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## INTRODUCTION

California has struggled with massive budget deficits for most of the past decade. These recurring deficits have been largely the result of a reliance on one-time solutions, borrowing, accounting maneuvers, and cuts or revenues that were illusory and therefore did not materialize. Short-term spikes in revenues were repeatedly used to justify permanent increases in spending and costly tax breaks. Making matters much worse, the Great Recession reduced the state's revenue base by 30 percent.

When Governor Brown took office, California's immediate and long-term fiscal problems were immense. A \$25.4 billion budget deficit for 2011-12 and an annual structural deficit of up to \$21.5 billion was projected into the future. The Governor's Budget not only closed the budget deficit in 2011-12, but it addressed the state's ongoing fiscal problems. It did so by reducing spending and increasing revenues, returning authority to local governments, and reducing state government.

In March, most of the Governor's spending cuts were adopted by the Legislature, dramatically reducing the size of the budget deficit and improving the state's fiscal outlook.

Nevertheless, a sizable budget deficit remains.

California's economy is beginning to recover and revenues have increased though it is uncertain how long this uptick will continue. The increased revenues have made it possible to reduce the proposed temporary tax estimations by \$2.9 billion and provide enhanced support to education and public safety. They also help to avoid additional borrowing previously needed to pay for cancelling the short sighted sale of state buildings.

The bottom line is, the state still has a large ongoing budget problem and massive liabilities for the long term. Based on updated projections, California will need to adopt over \$10 billion in ongoing cuts and revenues to balance the budget and make inroads in reducing its substantial long-term debt.

The May Revision keeps the Governor's Budget framework by moving government services closer to the people, and streamlining state government. Under the May Revision, the state's budget would be balanced into the future—setting the groundwork for a strong economic recovery.

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## THE STATE'S BUDGET PROBLEM

### **ADOPTED SOLUTIONS MADE SIGNIFICANT PROGRESS IN BALANCING THE BUDGET**

The Governor's Budget identified a \$25.4 billion gap between revenues and spending and proposed to bridge the gap through a balanced combination of spending cuts and tax extensions. In February, the Governor cancelled the sale of state buildings that had been set in motion in 2009, as it would have cost the state \$6 billion over the long run. As a result, the 2011-12 budget gap grew to \$26.6 billion.

In March, the Legislature passed the Governor's proposed package of bills that substantially cut government spending. In addition to the \$11 billion in cuts and other solutions that the Governor signed, the budget bill adopted by the Legislature contains \$2.4 billion in solutions. Figure INT-01 summarizes the total of the \$13.4 billion in solutions already adopted. These include the following:

- Reducing the State Supplementary Payment (SSP) grants to below the level in effect in 1983.
- Reducing CalWORKs grants to below the 1987 level.
- Reducing California Department of Corrections and Rehabilitation's (CDCR) inmate population by 39,750, or 24.5 percent, once realignment is fully implemented.

Introduction (Figure INT-01)

**Adopted Solutions Reduce Spending**  
(Dollars in Millions)

	<b>2-Year Total</b>
<b><u>EXPENDITURE REDUCTIONS</u></b>	
<b><u>Health and Human Services Programs</u></b>	
Medi-Cal	\$1,518.8
Proposition 10 Funds to Maintain Health Services	1,000.0
CalWORKs	983.8
Proposition 63 Community Mental Health Services	861.2
Developmental Services	567.2
In-Home Supportive Services (IHSS)	420.1
Supplemental Security Income/State Supplementary Payment Grants	178.4
<b><u>Education</u></b>	
UC and CSU	1,076.5
Cal Grant Program	153.0
<b><u>All Other Reductions</u></b>	
Transportation Debt Service	1,130.2
Employee Compensation and State Operations	440.8
Other Reductions	1,628.4
<b>Subtotal, Expenditure Reductions</b>	<b>\$9,958.4</b>
<b><u>REVENUES</u></b>	
<b>Revenue Proposals</b>	<b>\$531.1</b>
<b><u>OTHER</u></b>	
Loans and Transfers from Special Funds, including Loan Repayment Deferrals	\$2,212.0
Other Solutions	688.8
<b>Subtotal, Other</b>	<b>\$2,900.8</b>
<b>Total</b>	<b>\$13,390.3</b>

- Requiring recipients of Medi-Cal health benefits to pay a share of the cost for doctor visits and other services.
- Requiring almost all state employees to pay at least 3 percent more of their salary for their retirement costs.
- Eliminating the Adult Day Health Care program, Williamson Act subventions, and the refundable child care and dependent tax credit.
- Closing up to 70 state parks.
- Reducing the state's workforce by approximately 5,500 positions.

**REVISED REVENUE AND SPENDING FORECASTS**

The May Revision reflects the positive economic data of the early months of 2011. However, the pace of California's economic recovery remains uncertain.

## INTRODUCTION

Higher-than-anticipated cash receipts have resulted in an upward revision to the current-year tax revenue forecast of \$2.8 billion from the level reflected in the Governor's Budget. For the budget year, the tax revenue forecast has increased by \$3.5 billion. Other minor revenue adjustments result in a two-year total change of \$6.6 billion.

Offsetting the \$6.6 billion revenue gain, the May Revision also reflects other changes including required increased spending and adjustments made since January to keep this budget plan honest, accurate and balanced. Specifically:

- State funding for K-12 education and community colleges will increase by \$1.6 billion General Fund pursuant to Proposition 98 to account for the higher revenues
- Last year's budget underfunded the costs for both the Department of Corrections and Rehabilitation and the Department of Mental Health. The May Revision contains funding—\$415 million and up to \$50 million respectively—so these departments can pay their bills.
- The \$11 billion in budget solutions were adopted by the Legislature one month later than the Governor's Budget anticipated. The May Revision reflects a lower amount of savings due to delayed implementation.
- While the Legislature adopted the Governor's proposal to shift \$1 billion in Proposition 10 dollars to fund health services for children, the May Revision does not reflect these savings due to ongoing litigation.

The May Revision adjusts proposed solutions by \$3.6 billion—reduced tax extensions and reduced borrowing—made possible by the higher revenues. These changes are discussed later in this chapter.

### **THE REMAINING SHORT-TERM BUDGET PROBLEM**

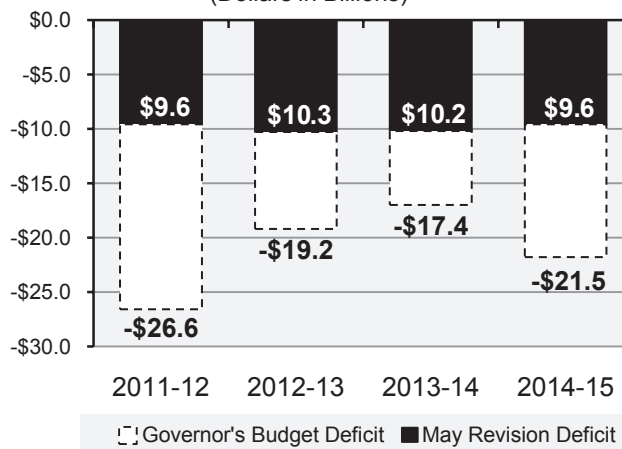
After accounting for the solutions already adopted by the Legislature, higher revenues, and updated spending projections, the state's \$26.6 billion budget problem has been reduced to \$9.6 billion. The remaining \$9.6 billion problem is composed of a carry-in deficit of \$4.8 billion from 2010-11 and an operating shortfall of \$4.8 billion in 2011-12. The projected operating shortfall increased to \$10 billion and remains at that level into the future. To balance the budget, \$10.8 billion in solutions must be adopted to erase the deficit and rebuild a modest \$1.2 billion reserve. Figure INT-02 illustrates that even with this improvement, the size of the state's budget shortfall is still \$10.8 billion, representing about 11 percent of expected General Fund revenues.

Figure INT-02  
**Updated 2011-12 Budget Problem—May Revision**  
 (in Billions)

<b>Original Problem Statement</b>	<b>\$26.6</b>
Solutions Already Enacted	-11.0
Higher Revenues	-6.6
Higher Spending	2.0
Proposition 10 Litigation	1.0
<b>Deficit Under Current Law</b>	<b>12.0</b>
Solutions Adopted by the Legislature in Pending Legislation	-2.4
<b>Remaining May Revision Problem</b>	<b>9.6</b>
Build Reserve	1.2
<b>May Revision Solutions Needed</b>	<b>\$10.8</b>

Without decisive action, the state's chronic budget problems will persist, and continue to harm economic recovery and job growth. As shown in Figure INT-03, the Department of Finance projects that the state would face at least a \$10 billion budget gap through at least 2014-15 if long-term solutions are not adopted.

Figure INT-03  
**State's Budget Gaps Have Been Reduced to \$10 Billion Annually**  
 (Dollars in Billions)



### BUDGETARY BORROWING CREATES LONG-TERM PROBLEMS

Over the past decade, the state has strayed from the principle that government should only spend what it takes in. The state's current budget problem is exacerbated by an unprecedented level of debts, deferrals and budgetary obligations. These liabilities take many different forms.

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**Future Annual Payment Obligations** — As summarized in Figure INT-04, three major eventual payment obligations will increase state spending by \$13.6 billion annually. The state will need to increase Proposition 98 spending by \$10 billion annually as the “maintenance factor” created by the recession is paid off and base funding is increased. The state’s Unemployment Insurance Fund is more than \$10 billion in debt to the federal government, requiring annual interest payments from the General Fund in excess of \$500 million. In addition assuming that all previously authorized bonds are eventually sold, \$48.2 billion in not yet issued general obligation and lease revenue bonds, will require an increase in spending of more than \$3 billion annually at today’s interest rates.

Figure INT-04	
Future Annual Payment Obligations	
	(\$ in Billions)
Proposition 98 Maintenance Factor	\$9.9
Interest on Unemployment Insurance Debt	0.5
Debt Service on Authorized but Unissued Bonds	3.2
<b>Total</b>	<b>\$13.6</b>

**Outstanding Budgetary Borrowing** — Debt accumulated over the past decade totals \$35 billion. See Figure INT-05. The state increasingly deferred required payments to K-12 schools and community colleges from one year to the next. As a result, they receive more than \$10 billion in funding the year after they have incurred the costs. In addition, the state owes schools \$3 billion in “settle-up” payments from years in which it failed to fully fund the Proposition 98 minimum guarantee. The state still owes \$7 billion of the \$15 billion in Economic Recovery Bonds authorized by the voters in 2004 and the General Fund has taken out \$5 billion in loans from a variety of state special funds. Finally, a variety of accounting maneuvers have pushed spending from one year to the next. For example, in 2009, the state’s payroll was shifted one day—from June 30 to July 1—to push one month of employee costs into a future fiscal year.

Figure INT-05	
Outstanding Budgetary Borrowing	
Based on Senate Bill 69 and implementing legislation	
	(\$ in Billions)
Deferred payments to schools and community colleges	\$10.4
Economic Recovery Bonds	7.1
Loans from Special Funds	5.1
Unpaid costs to local governments, schools and community colleges for state mandates	4.3
Underfunding of Proposition 98	3.0
Borrowing from local government (Proposition 1A)	1.9
Deferred Medi-Cal Costs	1.2
Deferral of state payroll costs from June to July	0.8
Deferred payments to CalPERS	0.5
Borrowing from transportation funds (Proposition 42)	0.4
<b>Total</b>	<b>\$34.7</b>

This borrowing totals \$35 billion which contributes to the state's current budget problem and creates a drag on the state's economy. Under current law, a total of \$2.5 billion in 2011-12 General Fund resources is needed to service this debt. Over the next few years, the state would spend a total of \$15 billion and will still end 2014-15 with nearly \$20 billion in outstanding budgetary borrowing.

**Retirement Liabilities** — The state faces other long-term fiscal challenges. Unfunded liabilities in the state's retirement system are more than \$100 billion for pensions and retiree health. Retirement systems for University of California employees and teachers have accumulated tens of billions of additional liabilities (See Figure INT-06).

Lastly, the state has \$81.1 billion in outstanding general obligation and lease revenue bonds.

Figure INT-06  
**Retirement Liabilities**

	(\$ in Billions)
Unfunded Obligations for Retiree Health	\$59.9
Unfunded Pension Liability for State Employees	48.6
Unfunded Pension Liability for Teachers	56
Unfunded Pension Liability for Employees of the University of California	12.9
Unfunded Pension Liability for Judges	3.6
<b>Total</b>	<b>\$181.0</b>

All of these liabilities prevent the state from being able to afford wise investments in programs and services to enhance the quality of life in California. As described below, the May Revision enables the state to pay off more of its debts now and continue to do so in the coming years, encouraging an economic recovery.

