



HIGHLIGHTS OF GOVERNOR'S PROPOSED MAY REVISION 2010-11 STATE BUDGET

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OVERVIEW

The Governor has released his May Revision update to his budget plan which reflects the latest estimate of California's budget deficit. The Governor's poorly conceived budget plan to fix this deficit with cruel and economically destructive job-killing cuts overshadows the positive economic news contained in the report.

Overall Deficit Shrinks

The May Revision recasts the budget problem at \$19.1 billion, a \$17.9 billion two-year budget deficit, coupled with a \$1.2 billion reserve. These figures reflect actions taken by the Legislature, federal funds, and the gradual improvement in the economy, which is slowly emerging from the recession.

The reduction in the deficit is due to a number of factors illustrated below (\$ in billions):

Budget Gap in January	-\$19.9
Special Session Approved Solutions	\$1.4
Achieved Federal Funds	\$0.7
Revenue Decline	-\$0.6
Cost Increases	\$.05
Increase Budget Reserve	-\$0.2
New Budget Gap	-\$19.1

The May Revision reflects a slower rate of revenue growth for the 2009-10 than was assumed in the Governor's Budget, but expects better than expected revenue growth for the 2010-11 budget year. These figures reflect an overall brighter economic outlook for next year, based on the latest economic data.

Governor's Plan

The Governor bridges the budget gap with a combination of cuts, federal funds, alternative funding, and fund shifts.

Budget Gap in January	January Budget	May Revision	Total	Percentage
Expenditure Reductions	5,844.5	\$6,523.4	\$12,367.9	64.6 %
Federal Funds	1,967.9	1,414.1	3,382.0	17.7%
Alternative Funding	1,025.9	252.4	1,278.3	6.7%
Fund Shifts and Other Revenues	477.1	1636.5	2,113.6	11.0%
Total	\$9,315.4	\$9,826.4	\$19,141.8	100%

Highlights of the Governor's Plan:

Big Program Cuts and Eliminations Including:

- Major cuts to K-12 Education funding: While the May Revision claims "full funding of education," it continues to assume the manipulation of the educational funding requirements to allow reductions to be made to school funding. Per-pupil is reduced in 2010-11 to \$7,088 per pupil, which is only slightly higher than the 2004 level of school funding. If the Governor's proposals were adopted, per-pupil spending would be almost \$1,100 below the 2007-08 level of \$8,175 per pupil.
- Elimination of CalWORKs and General Fund support for child care and development programs, excluding pre-school: These two proposals would save \$2.3 billion in General Fund savings, but would result in a loss of \$3.7 billion in federal funds. It is estimated that the lost nearly \$6 billion annual to California's economy would result in the loss of over 200,000 jobs and the closure of thousands of small businesses in addition to direct impact of the loss of income for the 1.2 million Californians that currently receive CalWORKs.
- Local County Mental Health Realignment: Shifts tax funds provided to counties to pay for mental health costs borne by the county to fund State costs in food stamps and child welfare programs. This shift results in \$602 million in savings to the State, but leaves county mental health programs with only 40 percent of their existing funding.
- "PLP Day": The Governor has proposed that all state employees have one unpaid floating furlough day per month, savings \$446 million. This would be on top of the January budget proposals to reduce compensation and increase employee health costs.
- Health Care Cost Containment: The May Revision replaces the \$750 million cost containment placeholder proposed in January with a more tangible list of policy changes that is intended to save \$523 million. These will include hard caps on optional benefits rather than the elimination of these services.
- IHSS "Stakeholder" Savings: The May Revision assumes \$750 million from a 30 day stakeholder process in which the Administration would work with advocates and the Legislature to develop options to achieve savings. This would mirror a similar stakeholder process that was undertaken in the Development Services area last year. However, the timeline for this process would be shorter and the expected level of savings is nearly 40 percent of the total program's budget.

Some Proposals Pulled Back

- Healthy Families Elimination: This proposal cannot be implemented due to federal health care reform and has been withdrawn in the May Revision.
- Funding Reductions to UC and CSU: Was included in federal trigger cuts, no longer in proposal.
- Cal Grants Reductions: No reduction proposal in May Revision, was included in January trigger cut list.
- Unallocated cuts to Courts: Not included in May Revision, was included in January trigger cut list.

Major Public Safety Policy Proposals

To achieve \$243.8 million in savings in 2010-11, shifts certain non-violent, non-sex offender, non serious offenders with sentences of three years or less to serve from prison to local jails. The state will provide counties with \$11,500 per offender to be used for programs and services and provide a continuous appropriation of \$502.9 million annually, beginning in 2011-12, to support various local law enforcement programs that are currently supported by a portion of the temporary vehicle license fee increase. In addition, \$4.6 million in savings in 2010-11 results from shifting supervision of juvenile parolees to county probation. The state will provide locals with \$15,000 per juvenile parolee.

Federal Funds Assumptions More Realistic

The \$3.4 billion in federal revenue assumed in the May Revision conservatively reflects the current discussions in Congress on the continuation of certain federal FMAP and ARRA provisions and discussion of other revenue options. The Governor assumed almost \$7 billion of federal funding in his January budget.

