



**SUMMARY OF GOVERNOR SCHWARZENEGGER  
DECEMBER 2010  
SPECIAL SESSION PROPOSAL**

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## OVERVIEW

Per the requirements of Proposition 58 (2004), the outgoing Schwarzenegger Administration has issued its budget revision proposal to address the fiscal emergency, declared by the Governor today, December 6, 2010. Unfortunately, the proposal is for the most part, a recycling of old ideas that the Legislature has already rejected but has been the centerpiece of the Governor's draconian budget approach for the last three years.

The Governor presented his Special Session proposal as the inevitable choice to end the crisis and chaos of California's enduring budget problems. But this is not a persuasive justification for imposing a blindly cruel austerity regime on education, health and human service programs. As his tired, unpopular, cruel, and financially shortsighted ideas have failed to move forward, the Governor has claimed that the Legislature has a deficiency in strength and courage to cut the state budget. The truth, however, is that it is unproductive to reopen prior disagreements or make rash decisions that bring enormous pain to Californians and our economy. While the Governor's final term of office ends in less than a month, we will have to live with and lead California through the consequences of any budgeting decisions made now.

The outgoing Governor's Special Session proposal amounts to a lost opportunity. Rather than engage the Legislature in a productive, solution-oriented manner, the Governor has taken this last opportunity to try to absolve his Administration for its failure to solve California's budget problems. Therefore, what the proposal lacks in substance it wields with style. Instead of hard solutions, we have been presented with little more than a carefully crafted press document designed to vindictively blame the Legislature for failing to capitulate to the Governor's one-sided budget solutions.

As this Governor leaves office, he leaves a massive structural budget deficit that must be solved in a toxic political climate that he, himself, created. Rather than compromise and seek shared sacrifice to solve the greater problem, we see an emphasis on leveraging and short-sighted gains. This is his true budget legacy.

## SUMMARY OF BUDGET PROPOSAL

The Governor's proposal achieves only \$1.9 billion in solutions to address the current year shortfall. The bulk of the proposal consists of 2010 May Revision cuts that were not adopted by the Legislature in the 2010-11 budget process. There is also a new transportation fund shift, which seeks to recapture savings lost through the adoption on Proposition 22 last month.

The chart below illustrates the proposed solutions, by category:

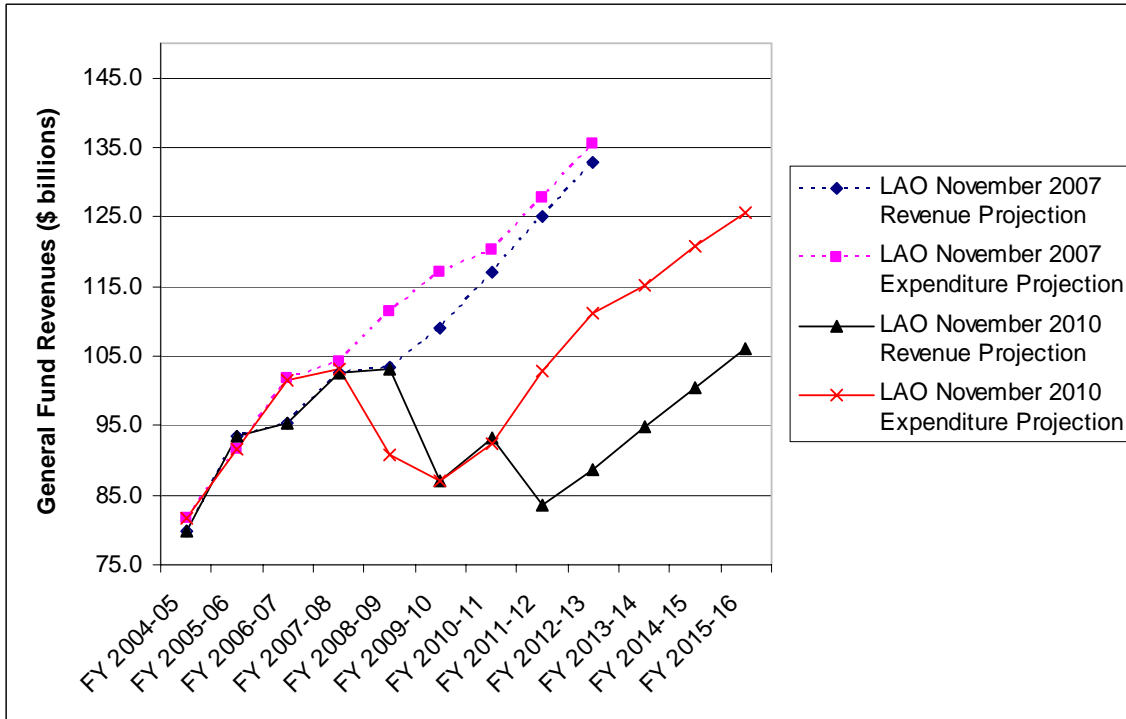
### 2010-11 and 2011-12 General Fund Solutions (in millions)