Given the limited options available to close the then-projected \$26.6 billion shortfall, the Governor's Budget included two borrowing proposals—\$2.2 billion in new Proposition 98 deferrals and \$2.9 billion in additional special fund borrowing (much of which was proposed to reverse the costly sale of state buildings). The May Revision reverses much of this borrowing.

## INVESTING IN CALIFORNIA'S FUTURE

Building on the Governor's January Budget, the May Revision reflects a multi-pronged approach to invest in California's future. The proposals include:

- Reducing state government.
- Protecting education and public safety by extending current taxes and funding a historic realignment of responsibility to local governments.
- Paying off the state's debts.
- Creating incentives for businesses to locate and expand in California.

### **FOCUSING ON CORE SERVICES AND REDUCING STATE GOVERNMENT**

The May Revision reflects the Governor's continuing efforts to make state government smaller, more efficient and focused on core responsibilities. Details about the specific proposals can be found later in this publication. Among the highlights are:

- Eliminating 43 boards, commissions, task forces, offices, and departments, including the California Medical Assistance Commission, the California Postsecondary Education Commission, the Managed Risk Medical Insurance Board and the Unemployment Insurance Appeals Board.
- Reducing state administration as functions are realigned to local authorities, thereby eliminating the Departments of Mental Health and Alcohol and Drug Programs and reducing state personnel by at least 25 percent for affected programs.
- Improving management of the state's infrastructure bond proceeds. Currently, over \$11 billion of cash from bond sales have accumulated in department accounts, which costs taxpayers more than \$700 million a year in debt service payments for projects that have yet to be completed.
- Selling nonessential or under-utilized state properties such as the Los Angeles Coliseum, properties owned and managed by the Capitol Area Development Authority in Sacramento, the Ramirez Canyon property in Southern California, and the Montclair Golf Course in Oakland.
- Merging the Healthy Families Program into the Medi-Cal Program to reduce costs and create a single health care program for low-income families.

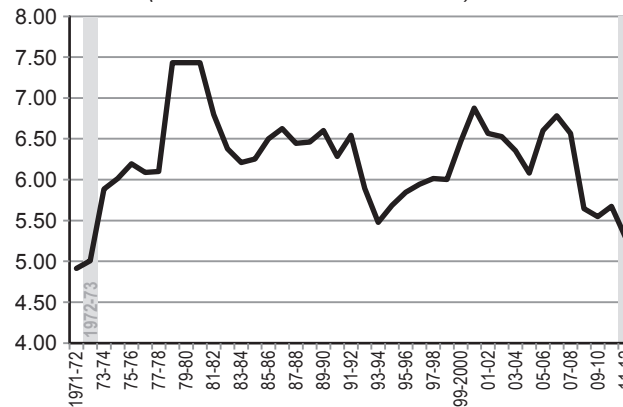
These efficiencies are in addition to a number of executive actions to reduce state operations costs, such as cutting the number of cell phones, banning non-essential travel, and reducing the size of the state's vehicle fleet.

### **PROTECTING EDUCATION AND PUBLIC SAFETY**

The rise in General Fund revenues in the first part of this year is a hopeful sign that the state's recovery is underway. But the state still faces a \$10 billion deficit and must adopt \$11 billion in new solutions to rebuild a modest reserve. State spending has been reduced to focus on core services, and under the May Revision those core services will be scaled back even further. As shown in Figure INT-07, General Fund spending as a share of the economy will be at its lowest level since 1972-73 under the May Revision.



Figure INT-07  
**General Fund Spending  
 Would Drop to 1972-73 Level**  
*(Per \$100 of Personal Income)*



Further, the May Revision reduces state personnel by approximately 5,500 from 2010-11 to 2011-12.

Consistent with the Governor's Budget framework, the May Revision includes \$10.8 billion in solutions. The May Revision includes a total of \$655 million in new proposals to further lower state spending. Figure INT-08 shows that, under the plan, expenditure reductions would represent 48 percent, revenues 42 percent, and other solutions 9 percent of the total solutions.

Figure INT-08  
**Closing the Budget Gap Under the May Revision**  
*(In Millions)*

	Adopted <sup>1/</sup>	May Revision	Total	%
Expenditure Reductions	\$8,958	\$2,259	\$11,217	48.3
Revenues	531	9,321	9,852	42.4
Other	2,901	-745	2,156	9.3
Total	<u>\$12,390</u>	<u>\$10,835</u>	<u>\$23,225</u>	

<sup>1/</sup> Excludes the \$1 billion attributable to Proposition 10 due to litigation.

The May Revision proposes that the Legislature implement and the voters ratify a plan that preserves core services, including a reduced safety net. Current sales tax and vehicle license fee rates and the dependent credit exemption level would be extended for five years. Given the current revenue situation, the May Revision does not seek a 2011 personal income surcharge, but would reinstate it for the 2012 through 2015 tax years in order to fund core services. Even with these extensions, State revenues, per \$100 of personal income, would remain billions below the average level of the past three decades. These revenues would be used for two purposes:

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- Funding a major realignment of public safety programs. The Governor's Budget proposed a major realignment of public safety programs from the state to local governments. This realignment assigns program and fiscal responsibility to the level of government that can best provide the service, eliminating duplication of effort, generating savings, and increasing flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 will end the costly revolving door of lower-level offenders and parole violators through the state's prisons. A Constitutional Amendment passed by the voters will guarantee that local governments receive the necessary funding to make realignment successful.
- Protecting education funding. Schools have borne a disproportionate share of past spending cuts. These revenues will allow a reinvestment in education. Even under the May Revision's increased funding for education, support for schools and community colleges will remain more than \$4 billion below the 2007-08 funding level.

Based on current projections, the mix of spending reductions and revenue extensions reflected in the May Revision would balance the budget in 2011-12 and into the future. The state would operate a slim surplus in each of the next four years.

### **PAYING OFF THE STATE'S DEBTS**

As described above, the state is burdened by \$35 billion in debt from a decade of borrowing and poor fiscal decisions. While the state cannot reverse a decade of these decisions in a single year, the May Revision begins the process of paying down budgetary borrowing:

- The \$3 billion in increased Proposition 98 spending is dedicated to reversing the deferrals of payments into future years. These deferrals require schools to dedicate scarce resources to borrowing money to get through the year, rather than on classroom investments.
- Borrowing from state special funds will be reduced by \$744 million.

Paying off the remainder of this budgetary borrowing should be the top priority of any new revenue received in the coming years. The Administration looks forward to working with the Legislature in the coming weeks to devise a mechanism to ensure that revenue growth above what is needed to fund current programs will be dedicated to paying off debts. New Proposition 98 funds should be used to erase all of the deferrals and pay off owed mandate claims. Increased General Fund dollars should be used to reverse the borrowing and accounting maneuvers of the past. Under the Governor's approach, at least \$29 billion in deferrals and debt would be paid off by 2014-15, twice as much as under current law.

In March, the Governor announced a framework to reform public employee retirement systems. The Administration looks forward to working with the Legislature to adopt comprehensive and fair reforms that reduce and stabilize taxpayer costs and curb abuses.

### **CREATING ECONOMIC INCENTIVES**

The May Revision reflects the Governor's continued commitment to help grow the economy and increase jobs by creating a long-term, balanced state budget that preserves critical levels of government services. The resulting stability from a balanced budget will give businesses the certainty and reassurance they need to invest in California.

The May Revision removes disincentives to investment in California by reforming job creation incentives and adding a new incentive to invest in manufacturing equipment in California. The Governor stands ready to work towards effective ways of reforming our regulatory programs to achieve better outcomes with less cost to business.

- In 2009, the state adopted a tax policy that allows multistate businesses to choose how their income will be apportioned. As a result, wholly in-state businesses are put at a competitive disadvantage. The May Revision maintains the Governor's proposal to move to a mandatory single sales factor.
- The May Revision proposes to use a portion of the revenues created by the mandatory single sales factor to encourage manufacturing investment by creating a sales tax exclusion for business equipment purchases beginning in 2012-13. The exclusion will encourage investments in equipment and provide the most benefit—a full exclusion from the state sales tax (5 percent)—to those businesses just starting out.

In addition, the state can make better use of two existing economic development programs to better target dollars to encourage job creation.

- As part of the 2009 budget package, a tax credit for hiring was created. The credit was intended as a short-term stimulus to spur economic recovery, but little of the \$400 million in credits has been claimed. The May Revision proposes to increase the size of the credit, and to expand it to firms with up to 50 employees.
- The Governor's Budget proposed the elimination of enterprise zones, as they have not proven their effectiveness. The May Revision instead retains these zones but proposes to implement a series of reforms to help ensure that the zones are creating incentives for new jobs, rather than reward businesses for decisions they have already made.

Because redevelopment of specific areas is a local economic responsibility, rather than the state's, the May Revision maintains the Governor's Budget proposal to eliminate redevelopment agencies. Redevelopment costs the state more than \$2 billion annually in lost school property taxes, and its effectiveness on a statewide basis is questionable. By eliminating the agencies, more funds can be returned to cities, counties, special districts, and schools to invest in core services such as hiring police officers, firefighters, and teachers.

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### **STATE FACES CRITICAL DECISIONS**

California faces a critical decision point regarding the level of services that it will provide and the kind of state it will be. The Governor's Budget proposed substantial spending reductions and revenue extensions to close the deficit. Based on this plan, in March, the state made billions of dollars in spending reductions—eliminating programs and reducing core services. As a share of personal income, General Fund spending will drop to its lowest level since 1972-73.

Absent the balanced approach proposed by the Governor, the options are either an "all cuts" budget or a combination of gimmicks and cuts. Described below are the types of reductions that would be necessary in an "all cuts" budget. The levels of reductions by program area are similar to those identified by the Legislative Analyst's Office earlier this year. The choices outlined avoid the failed and unachievable solutions of the past.

#### **IMPACT ON EDUCATION**

Schools have borne a disproportionate share of cuts in the past. In 2007-08, General Fund and property tax revenues to support K-12 schools and community colleges totaled \$56.6 billion. In 2010-11, funding decreased to \$49.7 billion.

Because Proposition 98 represents more than 40 percent of General Fund spending, K-12 schools and community colleges would need to bear a heavy share of any "all cuts" budget. An "all cuts" budget would require a suspension of the Proposition 98 minimum guarantee and deep reductions. To remain in balance in future years, the minimum guarantee would likely need to be suspended in subsequent years. Such an approach would drive future maintenance factor payment requirements—already at \$10 billion—significantly higher.

A \$5 billion reduction to Proposition 98 funding is equivalent to eliminating 4 weeks of the K-12 school year and 52,000 community college courses. Alternatively, it equates to laying off 51,000 teachers, raising K-12 class sizes from an average of 25 students to 30 students, and raising community college fees from \$36 to \$125 per unit. In whatever

way such reductions were implemented, such a funding drop would require a major downsizing of the state's education system.

The University of California and California State University have already each been cut by \$500 million. An "all cuts" budget would require another cut of \$500 million for each university systems. The systems have reported that fee increases likely exceeding 30 percent would be necessary if additional cuts of this size were made. Reductions of this magnitude would significantly impair the universities' critical role in training the state's workforce and encouraging innovation.

### **IMPACT ON PUBLIC SAFETY**

In the area of criminal justice, implementing the recently enacted AB 109 would remain a priority for the administration and an even greater necessity under an "all cuts" framework. This realignment will make the state's correctional system operate more efficiently with better outcomes. Given the pending ruling by the U.S. Supreme Court in the three-judge panel case and the potential of a prisoner release order, these changes are critical.

Without the tax extensions and with additional cuts required, other aspects of public safety would be affected. The state could no longer afford the supervision of non-serious, non-violent parolees. Nor could it afford to have these parolees incarcerated for violations unless they committed a new crime. The state could not afford some state public safety programs administered by the Department of Justice and other state agencies. An additional cut of \$150 million to the court system would be necessary—likely leading to court closures twice each month. Fire prevention and protection would also be reduced.

