fund Revenue Sources
(in millions)**

Source	Enacted Feb 20 Amount	May Revision Amount
Personal Income Tax*	\$51,237	\$48,836
Sales Tax	\$30,221	\$27,583
Corporation Tax	\$10,445	\$8,799
Insurance Tax	\$1,798	\$1,913
Tobacco Taxes	\$111	\$102
Liquor Tax	\$370	\$332
Other	\$3,546	\$4,653
<i>Total</i>	\$97,728	\$92,218

*Assumes \$1.7 billion from Increased Withholding in May Revision that would not occur if ballot measures pass

K-14 Education: Proposition 98

Key Proposals:

- Reduces Proposition 98 funding by \$1 billion in 2008-09 and \$2 billion in 2009-10. These cuts reduce total Proposition 98 funding in 2008-09 from \$50.7 billion to \$49.7 billion. For 2009-10, the proposed cuts reduce funding from \$55.9 billion to \$53.7 billion.
- Notes that reductions are offset by the \$3.3 billion in federal State Fiscal Stabilization Funds and \$2.8 billion in other federal funding increases being provided to schools through the American Recovery and Reinvestment Act (ARRA).
- Includes a variety of flexibility proposals, in addition to those already created through the 2009-10 Budget Act; including allowing districts to reduce up to one week of instructional time, limited to no more than three years.
- *Specific 2008-09 K-12 Education proposals:*
 - Provides a one-time reduction of \$694.3 million to school district revenue limits.
 - Eliminates the High Priority Schools Program for a total savings of \$114 million.
 - Increases Charter School Economic Impact Aid funding by \$8.3 million to reflect a base adjustment.
- *Specific 2009-10 K-12 Education proposals:*
 - Reduces school district revenue limit funding by \$950 million.
 - Defers \$640.3 million in school district apportionment payments from 2009-10 to 2010-11.
 - Reduces child care by \$36 million by "reducing the high incidence of overpayments to providers in voucher-based programs."
 - Proposes to possibly move certain K-12 payments from, for example, the beginning of July to the end of the month and some portion from the July and August payments may be shifted to October 2009.

- *Specific California Community Colleges proposals:*
 - Reduces Community Colleges categorical funding by \$85 million in 2008-09.
 - Defers \$155 million of the Community Colleges apportionments in the 2008-09 fiscal year to the 2009-10 fiscal year.
 - Reduces by \$221.6 million in 2009-10 to Community Colleges categorical programs, which will be accompanied by flexibility reforms similar to those included in the February budget package for K-12 categorical programs.
 - Reduces by \$58.4 million in 2009-10 to enrollment growth for Community College appointments.
 - Reduces \$120 million in 2009-10 to Community Colleges apportionments by reducing the funding rate for credit physical education and recreational courses to the regular non-credit rate.
 - Expects that Community Colleges to absorb the projected \$42.1 million in 2008-09 property tax shortfall and another \$116.7 million in 2009-10.

Additional Proposals If Propositions Fail:

- Proposes an additional reduction of \$617 million in 2008-09 and \$2.66 billion in 2009-10 to Proposition 98 funding. This reduction would bring total Proposition 98 funding for 2008-09 to \$49.1 billion and \$51.1 billion for 2009-10. This amounts to a total combined reduction of \$5.3 billion for 2008-09 and 2009-10.
- Notes that if Proposition 1C is not enacted, the \$965.6 million General Fund appropriation included in the measure would not be added to the Proposition 98 Guarantee in 2009-10 and education would continue to receive a share of the lottery proceeds.
- *Specific 2008-09 K-12 Education proposals:*
 - Makes additional one-time reduction of \$617.3 million to school district revenue limits.

- *Specific 2009-10 K-12 Education proposals:*
 - Provides an additional reduction of \$475 million to school district revenue limits.
 - Provides flexibility to reduce and additional two days beyond the initial five days of reduction to instructional time, for a period of no more than three years.
 - Defers an additional \$1.038 billion in revenue limit payments from 2009-10 to 2010-11.
- *Specific California Community Colleges proposals:*
 - Reduces by an additional \$112.4 million in 2009-10 to Community College categorical programs.
 - Reduces by an additional \$68.7 million in 2009-10 to enrollment growth for Community College apportionments and categorical programs.