Source	2009-10	2010-11	Total	Percent
Program Reduction and Cuts	\$886.3	\$6,464.9	\$7,351.2	74%
Alternative Funding	166.6	770.1	936.7	10%
Fund Shifts	855.8	726.7	1,582.5	16%
<b>Total</b>	<b>\$1908.7</b>	<b>\$7,961.7</b>	<b>\$9,870.4</b>	

The Special Session proposal does not include a new projection of the budget problem, but instead cites the LAO definition of the 2010-11 budget deficit of \$6.1 billion, with a projected \$25.4 billion shortfall over the next 18 months.

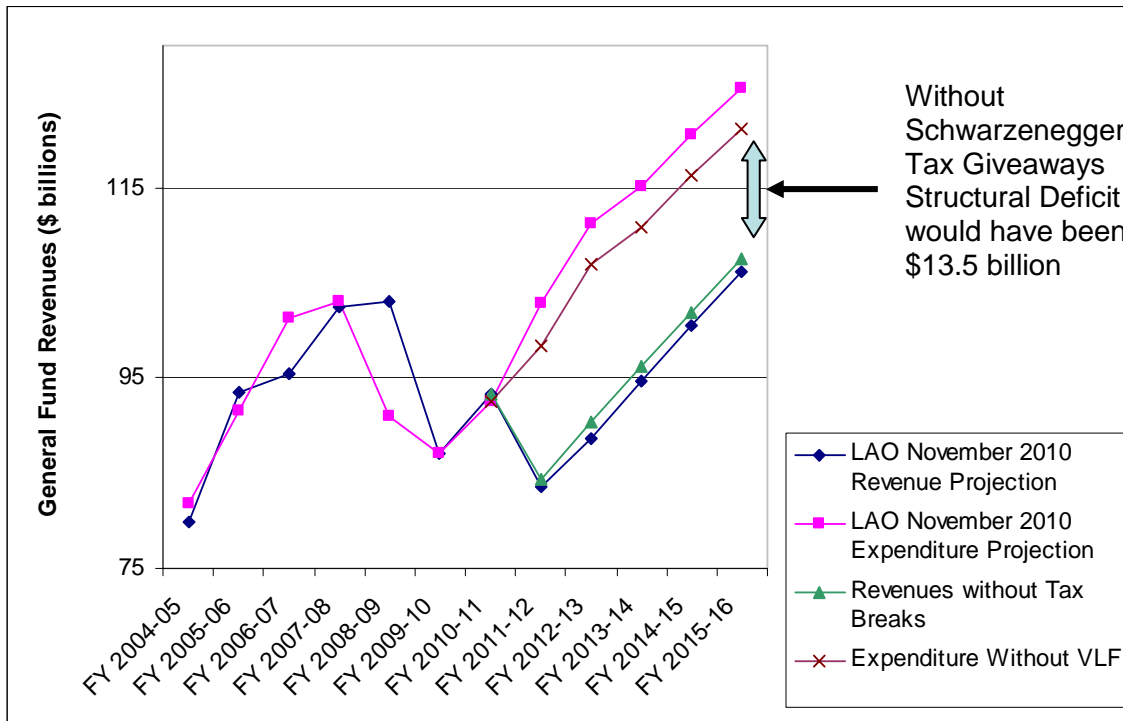
## WHAT CAUSED THE PROBLEM?

The Special Session proposal attempts to reinforce a narrative that suggests that State spending is driving the State's ongoing budget problem. The graph below of actual and projected budget revenues and expenditures tell a different story:



The graph above compares the LAO's recent Fiscal Outlook data with the same projections from 2007. The trend illustrates how the recession has ravaged the State's revenues—for example in 2007 the LAO expected the State in 2011-12 would receive \$125 billion, while the most recent estimate assumes only \$83.5 billion for the same fiscal year—a 33 percent decrease in the projections. The revenues reflect the overall economic trends which expect an ongoing weak recovery. Projected expenditures have also declined, by 19.5 percent, which reflects the significant reductions to government services that have been enacted over the last three years.