### **IMPACT ON HEALTH AND HUMAN SERVICES**

Health and human service programs were significantly reduced in March—cutting grants, requiring co-pays for health care services, eliminating adult day health services, and reducing services for the developmentally disabled. An "all cuts" budget would mean further reductions in CalWORKs grants (which are already at their 1987 level), eliminating domestic and related services for many IHSS recipients, increasing the costs of AIDS drugs, capping Medi-Cal coverage for prescriptions and other medical supplies, and making deeper reductions to developmental services. In addition, the state would no longer have a dedicated funding stream for the Governor's realignment of public safety programs. Some of these programs, such as Adult Protective Services, would be eliminated instead.

### **OTHER IMPACTS**

In other areas of the budget, deep cuts would also be needed. The state would need to reach out to state employees to renegotiate their recently signed contracts to generate hundreds of millions of dollars in further savings. Water quality programs, parks, food and agricultural protection, and veterans services would all face further cuts. The state would need to freeze issuance of any new general obligation bonds in order to contain rising debt service costs, delaying key infrastructure projects.

### **INVESTING IN CALIFORNIA'S FUTURE**

The May Revision reflects the Governor's belief that a budget full of gimmicks or one embracing "all cuts" is damaging to California. The preferred—and responsible—alternative is to invest in California's future by reducing state government, protecting education and public safety through tax extensions, paying down the state's debt and adopting powerful economic incentives.

# SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure SUM-01  
**2011-12 May Revision**  
**General Fund Budget Summary**  
**With All Budget Solutions**  
(Dollars in Millions)

	<b>2010-11</b>	<b>2011-12</b>
<b>Prior Year Balance</b>	-\$6,950	-\$2,776
Revenues and Transfers	\$95,740	\$93,623
<b>Total Resources Available</b>	<b>\$88,790</b>	<b>\$90,847</b>
Non-Proposition 98 Expenditures	\$55,875	\$50,481
Proposition 98 Expenditures	\$35,691	\$38,322
<b>Total Expenditures</b>	<b>\$91,566</b>	<b>\$88,803</b>
<b>Fund Balance</b>	<b>-\$2,776</b>	<b>\$2,044</b>
Reserve for Liquidation of Encumbrances	\$770	\$770
Special Fund for Economic Uncertainties	-\$3,546	\$1,274
<b>Budget Stabilization Account</b>	-	-
<b>Total Available Reserve</b>	<b>-\$3,546</b>	<b>\$1,274</b>

Figure SUM-02  
**2011-12 May Revision**  
**General Fund Budget Summary**  
**Budget With Enacted Solutions**  
(Dollars in Millions)

	<b>2010-11</b>	<b>2011-12</b>
<b>Prior Year Balance</b>	-\$6,950	-\$4,166
Revenues and Transfers	\$94,477	\$89,867
<b>Total Resources Available</b>	<b>\$87,527</b>	<b>\$85,701</b>
Non-Proposition 98 Expenditures	\$56,002	\$60,471
Proposition 98 Expenditures	\$35,691	\$36,417
<b>Total Expenditures</b>	<b>\$91,693</b>	<b>\$96,888</b>
<b>Fund Balance</b>	<b>-\$4,166</b>	<b>-\$11,187</b>
Reserve for Liquidation of Encumbrances	\$770	\$770
Special Fund for Economic Uncertainties	-\$4,936	-\$11,957
<b>Budget Stabilization Account</b>	-	-
<b>Total Available Reserve</b>	<b>-\$4,936</b>	<b>-\$11,957</b>



Figure SUM-03  
**General Fund Revenue Sources**  
(Dollars in Millions)

			Change from 2010-11	
	2010-11	2011-12	Dollar Change	Percent Change
Personal Income Tax	\$51,945	\$54,329	\$2,384	4.6%
Sales and Use Tax	26,740	23,915	-2,825	-10.6%
Corporation Tax	9,408	10,160	752	8.0%
Motor Vehicle Fees	1,393	443	-950	-68.2%
Insurance Tax	2,016	1,893	-123	-6.1%
Liquor Tax	318	325	7	2.2%
Tobacco Taxes	93	91	-2	-2.2%
Other	3,827	2,467	-1,360	-35.5%
<b>Total</b>	<b>\$95,740</b>	<b>\$93,623</b>	<b>-\$2,117</b>	<b>-2.2%</b>

Note: Numbers may not add due to rounding.

Figure SUM-04  
**2011-12 Revenue Sources**  
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2010-11
Personal Income Tax	\$54,329	\$1,047	\$55,376	\$2,559
Sales and Use Tax	23,915	9,127	33,042	2,307
Corporation Tax	10,160	-	10,160	752
Highway Users Taxes	-	5,509	5,509	-133
Motor Vehicle Fees	443	6,499	6,942	254
Insurance Tax	1,893	226	2,119	-67
Liquor Tax	325	-	325	7
Tobacco Taxes	91	782	873	-25
Other	2,467	12,001	14,468	-680
<b>Total</b>	<b>\$93,623</b>	<b>\$35,191</b>	<b>\$128,814</b>	<b>\$4,974</b>

Note: Numbers may not add due to rounding.

Figure SUM-05

**2011-12 Total Expenditures by Agency**

(Dollars in Millions)

	<b>General Fund</b>	<b>Special Fund</b>	<b>Bond Funds</b>	<b>Totals</b>
Legislative, Judicial, Executive	\$2,546	\$3,039	\$340	\$5,925
State and Consumer Services	626	743	20	1,389
Business, Transportation & Housing	603	8,057	5,365	14,025
Natural Resources	2,009	2,322	921	5,252
Environmental Protection	62	948	369	1,379
Health and Human Services	21,937	13,945	158	36,040
Corrections and Rehabilitation	9,768	24	-	9,792
K-12 Education	38,252	84	1,380	39,716
Higher Education	10,737	41	851	11,629
Labor and Workforce Development	371	376	-	747
General Government:				
Non-Agency Departments	491	1,610	2	2,103
Tax Relief/Local Government	1,003	1,911	37	2,951
Statewide Expenditures	398	1,184	-	1,582
<b>Total</b>	<b>\$88,803</b>	<b>\$34,284</b>	<b>\$9,443</b>	<b>\$132,530</b>

Note: Numbers may not add due to rounding.

Figure SUM-06  
**General Fund Expenditures by Agency**  
(Dollars in Millions)

	2010-11	2011-12	Change	%
Legislative, Judicial, Executive	\$3,145	\$2,546	-\$599	-19.0%
State and Consumer Services	583	626	43	7.4%
Business, Transportation & Housing	417	603	186	44.6%
Natural Resources	2,004	2,009	5	0.2%
Environmental Protection	75	62	-13	-17.3%
Health and Human Services	26,557	21,937	-4,620	-17.4%
Corrections and Rehabilitation	9,623	9,768	145	1.5%
K-12 Education	35,849	38,252	2,403	6.7%
Higher Education	11,608	10,737	-871	-7.5%
Labor and Workforce Development	42	371	329	783.3%
General Government:				
Non-Agency Departments	542	491	-51	-9.4%
Tax Relief/Local Government	977	1,003	26	2.7%
Statewide Expenditures	144	398	254	176.4%
<b>Total</b>	<b>\$91,566</b>	<b>\$88,803</b>	<b>-\$2,763</b>	<b>-3.0%</b>

Note: Numbers may not add due to rounding.



## ECONOMIC OUTLOOK

The national and California economies continued to recover.

After ending 2010 with some momentum, positive economic signs continued during the early months of 2011. Labor market conditions improved, based on accelerating job growth, declining jobless claims, and a declining—although still high—unemployment rate. Industrial output rose, including growth in manufacturing. Exports posted a solid year-over-year gain during the first quarter of the year.

However, weak housing markets, depressed construction activity, and public sector fiscal problems continued to dampen economic growth. Two major international developments—unrest in oil-producing nations and the Tohoku Pacific earthquake and tsunami that struck Japan—resulted in more uncertainty for the outlook. On balance, the short-term forecast improved somewhat but gained some new downside risks. The strength of the recovery and out-year forecast remains uncertain.

### **THE NATION**

Economic forecasts improved following the announcement of new economic stimulus measures at the end of 2010. The Governor's Budget forecast reflected the Federal Reserve's purchase of \$600 billion in long-term Treasury bonds and assumed that Congress would extend both the existing federal income tax cuts and long-term unemployment benefits. An additional stimulus policy came in the form of a temporary payroll tax cut that should stimulate consumer demand.

However, this new optimism was counter-balanced by new global turbulence. The spreading unrest in and around major oil-producing countries quickly drove up oil prices in the early months of 2011. The price of West Texas Intermediate (WTI) crude oil went from \$89 per barrel at the beginning of the year to \$109 in the first week of April. Based on past experience, a \$20 rise in the price of a barrel of oil could raise gasoline pump prices by about 48 cents, which would raise the Consumer Price Index 0.8 percent. Higher pump prices will raise spending on gasoline by about \$60 billion—with a corresponding reduction of spending on other things—and reduce GDP by 0.2 percent.

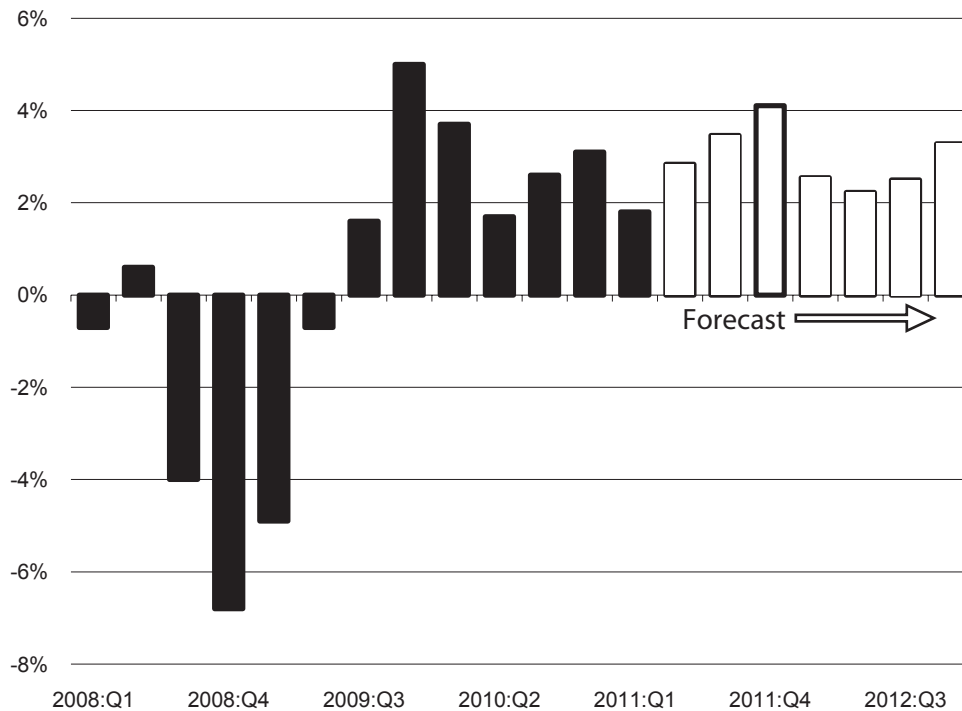
The Tohoku Pacific earthquake and tsunami which struck Japan on March 11 was the most serious natural disaster to hit Japan since the Kobe earthquake of 1995. Early damage cost estimates ran up to \$200 billion, or around 4 percent of Japanese GDP. Given Japan's importance to the global economy, there is concern about the economic ripple effects that could result. The biggest threat would be extended problems with Japan's energy grid. Barring this, expectations are that Japanese companies will quickly work around the current difficulties. The Japanese economy is also large enough—about \$5 trillion a year—to absorb the rebuilding costs.

Overall, the U.S. national recovery should withstand these shocks. 2010 ended stronger than anticipated in the Governor's Budget forecast. Real GDP growth in the third quarter was revised upward, from 2.0 percent to 2.6 percent. Growth in the fourth quarter was stronger than first predicted, 3.1 percent versus 2.2 percent (Figure ECO-01).

The national economy started off 2011 with momentum. Job creation accelerated during the first quarter. Nearly 160,000 new jobs were created each month on average during the first three months of 2011. During 2010, the average monthly gain was only 78,000 jobs. The unemployment rate dropped a full percentage point from November 2010 to March 2011, from 9.8 percent to 8.8 percent. While this rate is still painfully high and there is still a long way to go to recoup the eight million jobs lost during the recession, labor markets appeared to be making steady progress.

