



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2009-10 MAY REVISION

Updated with changes proposed by the Governor on May 29, 2009

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OVERVIEW

On May 29, 2009, the Governor issued a third update to the May Revision of the FY 2009-10 budget that included an additional \$2.8 billion in additional budget solutions. This update followed the first version of the May Revision, which was released on May 14th as well as an update issued on May 26th.

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

The May Revision includes \$24 billion of solutions targeting an expected \$21.3 billion deficit for FY 2009-10. This deficit is the result of an additional projected shortfall of \$15.4 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 proposes a \$4.5 billion budget reserve.

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 the 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.

Revenues are projected to fall by almost 20 percent, to levels equivalent to five years ago. The chart below indicates total revenues projected for each year and includes additional revenue for FY 2008-09 and FY 2009-10 from temporary tax increases enacted in the February 20, 2009 budget action.

<u>Fiscal Year</u>	<u>General Fund Revenues (\$ in Billions)</u>
FY 04-05	79.9
FY 05-06	93.5
FY 06-07	95.4
FY 07-08	102.5
Enacted FY 08-09	103
May Revision FY 08-09	88.3
May Revision FY 09-10	89.1

May 29th—Additional Cuts add to reserve

The May 29, 2009 budget update included additional reduction and fund shift solutions that increased the amount of the reserve to \$4.5 billion. The new solutions include:

- \$680 million of additional reductions to K-14 Education reflecting the impact of lower revenues on the Proposition 98 guarantee.
- \$550 million of savings from a Health and Human Services Realignment.
- \$470 million from a 5 percent reduction to state employee salaries.
- \$557 million by redirecting PTA resources and weight fees to pay transportation debt service.
- \$230.8 million by reducing the IHSS program to the most neediest consumers.
- \$117 million from the elimination of Adult Day Health Care.
- \$100 million from suspending some local mandates.
- \$63.8 billion in additional savings from accelerating the elimination of Healthy Families.
- \$52 million from a deferral of AB 3632 funding.
- \$10.5 million from the elimination of Caregiver Resource Centers.

May 26th—Additional Cuts Replace the RAW

On May 26th, the Governor updated the May Revision proposal to remove \$5.5 billion in borrowing and replace that amount with expenditure reductions.

As a result, the following additional reductions are now included in the Governor's May Revision proposal:

- \$2.1 billion in Health and Human Services Reductions including:
 - Elimination of the CalWORKs program;
 - Elimination of the Healthy Families Program;
 - Eliminating certain Medi-Cal state-only programs;
 - Elimination of community based services programs at the Department of Aging;
 - Eliminate State funding for Community Care Licensing;
 - Elimination of remaining General Fund for Maternal, Child, and Adolescent Health;
 - Elimination of funding for community clinic programs, such as Rural Health Services and the Seasonal and Agricultural and Migratory work programs;
 - Reduce funding for AIDS Drug Assistance Program (ADAP);
 - Reduce funding for Mental Health Managed Care and Early Periodic Screening, Diagnosis, and Treatment;
 - Reflect \$250 million additional Medi-Cal savings from additional federal flexibility granted to California; and
 - Suspend a five percent COLA for Skilled Nursing Facilities.

- \$909 million from Corrections due to early release of nonviolent, non-serious, non-sexual offenders and major reductions to rehabilitations programs and services.

- \$201 million from eliminating Cal Grants.

- \$345 million in additional reductions to the UC and CSU, including elimination of all General Fund for Hastings College of Law.
- \$70 million from eliminating all General Fund for State Parks.
- \$181.6 million from a 10 percent reduction to courts and requiring electronic court reporting.
- \$475 million of other solutions, including additional savings from the failure of the SEIU Local 1000 labor agreement to be ratified by the legislature and the elimination of the Rural Health Care Equity program for state employees.

Additional May Revision proposals from May 14th

- The following list details proposals made by the Governor on May 14th:
 - \$5.3 billion in cuts to education in both K-12 and community colleges including:
 - \$2.7 billion reduction to K-12 Revenue Limits, with authority to districts to shorten school year;
 - \$700 million reduction to Community Colleges; and
 - \$1.8 billion in K-12 and Community College Deferrals.
 - \$1.2 billion in reductions to Higher Education.
 - Suspension of Proposition 1A for a \$2 billion savings.
 - \$1 billion in one-time savings from the sale a portion of the State Compensation Insurance Fund book of business to a private entity.
 - \$2.7 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;
 - Adoption of various CalWORKS reductions;
 - Eliminating funding for Proposition 36;
 - Reducing foster care rates;
 - \$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.
- \$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.
 - \$100 million from the lease oil or gas extraction at the Tranquillion Ridge area off the Santa Barbara coast.
 - \$610 million in tax accelerations.
 - Adds an ERI fee to pay for CalFIRE costs for a savings of \$76 million.
 - \$1 billion (approximately) in other solutions.