While the Governor's tenure in Sacramento has been plagued by persistent deficits, he has presided over budget packages packed with tax giveaways that have only served to expand the structural deficit. The chart below helps illustrate the impact that the Governor's reduction of the Vehicle License fee, combined with ongoing reductions to corporate taxes have had upon the structural deficit:



The Governor has often emphasized the need to take decisive action to fix the deficit over many years but the graphs suggests that his actual actions and leadership have only made the problem faced by the State worse.

California faces several tough years ahead as our residents attempt to recover from the recession and our state moves towards fiscal balance. This proposal is a blueprint to continued failure, frustration, and decline.

A new frugal, collaborative, and thoughtful approach is needed to defeat this deficit and lift California out of this recession.

The follow sections detail the Governor's proposals in specific areas of the State Budget.

## PROPOSITION 98

### **Child Care & Development Programs (Proposition 98)**

Decreases by \$49.4 million in 2011-12 from reductions to the level at which the state reimburses CalWORKs child care providers, effectively March 1, 2011.

Eliminates by \$200.2 million in current year all remaining General Fund support of subsidized child care programs, except for the State Preschool Program and CalWORKs Stage 2, effective April 1, 2011.

Eliminates by \$1.1 billion in fiscal year 2011-12 all remaining Proposition 98 General Fund support of subsidized child care programs. These proposals are as follows:

- Reduces current income eligibility limits (from 75 percent of the State Median Income to 60 percent), effective March 1, 2011.
- Reduces voucher-based provider reimbursement limits (from the 85<sup>th</sup> to the 75<sup>th</sup> percentile of the 2005 regional market rate survey data, and from 80 percent of the respective licensed limits to 70 percent for license-exempt providers), effective March 1, 2011.
- Eliminates CalWORKs Stage 2 effective July 1, 2011. This program serves about 60,000 children.

Proposes legislation to establish greater incentives for child care providers and administrative agents, including Alternative Payment agencies, to reduce administrative error rates and to establish sanctions for those agencies that do not meet federal error rate guidelines. This proposal has never been through the policy process, but continues to be wedged into the budget process. The Administration has never addressed how CDE is to take on new responsibilities and establish a new infrastructure, including substantial legal enforcement authority without additional resources. Prior proposals lack guidance as to how CDE is to structure such an investigative fraud unit and how penalties were developed.

## TRANSPORTATION

### **Proposition 22 Mitigation/Transportation Weight Fees**

Transfers \$850 million in 2010-11 and \$726.7 in 2011-12 in weight fee revenues from the State Highway Account to the General Fund for the payment of transportation related debt service payments and for General Fund loans. This transfer will mitigate General Fund losses resulting from the passage of Proposition 22 and maintain current funding levels for transportation.

Proposition 22 retroactively repeals the provisions of the Gas Tax Swap approved in 2009 that allocate fuel excise tax revenue for General Obligation bond debt service payment and loans to the General Fund. As a result, the state is unable to achieve nearly \$900 million in budgeted savings that were originally approved in the Gas Tax Swap. By making the fund shift proposed in this bill, from fuel excise tax to weight fee revenue, transportation expenditures and General Fund savings will remain at levels approved in the 2010-11 budget.

### **Changeable Message Signs**

The Governor is proposing legislation to authorize advertising on changeable message signs for a fee. Changeable message signs are currently used on our state highways to display information such as travel times, traffic warnings and other public safety messages. This change would allow the Administration to enter into a contract with a third party vendor to install digital displays that would display commercials as well as traffic and public safety messaging.

*This proposal was also included in the Governor's 2010-11 budget and was not approved when the budget trailer bill for transportation failed on the floor.*

## HUMAN SERVICES

### **CalWORKs**

Eliminates the CalWORKs program effective July 1, 2011 for a savings of \$1.4 billion. This General Fund savings is in addition to the savings resulting from both a 15.7 percent reduction in CalWORKs grants and the elimination of the Recent Noncitizen Entrants program, both changes proposed to be effective April 1, 2011 (for a combined savings of \$110.1 million in 2010-11 and \$646.3 million in 2011-12). The savings are also net of General Fund that would need to be provided to various programs and departments outside of CalWORKs that current receive federal Temporary Assistance for Needy Families (TANF) Block Grant funds.