\$2.4 billion in Corporation Tax Cuts Included

The Governor's May Revision reduces corporate taxes by over \$2.4 billion by allowing new corporate tax reductions including the Net Operating Loss Carry Back provisions, the unitary credit sharing provision, and the elective single sales factor to all go into effect. In January the Governor proposed to delay these new tax cuts by one year, but the May Revision has backed off that proposal. These new tax reductions are on top of the expiration of \$9.6 billion in temporary taxes that will take effect throughout 2010-11.

Thoughts on the May Revision

Our slow and fragile economic recovery is the long-term solution to California's budget woes. California's revenues in 2009-10 are 18 percent lower than the 2007-08 adopted budget level, which at the heart of our overall budget problem. The actions taken in fixing our budget gap must be mindful of the impact on jobs—because only a growth in the economy can really fix our budget problem in the long run. The Governor's May Revision has several shortsighted proposals that extract a small General Fund savings with a disproportionate severe impact on local communities and jobs.

The Governor's Budget excludes revenue as a major solution to a \$19.1 billion problem creating an imbalanced and unrealistic framework to seriously fix the budget problem. In this jobless recovery, large corporate profit margins are reaping most of the benefits from recent growth—yet the Governor has asked corporations to do less to help the State by providing them a tax reduction. However, the poorest California families have seen dramatic reductions in standard of living and economic mobility as a result of this recession—yet this group is almost exclusively asked to contribute to solving the budget gap. In one budget, the Governor could potentially create a future of multi-generational poverty for entire swaths of our population, while assuring multi-generational wealth for a small elite group.

With the receipt of the May Revision, the Assembly Committee can now begin a thoughtful, open, and transparent deliberative process. By conducting deliberations in this manner, it will allow the Assembly to avoid the crisis management mindset that dominated the last year budget discussions and instead forge an inclusive and thoughtful plan for the future of the State that focuses upon our priorities.

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

Proposed Budget Solutions
(Dollars in Millions)

	Governors Budget	May Revision	Total	%
Expenditure Reductions	\$5,844.5	\$6,523.4	\$12,367.9	64.6%
Federal Funds	1,967.9	1,414.1	3,382.0	17.7%
Alternative Funding	1,025.9	252.4	1,278.3	6.7%
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Total	\$9,315.4	\$9,826.4	\$19,141.8	100.0%

2010-11 May Revision
General Fund Budget Summary
With All Proposed Budget Solutions
(Dollars in Millions)

Prior Year Balance	2009-10	2010-11
Revenues and Transfers	-\$5,361	-\$5,305
Total Resources Available	\$81,160	\$86,146
Non- Proposition 98 Expenditures	\$50,629	\$48,397
Proposition 98 Expenditures	\$35,836	\$35,007
Total Expenditures	\$86,465	\$83,404
Fund Balance	-\$5,305	\$2,742
Reserve for Liquidation of Encumbrances	\$1,537	\$1,537
Special Fund for Economic Uncertainties	-\$6,842	\$1,205
Total Available Reserve	-\$6,842	\$1,205

General Fund Revenue Sources
(Dollars in Millions)

	2009-10	2010-11	Change from 2009-10	
			Dollar Change	Percent Change
Personal Income Tax	\$44,021	\$46,245	\$2,224	5.1%
Sales Tax	26,852	26,967	115	0.4%
Corporation Tax	9,386	9,779	393	4.2%
Motor Vehicle Fees	1,416	1,503	87	6.1%
Insurance Tax	2,027	1,967	-60	-3.0%
Estate Tax	-	892	892	100.0%
Liquor Tax	332	354	22	6.6%
Tobacco Tax	99	97	-2	-2.0%
Other	2,388	3,647	1,259	52.7%
Total	\$86,521	\$91,451	\$4,930	5.7%

General Fund Expenditures by Agency
(Dollars in Millions)

	2009-10	2010-11	Change	%
Natural Resources	\$1,944	\$2,102	\$158	.3%
Health and Human Services	24,408	22,859	-1,549	-6.3%
Corrections and Rehabilitation	8,186	8,981	795	9.7%
K-12 Education	35,869	35,133	-736	-2.1%
Higher Education	10,570	11,794	1,224	11.6%
General Government	5,488	2,535	-2,953	695.5%
Total	\$86,465	\$83,404	-\$3,061	-3.5%

K-12 EDUCATION

Key Proposals:

Proposition 98

2008-09 Fiscal Year (FY) Adjustments:

- Provides \$76.4 million above the Governor's January level for a total of \$49.1 billion for the 2008-09 FY. This funding level is only \$6.4 million lower than the 2008-09 level certified in the 2009-10 Budget Act. Therefore, the Administration withdraws the proposal to amend the certification level codified in Chapter 3, Statutes of 2009, Fourth Ex. Session. According to the Administration, this level of funding results in an overappropriation of \$2 billion for the 2008-09 FY.
- Continues to count a portion of the \$2 billion "overappropriation" for the 2008-09 FY towards satisfying \$1.3 billion owed to schools in outstanding maintenance factor for the 2007-08 FY. Making this change lowers the minimum guarantee for the 2009-10 FY and the 2010-11 FY.
- Continues to maintain that Proposition 98 is in a Test 1 year in 2008-09 and therefore no maintenance factor is created. This Constitutional interpretation allows the Administration to change the terms of the payments of the \$11.2 billion owed to schools pursuant to the 2009-10 Budget Act. The Administration proposes a one year delay of the "in-lieu" maintenance factor payments which were scheduled to start in 2010-11. (The Governor's January budget delayed payments until 2012-13).

