



Summary of Governor's Proposed 2008-09 Budget Adjustments

November 6, 2008

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OVERVIEW

Due to the continuing downturn in the world, national, and state economies, General Fund revenue projections have fallen by \$11.2 billion in 2008-09 and \$13 billion for 2009-10.

The Governor has called the 4th Extraordinary Session to immediately begin to address this revenue shortfall, and proposes a mix of solutions, including \$4.7 billion in revenue increases and \$4.5 billion in budget cuts. These solutions do not completely close the \$11.2 billion revenue shortfall, but together with various cash solutions would ensure the state is able to meet all its remaining spending obligations.

It is important to note, that at this time it is unknown what required spending increases will add to the \$11.2 billion revenue shortfall. As is typical in down economic times, it is anticipated that there will be required spending increases due to growing caseloads in safety net and corrections programs.

The intent of this report is to provide a quick summary of the Governor's special session budget proposal.

**Summary of Budget Solutions
(in millions)**

Revenue Solutions	
1.5 cent Sales Tax Increase (for 3 years)	\$3,540
9.9% Oil Severance Tax	\$530
Expand sales tax to certain services	\$357
5 cent a drink Alcohol Tax Increase	\$293
Total Revenue Solutions	\$4,720
Expenditure Solutions	
Proposition 98 Cut	\$2,500
UC/CSU	\$132
Medi-Cal	\$142
Developmental Disabilities	34
SSI/SSP	\$391
CalWORKS	\$274
In-Home Supportive Services	\$118
Public Transit	\$230
Corrections	\$78
Local Public Safety	\$250
Williamson Act	\$35
State Employee Compensation	\$320
Total Expenditure Solutions	\$4,504

K-12 EDUCATION**2008-09 Budget Adjustment Proposals:**

- ◆ **Total Proposition 98 for K-14 Education.** Reduces Proposition 98 funding by \$2.5 billion providing a total of \$55.6 billion to K-12 schools and community colleges.
- ◆ **K-12 reductions:**
 - ◆ Eliminates the \$244.3 million or 0.68 percent COLA for K-12 district and county office revenue limits.
 - ◆ Reduces school district revenue limit funding by \$1.791 billion.
 - ◆ Proposes categorical program flexibility to allow districts to transfer funds from *any* categorical program to offset the reduction to revenue limits. Districts using this flexibility are required to adopt a transfer plan at a regularly scheduled school board meeting and agree to report the amounts transferred and the programs affected.
 - ◆ Captures \$71.2 million in prior year savings from several categorical programs due to underutilization. These reductions include: \$28.6 million for K-3 Class Size Reduction, \$2.6 million for Principal Training, \$3.3 million for Alternative Certification and \$1 million for the Pupil Retention Block Grant.
 - ◆ Reduces \$55 million by capping child care programs to reflect the amount of funding that has not been allocated for contracts with providers. This will not result in a reduction in services to families.
 - ◆ Reduces \$42 million from Stage 2 and Stage 3 child care programs based on revised estimates for lower than anticipated caseload. Stage 2 costs are revised down by \$27 million and Stage 3 costs are revised down by \$15 million.
 - ◆ Reappropriates \$108 million from prior year child care savings for CalWORKs Stage 2 and 3 costs in 2008-09. The 2008-09 budget used anticipated one-time savings from the After School Safety and Education (ASES) program to fund CalWORKs however the ASES savings did not materialize.

HIGHER EDUCATION

University of California (UC)

2008-09 Budget Adjustment Proposals:

- ◆ Reduces UC by \$65.5 million in unallocated reductions. Together with UC's \$33.1 million share of the \$190 million statewide savings requirement for state operations assumed in the enacted 2008 Budget, UC will approximately reflect a 10 percent reduction, consistent with the reduction level proposed in the January 2008-09 Governor's Budget.

California State University (CSU)

2008-09 Budget Adjustment Proposals:

- ◆ Reduces CSU by \$66.3 million in unallocated reductions. Together with CSU's \$31.1 million share of the \$190 million statewide savings requirement for state operations assumed in the enacted 2008 Budget, CSU will reflect approximately a 10 percent reduction, consistent with the reduction level proposed in the January 2008-09 Governor's Budget.

Hastings School of Law (HCL)

2008-09 Budget Adjustment Proposals:

- ◆ Reduces Hastings by \$402,000 in unallocated reductions. Together with HCL's \$114,000 share of the \$190 million statewide savings requirement for state operations assumed in the enacted 2008 Budget, HCL will reflect approximately a 10 percent reduction, consistent with the reduction level proposed in the January 2008-09 Governor's Budget.