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

- Should we make permanent and irreversible decisions to eliminate programs and services to Californians based upon a sudden and dramatic drop in the State's revenues?
- 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 \$6 billion – the single greatest cut in the entire proposed budget?
- How will the various proposals to reduce funding, to change share of costs, and borrow from local governments interact? How do we make sure that counties, cities, schools, and special districts are equipped to deal with the burdens we assign them as part of a budget deal?
- To what extent do some of these reductions lead to cost shifting that offsets the savings that are projected?
- 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 eliminating CalWORKs, 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?

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

SUMMARY OF CHARTS

May 29th Version
2009-10 May Revision
General Fund Summary
(in millions)

	2008-09	2009-10
Prior Year Balance	\$2,308	\$-3,100
Revenues and Transfers	\$85,946	\$92,218
Total Resources Available	\$88,254	\$89,119
Non-Proposition 98 Expenditures	\$57,662	\$47,553
Proposition 98 Expenditures	\$33,691	\$35,971
Total Expenditures	\$91,353	\$83,524
Fund Balance	\$-3,100	\$5,595
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Final Reserve	-\$4,179	\$4,516

May 29th Version
2009-10 May Revision Solutions by Category
 (in millions)

Category	FY 08-09 and Prior	FY 09-10	Two Year Total	Percent to Total
Reorganizations/Consolidations	\$0	\$50	\$50	0.2%
Program Savings	\$3,112	\$11,868.8	\$14,980.8	62.5%
Cuts Requiring Federal Waivers	\$0	\$1,000	\$1,000	4.2%
Revenue Accelerations/Fees	\$0	\$2,771.8	\$2,771.8	11.6%
Fund Shift	\$12.5	\$1,914.3	\$1,926.8	8.0%
Other	\$0	\$1,258.1	\$1,258.1	5.2%
Borrowing	\$0	\$1,982	\$1,982	8.3%
<i>Total</i>	\$3,124.5	\$20,845	\$23,969.5	100.0

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

K-14 Education: Proposition 98

Further Reductions Proposed May 29th:

- Reduces Proposition 98 by an additional \$680 million that would be cut only if state revenues declined by \$3 billion more than was estimated in the May Revision. If the revenues do not decline to that extent, additional funding would be provided via revenue limits to ensure that sufficient funding is provided to meet the Proposition 98 minimum guarantee in 2009-10. This additional reduction brings the total reduction for 2009-10 to \$4.4 billion for a total reduction of \$6 billion over two years.
- Funds Proposition 98 at the minimum guarantee for both years. For 2008-09, the Governor reduces funding from \$50.7 billion to \$49.1 billion. For 2009-10, Proposition 98 is reduced from \$54.9 billion to \$50.4 billion.
- Reduces Home to School Transportation by \$315 million (non-98 Public Transportation Account funds) and redirects the funds to pay additional debt service on transit bonds.

May Revision Proposals Presented May 14th:

- Reduces Proposition 98 funding by \$1.6 billion in 2008-09 and \$3.8 billion in 2009-10 for a total reduction of \$5.4 billion over two years. These cuts reduce total Proposition 98 funding from \$50.7 billion to \$49.1 billion in 2008-09. For 2009-10, the proposed cuts reduce funding from \$54.9 billion to \$51.1 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 Presented May 14th:*
 - Provides a base reduction of \$1.3 billion 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 Presented May 14th:*
 - Reduces school district base revenue limit funding by an additional \$381 million.
 - Defers \$1.7 billion 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.
 - 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.
- *Specific California Community Colleges Proposals Presented May 14th:*
 - 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.
 - 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

Additional Reductions Proposed May 26th:

- Phases out the Cal Grant programs by eliminating new awards for the High School Entitlement and Community College Transfer Entitlement programs and Cal Grant C program, for a savings of \$173 million in the budget year. This proposal includes the elimination of new awards for the Cal Grant Competitive programs and lower costs of other new awards for UC, CSU, and private colleges.
- Completely decouples award levels from UC and CSU fee increases, for a savings of \$28 million.