2009-10 FY Adjustments:

- Reduces current year Proposition 98 funding from \$50.4 billion to \$49.9 billion. This is roughly 1.2 percent less than was provided in the 2009-10 Budget Act but is \$502 million higher than the Administration's calculation of the minimum guarantee. This change is primarily due to higher revenue limit costs from PERS and Unemployment insurance. Overall, the Governor's 2009-10 proposal has no programmatic reductions.
- Counts the \$502 million "overappropriation" of the 2009-10 Proposition 98 minimum guarantee as an "early payment" towards the \$11.2 billion owed to schools per the 2009-10 Budget Act agreement. This reduces the obligation to roughly \$10.7 billion going forward.

2010-11 FY Adjustments:

- Reduces the Proposition 98 funding level for 2010-11 from \$50 billion to \$48.4 billion, resulting in an additional \$1.5 billion in reductions compared to the Governor's January budget. This funding level reflects the Governor's estimate of the minimum guarantee for 2010-11 and results in a total programmatic reduction of roughly \$3 billion in the budget year.

- In terms of K-12 per pupil funding, when adjusted for the removal of child care, the Governor's May Revision provides approximately \$7,088 per pupil. When comparing prior year per pupil funding levels, this level of funding is roughly the level provided in 2004-05. Additionally this level of funding reflects a reduction of approximately over \$1,000 per pupil since 2007-08.
- Specific adjustments:
 - Eliminates \$1.2 billion in state funding for child care and shifts \$386 million in ongoing program costs to be paid for with one-time reappropriations.
 - Continues to reduce school district revenue limits by approximately \$1.5 billion but withdraws the proposal to specifically require those reductions come from district administration or contracting out.
 - Restores a portion of the reduction to county offices of education (COE), reducing COE revenue limits by \$28.2 million rather than \$45 million. This reduction is proportional to the reduction proposed for school districts. The Administration also withdraws the proposal to consolidate COE services and functions.
 - Reduces school district and COE revenue limit and categorical programs by \$206.3 million due to lower Cost-of-Living adjustments (roughly the same as the Governor's Budget).

Child Care and Development Programs (Proposition 98)

2009-10

- Reduces CalWORKs caseload by \$3 million as estimated savings based on revised caseload numbers for CalWORKs Stage 2 and 3, for a total of \$15.4 million, which the Governor proposes to use for other K-12 purposes.

2010-11

- Eliminates CalWORKs – shifts Stage 2 and Stage 3 funding and caseload to the capped Alternative Payment Program based on income eligibility and available funds.
- Eliminates state funds for the need-based, subsidized child care programs, totaling \$1.2 billion. The only program excepted is Pre-School. This proposal would eliminate subsidized slots for approximately 142,000 children. The Administration proposes to use \$594 million in federal funds for 78,000 slots. This proposal puts at risk the federal Maintenance of Effort requirements of the Child Care and Development Fund.
- Reduces \$31.5 million based on revised caseload estimates for CalWORKs Stage 2 and Stage 3.
- Reduces \$3.9 million in General Fund to recognize an identical increase of ongoing and one-time federal Child Care and Development Fund (CCDF) resources.

- Proposes trailer bill language to implement actions to handle presumed issues of overpayment in child care programs. All programs administered by CDE and Department of Social Services, including state direct-funded centers and family care homes, are included in this proposal.
- Continues to propose \$200 million in reductions from changes to the Regional Market Rate, and changes the proposal of the \$123 million reduction to Stage 3 by reducing the statutory income eligibility limit from 75 percent of the median family income to 60 percent for all subsidized child care programs except the State Preschool program.
- Proposes to increase by \$118,000 in reimbursements to CDE from the First 5 Commission for the new State Advisory Council on Early Childhood Education and Care (ELAC) pursuant to a Governor's Executive Order. It is anticipated that these resources will enable the state to develop a successful proposal for \$10.6 million in federal funds authorized for the Council in the recent ARRA.

Other K-12 (Proposition 98) Adjustments:

- Dedicates \$15.7 million in one-time reappropriations for advance apportionments to schools that will be in a cashflow deficit in June as a result of the state deferral of education payments.
- Restores the writing component of the 4th grade English/language arts California Standards Test (CSTs) without increasing program costs.
- Commences development of a longitudinal academic growth model and provides \$3.7 million for local education agencies to partner with the state on reforms to improve student achievement and to assist the state with implementation of longitudinal academic growth models.
- Decreases one-time funding for new school categorical program funding from \$20 million to \$11 million to align funding with projected costs.
- Continues to suspend all K-12 mandates except costs associated with behavioral intervention plans (\$65 million), inter/intra district transfers (\$7.7 million) and the California High School Exit Exam (\$6.8 million).
- Continues April proposal to eliminate the Alternative Schools Accountability Model (ASAM) program for a savings of \$775,000.

Other K-12 (non-Proposition 98) adjustments:

- Decreases federal fund reimbursements of \$1 billion to the General Fund for the unfunded federal share-of-cost for special education services since it appears unlikely that the federal government will reimburse the state for these costs in the near future. These funds would have been provided as reimbursements to the General Fund and would not have been dedicated to special education services.