California Community Colleges (CCC)

2008-09 Budget Adjustment Proposals:

- ◆ Reduces the 0.68 percent COLA, or \$39.8 million, for CCC apportionments that was enacted in the education trailer bill.
- ◆ Reduces \$292.4 million from the amount for general purpose apportionments and provides categorical flexibility similar to the proposal for K-12 LEAs.
- ◆ Provides community college districts the flexibility to transfer categorical allocations to the district's General Fund for any purpose up to the amount of their share of the \$290.1 million reduction. Districts that decide to use this flexibility must adopt plans in public meetings and agree to report the amounts and programs from which transfers were made and the purpose for which those funds were used.

TRANSPORTATION

Local Public Transit

2008-09 Budget Adjustment Proposals:

- ◆ Eliminates all Public Transportation Account (PTA) funding for the State Transit Assistance Program, thus eliminating all state support for local transit operations, which totals \$229.9 million in 2008-09 and \$306 million in 2009-10. This is on top of about \$1 billion in cuts to public transit approved in the Budget Act.

Vehicle Registration Fees

2008-09 Budget Adjustment Proposals:

- ◆ Increases vehicle registration fees by \$12 to generate \$150 million in 2008-09 and \$359 million in 2009-10 for the Motor Vehicle Account (MVA) which will be used to backfill funds that are proposed to be shifted from the Department of Motor Vehicles to local public safety programs. This fee increase is on top of the \$11 fee increase approved in the Budget Act.

HUMAN SERVICES

Department of Social Services

2008-09 Budget Adjustment Proposals:

Supplemental Security Income/State Supplementary Program (SSI/SSP)

- ◆ Reduces the SSI/SSP payment to the federal minimum effective March 1, 2009, reducing the grant for an aged/blind individual by \$40 and for a couple by \$117. The General Fund reduction generates \$348.9 million in 2008-09 and \$1.1 billion in 2009-10. The proposal impacts 1.2 million families
- ◆ Eliminates the Cash Assistance Program for Immigrants (CAPI) effective March 1, 2009, resulting in General Fund savings of \$37.8 million in 2008-09 and \$114.1 million in 2009-10. The CAPI program provides benefits to aged, blind, and disabled legal immigrants who successfully complete an application process. The proposal impacts approximately 11,000 families.

CalWORKs

- ◆ Reduces CalWORKs grants by 10 percent effective March 1, 2009, resulting in General Fund savings of \$93.2 million in 2008-09 and \$279.6 million in 2009-10. This proposal would reduce the maximum monthly grant for a family of three from \$723 to \$651.
- ◆ Proposes a modified CalWORKs Safety Net program to eliminate cash aid for children whose parents have exceeded their 60-month time limit and who are not meeting work participation requirements. This results in General Fund savings of \$80.7 million in 2008-09 and \$242 million in 2009-10 and assumes a March 1, 2009 implementation. The proposal eliminates aid for 98,000 children.
- ◆ Eliminates cash aid for children whose parents are non-citizens or certain types of felons and if they have exceeded their 60-month time limit. This would result in General Fund savings of \$76.8 million in 2008-09 and \$230.3 million in 2009-10. This proposal eliminates aid for 82,000 children.
- ◆ Proposes a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families not meeting work requirements, with failure to attend resulting in a full family sanction, or complete elimination of cash assistance. This results in General Fund savings of \$23.3 million in 2008-09 and \$94.8 million in 2009-10 assuming a March 1, 2009 start date.

In-Home Supportive Services (IHSS)

- ◆ Eliminates domestic and related services, including meal preparation, laundry, and cleaning services, for IHSS recipients with a functional index score below 4. This results in General Fund savings of \$23.1 million in 2008-09 and \$71.4 million in 2009-10 assuming a March 1, 2009 implementation.
- ◆ Eliminates the state buyout program for IHSS recipients with a functional index score below 4. This results in General Fund savings of \$12.3 million in 2008-09 and \$37 million in 2009-10 assuming a March 1, 2009 start date.
- ◆ Limits state participation in wages of IHSS workers to the state minimum wage plus \$0.60 per hour for health benefits and assumes a March 1, 2009 implementation. This results in General Fund savings of \$82.9 million in 2008-09 and \$248.8 million in 2009-10.

California Food Assistance Program (CFAP)

- ◆ Eliminates the CFAP effective July 1, 2009, resulting in General Fund savings of \$30.3 million in 2009-10. This state-only program provides food benefits to low-income legal non-citizens.