May Revise Proposals Presented May 14th:

- Eliminates new awards for the Competitive Cal Grant program, savings of \$52.9 million.
- Freezes the Cal Grant income eligibility for a savings of \$7 million.
- Reduces maximum Cal Grant 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

Additional Reductions Proposed May 26th:

- Proposes an additional reduction of \$207.5 million in the current year and \$167.5 million in the budget year, which "further reduces the segments to the Federal State Fiscal Stabilization Fund maintenance of effort level."

May Revision Proposals Presented May 14th:

- 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.
- 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.

Hasting College of the Law

Additional Reductions Proposed May 26th:

- Proposes to eliminate all state funding, for a savings of \$10.3 million "without having to pay back to the heirs of S.C. Hastings, with accumulated interest, the original \$100,000 bequest."

California State University

Additional Reductions Proposed May 26th:

- Proposes an additional reduction of \$207.5 million in the current year and \$167.5 million in the budget year, which "further reduces the segments to the Federal State Fiscal Stabilization Fund maintenance of effort level."

May Revision Proposals Presented May 14th:

- 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.
- 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

Further Reductions Proposed May 29th:

- Proposes to redirect \$315 million from the Public Transportation Account (PTA) to pay additional debt service on transit bonds. These funds are currently used as home-to-school funding.
- Includes weight fees in calculation of transportation funds pursuant to Article XIX. This increases the amount of general fund offset the state can achieve through payment of debt service by \$224 million.

Additional Reductions Proposed May 26th:

- Proposes to offset General Fund payments for highway bond debt service by reducing the local share of the gas tax from \$1.05 billion to \$300 million and redirect \$750 million to pay prior year and current year debt service.
- This amount is consistent with the limit on bond debt payments of 25% of total fuel tax revenues outlined in Article XIX, Sect. 5 of the California Constitution.

May Revision Proposals Presented May 14th:

- 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

Further Reductions Proposed May 29th:

- Redirects realignment savings resulting from IHSS, CalWORKs, and other areas to fund an increased county share in DSS children's programs for a General Fund savings of \$550 million.
- Further restricts services in the In-Home Supportive Services (IHSS) program only to recipients with Functional Index scores of 4.0 and above for an additional savings of \$230.8 million. Those at scores of 3.99 and below would lose all IHSS services.

Additional Reductions Proposed May 26th:

- Proposes to eliminate the CalWORKs program for a net General Fund savings of \$1.3 billion.
- Proposes to eliminate all state funding for Community Care Licensing for a General Fund savings of \$19.5 million. The administration states that this reduction is partially offset by a fee increase to maintain critical health and safety standards.

May Revision Proposals Presented May 14th:

- 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.
- 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

May Revision Proposals Presented May 14th:

- 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 Aging

Additional Reductions Proposed May 26th:

- Proposes to eliminate the Multipurpose Senior Services Program and Community-Based Service programs for a combined General Fund savings of \$24.2 million. The administration states that funding for Adult Day Health Care will continue in support of the Department of Aging's responsibility for Medi-Cal certification of program providers.

Department of Developmental Disabilities

May Revision Proposals Presented May 14th:

- 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.

Department of Mental Health

Further Reductions Proposed May 29th:

- Proposes to eliminate funding for Caregiver Resource Centers for a General Fund savings of \$10.5 million.
- Proposes to defer funding for AB 3632, which provides mental health services for special education students, for a General Fund savings of \$52 million.

Additional Reductions Proposed May 26th:

- Proposes to reduce the Mental Health Managed Care Services and Early and Periodic Screening, Diagnosis, and Treatment (EPDST) Program for a combined General Fund savings of \$92 million. The administration states that Mental Health Managed Care services retained include acute inpatient services and prescription drugs for Medi-Cal enrollees only. EPDST savings result from eliminating General Fund support for county programs identified as new programs in 2007-08 and 2008-09.

HEALTH SERVICES

Department of Health Care Services

Further Reductions Proposed May 29th:

- Eliminates all General Fund funding for Adult Day Health Care, for an estimated additional savings of \$117 million in 2009-10 and \$152.6 million in 2010-11.