HIGHER EDUCATION

California Student Aid Commission

Key Proposals:

- Eliminates new awards for the Competitive Cal Grant program, savings of \$52.9 million.
- Freezes income eligibility for a savings of \$7 million.
- Reduces maximum awards for students attending private institutions from \$9,708 to \$8,322, for a savings of \$11 million.
- Partially decouples award levels from UC and CSU fee increases, for a savings of \$16.6 million.
- Consolidates the California Student Aid Commission and California Postsecondary Education Commission.

University of California

Key Proposals:

- Proposes to reduce UC's support budget by \$510 million in the current year, without violating the Federal Stimulus MOE Requirement. This amount is anticipated to be fully offset with State Fiscal Stabilization Fund allocations based on the formulas prescribed in federal law, of which \$268.5 million was allocated in April 2009.

Additional Proposals If Propositions Fail:

- Proposes to eliminate \$31.3 million for academic preparation and education programs at UC.
- Proposes to reduce funding by \$50 million to UC's support budget.

California State University

Key Proposals:

- Proposes to reduce CSU's support budget by \$510 million in the current year, without violating the Federal Stimulus MOE Requirement. This amount is anticipated to be fully offset with State Fiscal Stabilization Fund allocations based on the formulas prescribed in federal law, of which \$268.5 million was allocated in April 2009.

Additional Proposals If Propositions Fail:

- Proposes to eliminate \$18.6 million for academic preparation and education programs at CSU.
- Proposes to reduce funding by \$100 million to CSU's support budget.

Transportation – Spillover funds

Key Proposals:

- Proposes to use \$336 million in projected "spillover" revenues to fund transit bond debt service costs that would otherwise have been paid for with General Funds.
- Spillover revenues occur when revenue derived from sales taxes on gasoline is proportionately higher in relationship to revenue derived from all taxable sales (generally reflecting higher gas prices).

HUMAN SERVICES

Department of Social Services

Key Proposals:

- Resurrects reduction proposals for CalWORKs, the program serving families whose incomes are not adequate to meet their basic needs, for a General Fund savings of \$156.7 million. This proposal, which would become effective October 1, 2009, would: (1) modify the Safety Net program by continuing benefits for families beyond their 60-month time limit only if they meet federal work participation requirements, (2) provide cash aid for families receiving child-only benefits in a manner consistent with other CalWORKs families, (3) institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements, and (4) reduce the CalWORKs maximum aid payment standard by an additional six percent. In the February 2009 Special Session, the CalWORKs grants were reduced by 4 percent, effective July 1, 2009, under the assumption that federal funds would not be received at a \$10 billion level. In a high cost county, starting July 1, the monthly grant for a family of three would be reduced from \$723 to \$694. An additional six percent grant cut would take the grant down by \$42 to \$652. The monthly grant level was \$694 twenty years ago in 1989.
- Reinserts the proposal to reduce Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants to the minimum federally allowed levels for individuals and couples, for a General Fund savings of \$248.5 million. In the February 2009 Special Session, the SSI/SSP grant were reduced by 2.3 percent, or \$20 for individuals and \$35 for couples per month, effective July 1, 2009, under the assumption that federal funds would not be received at a \$10 billion level. This proposal would further reduce grants to the minimum allowed effective September 1, 2009, reducing the maximum grant for an aged/disabled individual from \$850 to \$830 per month and the maximum grant for aged/disabled couples from \$1,489 to \$1,407 per month.
- Resurrects the proposal to limit In-Home Supportive Services (IHSS) Domestic and Related Services to those most functionally impaired for a General Fund savings of \$40.8 million. This proposal has been rejected in past budget iterations to preserve these services for aged, blind, and disabled persons who are unable to remain safely in their homes without such assistance.
- Further limits the IHSS Share-of-Cost Buyout to the most functionally impaired for a General Fund savings of \$38.2 million. In the February 2009 Special Session, this proposal was adopted, under the assumption that federal funds

would not be received at a \$10 billion level, to take effect July 1, 2009 on prospective cases only. This proposal, which would become effective October 1, 2009, would target the state buyout program, which reduces the costs IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost must incur before receiving subsidized services to persons with the most severe needs.