Industrial output made a strong recovery. In March, manufacturing activity not only expanded for the twentieth consecutive month, but grew at its second best pace in nearly 30 years. Manufacturing output received a large boost from strong growth in motor vehicle production. Better factory activity also generated gains in manufacturing jobs that appeared to end a long decline that stretched back to 1998. By March, the industrial sector had recovered nearly 60 percent of its recessionary decline.

Figure ECO-01  
**National Real GDP**  
**Quarter-to-Quarter Growth, Annualized**



Source: U.S. Bureau of Economic Analysis; CA Department of Finance May Revision Forecast

After incorporating these developments, the national outlook projects the recovery continuing, albeit at a meager pace by historical standards. GDP growth will continue, but will slow slightly in 2011 — 2.8 percent year-over-year versus 2.9 percent in 2010. The unemployment rate will trend down throughout 2011, but will still average almost 9 percent for the year.

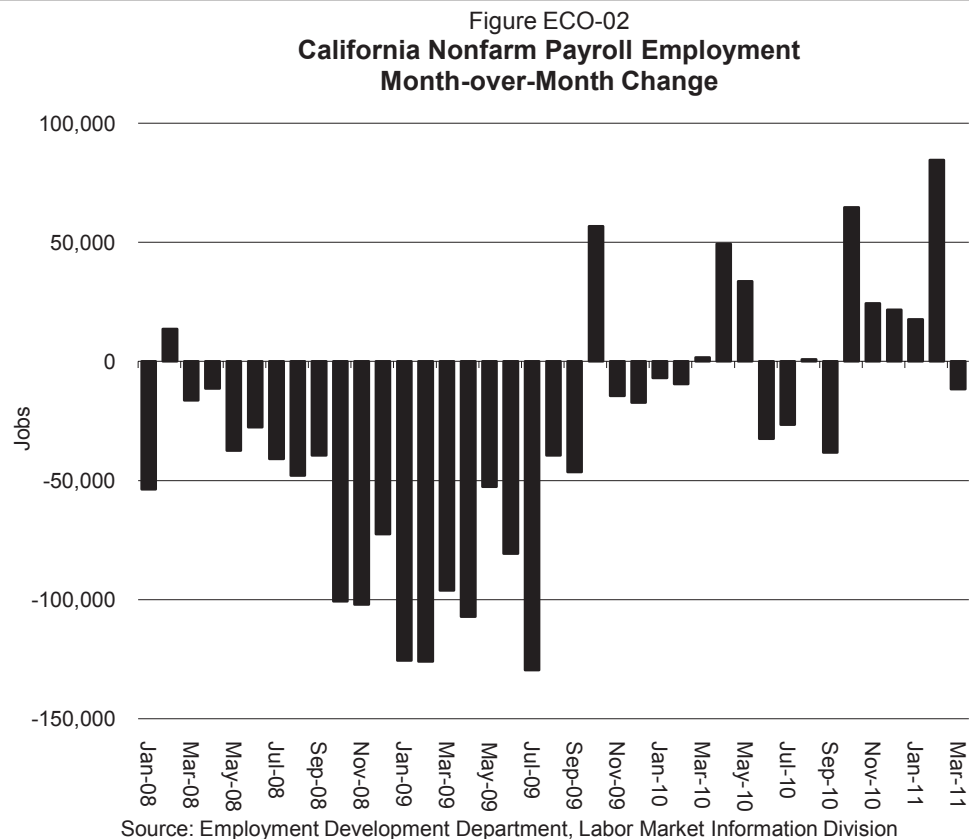
## CALIFORNIA

California was also buffeted by the same developments that affected the national outlook. A modest recovery is still underway but more uncertainty looms. Weak real estate market conditions, depressed construction activity, and public sector fiscal problems remain the principal impediments to stronger job growth.

The earthquake in Japan is of special concern to California because of the significant economic links to Japan, which include integrated two-way trade in high-technology goods, extensive vehicle imports, lucrative agricultural exports, and tourism. Japan is the

fourth-largest foreign market for California's goods exports, after neighboring Mexico, Canada, and the trade giant China. California is also a very popular vacation destination for Japanese tourists, just as Japan is for Californians. According to preliminary data for 2010, California received 557,000 visitors from Japan who spent approximately \$1,100 per trip, which translated into approximately \$600 million of economic activity. Japan is a major supplier of electronic components to the Silicon Valley. Despite the devastation, high-tech industry experts don't anticipate long-term effects on the supply chain that connects Japan with the Silicon Valley.

As with the nation, 2010 was a transition year during which the severe job losses from the recession switched to modest gains. This trend continued into the early months of 2011 as shown in Figure ECO-02. California gained nonfarm jobs in five out of the six months ending with March, averaging over 30,000 new jobs each month. This was a considerable improvement from the 7,000 average monthly gains during 2010 as a whole and the monthly average loss of 65,000 jobs during 2009.





California added 90,600 jobs during the first three months of 2011. On a year-over-year basis, employment in the state grew faster than in the nation as a whole — 1.2 percent versus 0.9 percent. The strongest growth was in the Professional and Business Services sector, which includes the high-paying professional, scientific, and technical services and employment services (temporary help) subsectors. The state's unemployment rate was still painfully high early in 2011, but had improved—down to 12.0 percent in March from 12.5 percent in December 2010. Even so, the state's job total remains about 1.2 million below its peak total in July 2007. The state is forecast to recover the nonfarm jobs lost during the recession in the third quarter of 2016, or approximately 86 months after the end of the recession.

The public sector and the housing and finance industries continue to lag the recovery. There is still no sign of a strong rebound for the state's housing market and there remains considerable uncertainty looking forward. Job growth, while improving, is still weak, particularly for new entrants to the labor market. The building industry itself was so severely stricken by the recession that new home delivery would be slow to come even if demand dramatically improved.

Budget problems continue to depress public sector employment. Even though private sector employment in California began growing after the first quarter of 2010, state and local government employment was still falling during the early months of 2011. Whereas private employment during the first quarter of 2011 was up 1.8 percent from the first quarter of 2010, state and local government employment was down 3.1 percent over the same period.

### **THE FORECAST**

Both the nation and California appear to be in the midst of a modest, drawn-out recovery. The private sector—outside of homebuilding—is leading the way. For California, export-driven and high-technology sectors are doing particularly well due to the general recovery of the global economy.

Despite recent upbeat indications, the return to pre-recession conditions will be slow and steady. Financial crises historically lead to prolonged readjustment periods that last for years. The steep drop in home values means that a full recovery in residential construction and all associated sectors could be delayed for several years. Likewise, government spending and public sector employment will be lower for the foreseeable future. According to this outlook, industry employment in California is not

expected to return to its prerecession level until 2016 and the state's unemployment rate may not achieve full employment for several years thereafter.

Compared to the nation, California suffered a larger drop in personal income from the peak year 2007 to the bottom of the recession in 2009. Growth rates coming out of the recession will be initially weaker for California as well — 2.1 percent in 2010 and 4.4 percent in 2011 versus 3.1 percent and 5.2 percent for the nation—but then the forecast projects that California's growth will exceed the national totals in 2012 and 2013 — 4.5 percent and 5.1 percent respectively compared to 3.7 and 4.6 percent for the nation. This reflects strong growth in several high-wage sectors including information services, computer systems design, and scientific and technical research.

There are risks to the outlook. While the impact of Japan's nuclear and energy crises are limited at present, their ultimate impact is still uncertain. World oil prices will likely be elevated for the foreseeable future. Inflationary concerns recently prompted China's government to take steps to slow the growth of its economy. If successful, this could significantly dampen growth in a number of countries including the U.S. Lastly, ongoing financial problems in several European nations still present risks. See Figure ECO-03 and Figure ECO-04 for highlights of the national and California forecasts.

Figure ECO-03  
Selected U.S. Economic Indicators

	2010 (Est.)	2011 (Projected)	2012 (Projected)
Real gross domestic product, (2005 dollar) (Percent change)	2.9	2.8	2.9
Personal consumption expenditures	1.7	2.6	2.6
Gross private domestic investment	17.1	7.3	10.3
Government purchases of goods and services	1.0	-1.1	-1.9
GDP deflator (2005=100) (Percent change)	1.0	1.5	1.7
GDP (Current dollar) (Percent change)	3.8	4.4	4.6
Federal funds rate (Percent)	0.18	0.17	1.28
Personal income (Percent change)	3.1	5.2	3.7
Corporate profits before taxes (Percent change)	36.8	-6.4	1.3
Nonfarm wage and salary employment (Millions)	129.8	131.4	133.8
(Percent change)	-0.7	1.2	1.8
Unemployment rate (Percent)	9.6	8.8	8.2
Housing starts (Millions)	0.59	0.62	1.04
(Percent change)	5.6	5.2	68.2
New car and light truck sales (Millions)	11.5	12.9	14.7
(Percent change)	11.0	11.7	13.9
Consumer price index (1982-84=100)	218.1	223.2	227.4
(Percent change)	1.6	2.4	1.9

*Forecast based on data available as of April 2011.  
Percent changes calculated from unrounded data.*

Figure ECO-04  
**Selected California Economic Indicators**

	2010	Percent change	Projected			
			2011	Percent change	2012	Percent change
Personal income (\$ billions)	1,606.1	2.1%	1,677.0	4.4%	1,751.8	4.5%
Nonfarm W&S employment (thousands)	13,893.1	-1.4%	14,068.2	1.3%	14,328.6	1.9%
Mining and logging	26.5	1.6%	27.1	2.0%	28.0	3.6%
Construction	559.5	-10.3%	565.6	1.1%	577.1	2.0%
Manufacturing	1,241.6	-3.2%	1,256.8	1.2%	1,281.7	2.0%
High technology	343.3	-1.9%	350.3	2.1%	360.8	3.0%
Trade, transportation, & utilities	2,616.9	-1.0%	2,661.4	1.7%	2,708.5	1.8%
Information	428.1	-2.8%	450.1	5.2%	472.5	5.0%
Financial activities	760.4	-2.9%	761.9	0.2%	778.4	2.2%
Professional and business services	2,067.4	0.4%	2,143.3	3.7%	2,208.0	3.0%
High technology	318.4	2.6%	323.2	1.5%	333.2	3.1%
Educational and health services	1,786.3	1.5%	1,827.8	2.3%	1,866.2	2.1%
Leisure and hospitality	1,497.9	-0.4%	1,522.6	1.6%	1,536.3	0.9%
Other services	482.0	-0.9%	481.3	-0.1%	497.1	3.3%
Government	2,426.6	-2.1%	2,370.4	-2.3%	2,374.9	0.2%
Unemployment rate	12.4%		12.1%		10.8%	
Housing permits (thousands of units)	45	22.9%	55	22.1%	87	58.4%
Consumer price index (1982-84=100)	226.9	1.3%	232.1	2.3%	236.6	1.9%

*Forecast based on data available as of April 2011.  
 Percent changes calculated from unrounded data.*



## REVENUE ESTIMATES

The May Revision estimates that major General Fund revenues will be higher than at the Governor's Budget by \$2.8 billion in 2010-11 and by \$3.5 billion in 2011-12. When changes in accruals and other revenues is taken into account, the total baseline revenue increase projected in the May Revision is \$6.6 billion.

Given the increased revenues, the May Revision proposes to reduce taxes by \$2.9 billion and shift revenues from realignment for a net change of \$2.6 billion. Specifically, the May Revision proposes to reform, instead of eliminate, enterprise zones.

The May Revision also no longer proposes to extend the personal income tax surcharge in effect in 2010 into 2011. The May Revision reflects revenue proposals that will yield estimated General Fund revenue of \$4 billion. These revenues also reflect a baseline accrual adjustment that generates a negative \$2.5 billion prior year adjustment, additional revenue of \$900 million in 2010-11 and additional revenue of \$1.4 billion in 2011-12.

Figure REV-01 displays the forecast changes for tax revenues between the 2011 Governor's Budget and the May Revision.

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## SOLUTIONS AND POLICY PROPOSALS

Tax revenue fell significantly further in the recession than did personal income. Although the economy is beginning to recover, baseline revenues are not expected to return to the 2007-08 level until 2013-14. Revenue performance associated with spikes in asset prices, as we saw in the late 1990's and mid 2000's, is highly volatile and difficult to forecast.