- Increases federal funds by \$1.1 million to the California Department of Education (CDE) for additional implementation costs associated with the California Longitudinal Pupil Achievement Data System (CALPADS). This brings total funding in the proposed 2010-11 budget to \$5.9 million. The increase will be used to support additional vendor contract costs, hardware and software acquisition, independent project oversight consultant costs, as well as independent verification and validation services.
- Provides an increase of \$3.9 million federal funds and 2.8 positions to CDE for the California Teacher Information Data System (CALTIDES) and an increase of \$84,000 to the Teacher Credentialing Fund and 0.9 positions to the Commission on Teacher Credentialing (CTC) for CALTIDES to support their responsibilities in the development of the longitudinal teacher data base. These funds are contingent upon resolution of performance difficulties with the CalPADS. In the event that CalPADS issues are not resolved per direction of the Administration, the Administration will seek to contract these projects out to a consortium of local school districts that, in collaboration with the segments of higher education, will leverage their statewide data systems to meet the requirements specified for federal Race to the Top (RTTT) funding.

HIGHER EDUCATION

Key Proposals:

California Student Aid Commission

- Rescinds proposal to suspend the Cal Grant Competitive awards, increasing CSAC by \$45.5 million.
- Rescinds proposal, as part of his federal trigger list, to reduce Cal Grants by \$79 million by freezing income eligibility and award levels.
- Swaps \$75 million in General Fund Cal Grant costs to the Student Loan Operating Fund on a one-time basis.
- Proposes to use \$28.6 million in Temporary Assistance for Needy Families (TANF) to fund the Cal Grant program. These funds have historically funded the CalWORKs program, which the Governor is proposing to fully eliminate.
- Provides an increase of \$11.1 million for CSAC in recognition of 2009-10 Cal Grant and loan assumption program costs.
- Reflects \$10.6 million for CSAC updated estimates for Cal Grants and loan assumption programs.
- Increases CSAC's budget by \$676,000 and 8.7 personnel years to replace shared services currently performed by EdFund in anticipation of a sale of the state's assets associated with the Federal Family Education Loan program. Combined, a total of \$1.2 million is available, contingent upon a sale of EdFund transaction, to re-establish mail room, printing, information technology, and other shared services.
- Reduces CSAC's local assistance by \$7.2 million due to an increase from the Federal College Access Challenge Grant. The State expects to receive about \$15 million from the federal grant.

University of California

- Continues to fund the University of California at the same funding levels proposed in the January 10 Budget proposal:
 - Provides \$305 million restoration of one-time reductions from prior year.
 - Provides \$51.3 million for 2.5 percent enrollment growth, 5,121 full-time equivalent student slots.
 - Acknowledges UC's fee increase of 15 percent for fall 2010 academic year.
- Rescinds federal trigger proposal to eliminate UC's enrollment growth funding of \$51.3 million.

California State University

- Continues to fund the California State University at the same funding levels proposed in the January 10 Budget proposal:
 - Provides \$305 million restoration of one-time reductions from prior year.
 - Provides \$60.6 million for 2.5 percent enrollment growth, 8,290 full-time equivalent student slots.
 - Assumes a 10 percent fee increase for fall 2010 academic year.
- Rescinds federal trigger proposal to eliminate CSU's enrollment growth funding of \$60.6 million.

California Community Colleges

- Continues to fund the California Community Colleges at the same funding levels proposed in the January 10 Budget proposal:
 - Provides \$126 million for 2.2 percent enrollment growth, 26,000 full-time equivalent student slots.
 - Reduces by \$23 million, or 0.38 percent, to reflect a negative COLA for apportionments and categorical programs.
 - Shifts \$10 million from EOPS and Part-Time Faculty Compensation to fund the Career Technical Educations.

TRANSPORTATION

Key Proposals:

- Proposes to extend the repayment date for \$230 million in loans from the State Highway Account and other transportation funds from June 2011 to June 2012.
- Proposes to loan \$650 million from gasoline excise tax revenue in the Highway Users Tax Account for the General Fund, to be repaid by June 2013. This funding was made available as a result of a one-time accrual of revenues from the increase in fuel excise tax passed in SB 8X 6 (the gas-tax swap) in this year's special session on the budget.
- Transfers \$72.2 million from the Motor Vehicle Account to the General Fund. These funds are non-Article XIX revenues derived from the sale of documents and miscellaneous services to the public.
- Proposes to loan up to \$250 million from the Motor Vehicle Account to the General Fund. This loan to the General Fund depends in a large part to overall staffing reductions proposed in the budget.
- Reduces the Department of Transportation Capital Outlay Support Program by 750 positions. Because this proposal will be accomplished through attrition over the fiscal year, rather than immediate lay-offs, this will result in an actual budget year reduction of 498 positions equivalents and 102 overtime position-equivalents. Additionally, this proposal increases the program contracting staff by 69 positions. The May Revise states that savings resulting from position reductions and reduced bid savings will be used to increase highway, street, and road spending.
- Augments \$100.2 million for Caltrans to use American Recovery and Reinvestment Act (ARRA) funding it has received for high speed intercity rail projects. This proposal includes an increase in \$349,000 and four positions to manage and oversee projects, administer the funding, and meet federal reporting requirements.
- Reduces \$1.6 million in State Highway Account appropriations as a result of the 15 percent reduction in the state's fleet as directed by the Governor's Executive Order S-14-09.