With the elimination of CalWORKs, forfeits the federal TANF block grant, or \$3.8 billion in TANF funding in 2011-12 for a program that provides basic safety net services and employment training for California's poorest families with children.

Eliminates benefits for 560,000 families (including 1.1 million children and 1,451,200 total individuals) 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.

It is estimated that the elimination of CalWORKs would result in the loss of over 86,000 jobs. The unemployment rate has been at 12 percent during 2010 and is expected to remain high in 2011. 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.

Counties and advocates project that the elimination of CalWORKs would 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).



*Governor Schwarzenegger has proposed the elimination of the CalWORKs program twice previously, first at May Revision 2009 and again at May Revision 2010. The proposals were rejected by the Legislature given the magnitude and severity of the consequences of such an action that would render California the only state in the nation to not provide a basic safety net for very low-income families with children. Seventy-five percent of the CalWORKs caseload are poor children.*

**SSI/SSP**

Proposes a decrease of \$43.9 million in 2010-11 and \$177.1 million in 2011-12 from reducing monthly SSI/SSP grants for individuals to the federal minimum beginning April 1, 2011. This change would reduce the SSP portion of the grant for individuals from a maximum of \$171 to a maximum of \$156 per month, changing the overall monthly grant from a maximum of \$845 to \$830 per month (when the SSP portion is combined with an SSI amount of \$674). These savings are net of increased General Fund costs assumed in the Department of Developmental Services.

*Governor Schwarzenegger has proposed this reduction to the minimum grants for SSI/SSP recipients several times before in the January Budget, May Revision, and Special Sessions. Grants for couples were reduced to the federal minimum as part of the 2009-10 Budget Act. The federal cost of living adjustments have been deprived and taken as General Fund savings for this population and the statutory cost of living adjustment (COLA) for California, although temporarily suspended for many years in a row, was permanently suspended as part of the 2009-10 Budget agreement, outside of a subsequent legislative action and Governor's approval to again grant a COLA.*

Eliminates the Cash Assistance Program for Immigrants (CAPI), effective April 1, 2011 for savings of \$29.3 million in 2010-11 and \$123.8 million in 2011-12. This proposal would affect 10,886 recipients who do not qualify for federal benefits and who are reliant on this basic living benefit as a result of their age, blindness, or disability.

*Governor Schwarzenegger has proposed this elimination of CAPI several times before in the January Budget, May Revision, and Special Sessions. The Legislature has repeatedly acted to reject this proposal due to the dire consequences of such an action on a vulnerable population.*

### **Food Stamps and Child Welfare Services**

Decreases \$301 million in 2010-11 and \$602 million in 2011-12 in the Food Stamp and Child Welfare Services programs from shifting county mental health realignment funding to county social services programs. This would eliminate the majority of funding for county mental health services and retain only the amount necessary to fund mandated mental health services.

*Governor Schwarzenegger has proposed similar realignment/reduction schemes in recent years, most recently in the 2010 May Revision, that have been rejected by the Legislature due to the consequences and overall constriction of social services funding in times of increased demand and stretched local resources to implement core programs.*

Eliminates the California Food Assistance Program (CFAP) effective April 1, 2011, for a decrease of \$15 million in 2010-11 and \$69.4 million in 2011-12. The program serves 37,000 very low-income legal immigrants who do not qualify for federal benefits. The food benefit under the CFAP program is \$112 per month.

*Governor Schwarzenegger has proposed this elimination of CFAP several times before in the January Budget, May Revision, and Special Sessions. The Legislature has repeatedly acted to reject this proposal due to the dire consequences of such an action on a vulnerable population.*

### **Drug Medi-Cal**

Eliminates all Drug Medi-Cal programs with the exception of the Perinatal; Early and Periodic Screening, Diagnosis, and Treatment; and Minor Consent Programs, effective April 1, 2011, for a decrease of \$18.1 million in 2010-11 and \$93.1 million in 2011-12. The Drug Medi-Cal program serves 270,598 recipients who rely on it for drug and alcohol treatment services, medication, and therapies to address their addictions. It is highly uncertain where these patients would receive treatment in the absence of this program.