Figure REV-01  
**2011-12 Governor's Budget**  
**General Fund Tax Revenue Forecast**  
**Summary Table**  
**Reconciliation with the 2011-12 Governor's Budget Forecast**  
(Dollars in Millions)

Source	Governor's Budget	May Revision				
		May Revision with Governor's Budget Solutions	Change From Governor's Budget	May Revision with New Solutions	Change From Governor's Budget	
<b>Fiscal 09-10</b>						
Personal Income Tax	\$44,848	\$44,852	\$4	\$44,852	\$4	0.0%
Sales & Use Tax	26,741	26,741	0	26,741	0	0.0%
Corporation Tax	9,115	9,115	0	9,115	0	0.0%
Insurance Tax	2,002	2,002	0	2,002	0	0.0%
Vehicle License Fees	1,380	1,380	0	1,380	0	0.0%
Estate Tax	0	0	0	0	0	---
Alcoholic Beverage	311	311	0	311	0	0.0%
Cigarette	96	96	0	96	0	0.0%
<b>Total</b>	<b>\$84,493</b>	<b>\$84,497</b>	<b>4</b>	<b>\$84,497</b>	<b>4</b>	<b>0.0%</b>
<b>Fiscal 10-11</b>						
Personal Income Tax	\$47,784	\$51,505	\$3,721	\$51,945	\$4,161	8.7%
Sales & Use Tax	26,709	\$26,740	31	26,740	31	0.1%
Corporation Tax	11,509	\$10,467	-1,042	9,408	-2,101	-18.3%
Insurance Tax	1,838	\$2,016	178	2,016	178	9.7%
Vehicle License Fees	1,473	\$1,360	-113	1,360	-113	-7.7%
Estate Tax	0	\$0	0	0	0	---
Alcoholic Beverage	318	\$318	0	318	0	0.0%
Cigarette	93	93	0	93	0	0.0%
<b>Total</b>	<b>\$89,724</b>	<b>\$92,499</b>	<b>\$2,775</b>	<b>\$91,880</b>	<b>\$2,156</b>	<b>2.4%</b>
Change from Fiscal 09-10	\$5,231	\$8,002		\$7,383		
% Change from Fiscal 09-10	6.2%	9.5%		8.7%		
<b>Fiscal 11-12</b>						
Personal Income Tax	\$49,741	\$54,190	\$4,449	\$54,329	\$4,588	9.2%
Sales & Use Tax	24,050	23,915	-135	23,915	-135	-0.6%
Corporation Tax	10,966	\$10,265	-701	10,160	-806	-7.3%
Insurance Tax	1,974	1,893	-81	1,893	-81	-4.1%
Vehicle License Fees	162	150	-12	420	258	159.3%
Estate Tax	0	0	0	0	0	---
Alcoholic Beverage	326	326	0	326	0	0.0%
Cigarette	90	91	1	91	1	1.1%
<b>Total</b>	<b>\$87,309</b>	<b>\$90,830</b>	<b>\$3,521</b>	<b>\$91,134</b>	<b>\$3,825</b>	<b>4.4%</b>
Change from Fiscal 10-11	-\$2,415	-\$1,669		-\$746		
% Change from Fiscal 10-11	-2.7%	-1.8%		-0.8%		
<b>Three-Year Total</b>			<b>\$6,300</b>		<b>\$5,985</b>	

Total General Fund revenues include revenues from other non tax sources and transfers. See Summary Charts for totals of these revenues.

Two of the Governor's Budget revenue proposals have been adopted already: the Franchise Tax Board (FTB) Financial Institution Data Match, and the FTB Tax Shelter Amnesty. In addition, the refundable portion of the Personal Income Tax (PIT) child care credit was eliminated and a use-tax lookup table was adopted in the budget trailer bills already enacted.

The May Revision proposes to maintain the level of current tax rates for Sales and Use Tax (SUT) and Vehicle License Fee (VLF) for five years and the dependent exemption credit for five years. It also proposes to reinstate the Personal Income Tax surcharge adopted in 2009 for four years beginning in 2012. These revenue extensions will be subject to voter approval.

In addition to extending current tax rates, the Governor's May Revision proposes the following changes in the tax code to encourage job growth and economic development:

- The adoption of mandatory single sales factor apportionment, which was also in the Governor's Budget.
- Reform, rather than repeal, of the Enterprise Zone tax provisions to make them more efficient in creating incentives for economic development.
- An expansion of the new jobs credit.
- A partial sales tax exclusion for purchase of manufacturing equipment.

**Mandatory Single Sales Factor (SSF) Apportionment** — This proposal would require that all corporations (except those corporations engaged in qualified agricultural, extractive, or banking activities) use sales in and out of state to apportion their income for corporate tax purposes. Requiring mostly "in-state" firms to use SSF removes a disincentive that they face under apportionment using double-weighted sales, property and payroll, from moving economic activity into California. Requiring "out-of-state" firms to use SSF accomplishes the exact same thing. It removes a disincentive that they face, under double-weighted sales property and payroll apportionment, from moving economic activity into California. Elective SSF creates an inequity between multi-state firms and those that operate wholly within California. This inequity allows taxpayers who operate in more than one state, two different ways to calculate their income. One is likely to produce a much smaller tax than the other. Businesses that operate wholly inside California have no such option. This different treatment puts the wholly in-state businesses (which tend to be smaller businesses) at a competitive disadvantage to multi-state businesses.

**Reform Enterprise Zones** — The purpose of enterprise zones is to encourage economic activity for particular geographic regions. However, there are two significant failings in the way the current tax incentives are structured. First, the Enterprise Zone hiring credit encourages the hiring of employees. It does not encourage the creation of new jobs. A business that lays off five employees and hires one at \$50,000 per year, gets the same credit as a business that expands its number of employees and hires an employee at \$50,000 per year. In fact, if the employee in the first case meets one of the vouchering criteria—they live in the area—and the employee in the second case meets none of the vouchering criteria, the firm in the first case will receive a credit while the employer in the second case will not. Enterprise Zone programs should reward employers for creating new jobs. Second, employers can benefit from Enterprise Zone credits even when it is demonstrable that the existence of the credit had nothing to do with the fact that they have hired a new employee. This is evident by the existence of a phenomenon referred to as “retro-vouchering”. “Retro-vouchering” typically occurs when a private tax consultant makes contact with a business located in the zone and offers that business their services, on a contingency-fee basis, to determine if any of the employees hired by this firm within the last several years qualifies to be vouchered for the hiring credit. When this happens, clearly the hiring firm did not act based on the Enterprise Zone hiring credit as they were not even aware of the credit when they did the hiring.

Instead of repealing state tax benefits for Enterprise Zones, the May Revision proposes to reform Enterprise Zone hiring credits so that credits are only available to firms which actually increase their level of employment. Taxpayers would be eligible for a \$5,000 credit for each incremental full-time equivalent employee that they hire. These credits would only be allowed if claimed on the taxpayer’s original return. Additionally, the May Revision proposal would not allow any new vouchers to be granted for tax years prior to 2011 when the application for that voucher was made more than 30 days after the date that the employee first begins employment. Additionally, to ensure that credits are creating incentives for relatively profitable, tax-paying businesses, the Enterprise Zone credits will be limited to a five-year carry-forward period.

**Expand the Current Jobs Credit**—In 2009, as part of the 2009-10 Budget Act, the Legislature allocated \$400 million for a new jobs credit for small businesses. The purpose of the credit was to stimulate job creation by small businesses, and to do so during the recession and at the early part of the recovery. Unfortunately, the credit appears to be substantially underutilized. It is likely that the credit will continue to be available for at least the next five years, beyond the time that the recession-driven unemployment is projected to persist. The primary reasons for this underutilization are



that businesses are not aware of the credit, and the documentation requirements on eligible small business are too onerous to warrant seeking the credit.

To make this credit more usable to businesses when it will be more valuable for stimulating economic growth, the May Revision proposes three changes to the Jobs Credit:

- Increase the credit from \$3,000 to \$4,000 per new employee,
- Offer the credit to employers with fewer than 50 employees (as opposed to fewer than 20 employees under current law), and
- Sunset the credit at the end of 2012. In addition to these changes, the May Revision includes a public awareness effort by the Business, Transportation, and Housing Agency, so that businesses will be aware of and actually take advantage of the credit.

#### **Sales and Use Tax Exemption (SUT) for Purchases of Manufacturing Equipment**

— The current SUT requires a sales tax to be paid on purchases of tangible property that are used in manufacturing. This leads to double-taxation because the output of the manufacturing will also be subject to the sales tax when sold. This double-taxation creates a disincentive for locating manufacturing capital equipment in California. To stimulate investment and economic development in the manufacturing sector, the May Revision proposes a limited SUT exemption for manufacturing equipment. In general, manufacturing firms would be eligible for a 1-percent exemption from the General Fund SUT for equipment purchases. Start-up firms would be eligible for a full 5 percent exemption of the General Fund SUT. For example, most corporations would get a \$10,000 tax reduction for the purchase of \$1 million of manufacturing equipment. A start-up, a type of firm that typically has a limited ability to raise capital, would receive a \$50,000 tax reduction for the same purchase. This exemption would take effect in 2012-13, would remain in effect for four years, and would only take effect during periods when the sales and use tax rate is at 6 percent. If the single sales factor is not made mandatory, even this partial exemption would not be affordable. This exemption will help stimulate investment, job growth, and economic development in the manufacturing sector, while giving particular help to firms that are starting up and are most likely to need assistance.

The revenue impact of the proposals not yet enacted is shown in Figure REV-02.

Figure REV-02

**Net Benefit Of Tax Solutions**

(Benefit to General Fund - Dollars in Millions)

	2010-11	2011-12
<b>Direct General Fund Impact</b>		
Personal income tax surcharge: Maintain the 0.25-percent PIT surcharge for four years, from 2012 through 2015.	\$0	\$1,343
Personal income tax dependent exemption credit: Maintain the current dependent exemption credit, which is aligned to equal the personal exemption credit amount for five years.	799	1,371
Mandatory Single Sales Factor: Modify current law to make this multi-state/national corporate income apportionment method mandatory instead of elective. Under current law, the opportunity to elect begins with the 2011 tax year.	470	950
Reform Enterprise Zones: Make the hiring credit a credit for net increase in the number of jobs, eliminate retro-vouchering, limit carryovers to five years.	23	70
Vehicle License Fee: Maintain 1.15 percent (VLF) rate, with 0.1 percent dedicated to General Fund.	0	270
Expand Jobs Credit: Provide \$4,000 credit, available to firms with fewer than 50 employees, sunsets after 2012.	-29	-65
Partial SUT exemption for manufacturing equipment: Begin exemption in 2012-13.	0	0
Revenue Driven Increase in Proposition 98 Expenditures	0	-1,652
<b>Realignment Revenues - Local Revenue Fund 2011</b>		
Maintain 6-percent state sales tax, with 1 percent dedicated to realignment.	0	4,520
Maintain 1.15 percent (VLF) rate, with 0.4 percent dedicated to realignment.	0	1,079
<b>Other Special Fund Revenues That Offset General Fund Costs</b>		
Extend the Hospital Fee for Medi-Cal to June 30, 2012	0	320
Continue Managed Care Organization Taxes for Medi-Cal and Healthy Families	0	103
<b>Total Net Benefit Of Revenue Solutions</b>	<b>\$1,263</b>	<b>\$8,309</b>

**ACCRUAL CHANGE**

The Governor's 2011-12 Budget adopted a methodology for accruing the revenue impacts of proposed law changes that is required by Section 13302 of the California Government Code, as amended by Chapter 92, Statutes of 2008. This code section states that that "revenues at the end of the fiscal year (should be accrued) if the underlying transaction has occurred as of the last day of the fiscal year, the amount is measurable, and the actual

collection will occur either during the current period or after the end of the current period but in time to pay current year-end liabilities”.

The May Revision completes this change in accounting approach by applying the “net final payments” accrual methodology to baseline revenue. This change involves analyzing the actual and expected cash flow for PIT and the Corporation Income Tax (CIT) as it relates to particular liability years and then shifting revenue between fiscal years so as to match the pattern that would be required based on the due dates for estimated payments and withholding. This approach is referred to as the “payment-due-date” standard for accruing revenue. This standard is in contrast to a pure Generally Accepted Accounting Principles (GAAP) standard, which, instead of focusing on when tax payments are due, would focus on when the income giving rise to the tax liability is earned.