- Further limits state participation in IHSS wages for a General Fund savings of \$114.1 million. In the February 2009 Special Session, state participation in wages was reduced from \$12.10 to \$10.10, combining wages and benefits, per hour effective July 1, 2009, under the assumption that federal funds would not be received at a \$10 billion level. This proposal, which would become effective October 1, 2009, would further reduce state participation in the wages to the state minimum wage of \$8.00 per hour, plus \$0.60, per hour for health benefits, or \$8.60, the proposal previously submitted by the Administration.
- Proposes to significantly increase the prevention and detection of fraud within the IHSS program, resulting in General Fund savings of \$15.8 million. The Administration states that this proposal will ensure that scarce resources are being used to serve eligible people and to pay for actual services rendered rather than misdirected.
- Eliminates the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program (CFAP) effective October 1, 2009 for a combined General Fund savings of \$120.2 million. The CAPI allows approximately 12,000 aged, blind, and disabled legal immigrants, who would be eligible for the SSI/SSP program but for their immigration status, to receive cash assistance. The CFAP provides benefits to more than 22,000 low-income legal non-citizens between the ages of 18 and 65, who meet all the eligibility requirements for the federal Food Stamp program but have resided in the United States for less than five years.
- Claims savings of \$31 million for the federally-subsidized Kinship Guardianship Assistance Payment Program if all cases are ultimately eligible for federal support. The recently enacted federal Fostering Connections to Success and Increasing Adoptions Act makes federal funding available for certain guardianship agreements that provide children who would otherwise be in the foster care system with a permanent and stable living arrangement with a relative family member. The Administration wrote to federal Health and Human Services Secretary Sebelius on May 13, 2009 requesting that federal guidance on this legislation be amended to allow California's 16,000 existing guardianship agreements in the Kinship-Guardianship Agreement Payment (KinGAP) program to also be eligible for federal funding.

Additional Proposals If Propositions Fail:

- Proposes a General Fund reduction of \$301.5 million for IHSS Cost Containment. Specifically, effective October 1, 2009, individuals who require minimal physical assistance from another person to perform an activity would no longer receive domestic and related services, and individuals needing only supervision from another person to perform an activity would no longer be eligible for IHSS services.
- Proposes a General Fund reduction of \$13.9 million to reduce Group Home, Foster Family Agency, and Specialized Care and Clothing Allowance Rates by ten percent.
- Proposes a General Fund reduction of ten percent or \$70 million to the allocation to counties for Child Welfare Services. Under this proposal, counties would be forced to prioritize remaining funds to protect the health and safety of children and their families, and appropriately address federal outcome requirements.

Department of Alcohol and Drug Programs

Proposals If Propositions Fail:

- Resurrects a proposal to reduce rates by 10 percent for all Drug Medi-Cal treatment modalities for a General Fund savings of \$8.8 million. This program funds substance abuse treatment services for Medi-Cal eligible individuals.
- Eliminates all funding, \$108 million General Fund, for Substance Abuse Treatment and Crime Prevention. As enacted, the Substance Abuse and Crime Prevention Act (SACPA), also known as Prop. 36, guaranteed state funding for only the first 5 years, 2001 through 2006. This proposal eliminates \$108 million General Fund for SACPA (\$90 million) and the Substance Abuse Offender Treatment Program (\$18 million).

Department of Developmental Disabilities

- Proposes a \$224 million General Fund unallocated reduction for the Developmental Services budget. The Regional Centers (RC) are already required to identify program changes to achieve \$100 million in General Fund savings pursuant to the early 2009 Budget Act. The Department of Developmental Services has worked with stakeholders to develop proposed

changes to RC services to achieve required savings. The Administration states that this collaborative process should continue to achieve the new savings target.