HUMAN SERVICES

Key Proposals:

CalWORKs

- Eliminates the CalWORKs program effective October 1, 2010 for a savings of \$1.6 billion. With the elimination of CalWORKs, the state would forego \$3.5 billion in TANF funding in 2010-11, growing to \$3.8 billion in 2011-12. This proposal would eliminate benefits for 500,000 to 600,000 families (including more than 1 million children and 1,451,200 individual's total) who receive assistance from the program. CalWORKs provides temporary cash assistance, job training, education, child care, and employment programs to families who are unable to meet basic needs (i.e. shelter, food, clothing) on their own.

Counties and advocates project that the elimination of CalWORKs could result in dramatic increases in unemployment, poverty, and homelessness among recipient families, as well as costs in other state and local services (e.g. the child welfare, foster care, and education systems). The Governor's Budget forecasted an unemployment rate of 12 percent during 2010. According to the U.S. Census Bureau, California had an overall poverty rate of 13.3 percent of the state's population in 2008. The poverty rate was higher, at 18.5 percent, for children under 18 years of age.

- As part of the CalWORKs elimination proposal, provides General Fund of approximately \$664 million for areas of the budget that had received federal Temporary Assistance for Needy Families (TANF) Block Grant funds and assisted with meeting California's Maintenance of Effort (MOE) requirement. Without CalWORKs and the federal TANF Block Grant that funds the program and these other government services, General Fund is further required.
- Given the proposal to eliminate CalWORKs, rescinds the Governor's January Budget proposals in the program, including: (1) reducing the monthly grant payments by 15.7 percent, or from the current level of a maximum of \$694 (the same amount in real dollars for grants in 1989-90) for a family of three in a high-cost county to \$585; (2) reducing the level at which the state reimburses child care providers; and, (3) eliminating the Recent Noncitizen Entrants program, which provides benefits to legal immigrants.

In-Home Supportive Services

- Replaces the Governor's proposals to: (1) eliminate IHSS services for anyone with a Functional Index Score below 4.0; and, (2) reduce state participation in wages of IHSS workers to the state minimum wage with a proposal to achieve \$750 million in unspecified General Fund savings by July 1, 2010. The Administration is proposing that this reduction be developed with stakeholder consultation and enacted prior to July 1. The program currently serves 489,972 recipients with 385,074 providers and 2,330 county and state staff.

Drug Medi-Cal

- Eliminates all Drug Medi-Cal programs with the exception of the Perinatal and Minor Consent programs, effective October 1, 2010, for a decrease of \$53.4 million. The Drug Medi-Cal program serves 270,598 recipients currently.

Additional Proposals:

- Delays the implementation date for the Governor's proposed grant cut for individuals receiving Supplemental Security Income/State Supplementary Payment (SSI/SSP) to October 1, 2010 and reflects a \$45 million cost for the change, resulting in revised savings of \$132.8 million General Fund in 2010-11. This proposal would affect 923,575 individuals, approximately 304,780 of whom also receive IHSS.
- Delays the implementation date for the Governor's proposed elimination of the Cash Assistance Program for Immigrants (CAPI) to October 1, 2010 and reflects a \$33.6 million cost for the change, resulting in revised savings of \$73.6 million General Fund in 2010-11. This proposal would affect 10,886 recipients who are reliant on this basic living benefit.
- Delays the implementation date for the Governor's proposed elimination of the California Food Assistance Program to October 1, 2010 and reflects a \$13.3 million cost for the change, resulting in revised savings of \$42.8 million General Fund in 2010-11. This proposal would affect 37,000 recipients who receive this basic food benefit of \$112 per month.
- Shifts county mental health funding to county social services programs, resulting in \$602 million in General Fund savings and the same loss in funding in mental health programs at the local level.
- Restores funding for social services programs by \$550 million to reflect that the proposal to shift state and local California Children and Families Act of 1998 (Proposition 10) revenues for five years to offset General Fund costs in various health and human services programs was not adopted.
- Increases funding by \$86.9 million to recognize that the savings included in the Governor's Budget proposal to expand federal eligibility for Foster Care will not materialize in 2010-11.
- Includes a decrease of approximately \$45 million due to caseload decreases in IHSS, Foster Care Child Welfare Services, Adoption Assistance Program (AAP), and SSI/SSP programs, partially offset by an increased caseload projection in the Food Stamp program and an increased AAP average grant.
- Includes an increase of \$79.1 million from the court decision requiring an increase in the rates for Foster Care Group Home providers, as well as the court decision preventing implementation of the 10-percent reduction to Group Home rates included in the 2009-10 Budget.