The reason for using the “payment due-date” standard instead of the “income earned” standard is that using the “income-earned” standard would be inconsistent with changes in law enacted in 2008 and 2009.

While this approach shifts a large amount of gross revenue – in the form of estimated payments, withholding, final payments, refunds, and extension payments – between fiscal years, the net impact on revenue in the budget window is relatively modest. In particular, the net impact of this accrual method for the current budget window is a reduction in revenue of \$170 million. This change is the sum of a prior-year adjustment of -\$2.5 billion, a 2010-11 adjustment of \$900 million, and 2011-12 adjustment of \$1.4 billion. Additionally, this baseline accrual methodology is expected to cause revenue shifts that would generally be in the range of -\$500 million to \$500 million for each subsequent year.

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## **LONG- TERM FORECAST**

Figure REV-03 shows the forecast for major general fund revenues from 2009-10 through 2014-15. Total General Fund revenue is expected to grow from \$84.5 billion in 2009-10 to \$112.5 billion in 2014-15. The average year-over-year growth rate over this period in General Fund revenue is 5.9 percent.

The May Revision economic forecast is calling for modest but steady growth over the next 5 years. National Gross Domestic Product (GDP) over the past twenty years has grown at about 2.5% percent per year. Ignoring recession years, the average growth rate is about 3.2 percent. The projected growth rate in GDP over the next five years is in the

Figure REV-03  
**Long-Term Revenue Forecast**  
 (General Fund Revenue, except where noted - Dollars in Billions)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	average year over year growth
Personal Income Tax	\$44.9	\$51.9	\$54.3	\$58.7	\$59.2	\$65.0	7.8%
Sales and Use Tax	\$26.7	\$26.7	\$23.9	\$26.0	\$28.1	\$29.7	2.4%
Corporation Tax	\$9.1	\$9.4	\$10.2	\$10.5	\$12.0	\$12.8	7.2%
Other	\$3.8	\$3.8	\$2.8	\$3.6	\$4.8	\$5.0	7.9%
Total General Fund Major Revenue	\$84.5	\$91.9	\$91.2	\$98.8	\$104.0	\$112.5	5.9%
Realignment Revenue	\$0.0	\$0.0	\$5.6	\$6.2	\$6.6	\$7.0	7.8%
Total General Fund Major Revenue plus Realignment Revenue	\$84.5	\$91.9	\$96.8	\$105.0	\$110.6	\$119.5	7.3%

range of 2.7 percent to 2.9 percent, steady growth, but slightly slower than normal for an economic expansion.

General Fund revenue since 1987 has grown at an average year-over-year rate of 5 percent. However, growth coming out of a recession tends to be a bit more robust. In the five years following the previous two recessions, General Fund revenue has grown at an average rate of 6.9 percent. The first post-recession period contains a lead-up to and the very beginning of the technology stock bubble. The second post-recession period contains most of the housing bubble. Therefore, the growth in those two periods may overstate what we would expect in the next five years.

One reason that the May Revision forecast is slightly stronger than would be expected based on historical growth rates is that the California economy is coming out of a very deep recession. The economy fell further and now has to climb more rapidly to get anywhere near a normal trend line for revenues. It appears that capital gains income grew very strongly in 2010 and that most of the wage growth in 2010 came from the portion of the population that is already highly compensated. Thus, much of the income growth that is occurring is coming in the top income brackets where the marginal tax rates are highest. Both the strong growth in capital gains and growing concentration of income cause revenue to grow faster than would be expected by looking at economic aggregates such as GDP. While this is to be expected given the stock market recovery and the good

earnings of California's top performing companies, such recovery rates of growth are not likely to be sustained.

There are clear downside risks to the May Revision long-term forecast. While not considered likely, it is possible that the economy could suffer a double-dip recession or very slow growth. Some of the growth in wages for 2010 and 2011 at the top end of the income distribution may be delayed executive compensation that was paid in 2006 or 2007 (often, portions of executive compensation may only be realized by the executive several years after it is paid). Those compensation amounts for 2008 and 2009 that are realized in 2012 and later could be significantly lower than what was realized in 2010. Capital loss carryforwards, at \$141 billion, are more than double what they were in 2007. It appears that, in 2010, very little of these carryforwards were used to offset capital gains income. To the extent future gains are earned by taxpayers who have large stocks of capital loss carryforwards, PIT revenue could be significantly weakened.

The long-term revenue forecast includes about \$2 billion per year from the estate tax starting in 2013-14. Under current law, the federal estate tax returns to its pre-2001 condition at the beginning of 2013. However, if the law is changed at all, a very likely outcome, California may receive nothing from the estate tax.

## **PERSONAL INCOME TAX (PIT)**

The PIT forecast has been increased by \$4.2 billion in 2010-11 and by \$4.6 billion in 2011-12. Through April, PIT receipts were up just under \$3 billion from the Governor's Budget forecast. There are two economic explanations for both the increase in actual receipts and the forecast of revenues from Governor's Budget. First, although overall 2010 wage growth was muted at less than 1 percent, it appears from withholding receipts and anecdotal evidence that wage growth among higher income groups that pay a higher tax rate far outstripped the growth in lower income levels. The higher tax rates associated with these high earners resulted in much larger monthly withheld receipts than one would expect given the overall wage picture. Thus far, this withholding pattern has continued into 2011 and the May Revision forecast has been adjusted accordingly. Second, during 2010 the state saw stronger than forecasted quarterly estimated payments (again generally associated with higher income earners), but there was uncertainty as to whether the strength in these receipts was due to timing or growth in the underlying liability. Recent changes in tax law and payment requirements have made deciphering taxpayer payment behavior difficult. With April complete, we are better able to analyze the overall 2010 tax year picture. Based on these receipts, the overall

economic forecast, and recent strength in equity markets, the forecast growth in capital gains income has been increased. Capital gains reported by taxpayers plunged 48.9 percent in 2009 but are now estimated to increase 60 percent in 2010 followed by 45 percent growth in 2011.

This forecast also reflects the Governor's May Revision proposals. In particular, the reinstatement of the quarter-percent surcharge in 2012 through 2015, the maintenance of the dependent exemption credit at the same level as the personal exemption credit, the Enterprise Zone reform proposal and the expanded Jobs Credit are expected, on net, to increase revenue by \$789 million in FY 2010-11 and by \$2.7 billion in FY 2011-12. Finally, the baseline accrual change generated a prior-year adjustment of -\$2.1 billion, an adjustment to FY 2010-11 of \$1.8 billion, and an adjustment to FY 2011-12 of \$1.2 billion.

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### **SALES AND USE TAX**

The sales and use tax (SUT) forecast has been increased by \$31 million in the current year and decreased by \$135 million in the budget year.

The forecast is relatively unchanged from the Governor's Budget as a higher inflation forecast, which had a positive impact on taxable sales including gasoline, was offset by higher gasoline prices. Higher gasoline prices result in a greater percentage of taxable sales going to gasoline, which is exempt from the General Fund portion of the sales tax due to the gas tax swap enacted last year.

The May Revision proposes an extension of the 6-percent SUT for 5 years, from 2011-12 through 2015-16. The revenue from 1 percent of this rate is dedicated to fund realignment. This tax rate maintenance is expected to generate \$4.520 billion in 2011-12. Additionally, the May Revision proposes a partial exemption from the SUT for manufacturing equipment for 2012-13 through 2015-16. Although outside the budget window, this exemption is expected to generate a revenue loss of \$261 million in 2012-13.

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### **CORPORATION TAX**

The corporation tax forecast has been decreased by \$2.1 billion in the current year and by \$806 million in the budget year.

The decline in corporation tax revenues in 2010-11, and a lower estimate for 2011-12 since the Governor's Budget forecast reflects mainly technical changes in the forecast. These estimates were further impacted by two changes in the policy relative to the Governor's Budget. The proposed expansion of the jobs credit and a proposal to reform the Enterprise Zone program rather than repeal it are the largest changes. These proposed law changes, along with mandatory single sales factor (which was also included in the Governor's Budget) are expected to generate, on net, \$465 million in 2010-11 and \$948 million in 2011-12. Finally, the baseline accrual change generated a prior-year adjustment of -\$420 million, an adjustment to FY 2010-11 of -\$900 million, and an adjustment to FY 2011-12 of \$200 million.

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## **INSURANCE TAX**

The insurance tax forecast has been increased by \$178 million in the current year and decreased by \$81 million in the budget year. The revenue changes are due in large part to a delay in refunds associated with a previous Board of Equalization decision on the accounting method used by insurers.

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## **VEHICLE LICENSE FEES**

Vehicle License Fee (VLF) revenues are reduced \$113 million in the 2010-11 year due primarily to the prospective delay in billing associated with recent legislation to allow the VLF rates to be extended. In 2011-12, the May Revision includes a proposal to shift 0.1% of the proposed maintenance of the 0.5 percent rate to the General Fund instead of allocating those funds to the realignment program as proposed in the Governor's Budget. This reflects some adjustments in what will be included in that program. This change transfers \$270 million into the General Fund. Other than that, realignment revenue estimates are little changed from the Governor's Budget forecast.

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## **OTHER REVENUES AND TRANSFERS**

The recent cancellation of the plan to sell and then lease back 11 state-owned properties, which was estimated to generate about \$1.2 billion reduced other revenue relative to the Governor's Budget but not compared to the revenues used when the Legislature recently took action on many budget proposals. The Legislature has already adopted additional loans of \$441 million in 2010-11 and \$464 million in 2011-2 to offset much of this. In the May Revision, significant changes include Tidelands Oil receipts increased by over

\$138 million in 2010-11 and \$148 million in 2011-12, and \$744 million in loans from special funds to the General Fund are proposed to be repaid early in 2011-12 reducing revenues and out-year debts.

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### **PROPERTY TAX**

Article XIII A of the State Constitution (Proposition 13) provides that property is assessed at its 1975 fair market value until it changes ownership. When ownership changes, the assessed value is redetermined based on the property's current market value. New construction is assessed at fair market value when construction is completed. A property's base year value may be increased by an inflation factor, not to exceed 2 percent annually.

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools offset General Fund expenditures. Assessed value growth is estimated based on twice-yearly surveys of county assessors and evaluation of real estate trends. Continued declines in sales volumes and prices, coupled with declines in property values and failures to remit property tax payments as a result of mortgage defaults and foreclosures, continue to negatively impact assessed values and property tax levies. Property tax collections are estimated to decrease 2.5 percent from 2009-10 to 2010-11, significantly better than the 5.0 percent decline forecast in the Governor's Budget. This reduces General Fund costs in K-14 budgets by \$512 million in 2010-11. As the process of foreclosing on properties with delinquent mortgages accelerates in 2011-12, and those properties are resold, the decline in property tax revenues is expected to end. However, no positive growth in revenues is anticipated, leading to a forecast of zero percent growth for 2011-12. It is expected that property values will begin to increase in 2012-13 by about 1 percent. As the pace of property assessment work begins to pick up, the state should consider restoration of its participation in funding this work to ensure maximum revenues.



## LEGISLATIVE, JUDICIAL, AND EXECUTIVE

**G**overnmental entities classified under the Legislative, Judicial, and Executive section of the Governor's Budget are either established as independent entities under the California Constitution or are departments that operate outside the agency structure. Constitutionally established bodies include the Legislature, the Judicial Branch, Governor's Office, and Constitutional Officers.

The 2011-12 May Revision includes total funding of \$9.4 billion (\$2.5 billion General Fund and \$6.9 billion other funds) for all programs included in this area.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### JUDICIAL BRANCH

The Judicial Branch consists of the state-level judiciary which includes the Supreme Court, the Courts of Appeal, and the Administrative Office of the Courts. Prior to 1998, the trial courts consisted of county superior and municipal courts, but have since been unified into 58 superior courts.

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### **RECENTLY ADOPTED SOLUTIONS**

The Legislature approved the following major solutions in March. They are either signed into law by the Governor or in pending legislation.

- **Courts Reduction**—A reduction of \$200 million to the court system. This reduction was allocated proportionately across the state level-judiciary and the trial courts. In addition, much of the trial court portion was offset by a variety of fund shifts, the use of reserve balances, and expenditure delays.
- **Conservatorship Program Suspension**—A reduction of \$17.4 million General Fund related to statutory changes making the Conservatorship and Guardianship Act of 2006 permissive at the trial court level.
- **General Fund Loan**—A loan of \$350 million from the State Trial Court Construction Fund to the General Fund.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals necessary to ensure the efficient administration of justice:

- **Parole Revocation Hearings**—An increase of \$41.8 million for court workload resulting from the shift of responsibility for parole and post-release supervision revocation hearings to the Judicial Branch in AB 109 (Chapter 15, Statutes of 2011). Of this amount, \$2.5 million is added to the court security realignment total.