HEALTH SERVICES

Department of Health Care Services

Key Proposals:

- Proposes a new federal waiver to provide flexibility to allow the state to find savings of \$750 million (General Fund) in the Medi-Cal program.
- Limits Medi-Cal benefits to newly qualified immigrants and PRUCOL to emergency services only, exempting minors up to age 20 and pregnant women, for a savings of \$125 million.
- Implements new federal and state drug pricing policies, for a savings of \$75 million.
- Increases anti-fraud efforts in adult day health care, pharmacy, physicians, durable medical equipment and transportation, for a savings of \$47.9 million in 2009-10, and \$87 million in out years. Start-up costs of \$3.4 million.
- Reduces payments to private hospitals by ten percent, for a savings of \$20 million.
- Rolls back rate increases for family planning services to 2007 levels, for a savings of \$36.8 million.

Additional Proposals If Propositions Fail:

- Reduces Adult Day Health Care coverage to three days per week, for a savings of \$25.5 million.
- Increases fees paid by skilled nursing facilities by expanding the amount of revenue upon which the AB 1629 fee is based, to include Medicare revenue, for increased revenue to the State of \$18.3 million.

Managed Risk Medical Insurance Board

Key Proposals:

- Eliminates certified application assistance which pays individuals to help families enroll their children in health insurance coverage, for a savings of \$2.7 million.

Additional Proposals If Propositions Fail:

- Rolls back eligibility in the Healthy Families Program from 250 to 200 percent of the federal poverty level, for a savings of \$54.5 million.

Department of Public Health

Additional Proposals If Propositions Fail:

- Cuts HIV Education and Prevention grants to local jurisdictions, for a savings of \$24.6 million.
- Cuts maternal, child, and adolescent health grants to local health jurisdictions, for a savings of \$10 million.
- Suspends the Children's Dental Disease Prevention Program that provides dental services to 300,000 low-income school children annually, for a savings of \$2.9 million.
- Shifts \$60 million in Prop 99 funds to Medi-Cal. These funds currently support county health programs, clinics, Breast Cancer Early Detection, Asthma, Major Risk Medical Insurance Program and Access for Infants and Mothers programs.
- Cuts funding for domestic violence shelters, for a savings of \$20.5 million.

Emergency Medical Services Authority

Additional Proposals If Propositions Fail:

- Eliminates funding for the California Poison Control System, which provides immediate free treatment advice and assistance over the phone, for a savings of \$5.9 million.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Department of Conservation

Key Proposals:

- Eliminates "Williamson Act" payments to counties for Agricultural and Open Space Land Preserves. These subventions currently backfill a portion of revenue lost by local governments when they enter into voluntary agreements with land owners for lower property tax assessments when those land owners agree to use the land only for agricultural or open space purposes. Also discussed under the Local Government heading.

Department of Fish and Game

Key Proposals:

- Proposes \$30 million loan to the General Fund from the Fish and Game Preservation Fund.

Department of Forestry and Fire Protection

Key Proposals:

- Proposes an interagency agreement to use \$24.9 million from the Legislature's budget to fund baseline General Fund costs at the Department of Forestry and Fire Protection. Prior to this proposal, this funding was used for special fund supported unemployment insurance costs at the Employee Development Agency.

Additional Proposals If Propositions Fail:

- Increases the Emergency Response Initiative surcharge on residential and commercial property insurance policies from 2.8 percent, as proposed in the January 10 budget, to 4.8 percent. This surcharge would average approximately \$48 a year per insurance policy holder and generate \$120 million in additional revenue in 2009-10. This proposal would delay all enhancements to emergency response proposed in the January 10 budget, generate \$78 million in General

Fund savings by offsetting current baseline costs for CAL FIRE and provide assistance to local agencies that participate in the statewide mutual aid system.

Department of Water Resources

Key Proposals:

- Shifts flood protection activities for floodplain evaluations and mapping and support for Delta levees to Proposition 1E from the General Fund. This proposal will generate \$7 million in temporary savings.

Offshore Oil Drilling

Key Proposals:

- Proposes legislation authorizing the state to enter into a lease for the extraction of oil or gas from state owned tied and submerged lands in the California Coastal area off the Santa Barbara coast known as Tranquillon Ridge. This proposal is anticipated to generate \$100 million in royalties in 2009-10 and \$1.8 billion in royalties of the next 14 years.