HEALTH SERVICES

Key Proposals:

Department of Health Care Services

- Restores Medi-Cal optometry services for adults that were eliminated in 2009, in order to comply with federal law, increasing Medi-Cal by \$1.3 million. This had been utilized by 731,906 Medi-Cal beneficiaries.
- Proposes a 3.9 percent rate increase to AB 1629 nursing facilities, at a cost of \$80 million, expected to be fully offset by an increase in the quality assurance fee (QAF) achieved by: 1) assessing fees on currently exempted multi-level retirement communities; 2) decreasing DPH licensing and certification fees; and, 3) using more recent data on which the fee is based.
- Proposes increased oversight of skilled nursing facilities staffing and changes to payment methodology, by adding 45.5 positions to the DHCS and DPH, costing \$2 million which is expected to be offset by proposed penalties on facilities.
- Proposes 53 new limited-term positions at a cost of \$4.1 million to implement the pending federal Section 1115 Hospital Finance Waiver.
- Proposes a 3.7 percent rate increase to managed care plans, at a cost of \$174 million.
- Restores \$108.6 million in funding to Medi-Cal in response to unrealized savings from unimplemented policies adopted previously that were litigated and resolved not in favor of the state, including: 1) 10 percent rate reduction to hospitals; 2) freezing of reimbursement rate for long-term care facilities; 3) limiting of ADHC services; 4) reimbursement rate change for pharmaceuticals; and, 5) retroactive 10 percent rate reduction to long-term care.
- Requires DHCS to perform rate studies on the maximum allowable ingredient cost on generic drugs and the rate for physician administered drugs and provides \$400,000 for these purposes.

Adjustments to January Budget Proposals:

- Proposes the following detailed policies related to the January proposal to achieve \$750 million in General Fund savings through cost containment measures in Medi-Cal:
 - a. Utilization controls (\$90.2 million) including: 1) Elimination of specified over-the-counter drugs (\$13 million); 2) a maximum annual benefit on hearing aids at \$1,510, durable medical equipment at \$1,659, urological supplies at \$6,435, and wound care supplies at \$391 (\$3.8 million); 3) limit on prescriptions to six per month (\$4.2 million); and, 4) limit the number of physician or clinic visits to 10 per year (\$69.2 million).

- b. Increased cost sharing (\$218.8 million) with: 1) \$5 co-payments on physician/clinic/dental/pharmacy visits (\$118.2 million); 2) \$50 co-payments on emergency room visits (\$41.5 million); and, 3) \$100 per day co-payments and \$200 maximum for hospital stays (\$59.1 million).
 - c. Other program changes (\$213.7 million) including: 1) enroll seniors and people with disabilities in managed care (\$137.3 million); 2) reduce radiologist rates to 80 percent of Medicare (\$10.5 million); 3) freeze hospital rates at current level (\$64.9 million); and, 4) cease paying for Medicare Part B premiums for beneficiaries whose income exceeds the Medi-Cal eligibility threshold by less than \$500 per month (\$1 million). This also reflects loss of \$76 million in savings from not adopting various January proposals.
- Increases the Medi-Cal budget by \$1.8 billion and rescinds the January proposal to raise California's base Federal Medical Assistance Percentage (FMAP) from 50 to 57 percent.
 - Assumes increase in federal funds of \$1.6 billion (\$55 million more than January proposal) as a result of: 1) federal reimbursement for cost of incarcerating undocumented immigrant felons; 2) funds owed to the state for incorrect Medicare disability determinations; 3) recalculation of state Medicare Part D clawback payments; and, 4) relief through the new Section 1115 Waiver.
 - Decreases Medi-Cal by \$447 million in 2009-10 and \$10 million in 2010-11 (in addition to \$225 million in 2010-11 savings in January budget) due to application of ARRA enhanced FMAP to clawback payments.
 - Decreases Medi-Cal by \$300 million (in addition to the \$1.5 billion in January proposal) due to revised estimate of extending ARRA, largely due to ARRA now applying to clawback payments and a lower IHSS savings proposal.
 - Proposes to extend the AB 1383 hospital fee for two quarters resulting in \$160 million savings in Medi-Cal, \$700 million in increased fee revenue, and \$1.1 billion in federal matching funds.
 - Decreases Medi-Cal by \$44 million due to a methodology change in determining funding growth for County Administration.
 - Shifts \$11.3 million in Prop 99 funds, to backfill General Fund in Medi-Cal, from the Asthma Public Health Initiative (APHI) (\$1.3 million) and the Expanded Access to Primary Care program (\$10 million). This would eliminate the APHI, which currently educates and supports an estimated 365,000 people, approximately half the number of people served prior to 2009 budget reductions.

Managed Risk Medical Insurance Board

- Restores \$63.9 million to Healthy Families Program, and \$3.9 million to the CCS program, due to rescission of Healthy Families eligibility reduction proposal which would have violated federal law. The rescinded proposal would have uninsured approximately 216,000 children.
- Proposes to increase monthly premiums in Healthy Families for families between 200 and 250 percent FPL by \$18 per child (\$54 maximum per family with 3 or more children) for increased funding to the program of \$13.3 million.
- Reduces \$48.9 million in General Fund to Healthy Families to reflect higher-than-anticipated AB 1422 revenue.
- Proposes to reduce Healthy Families by \$3.2 million by increasing emergency room co-payments from \$15 to \$50 (\$2.5 million) and adding hospital inpatient services co-payments of \$100 per day with a \$200 maximum (\$0.7 million).
- Proposes a one-time increase of \$25.8 million from the state and local First 5 California Children and Families Commission for children up to five years old in the Healthy Families Program, between 200 and 250 percent FPL. Total requested contribution for 2010-11 is \$81.4 million.
- Proposes that the MRMIB Board consider increasing cost sharing from 1.5 to 2 percent to meet increased caseload in the Access to Infants and Mothers Program (AIM).