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### **CALIFORNIA EMERGENCY MANAGEMENT AGENCY**

The principal objective of the California Emergency Management Agency (Cal EMA) is to reduce vulnerability to hazards and crimes through emergency management and criminal justice to ensure a safe and resilient California. The Cal EMA coordinates emergency activities to save lives and reduce property loss during disasters and to expedite recovery from the effects of disasters. On a day-to-day basis, the Cal EMA provides leadership, assistance, and support to state and local agencies in planning and preparing for the most effective use of federal, state, local, and private sector resources in emergencies.

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## **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- **Fire Engines Purchased with Federal Funds**—A one-time reduction of \$1.8 million to reflect the planned purchase of fire engines using federal funds in 2011-12.
- **Golden Guardian and State Agency Training**—An ongoing reduction, beginning in 2011-12, of \$779,000 related to the elimination of General Fund support for the annual Golden Guardian Exercise and state agency training. The Department will continue to conduct the Golden Guardian Exercise and will offer state agency training on a reimbursement basis.

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## **DEPARTMENT OF JUSTICE**

As chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced through the programs of the Department of Justice (DOJ).

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## **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposal necessary to protect public safety:

- **DNA Identification Fund Shortfall**—The May Revision proposes to transfer \$10 million General Fund to the DNA Identification Fund, and restore \$4.1 million General Fund to the DOJ for lease revenue payments on regional forensic laboratories. Revenues to the DNA Identification Fund have not come in as projected; therefore, these changes are necessary in order to ensure the DNA and regional forensic laboratories are able to continue performing critical public safety work.



## STATE AND CONSUMER SERVICES

The State and Consumer Services Agency's (SCSA) mission is to help educate consumers and make government more efficient, effective, and accountable for all California taxpayers. Among its many responsibilities, the agency licenses more than 2.5 million Californians in more than 240 different professions, procures more than \$8.9 billion in goods and services, and oversees the Franchise Tax Board.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) is tasked with administration of the state's personal income tax and corporations tax. Activities include tax return processing, filing enforcement, audit, and collection of delinquent amounts owed.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solution in March which was signed into law by the Governor.

- Financial Institutions Records Match—An increase of \$1.3 million and 3 positions for the Financial Institution Record Match (FIRM) to generate \$30 million in

2011-12 revenues. Under FIRM, financial institutions will establish a quarterly records match process between their customer records and the FTB's records of delinquent taxpayers. If the records match shows a delinquent taxpayer has funds deposited with the financial institution, the institution would remit to the FTB an amount sufficient to satisfy the outstanding debt.

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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed solutions are needed to address the remaining budget shortfall:

- Enterprise Data to Revenue Project—An increase of \$28.9 million in 2011-12 for the Enterprise Data to Revenue (EDR) project, which will enhance FTB's filing, audit, and collections functions via creation of a new data warehouse, and by creating new business efficiencies. EDR is proposed as a benefits-based procurement, meaning the vendor will be paid with revenues generated by the project. FTB projects EDR to generate \$4.7 billion through 2017-18, with total project costs of \$664 million.

## **BUSINESS, TRANSPORTATION, AND HOUSING**

**T**he programs within the Business, Transportation, and Housing Agency (BTH) promote the state's business and economic climate, transportation infrastructure, affordable housing, and patients' rights. The Agency also includes public safety programs, including the Department of Motor Vehicles, the California Highway Patrol, and the Department of Alcoholic Beverage Control. Funding for all programs exceeds \$19.7 billion, which is derived largely from special fund revenues, federal funds, and bond proceeds.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for details on the Governor's proposal.

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### **BTH AGENCY SECRETARY**

The Secretary for the BTH Agency oversees and coordinates the activities of 13 departments and several economic development programs and commissions to improve California's place in the global marketplace. The Agency also directly administers several programs, including the Small Business Loan Guarantee Program, tourism promotion, the Infrastructure Bank, and the film commission.

The Small Business Loan Guarantee Program provides guarantees on bank loans to small businesses that otherwise would not be made because of short credit history or lack of collateral. The guarantees are backed by a trust fund that can guarantee loans

up to five times the amount of the trust fund. Chapter 731, Statutes of 2010, in part, appropriated \$20 million General Fund for the program to guarantee an additional 700 loans over two years. The federal government subsequently awarded the State \$168.6 million, of which half will be used for this program.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following solution in March, which was signed into law.

- Reduced Small Business Loan Guarantee Program—A decrease of \$20 million General Fund in 2010-11 given the large infusion of new federal funds and the need for General Fund savings.

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## DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Caltrans) has nearly 21,000 employees and an annual budget of approximately \$14 billion. Caltrans designs and oversees the construction of state highways, operates and maintains the system, funds three intercity passenger rail routes, and provides funding for local mass transit projects. Over 15,200 miles of highways and 12,000 state bridges are maintained, and 809 public-use and special-use airports and heliports are inspected. The largest sources of funding for transportation projects are excise taxes paid on fuel consumption, federal funds also derived from fuel taxes, and weight fees on trucks. Bond funds currently provide more than 32 percent of the total funding available for projects. Until 2010, sales tax on gasoline also was a major source of revenue for transportation, but the 2010 tax swap, which was reaffirmed by enactment of additional legislation in March 2011, eliminated gasoline sales taxes in exchange for an equivalent increase in fuel excise taxes. These revenues enabled funding for highways and roads to continue at the same level and provide a one-time \$762 million loan to the General Fund.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solution in March, which was signed into law.

- Reenacted Excise Tax for Fuel Sales Tax Swap—The 2010 Budget Act included funding from fuel excise taxes to reimburse the General Fund for the cost of debt service on transportation-related state bonds. Enactment of Proposition 22



in November 2010, however, precludes the use of excise taxes for debt service or loans. Chapter 6, Statutes of 2011, was enacted in March 2011 to fund transportation-related debt service and loans from weight fees on trucks and other revenues that are not restricted as gasoline taxes are. The Budget provided \$903.5 million in General Fund relief from weight fees in 2010-11 in addition to the \$799.6 million in General Fund relief achieved prior to enactment of Proposition 22.

- Debt Service Offset—Pre-Proposition 22 debt service reimbursement from fuel excise taxes and post-Proposition 22 debt service from weight fees and other revenues are expected to provide a total of \$714.9 million in General Fund relief in 2010-11. Weight fees and other revenues will provide another \$777.5 million in General Fund reimbursements for debt service costs in 2011-12.
- Special Fund Loans—A loan of \$550.8 million in 2010-11 and \$210 million in 2011-12 is provided from weight fee revenues.

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## OTHER POLICY PROPOSALS

The May Revision includes the following significant policy proposals necessary to support the following programs:

- Capital Outlay Support—The May Revision proposes to temporarily increase Caltrans' engineering and design resources in the Capital Outlay Support Program by 122 contract positions to address a one-year shortfall in the number of projects for which design work has been completed for projects that are ready to be funded. The shortfall was caused primarily by the large amount of unanticipated American Recovery and Reinvestment Act (ARRA) funding and bid savings from the downturn in the economy. These funds were used to accelerate projects that otherwise would not have been funded until later years. The spike in available funding, however, is one-time. Therefore, the May Revision proposes the workload be completed by contract staff. The May Revision also proposes language to ensure that the cost of contracted workload does not exceed the cost if the work had been completed by Caltrans staff.
- Planning Program Project Initiative Document (PID) Funding—The Governor's Budget proposed an increase of \$2.4 million and 18 positions to complete PIDs for state and locally-funded projects on the state highway system. This included a decrease of \$4.9 million in State Highway Account resources and an increase of \$7.2 million in reimbursements from locals to complete PIDs on

locally-funded projects. The May Revision proposes an increase of \$572,000 and 4 positions to address increased PID workload associated with state-funded projects in the 2011 Ten-Year State Highway Operation and Protection Program and to reflect the elimination of reimbursement funding for PID development and independent quality assurance workload for locally-funded projects on the state highway system. In lieu of anticipating local reimbursements, Budget Bill language has been proposed to authorize reimbursements should locals opt to have Caltrans perform the work.

- **Public Private Partnerships (P3s)**—The May Revision proposes to increase Caltrans' reimbursement authority by \$1.6 million from project sponsors to contract with financial advisors to review, analyze, and evaluate three projects for potential P3 procurement. Caltrans anticipates the need for approximately \$534,000 per project per year for financial services.
- **Proposition 1B Bond Funding**—In addition to the \$2.3 billion in Proposition 1B bond appropriations proposed in the Governor's Budget, the May Revision proposes an additional \$1 billion in bond appropriations to start funding the construction of additional projects which Caltrans anticipates starting in 2011-12. This amount includes a total increase in funding of \$593.6 million for corridor mobility, \$191.9 million for trade corridors, \$122.9 million for public transit modernization, \$47.6 million for major highway rehabilitation, \$134.8 million for State Route 99, and a decrease in funding for local projects, including \$35.5 million for state-local partnership projects and \$8.2 million for local bridge seismic safety, due to fewer local projects being ready to start in 2011-12.

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### HIGH-SPEED RAIL

The High-Speed Rail Authority (Authority) is responsible for the development and construction of a high-speed passenger train service between San Francisco and Anaheim (Phase I), with extensions to San Diego and Sacramento and points in-between (Phase II). Proposition 1A, enacted in November 2008, authorizes \$9 billion in bond proceeds for the rail lines and equipment, and an additional \$950 million for state and local feeder lines. The federal government also has awarded the Authority nearly \$3.5 billion, most of which has been designated to fund portions of the project in the Central Valley.

During 2011-12, the Governor's Budget and May Revision proposals will allow the Authority to continue to work on design and environmental studies and to work with communities on issues related to the right-of-way for Phase I of the project.

The Governor's Budget proposed \$12.6 million in state operations and \$179.3 million in capital outlay funding for a total of \$192 million for 2011-12. The proposed budget would fund the Authority's administrative and legal costs, as well as contracts for program oversight, environmental outreach and communication, and financial consulting. The capital outlay funding proposal would be used for environmental work and preliminary design and engineering for the seven Phase I segments, with half of the funding coming from Proposition 1A bond funds and half from federal funding.

The May Revision proposes an increase of \$3.9 million in state operations and a decrease of \$46.2 million in capital outlay funding, bringing the total funding to \$149.6 million for 2011-12. The Authority's revised cost estimate for capital outlay work on Phase I projects in 2011-12 is \$180.5 million. However, because \$47.4 million in current year savings can be carried over and used in the budget year, the Authority's capital outlay budget has been reduced to \$133.1 million.

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## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development has a budget of approximately \$255.9 million and 600 employees to promote preservation and expansion of safe and affordable housing and strong communities throughout California. The Department supports housing development and administers state and federal housing and community development financing programs. It also develops, administers, and enforces building codes, manufactured housing standards, and mobilehome park regulation.

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### OTHER POLICY PROPOSALS

The May Revision includes the following significant policy proposal necessary to support various housing programs:

- Proposition 1C Bond Funds—An increase of \$63 million in appropriations in 2011-12. This amount includes \$25 million for the Housing Urban-Suburban-and-Rural Parks Program, \$18 million for the Transit-Oriented Development Program, and \$20 million for the Building Equity and Growth in Neighborhoods (BEGIN) Program. Additionally, the proposed budget language that would have restricted the Department from making new awards for bond programs with continuous appropriation authority is withdrawn, allowing the Department to approve pending and future awards.



## NATURAL RESOURCES

The Natural Resources Agency consists of 26 departments, boards, commissions, and conservancies responsible for administering programs to conserve, protect, restore, and enhance the natural, historical, and cultural resources of California.

The May Revision includes total funding of \$10.3 billion (\$2 billion General Fund and \$8.3 billion other funds) for all programs included in this Agency.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. Each solution is included in pending legislation.

- Eliminate Funding for CAL FIRE's Fourth Firefighter—A decrease of \$3.6 million in 2010-11 and \$30.7 million in 2011-12 as a result of restoring CAL FIRE's staffing levels to three firefighters per engine.
- Reduction to State Parks—A decrease of \$11 million in 2011-12. When fully implemented, the expenditure reductions will produce \$22 million in ongoing General Fund savings and close up to 70 state parks.