Department of Parks and Recreation

Key Proposals If Propositions Fail:

- Increases fees in parks with high visitation and establish new fees in Old Town San Diego and Sonoma Coast State beaches to achieve a projected General Fund savings of \$5.6 million ongoing.

PUBLIC SAFETY

Department of Corrections and Rehabilitation

Additional Proposals If Propositions Fail:

- Reduces \$182.1 million related to targeted reductions in the state prison population by proposing approval of, as appropriate, applications for commutation of sentences submitted by undocumented immigrants in our prison system and having them immediately deported by Federal Immigration and Customs Enforcement. Targeted commutations would provide necessary savings during this unprecedented fiscal crisis. Currently there are approximately 19,000 undocumented immigrants in our prison system.
- Reduces \$99.9 million as a result of changing sentencing options for low-level offenders by eliminating the current sentencing options for specified crimes that may be treated either as felonies or misdemeanors, making them punishable by a jail term rather than state prison. This proposal will prioritize the incarceration and rehabilitation of the most serious offenders.

Department of Veterans Affairs

Key Proposals:

- Increases revenue by \$2.8 million due to adjusting fees collected from the residents of the Veterans Homes. Currently, residents pay fees on a percentage of income, up to a dollar cap, based on the level of care. This proposal would increase fees by removing the dollar cap, increasing the percentage for the Residential Care for the Elderly, and revise the fee structure for non-veteran spouses to more accurately reflect their share of cost. This proposal was included in the Governor's Budget but not adopted as part of the 2009 Budget Act.

GENERAL GOVERNMENT

State Compensation Insurance Fund

Key Proposals:

- Proposes the State sell a portion of the State Compensation Insurance Fund (SCIF) to a private entity for an estimated \$1 billion. The SCIF would remain the "insurer of last resort".
- SCIF was established in 1914 as a self-supporting, non-profit enterprise that provides workers' compensation insurance to California employers with no financial obligation to the public.

Public Employees' Retirement System (PERS)

Key Proposals:

- Proposes to reduce health care expenditures for state employee health coverage by an estimated \$132.2 million, beginning in January 2010, by contracting for lower cost health care coverage either through CalPERS or directly from an insurer.
 - This change could conflict with existing collective bargaining contracts. Savings estimates are very difficult to project.
- Proposes to reduce the state's Other Post Employment Benefits (OPEB) unfunded liability by 38 percent over the next 30 years by requiring that new employees work for 25 years or more before becoming eligible for lifetime health benefits (vesting).
 - This proposal will not provide savings for at least 25 years, as it only applies to new employees.

Department of Industrial Relations

Key Proposals:

- Shifts the General Fund portion of the Department of Industrial Relations (DIR) budget to fee-support.
- Employer fees will be increased to fund the Occupational Safety and Health Program and the Labor Standards Enforcement Program. Similar fees on employers were increased in the 2008-09 budget to address funding shortfalls.
- Ongoing cost reductions beginning in 2010-11 will produce over \$60 million in GF savings.

Department of General Services

Key Proposals:

- Delays repairs to the State Capitol building and park for one year, providing \$6.6 million in savings.

California Science Center

Key Proposals:

- Proposes to transfer the operations of the California Science Center to a not-for-profit entity or an appropriate governmental entity.
- Proposes to also delay the opening of the Science Center Phase II project by one year for a savings of \$2.8 million.
- It is unclear the intent of delaying the opening of Phase II if the State's General Fund responsibility is to be transferred to an external entity.

LOCAL GOVERNMENT

Open Space (Williamson Act) Subventions

Key Proposals:

- Eliminates state subventions to local governments (primarily counties) under the Williamson Act Program for a General Fund savings of \$34.7 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. Also discussed under the Resources heading.

Borrowing from Local Governments

Additional Proposals If Propositions Fail:

- Borrow \$1.982 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension, which requires legislation, allows the state to divert to schools up to 8 percent of property tax revenues of cities, counties and special districts to counties and special districts. Repayment with interest must be made within three years. The May Revision also proposes legislation to authorize a joint powers authority to facilitate local government borrowing against the state's repayment promise. (This proposal also is included under the Borrowing heading in this document.)