HEALTH CARE SERVICES**Department of Developmental Services*****2008-09 Budget Adjustment Proposals:***

- ◆ Proposes a three percent reduction to regional center service providers effective December 1, 2008. The reduction exempts certain types of providers and the department may consider other exemptions necessary to ensure the health and safety of consumers. Additionally, the proposal includes a suspension of the 1:66 coordinator-to-consumer ratio, but exempts from this suspension consumers on the federal Home and Community Based Services waiver, those three years of age or younger in the Early Start Program, and consumers moving from a developmental center into the community. These changes result in General Fund savings of \$34.2 million in 2008-09 and \$59.8 million in 2009-10.

Department of Health Care Services***2008-09 Budget Adjustment Proposals:***

- ◆ Eliminates Medi-Cal "optional benefits," including: adult dental, chiropractic, incontinence creams and washes, acupuncture, audiology, speech therapy, optometry/optometrists, optician/optical lab services, podiatry, and psychology services. Results in General Fund savings of \$41 million in 2008-09 and \$129.9 million in 2009-10. The Governor proposed this in his 2008-09 budget and it was rejected by the Legislature.
- ◆ Reduces Medi-Cal benefits for newly qualified immigrants (in the U.S. for less than 5 years) and immigrants who Permanently Reside Under the Color of Law (PRUCOL) to the level currently provided to undocumented immigrants. Immigrants would retain emergency services, pregnancy-related services, long-term care in a nursing facility, and breast and cervical cancer treatment. Results in General Fund savings of \$29.7 million in 2008-09 and \$144.4 million in 2009-10. The Governor proposed this in his 2008-09 budget and it was rejected by the Legislature.
- ◆ Implements monthly eligibility determination for emergency services for undocumented immigrants. Currently, this population receives up to six months of health services after initial eligibility determination. Results in General Fund savings of \$15.1 million in 2008-09 and \$73.5 million in 2009-10. The Governor proposed this in his 2008-09 budget and it was rejected by the Legislature.

- ◆ Reduces the income level for new applicants to the Section 1931(b) program to the pre-March 2000 standard of an average of approximately 72 percent of the federal poverty level, and defines under-employment as the principal wage earner working less than 100 hours a month for persons applying for Section 1931(b) and for the medically needy program. Results in General Fund savings of \$8.6 million in 2008-09, \$109 million in 2009-10, and \$342.5 million in 2011-12. The Governor proposed this in his 2008-09 budget and it was rejected by the Legislature.
- ◆ Shifts federal Safety Net Care Pool funding from designated public hospitals to the California Children's Services, Genetically Handicapped Persons, Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs, which are eligible for these funds. Results in General Fund Savings of \$3.7 million in 2008-09 and \$54.2 million in 2009-10. The Governor proposed this in his 2008-09 budget and it was rejected by the Legislature.
- ◆ Reinstates share of cost for Medi-Cal for aged, blind and disabled individuals with incomes over the SSI/SSP limits. Eligibility for Medi-Cal without a share of cost was expanded in January of 2001 from 69 percent up to 127 percent of the federal poverty level. This proposal aligns eligibility with the SSI/SSP limits and results in General Fund savings of \$43.8 million in 2008-09, \$203.7 million in 2009-10, and \$212.8 million annually thereafter.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Williamson Act

2008-09 Budget Adjustment Proposals:

- ◆ Eliminates an annual \$34.7 million General Fund payment to local governments that partially backfills a loss of property tax revenues from local landowners who enter into land protection contracts in exchange for lower property taxes under the Williamson Act.

While local governments can cancel contracts if state funding is eliminated, they cannot begin to collect taxes based on the property's full value until four years have elapsed. After four years, the property is annually taxed at an incrementally higher value over a five-year period. In the sixth year, the property is taxed at full value.

PUBLIC SAFETY**Department of Corrections and Rehabilitation*****2008-09 Budget Adjustment Proposals:***

- ◆ Reduces funding by \$78.7 million by eliminating parole supervision, after release from prison, for offenders without current or previous convictions for serious, violent, or sexual crimes. Savings from this change in state parole policy are projected to grow to \$535.9 million in 2009-10.
- ◆ Implements comprehensive credit reform that will authorize the California Department of Corrections and Rehabilitation to provide up to four months of earned credit for successful program completion by eligible inmates, authorize consistent day-for-day credit for all eligible inmates in state prison and those who are in jail pending transfer to state prison, and provide credits to inmates who are awaiting assignment to a conservation camp. These changes are similar to credit reforms included in the August Revise and will result in current year costs of \$3.4 million but will provide for ongoing savings of \$90.5 million beginning in 2009-10.
- ◆ Reduces funding by \$2.9 million (growing to \$51.3 million in 2009-10) by adjusting the statutory threshold values for property crimes to reflect inflation since 1982. This proposal was included in the August Revise.