Additional Reductions Proposed May 26th:

- Eliminates certain state-only Medi-Cal programs including: non-emergency services for undocumented individuals (excluding prenatal and long-term care), Institutions for Mental Disease ancillary services payments, dialysis, non-digestive nutrition, and breast and cervical cancer treatment for women over 65 and for men. General Fund savings are estimated to be \$34.4 million in 2009-10 and \$57.8 million in 2010-11.
- Assumes increased savings from the proposed Medi-Cal waiver which is aimed at increasing the state's flexibility in order to slow the rate of program growth and manage costs. Additional General Fund savings are assumed to be \$250 million in 2009-10 and \$500 million in 2010-11.
- Suspends a 5 percent cost of living increase effective August 1, 2009, for skilled nursing facilities, that is attributable in part to AB 1629, for a General Fund savings of \$67.1 million in 2009-10 and \$109.8 million in 2010-11.

May Revision Proposals Presented May 14th:

- 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.
- 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

Further Reductions Proposed May 29th:

- Assumes additional General Fund savings, based on a revised and refined savings estimate from ending the Healthy Families Program on July 30, 2009, in the amount of \$63.8 million in both 2009-10 and 2010-11.

Additional Reductions Proposed May 26th:

- Eliminates the Healthy Families Program for an estimated General Fund savings of \$247.8 million in 2010-11 and \$322.4 million in 2010-11.

May Revision Proposals Presented May 14th:

- Eliminates certified application assistance which pays individuals to help families enroll their children in health insurance coverage, for a savings of \$2.7 million.
- 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 Reductions Proposed May 26th:

- Expands client cost sharing and limits the formulary in the AIDS Drug Assistance Program, and reduces or eliminates General Fund support for Office of AIDS programs including: HIV Counseling and Testing, Epidemiologic Studies/Surveillance, Therapeutic Monitoring, and Home and Community Based Care, for an estimated savings of \$55.5 million in 2009-10 and \$58.9 million in 2010-11.

- Eliminates funding for the following community clinic programs: Indian Health, Seasonal and Agricultural and Migratory Workers, Rural Health Services Development and Expanded Access to Primary Care, for General Fund savings of \$34.2 million in 2009-10 and 2010-11.
- Eliminates all remaining funding (after original proposed cut) for Maternal, Child and Adolescent Health, for an additional General Fund savings of \$10.2 million in 2009-10 and 2010-11.

May Revision Proposals Presented May 14th:

- 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

May Revision Proposals Presented May 14th:

- 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 Agency

Environmental Protection Agency Departments

Further Reductions Proposed May 29th:

- Makes the following 13 percent reduction in funding from cigarette and tobacco products surtax funds due to reduced revenues: CalEPA - \$8,000; CAL FIRE \$53,000; Fish and Game - \$362,000; Parks and Recreation - \$1.2 million; State Water Board - \$303,000.

Department of Parks and Recreation

Additional Reductions Proposed May 26th:

- Eliminates all General Fund support for State Parks and requires that the system operate entirely from special funds and fee revenue. This reduction will total \$70 million in 2009-10 and \$143 million in 2010-11 and will result in the closure of 80 percent of the statewide park system.

Department of Conservation

Further Reductions Proposed May 29th:

- Reduces \$203.2 million in expenditures and 10 positions from the California Beverage Container Recycling Program to address a \$161 million negative fund balance at the end of fiscal year 2009-10. Additionally, the Administration is proposing to make the following changes to restructure the Program:
 - Increase processing fees paid by beverage container manufacturers by \$102 million.
 - Cap handling fee payments at \$40 million.
 - Eliminate statutory earmarks for activities such as curbside programs, grants to local conservation corps, and market development grants.
 - Replace statutory earmarks with a new Recycling Competitive Grant, Incentive and Outreach Program that will allocate \$20 million annually for various recycling activities that the Department deems most cost effective.

May Revision Proposals Presented May 14th:

- 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.

Department of Fish and Game

Further Reductions Proposed May 29th:

- Reduces \$2.5 million (Environmental License Plate Fund) from the Department and backfills the cut with the February augmentation of \$3 million from the FGPF for 15 new warden positions. This proposal will reduce and delay the establishment of the new warden positions by redirecting \$2.5 million of the additional funding to offset the ELPF reductions. Consequently, the DFG will only receive \$500,000 for 2.5 new warden positions in 2009-10 and 10 new warden positions in 2010-11 ongoing.