TAXATION AND REVENUE

Revenue Accelerations

Key Proposals:

- Accelerates \$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 tax 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.

Additional Proposals If Propositions Fail:

- Increase payroll withholding schedules by 10 percent, effective January 2010, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10.

BORROWING

Revenue Anticipation Warrants (RAWs)

Key Proposals:

- Proposes selling RAWs—state short-term cash-flow borrowing from investors, which would be repaid in the following fiscal year (2010-11)—and scoring \$6 billion of the RAW proceeds as an expenditure offset in 2009-10.

Additional Proposals If Propositions Fail:

- Borrow \$1.982 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension, which requires legislation, allows the state to divert to schools up to 8 percent of property tax revenues of cities, counties and special districts to counties and special districts. Repayment with interest must be made within three years. The May Revision also proposes legislation to authorize a joint powers authority to facilitate local government borrowing against the state's repayment promise.
- Reduces the amount of RAWs used as a budget offset by \$500 million (to \$5.5 billion). This May Revision indicates that the rationale for this reduction is to limit overall amount of on-budget borrowing in light of the additional \$2 billion borrowing from local governments proposed under the contingency plan if the May 19th propositions fail (as discussed above).

REORGANIZATION, CONSOLIDATION, AND CAPITALIZING ON STATE ASSETS

The Governor's May Revision proposes to reorganize, consolidate, and eliminate a number of Departments, Boards, and Commissions. Many of these proposals carry out policies first initiated in the California Performance Review conducted in Governor's Schwarzenegger's second year in office. The Administration also proposes to "capitalize state assets" through the leasing, selling, and refinancing of state-owned property to maximize cash benefits.

Reorganizations and Consolidations:

- Consolidates and reorganizes functions from twelve different entities into a single Department of Energy.
- Consolidates and realigns recycling and cleanup, spill prevention and pollution prevention programs, and eliminates the Integrated Waste Management Board.
- Consolidates the Department of Corporations, Department of Financial Institutions, Department of Real Estate, and Department of Real Estate Appraisers.
- Consolidates the Franchise Tax Board (FTB), the Board of Equalization (BOE), and Employment Development Department (EDD).
- Eliminates the Department of Boating and Waterways and transfers its functions to the Department of Parks and Recreation.
- Consolidates the Postsecondary Education Commission and the Student Aid Commission.
- Eliminates the Office of Environmental Health Hazard Assessment and transfers its duties to the Department of Public Health.
- Eliminates the Department of Community Services and Development and transfer its functions to the Department of Social Services and to the proposed new Department of Energy.
- Eliminates the San Francisco Bay Conservation and Development Commission as a state department and realign its functions to a regional entity.
- Eliminates the Bureau of Naturopathic Medicine.
- Eliminates the Telephone Medical Advice Services Bureau.
- Consolidates the Board of Geologists and Geophysicists with the State Mining and Geology Board.

- Consolidates the Professional Fiduciaries Bureau under the Board of Accountancy.
- Creates a new Board of Mental Health and consolidates the duties of the Board of Behavioral Sciences, the Board of Psychology, the Board of Vocational Nurses and Psychiatric Technicians into a new Board of Mental Health.
- Consolidates the Hearing Aid Dispensers Bureau under the Speech-Language Pathology and Audiology Bureau.
- Consolidates the nursing oversight functions of the Board of Vocational Nursing and Psychiatric Technicians with the Board of Registered Nursing.
- Eliminates the Court Reporters Board.
- Eliminates the Inspection and Maintenance Review Committee and transfers its functions to the Bureau of Automotive Repair.
- Eliminates the Landscape Architects Technical Committee and transfers its licensing duties to the Architects Board.

Many of these Board and Bureaus are professional boards and bureaus made up of professionals in those particular fields. They are funded through special funds raised primarily through fees on the professionals, and used to regulate and maintain the integrity of their own profession.

Capitalizing State Assets:

The Administration proposes to pursue legislation and administrative action to maximize the amount of money the state raises from state-owned property. They propose to accomplish this through long-term leasing of unused properties, selling of high-value property, refinancing of state-owned buildings, and accelerated selling of surplus property.