Local Public Safety***2008-09 Budget Adjustment Proposals:***

- ◆ Eliminates funding provided to counties that operate juvenile camps and ranches resulting in current year savings of \$14.7 million, which grows to \$29.4 million in 2009-10.
- ◆ Eliminates funding provided to county sheriffs of specified small and rural counties resulting in current year savings of \$8.3 million, which grows to \$16.7 million in 2009-10.
- ◆ Provides \$150 million in 2008-09 and \$359 million in 2009-10 in Vehicle License Fee (VLF) funding for specific law enforcement grant programs. This proposal will eliminate General Fund support of these programs resulting in savings of \$198.8 million in 2008-09 and \$397.5 million in 2009-10. There will be a \$12 increase in the annual vehicle registration fee to backfill Department of Motor Vehicle operations currently supported by the VLF funds.

GENERAL GOVERNMENT

Employee Compensation

2008-09 Budget Adjustment Proposals:

- ◆ Requires state employees to take a one day furlough each month between December 1, 2008 and June 30, 2010. This would produce approximately \$263 million in General Fund savings in 2008-09 and \$451 million in 2009-10.
- ◆ Eliminates two state holidays (likely Lincoln and Columbus days) and premium pay for hours worked on all remaining holidays. This would produce approximately \$39.4 million in General Fund savings in 2008-09 and \$74.5 million in 2009-10.
- ◆ Changes overtime calculations to be based on actual time worked. This would produce approximately \$17.5 million in General Fund savings in 2008-09 and \$30 million in 2009-10.
- ◆ Allows establishment of "alternative work schedules" such as 10 hours per day, four days per week. Legislation may also be introduced regarding flexibility for meal and rest periods.

Office of Emergency Services

2008-09 Budget Adjustment Proposals:

- ◆ Eliminates funding for various local assistance programs administered by the Office of Emergency Services resulting in current year savings of \$28.7 million, which grows to \$57.4 million in 2009-10. Programs that will be eliminated as a result of this reduction include Vertical Prosecution Block Grants, Rural Crime Prevention, California Multi-jurisdictional Methamphetamine Enforcement Teams, High Technology Theft Apprehension Program, and Sexual Assault Felony Enforcement Teams.

REVENUE AND TAXATION PROPOSALS**Sales and Use Tax*****2008-09 Budget Adjustment Proposals:***

- ◆ Increases the total state sales and use tax (SUT) rate by 1.5 percent (to a total of 7.25 percent) effective for a three-year period starting on January 1, 2009. Existing local uniform tax rates total an additional 1.5 percent, and optional local add-on rates may add up to another 2 percent. Thus, the Governor's proposed increase would result in total combined SUT rates varying from 8.75 percent to 10.75 percent, depending on the locality. The Administration estimates that this rate increase will generate \$3.54 billion in 2008-09 and \$7.319 billion in 2009-10. These amounts include \$322 million in 2008-09 and \$713 million in 2009-10 that would be transferred to the Transportation Investment Fund under Proposition 42.
- ◆ Broadens the SUT to include appliance and furniture repair, vehicle repair, golf, and veterinary services, effective February 1, 2009, and to amusement parks and sporting events, effective March 1, 2009. The Administration estimates that this broadening will produce \$357 million in 2008-09 and \$1.156 billion in 2009-10. The broadening also would apply to the local SUT components, generating an estimated \$151 million in 2008-09 and \$487 million in 2009-10.
- ◆ Imposes an oil severance tax of 9.9 percent of gross value of oil produced in California, effective January 1, 2009. Low-value stripper oil would be exempt, as would oil owned or produced by the state or local governments. The Administration estimates that this tax will generate \$528 million in 2008-09 and \$1.195 billion in 2009-10.
- ◆ Increases excise taxes on alcoholic beverages by the equivalent of a nickel a drink (1.5 ounces of spirits, 12 ounces of beer, or 5 ounces of wine), effective January 1, 2009. The Administration estimates that this tax increase will generate \$293 million in 2008-09 and \$585 million in 2009-10. The Administration also proposes to use these revenues for drug and alcohol abuse treatment and prevention programs.