Department of Public Health

- Decreases \$32.7 million in funding to ADAP as a result of: 1) a court ruling requiring a reduction in the average wholesale price of brand drugs; 2) elimination of ADAP eligibility in county jail inmates (also a January proposal); and 3) improvements to the estimate process.
- Additional decrease of \$10.5 million in ADAP Rebate Fund due to lower projected program expenditures and county jail proposal.

Department of Mental Health

- Decreases the Sex Offender Commitment Program by \$7.2 million to reflect savings in the Sexually Violent Predator Program due to a shift in the type of referrals from the California Department of Corrections and Rehabilitation.
- Proposes to re-direct 602 million in Mental Health Realignment funds to achieve commensurate General Fund savings.
- Restores \$452.3 million in General Fund to the EPSDT Program and the Mental Health Managed Care Program, as a result of lack of adoption of the January proposal to redirect Proposition 63 funds to these programs.

- Proposes to suspend the AB 3632 mandate, for \$52 million in savings. AB 3632 mandates counties to provide mental health services to children who need them in order to succeed in school.

Department of Developmental Services

- Proposes to decrease Regional Centers by \$39 million in 2009-10 and prior years, and \$14.5 million in 2010-11 associated with the increased federal reimbursement of services provided by Intermediate Care Facilities (ICF-DD).
- Proposes an increase of \$13.2 million in reimbursement from DHCS to DDS for increased administrative costs and quality assurance fees relating to the active treatment and transportation services to regional center beneficiaries residing in ICF-DDs.
- Increases funding by \$5.2 million General Fund to upgrade the existing fire alarm system at Sonoma Developmental Center, to avoid potential licensing deficiencies and decertification.
- Proposes a one-time increase of \$50 million, provided by state and local First 5 California Children and Families Commissions, for children receiving services through the Department of Developmental Services.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Natural Resources

Key Proposals:

- Reduces funding for the Department of Fish and game habitat conservation and restoration programs by \$5 million. This reduction will impact marine protection, timber harvest plan review and grants for fisheries restoration programs, however, it is unclear at this time how this cut will be specifically allocated.
- Fully funds the Department of Parks and Recreation with \$140 million in General Fund. This proposal replaces a previous proposal to fund the Department with lease revenues from the Tranquillon Ridge Project that was withdrawn by the Administration.
- Augments the Department of Forestry and Fire Protection by \$124 million to reflect the loss of revenues from the delay in the enactment of the Emergency Response Initiative (ERI). The Governor's Budget assumed the enactment of a 4.8 percent statewide surcharge on all residential and commercial property insurance by March 1, 2010 to fund state and local fire protection and emergency response activities. The Administration continues to support the ERI and builds in \$76 million in General Fund savings associated with its enactment.
- Augments multiple Natural Resources programs by \$602.7 million from the Safe, Clean and Reliable Drinking Water Supply Fund for the Department of Water Resources and the Department of Fish and Game to begin immediate implementation of the proposed 2010 Water Bond. This proposal will fund projects such as local and regional drought relief, groundwater and conveyance, desalinization grants, urban and agricultural water management planning grants, Red Bluff Diversion Dam and Delta Sustainability projects consistent with the Bay Delta Conservation Plan.

Environmental Protection

- Proposes to reduce \$6.1 million from the State Water Resources Control Board's Basin Planning program and replaces that funding with Waste Discharge Permit Fee revenues.
- Appropriates \$419 million from Water Bond funds to the Water Board to fund advanced treatment technology projects, water recycling projects, and community wastewater treatment plants.
- Augments \$1.3 million and 6.5 positions to fund the Office of Environmental Education in the California Environmental Protection Agency in order to fully fund the implementation of the Education and the Environment Initiative.

PUBLIC SAFETY

Key Proposals:

Department of Corrections and Rehabilitation

Increases General Fund expenditures by \$78.0 million in 2009-10 and \$111.6 million in 2010-11, primarily due to the following:

- Reduces \$9.8 million General Fund in 2009-10 and \$50.4 million General Fund in 2010-11 due to projected changes in the adult inmate and parolee populations. The average daily inmate population is projected to decrease from 168,461 in 2009-10 to 163,681 in 2010-11, a decrease of 4,780 inmates, or 2.8 percent. The decrease in the adult inmate population is primarily due to the implementation of new legislation that provided enhanced credit earning for inmates and reformed the parole system.
- Adds \$36.8 million General Fund in 2009-10 and \$100.9 million General Fund in 2010-11 to reflect revised savings estimates associated with prison reforms included in the 2009 Budget Act.
- Adds \$25.2 million General Fund in 2009-10 and \$291.6 million in 2010-11 to remove estimated savings related to the Felony Prison Term Reform proposal that was included in the Governor's Budget.
- Reduces \$243.8 million General Fund in 2010-11 by proposing a system of block grants to provide evidence-based programming and other probation and jail services at the local level. The block grants will be funded from a portion of state savings generated by having non-sex offender, non-serious, non-violent offenders convicted with sentences of three years or less to serve their felony sentence in local jails. The state will provide the counties with approximately \$11,500 per offender, to be allocated at the local level, for programs and services such as probation programming, drug courts, and alternative custody.
- Adds \$502.9 million General Fund annually, beginning in 2011-12, as a continuous appropriation to local jurisdictions for public safety programs currently funded using a portion of the revenue from vehicle license fees.
- Reduces \$5.8 million General Fund in 2009-10 and \$22.1 million General Fund in 2010-11 related to changes in the juvenile institution and parolee populations. The average daily ward population is projected to decrease by 107 in 2009-10 and 227 in 2010-11.
- Adds \$35.7 million General Fund and \$6.3 million Proposition 98 General Fund in 2010-11 to reduce estimated savings for the Juvenile Offender Population Reform proposal that was included in the Governor's Budget. The portion of the proposal that would have reduced the Division of Juvenile Justice's (DJJ) age of jurisdiction to 21 is no longer being pursued.