May Revision Proposals Presented May 14th:

- Proposes a one time fund shift of \$30 million from the Fish and Game Preservation Fund balance to support activities currently supported by the General Fund.

Department of Forestry and Fire Protection

Additional Reductions Proposed May 26th:

- Proposes a one-time reduction of \$17.6 million in General Fund in 2009-10 for equipment and fire engine fleet replacement.

May Revision Proposals Presented May 14th:

- 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.
- 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. Additionally, the Administration is proposing to provide an undetermined amount in grants to local emergency response entities.

Department of Water Resources

May Revision Proposals Presented May 14th:

- 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

May Revision Proposals Presented May 14th:

- 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.

Office of Environmental Health Hazard Assessment

Further Reductions Proposed May 29th:

- Proposes to replace \$1.6 million in General Fund support for the Office with the following special funds: Motor Vehicle Account - \$840,000; The Department of Pesticide Regulation Fund - \$201,000; Safe Drinking Water and toxic Enforcement Fund - \$598,000.

Department of Corrections and Rehabilitation

Additional Reductions Proposed May 26th:

- Reduce California Department of Corrections and Rehabilitation (CDCR) contract expenditures, eliminate non-court ordered rehabilitation programs and make other reductions to CDCR. Impacted programs include a range of rehabilitative services, such as substance abuse counseling, vocational training, and educational programs. In addition, funding for building maintenance is being eliminated on a one-time basis in 2009-10. In total, 2009-10 expenditures will be reduced by \$788.5 million.
- Reduces \$120.5 million by commuting sentences of certain nonviolent, non-serious, non-sex offenders one year early. This proposal targets those offenders who were convicted of a crime that could be treated as punishable by either a felony or misdemeanor.

May Revision Proposals Presented May 14th:

- 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.

Judicial Branch

Additional Reductions Proposed May 26th:

Reduces funding by \$181.6 million by reducing general fund support to the courts by 10% and implementing electronic court reporting in California courtrooms. The electronic court reporting will be phased in at a rate of 20% of the state's courtrooms per year.

Department of Veterans Affairs

May Revision Proposals Presented May 14th:

- 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

Employee Compensation

Further Reductions Proposed May 29th:

- Proposes to reduce all state employees' salaries by 5%, excluding the courts, the Legislature, the CSU and UC. This proposal is not a furlough, as no time-off will be provided to employees. As such, it would require language to bypass the Dills Act.

Additional Reductions Proposed May 26th:

- Assumes savings that will be achieved if the proposed labor agreements with Service Employees International Union (SEIU) Local 1000 are not ratified by the Legislature, there-by maintaining a 2-day furlough for all employees. Estimated savings of \$60 million in 2008-09 and \$150 million in 2009-10.

Rural Health Care Equity Program (RHCEP):

Additional Reductions Proposed May 26th:

- Proposes to eliminate funding for the RHCEP which provides reimbursements for certain health care expenses for State employees who do not have access to a Health Maintenance Organization (HMO). Estimates annual savings of \$15.7 million.
- The 2008-09 approved budget eliminated payments through the RHCEP for retired annuitants.

Public Employees' Retirement System (PERS)

Additional Reductions Proposed May 26th:

- Scores savings of \$100 million based on the announcement by CalPERS that they would use excess reserves from their self-funded preferred maintenance organization (PPO) plans to offset premiums and contributions paid by employers for two months.
- This action would require code changes to allow CalPERS to provide the "premium holiday."

May Revision Proposals Presented May 14th:

- 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.

State Compensation Insurance Fund

May Revision Proposals Presented May 14th:

- 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.

Department of Industrial Relations

May Revision Proposals Presented May 14th:

- 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

May Revision Proposals Presented May 14th:

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

California Science Center

May Revision Proposals Presented May 14th:

- 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.

State Board of Equalization

Additional Proposals Presented May 26th:

- Redirects \$965,000 (\$454,000 General Fund) savings resulting from increased e-filing to implement the Return Process Efficiencies information technology project, which would enable the Employment Development Department to process checks and vouchers from BOE taxpayers. The board estimates savings of \$36,000 and additional interest earning of \$464,000 (General Fund) from this project, starting in 2010-11, with some growth thereafter.
- Reduces by \$285,000 (\$129,000 General Fund) to correct overbudgeting for workstations.