*Governor Schwarzenegger proposed the elimination of Drug Medi-Cal in his 2009 and 2010 budget proposals. In a similar response to other elimination proposals by this Governor, this proposal was rejected by the Legislature due to the dire consequences of such an action on a vulnerable population and resulting cost pressures elsewhere in government.*

## HEALTH CARE SERVICES

### DEPARTMENT OF HEALTH CARE SERVICES (Medi-Cal)

#### **Eliminates Adult Day Health Care**

Eliminates adult day health care as a Medi-Cal benefit for total funds savings of \$20.5 million in 2010-11 and \$188.9 million in 2011-12. This would take effect June 1, 2011. This would result in the loss of thousands of jobs, an increase in financial stress for thousands of families, a decrease in overall health of the population that utilizes ADHC services, and an increase in institutionalization of this population resulting in increased long-term costs for the state.

*The Governor made this same proposal in his January 2009 budget and in his January 2010 budget.*

#### **Imposes Cost-Containment Measures**

Imposes various cost controls for total funds savings of \$3.2 million in 2010-11 and \$980.3 million in 2011-12, including:

- a. Utilization controls (\$2.9 million 2010-11, \$281.7 million 2011-12) including: 1) Elimination of specified over-the-counter drugs (\$2.9 million 2010-11, \$16.8 million 2011-12; takes effect April 1, 2011); 2) A maximum annual benefit on hearing aids at \$1,510, durable medical equipment at \$1,604, incontinent supplies at \$1,659, urological supplies at \$6,435, and wound care supplies at \$391 (\$12.4 million 2011-12; takes effect July 1, 2011); 3) Limit on prescriptions to six per month (\$13.6 million 2011-12; takes effect July 1, 2011); and 4) Limit on the number of physician or clinic visits to 10 per year (\$238.9 million 2011-12; takes effect June 1, 2011).
- b. Increased cost sharing (\$0.3 million 2010-11, \$698.6 million 2011-12) with: 1) \$5 co-payments on physician/clinic/dental/pharmacy (\$3 for relatively lower cost preferred drugs and \$5 for others) visits (\$0.3 million 2010-11, \$360 million 2011-12; takes effect July 1, 2011); 2) \$50 co-payments on emergency room visits (\$142.1 million 2011-12; takes effect July 1, 2011); and 3) \$100 per day co-payments and \$200 maximum for hospital stays (\$196.5 million 2011-12; takes effect April 1, 2010-11).

These proposals significantly reduce access to health care for California's lowest-income individuals and families.

*The Governor included these same proposals in his 2010 May Revision.*

**Eliminates Services for Immigrants**

Eliminates full-scope benefits for Newly Qualified Immigrants (legal immigrants residing in the U.S. under five years), PRUCOL (Permanently Residing Under the Color of Law), and Amnesty Immigrants for estimated total savings of \$14.8 million in 2010-11 and \$120.1 million in 2011-12. This would take effect June 1, 2011. This would reduce or eliminate access to critical health coverage for thousands of legal immigrants residing in California, decrease the health status of these populations, and increase public health challenges.

*The Governor made this identical proposal in his January budget proposals in 2009 and 2010.*

**Reduces Rates for Family Planning Services**

Reduces rates paid for family planning services to 2007 levels for projected total funds savings of \$2.3 in 2010-11 and \$16.1 million in 2011-12. This would take effect May 1, 2011. The state benefits from a 9:1 federal-state match for these services. This reduction could be expected to result in reduced access to family planning services for low-income Californians and therefore an increase in unwanted pregnancies and sexually transmitted diseases. This would also result in a significant loss in federal funds.

*The Governor made this same proposal in his January 2009 and January 2010 budget proposals.*

**MANAGED RISK MEDICAL INSURANCE BOARD (Healthy Families Program)**

**Eliminates Vision Coverage**

Eliminates vision coverage for children for projected total funds savings of \$2.3 million in 2010-11 and \$11.3 million in 2011-12. Takes effect April 1, 2011. This would result in the loss of access to vision exams and glasses for low-income school children in the Healthy Families program.

*The Governor made the same proposal in his January 2010 budget proposal.*

**Increases Premiums**

Proposes to increase monthly premiums in Healthy Families for total funds savings of \$6.2 million 2010-11 and \$25 million in 2011-12 (taking effect April 1, 2011) as follows:

150-200 percent FPL: \$14 per child (from \$16 to \$30) and a family maximum of \$42 (from \$48 to \$90).

200-250 percent FPL: \$18 per child (from \$24 to \$42) and a family maximum of \$54 (from \$72 to \$126).

These premium increases would be the third increases in the past two years, increasing the cost of the program overall by over 30 percent for low-income families.