- Reduces \$4.6 million General Fund in 2010-11 to reflect savings resulting from the transfer of supervision responsibilities for new DJJ parolees to county probation. Beginning in 2011-12 the state will allocate \$15,000 per parolee per year, based on the average length of stay on parole, to county probation departments to provide the necessary resources to supervise the parolees.
- Adds \$300 million lease revenue bond authority for local youthful offender rehabilitative facilities to enhance the capacity of local communities to implement an effective continuum of response to juvenile crime and delinquency.

GENERAL GOVERNMENT

Key Proposals:

Governor's Office of Economic Development

- Increases reimbursement authority for the Governor's Office by \$2.1 million to facilitate the new Governor's Office of Economic Development. It is to be funded out of "existing state resources," but it is not clear where those resources are coming from.

California Department of Veterans Affairs

- Proposes an increase of \$8.4 million General Fund to continue implementation of the Governor's Operation Welcome Home initiative.
- Adjusts a one-time increase of \$768,000 from the Veteran Service Officer Fund for a case management system (SAIS) that will help facilitate workload related to Operation Welcome Home.
- Includes budget authority to provide up to \$1.3 million General Fund to ensure continuation of the Pathways Home Program, housed at the Yountville Veteran Home, which provides rehabilitative services to veterans returning from Iraq and Afghanistan.

Employee Compensation

- Reduces \$445.7 million General Fund and \$349.8 million Non-General Fund associated with implementation of a one-day-per-month personal leave program for all state civil service employees from July 1, 2010 until June 30, 2011.
- A decrease of \$200 million General Fund associated with anticipated savings from partial reimbursement for reinsurance costs for early retirees included in the Federal Health Care Reform Act, passed in March of 2010.

Judicial Branch

- Adds \$91 million General Fund in 2010-11 to backfill the revenue not achieved because the Automated Speed Enforcement proposal was not adopted in Special Session. These revenues were proposed to offset General Fund support for the trial courts. The May Revision assumes revised revenues of \$206.1 million resulting from this proposal.
- Reduces \$13 million General Fund in 2010-11 to reflect savings resulting from the implementation of electronic court reporting.
- Adds an additional \$15 court security fee for a net increase of \$19 million Trial Court Trust Fund to augment funding for trial court security.

BORROWING

Key Proposals:

- Decreases General Fund expenditures for borrowing by over \$419 million in 2010-11, and nearly \$235 million in 2009-10, as outlined in the bullets below:
 - Decreases General Fund expenditure for debt service by \$197.5 million for 2010-11. This reduction reflects lower than expected debt costs for currently issued bonds, and reduced interest rate assumptions for future bond sales.
 - Decreases General Fund expenditures for GO bond debt service in 2009-10 by \$94.9 million to reflect increased transportation debt service offsets (special session action) and other savings.
 - Decreases cash management borrowing costs by \$190 million in 2010-11 and \$135 million in 2009-10 due to reduced interest costs.
 - Decreases budgetary loan costs by \$32 million in 2010-11 and \$5 million in 2009-10 due to reduced budgetary loan repayments.
- Includes over \$1.6 billion in new loans, loan repayment extensions, and transfers from special funds. The vast majority of these funds are accounted for in the Transportation section of this review.

TAXATION AND REVENUE

Key Change from January Budget:

"Triggers" Not Included

- The May Revision does not include the revenue triggers linked to federal payments that were included in the January budget. Under the earlier proposal, certain limitations, suspensions and reductions to tax programs under the personal income tax and corporation tax that resulted in increased revenues were to continue into 2010-11 if federal funding of a specified amount was not received by the state. This trigger provision is no longer included in the proposed budget.

Key Federal Tax Implications:

Estate Tax

- Current law imposes an inheritance tax equal to the amount of allowed state "pick-up" tax credited against the federal estate tax. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 phases-out the federal estate tax by 2010. The "pick-up" tax was phased-out at a quicker rate and eliminated in 2005. The provisions of EGTRRA sunset after 2010 at which time under current law the federal estate tax and the state "pick-up" tax will be reinstated. The amount of additional state revenue to be received as a result of the reinstatement of the tax is \$892 million in 2010-11.

Key Fee Proposal:

Fee Increases

- The Governor proposes a cost recovery fee for collection costs of the Board of Equalization. The fee will be imposed upon delinquent accounts receivable to cover the actual costs incurred by the tax agency to collect the amounts owed. The fee is expected to generate General Fund revenues of \$4 million in 2010-11 and \$13 million in 2011-12.