State Controller

Further Proposals Presented May 29th

- Augments by \$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 would be 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.
- Increases General Fund support by \$987,000 and reduces other funding by an equivalent amount to correct a misallocation of the Governor's personal services veto in the 2009 Budget Act.

California Tax Credit Allocation Committee

Further Proposals Presented May 29th

- Augments by \$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

Further Proposals Presented May 29th

- 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.

Local Government

Open Space (Williamson Act) Subventions

May Revision Proposals Presented May 14th:

- 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

Potential Revision Proposed May 26th:

- Revises the May 14th Proposition 1A Suspension proposal. Instead of redirecting local government property taxes to schools, the revised proposal redirects those funds to help support the Medi-Cal Program. This revision reflects the administration's concern about the potentially limited ability to reduce state school funding without violating federal maintenance-of-effort requirements contained in the American Recovery and Reinvestment Act (ARRA). Violation of those requirements would result in an offsetting loss of federal funds to support schools. At the time that this document was prepared, however, the administration had not provided a specific description of the revised proposal or addressed numerous questions about how it would be structured. For example, if the proposal no longer shifts property tax revenues from local governments to schools, then it no longer requires a suspension of Proposition 1A, but rather a reallocation of property taxes among local governments, which Proposition 1A allows.

May Revision Proposals Presented May 14th:

- Borrows \$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. Repayment with interest must be made within three years. Allocating additional property tax revenue to schools results in an offsetting reduction in required state support for schools under Proposition 98. 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).

State-Mandated Local Programs

Further Reductions Proposed May 29th:

- Reduces the augmented total of \$157 million (as discussed below) by \$100.3 million due to the proposed suspension of 32 local mandates, including mandates requiring counties to make absentee ballots available to all voters and the animal adoption mandate requiring an extended holding period for stray animals. These 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. Because these mandate obligations would be suspended, local governments would not be required to comply with them in 2009-10 and would not be entitled to futures reimbursement for any costs that they choose to undertake that year. The \$57 million of funding that would remain is the amount needed to pay for various law-enforcement and tax administration mandates in order to avoid suspension of those mandates in 2009-10.

May Revision Proposals Presented May 26th:

- Adds \$15 million (General Fund) to the \$142 million appropriated in the 2009 Budget Act to pay local government cost claims filed for 2004-05 through 2007-08 fiscal years. The augmentation (to a total of \$157 million) reflects the full cost of claims filed with the State Controller as of April 1.

TAXATION AND REVENUE

Revenue Accelerations

May Revision Proposals Presented May 14th:

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

BORROWING

Generally, cash-flow borrowing is used as a method of dealing with temporary cash shortfalls that occur as a result of timing differences between receipts and disbursements during a fiscal year. The initial May Revision proposal included two budgetary borrowing solutions. One involved borrowing from local governments, and the other involved borrowing from investors by selling Revenue Anticipation Warrants (RAWs).

Proposition 1A Borrowing

Potential Revision Proposed May 26th:

- Revises the May 14th Proposition 1A Suspension proposal. Instead of redirecting local government property taxes to schools, the revised proposal redirects those funds to help support the Medi-Cal Program. This revision reflects the administration's concern about the potentially limited ability to reduce state school funding without violating federal maintenance-of-effort requirements contained in the American Recovery and Reinvestment Act (ARRA). Violation of those requirements would result in an offsetting loss of federal funds to support schools. At the time that this document was prepared, however, the administration had not provided a specific description of the revised proposal or addressed numerous questions about how it would be structured. For example, if the proposal no longer shifts property tax revenues from local governments to schools, then it no longer requires a suspension of Proposition 1A, but rather a reallocation of property taxes among local governments, which Proposition 1A allows.

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RAW Borrowing

Additional Reductions Proposed May 26th:

- Reduces estimated cash-flow borrowing costs by a net of \$ 210 million. This is the result of eliminating a \$5.5 billion Revenue Anticipation Warrant (RAW), a 2-year short-term borrowing that had been included in the May 14th proposal as both a cash-flow and budget solution for 2009-10. Based on the enacted 2009-10 Budget, the administration had projected a total external cash-flow borrowing need of \$13.5 billion, but now has reduced that amount to around \$6 billion accomplished through Revenue Anticipation Notes (RANs) to be repaid within 2009-10. Savings also occur because the borrowing period is reduced to 10 months (from 12). The \$210 million additional savings is net of an increase in interest's costs necessitated by some payment delays that are expected to occur at the reduced level of external borrowing.

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.