*The Governor made these same proposals in 2010, the lower income group in January and the higher income group in his May Revision.*

**Increases Co-payments for Hospital Services**

Increases emergency room co-payments from \$15 to \$50 for total funds savings of \$5.3 million in 2011-12 and adds hospital inpatient services co-payments of \$100 per day with a \$200 maximum for total funds savings of \$1.5 million in 2011-12 (both to be implemented August 1, 2011). These co-payments will decrease access to emergency services and hospitalizations for serious conditions for low-income children.

*The Governor made the identical proposal in his 2010 May Revision.*

## NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

### **Reduces Funding for the Department of Fish and Game**

Reduces \$1.5 million from the Department's Biodiversity Conservation program that supports activities such as implementation of the Marine Life Protection Act and Timber Harvest Plan reviews.

*The Governor had proposed this cut in the 2010-11 budget at which time the Administration acknowledged that it would be reduced from the Marine Life Protection Act budget.*

### **Emergency Response Initiative**

Shifts \$350 million of the Department of Forestry and Fire Protection (CAL FIRE) current fire protection budget from the General Fund to a new surcharge on homeowner insurance policies.

*The Governor had proposed this shift in funding in the last three budget proposals.*

### **Basin Planning Fees**

Reduces the State Water Resources Control Board's budget by \$6.1 million General Fund and replaces that reduction with an equal increase in waste discharge permitting fees to fund basin planning activities.

*The Governor had made the same proposal in the 2010-11 budget.*

**PUBLIC SAFETY**

**Department of Corrections and Rehabilitation - Three-Years or Less Felony Jail Terms**

Reduces \$111.5 million in 2010-11 and \$650 million in 2011-12. The state will provide a portion of prison incarceration savings to local jurisdictions for evidence-based treatment for probationers and inmates, alternatives to incarceration such as drug courts, and other expenditures that will reduce recidivism and relieve pressure on jail capacity. The savings are generated from non-sex offenders, non-serious, and non-violent offenders convicted with a felony sentence of three years or less serving their sentence in local jails.

*The Governor made (the same/a similar) proposal in the 2010-11 May Revision.*

## GENERAL GOVERNMENT

### **Judiciary - Electronic Court Reporting**

Reduces \$6.5 million in 2010-11 and \$13 million in 2011-12 to reflect the implementation of Electronic Court Reporting in the trial courts, effective January 1, 2011. This proposal will result in the loss of approximately 1,000 jobs.

*The Governor made (the same/a similar) proposal in the 2009-10 May Revision and the 2010-11 May Revision.*

### **Judiciary - Automated Speed Enforcement**

Increases revenue by \$412.2 million annually beginning in 2011-12, which will be used to offset General Fund support of the trial courts, by implementing a new automated speed enforcement program. The Administration did not perform a public safety analysis when previously proposing this new fine.

*The Governor made (the same/a similar) proposal in the 2010-11 Governor's Budget and the 2010-11 May Revision.*

### **Office of Administrative Law – Fee for Service**

Reduces \$0.5 million in 2010-11 and \$1.8 million in 2011-12 to reflect savings achieved by supporting regulatory activities through a fee-for-service model, creating the Regulatory Oversight Fund, and transferring the Office of Administrative Law to the State and Consumer Services Agency. This proposal may lead to an increase of underground regulations.

*The Governor made (the same/as similar) proposal in the 2010-11 Governor's Budget.*

### **Employee Comp - Health Care Coverage**

A reduction of \$143.9 million in health care costs beginning in January 2012 achieved by contracting for lower-cost health care coverage either directly from an insurer or through CalPERS. The Administration has not previously provided sufficient detail on how these savings will be achieved.

*The Governor made (the same/a similar) proposal in the 2009-10 Governor's Budget and the 2010-11 Governor's Budget.*



**Emergency Housing Fund Sweep**

A transfer of \$5.8 million from the Emergency Housing Assistance Fund to the General Fund is proposed –this includes \$1.6 million in loan forgiveness to the General Fund. The Emergency Housing Assistance Program Fund provides operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families. Conservatively, this reduction impacts over 25,000 Californian's who will not be able to access these resources and thousands of current recipients and employees who will be affected by shelter lay-offs and closures, especially in rural areas.

*The Governor made a similar proposal in the 2010-11 January Budget, which proposed to transfer \$4.2 in Emergency Housing Assistance funds to the General Fund. The Legislature rejected the proposal in the Budget Conference Committee.*