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## **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- **Proposition 1E Fund Shift**—A shift of \$16 million to Proposition 1E funds in 2011-12 to support flood management activities. Proposition 1E, approved by the voters in 2006, authorizes \$4.09 billion in general obligation bonds to improve flood protection in California. This proposal will shift \$16 million General Fund currently dedicated to levee maintenance, Delta levees, and floodplain mapping activities to Proposition 1E.
- **Watermaster Fees**—A shift of \$1.23 million to reimbursements in 2011-12 to support the Watermaster Program. The Department of Water Resources currently administers the Watermaster Program to ensure that water is allocated by an impartial third party according to legal water rights established by the courts. This proposal will eliminate General Fund support for the Watermaster Program and instead would fully support the program through fees paid by those who benefit from the service, consistent with existing statute.

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## **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposal necessary to enhance the Department of Conservation's oil and gas regulatory program:

- **Oil and Gas Permitting and Enforcement Augmentation**—An increase of \$4.7 million Oil, Gas, and Geothermal Administrative Fund and 32.4 positions in 2011-12. California oil and gas operators have been experiencing significant delays in project approval, permitting, and construction site review. This proposal will enable the Department of Conservation to address additional permitting workload and enhance the Department's existing regulatory oversight of oil and gas development in the state.

The May Revision includes the following proposal for the California Energy Commission to implement recently chaptered legislation:

- **California Renewable Resources Act (SBX1 2)**—An increase of \$646,000 Renewable Resources Trust Fund and 5 positions in 2011-12 to implement a 33 percent Renewable Portfolio Standard (RPS) by 2020. The enabling legislation requires the

CEC to adopt regulations specifying enforcement of renewable energy procurement requirements for publicly owned utilities (POU), and monitor POU planning and compliance with renewable energy procurement requirements.





## ENVIRONMENTAL PROTECTION

The Environmental Protection Agency works to restore, protect and enhance environmental quality. The agency coordinates state environmental regulatory programs and ensures fair and consistent enforcement of environmental law.

The May Revision includes total funding of \$1.7 billion (\$60 million General Fund and \$1.6 billion other funds) for all programs included in this Agency.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solution in March which is in pending legislation.

- Fund Shift to Support Water Quality and Water Rights Programs—A General Fund decrease to the State Water Resources Control Board in 2011-12 of \$12.8 million and increases in fees for Water Quality Programs (\$10 million Waste Discharge Permit Fund) and Water Rights Programs (\$3.5 million Water Rights Fund ) as well as increasing reimbursements by \$746,000.

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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. The newly proposed solution includes:

- Department of Toxic Substances Control Clandestine Lab Cleanup Funding Reduction—A General Fund decrease of \$802,000 for the Clandestine Drug Lab (CDL) Cleanup Program, one-time, in 2011-12. The Department has sufficient Illegal Drug Lab Cleanup Account expenditure authority in the pending budget bill to cover these costs. This funding will provide the programs one year of funding while the department develops a proposal for a stable, long-term funding such as cost recovery or support from the State Asset Forfeiture funds.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposal:

- Expedited Remedial Action Program-Payment for Orphan Share—\$731,000 Expedited Site Remediation Trust Fund (ESRTF) for the Department of Toxic Substances Control to reimburse Santa Cruz Metro for the orphan share associated with remediation activities at the Greyhound Site in the City of Santa Cruz. This includes budget bill language to increase ESRTF expenditure authority for remediation of the Golden State Technology Site in Santa Rosa under specified conditions.

## HEALTH AND HUMAN SERVICES

The Health and Human Services Agency (HHS) oversees 12 departments and other state entities such as boards, commissions, councils, and offices that provide health and social services to California's most vulnerable and at-risk residents.

The May Revision includes total funding of \$81.6 billion (\$27.1 billion General Fund and \$54.4 billion other funds) for all programs overseen by this Agency.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals including families with children, seniors, persons with disabilities, foster care children, and pregnant women. The federal government dictates a mandatory set of basic services including, but not limited to, physician services, family nurse practitioner services, nursing facility services, hospital inpatient and outpatient services, laboratory and radiology services, family planning, and early and periodic screening, diagnosis, and treatment services for children. In addition to these mandatory services, the state provides

optional benefits such as outpatient drugs, home and community based waiver services, and medical equipment, which avoid more costly services.

Medi-Cal costs generally grow between six and eight percent annually due to a combination of health care inflation and caseload growth. Over the current year, budget year program spending is projected to decline by approximately 10.8 percent due to enacted and proposed program savings options (after adjusting for the end of federal stimulus funding). Absent these savings options, costs would be estimated to grow by approximately 7.7 percent. DHCS estimates that caseload will increase approximately 6.5 percent from 2010-11 to 2011-12 (from 7.52 million to 8.01 million), which is primarily due to shifting Healthy Families children to Medi-Cal. This is significantly higher than the 0.8 percent growth rate of the total California population over the same period (as estimated by the Department of Finance).

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They have either been signed into law by the Governor or are in pending legislation.

- **Limit Utilization of Services**—This proposal established utilization controls at a level that ensures that 90 percent of the beneficiaries who utilize a particular service remain unaffected. Specifically, it sets a maximum annual benefit dollar cap on hearing aids (\$1,510) and limits the number of doctor visits to seven per year prior to physician authorization. The limits on hearing aids save an estimated \$229,000 in 2011-12. The limit on physician visits saves an estimated \$41 million in 2011-12. These changes take effect October 1, 2011 based on the time needed to obtain federal approvals and provide necessary beneficiary and provider notification.
- **Require Beneficiaries to Share in the Cost of Services**—This proposal included a \$5 copayment on physician, clinic, and dental services for savings of \$157.3 million in 2011-12. There would also be a \$50 copayment on emergency room services (saves \$96.8 million in 2011-12), a \$100/day and \$200 maximum copayment for hospital stays (saves \$128.7 million in 2011-12), and \$3/\$5 copayments for pharmacy based on the drug status (saves \$128.4 million in 2011-12). These changes would take effect November 1, 2011, based on the time needed to obtain federal approvals and provide necessary beneficiary and provider notification.
- **Eliminate Adult Day Health Care and Other Benefits**—This proposal eliminated the optional Adult Day Health Care program for savings of \$169.6 million in 2011-12.

Approximately 31,000 beneficiaries use Adult Day Health Care services each month in about 330 centers statewide. Other benefit changes include restrictions to supplemental nutrition products (\$13.8 million) and ending coverage of over-the-counter cough and cold medications (\$2.1 million).

- **Provider Payment Reductions**—This proposal reduces provider payments by 10 percent for physicians, pharmacy, clinics, medical transportation, home health, family health programs, certain hospitals, and nursing facilities. Consistent with the 10-percent reductions proposed for other providers, this proposal would also reduce rates for long-term care nursing facilities by 10 percent. This proposal will require federal approval of a state plan amendment. This proposal would save an estimated \$423 million in 2011-12.
- **Extend the Existing Hospital Fee**—This proposal extends the existing hospital fee through June 30, 2011, which will save \$210 million in Medi-Cal. Fee revenue is used to leverage federal funding to provide supplemental payments to hospitals for the provision of Medi-Cal services and to offset General Fund.
- **Collect Managed Care Drug Rebates**—This implements an option provided by federal Health Care Reform to begin collecting drug rebates for drugs dispensed in managed care plans. The Medi-Cal program already collects significant rebates for drugs dispensed in the fee-for-service component of the program. This is estimated to save \$64 million General Fund in 2011-12.

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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- **Shift Healthy Families Children to Medi-Cal**—An increase of \$77.6 million in 2011-12 due to shifting Healthy Families Children to Medi-Cal. This proposal would implement the Medicaid expansion for children to 133 percent of the federal poverty level required under federal health care reform early and take the additional step of transitioning all Healthy Families children to Medi-Cal. The net statewide impact of this proposal is a savings of \$31.2 million General Fund in 2011-12.
- **Extension of Hospital Fee**—This proposal would extend the existing hospital fee for one year, through June 30, 2012, which will save \$320 million in Medi-Cal. Fee revenue is used to match federal dollars to provide supplemental payments to hospitals and General Fund relief (\$80 million per quarter).

- **Medi-Cal Waiver**—A decrease of \$95.2 million in 2010-11 by identifying additional options to claim waiver funds. The recently approved waiver provides for up to \$400 million in savings annually that can be claimed with expenditures in state-only programs. Current projections are that the state will fall short of that level in the current year. To achieve the maximum General Fund savings, the state would use a combination of additional state-only costs and surplus certified public expenditures (CPEs) that public hospitals would volunteer to use in the current year.
- **State Share of Inter-Governmental Transfers**—A decrease of \$34.2 million in 2011-12 due to increased reimbursements received from seventeen counties that operate Medi-Cal managed care plans. Under this proposal, the state would assess a fee equal to 20 percent of the transferred funds and the remaining funds would be used to match federal funds to provide rate increases.
- **Medi-Cal Managed Care Program Changes**—A decrease of \$1.7 million in 2011-12 due to a proposal to limit Medi-Cal beneficiaries from switching managed care plans more than once annually. This change would match Medi-Cal policy to that of other plans in CalPERS and other major healthcare providers.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals and workload adjustments:

- **Medi-Cal Base Estimate Adjustment**—An increase of \$66.3 million in 2010-11 and an increase of \$122.2 million in 2011-12 compared to base costs reflected in actions previously adopted by the Legislature. This increase is primarily due to managed care cost increases. Failure to provide actuarially sound rates would jeopardize federal funding.
- **Loss of Proposition 10, the California Children and Families First Act, Savings**—An increase of \$1 billion in 2011-12 to reflect legal challenges brought against the state's use of Proposition 10 funding for the Medi-Cal program. Although the state will continue to defend the legal challenges, the Administration is electing to take a conservative budget approach and restore the General Fund costs.
- **Erosions to Governor's Budget Solutions**—An increase of \$156.6 million in 2011-12 mainly caused by the one-month delay in implementation of budget solutions and revised costing of enacted policies.

- Federal Financial Participation—A decrease of \$170.6 million in 2010-11 due to additional federal stimulus funding.
- Federal Drug Rebate costs—An increase of \$70 million in 2011-12 for drug rebate costs to be reimbursed to the federal government as a one-time reconciliation payment resulting from changes made by Health Care Reform.
- Adult Day Health Care (ADHC) Transition—An increase of \$25 million in 2011-12 to provide funding for ADHC transition assistance. This proposal will assist beneficiaries currently receiving ADHC services in their transition to other Medi-Cal services.
- Family Health Programs Base Estimate Adjustment—A decrease of \$8.3 million in 2010-11 and \$5 million in 2011-12 primarily due to changes in enrollment and benefit related treatment costs in the California Children's Services Program, the Child Health and Disability Prevention Program, and the Genetically Handicapped Persons Program.

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## MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (the Board) administers five programs that provide health coverage through commercial health plans, local initiatives and county-organized health systems to certain persons who do not have health insurance. The five programs include:

- The Access for Infants and Mothers Program, which provides comprehensive health care to pregnant women and educates women about the dangers of tobacco use.
- The Healthy Families Program, which provides comprehensive health, dental, and vision benefits through participating health plans for children that are not eligible for Medi-Cal.
- The County Health Initiative Matching Fund Program, which provides comprehensive benefits similar to the Healthy Families Program, but through county-sponsored insurance programs.
- The Major Risk Medical Insurance Program, a state-funded program which provides health coverage to residents of the state who are unable to secure adequate coverage for themselves and their dependents because insurers consider them to be "medically uninsurable"—at high risk of needing costly care.

- The Pre-Existing Conditions Insurance Plan Program (PCIP), a federally funded health coverage program which provides health coverage to medically uninsurable individuals who live in California.

Only the Healthy Families Program is funded with state General Fund.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They have either been signed into law by the Governor or are in pending legislation.

- **Increase Premiums**—This proposal increased premiums for families with incomes at or above 150 percent of poverty for General Fund savings of \$22.8 million. Upon federal approval, premiums would increase for the income group from 150 to 200 percent of poverty by \$14 per child (from \$16 to \$30) and increase the maximum limit for a family with three or more children by \$42 for a family maximum of \$90. For families with incomes from 200 to 250 percent of poverty, premiums would increase by \$18 per child (from \$24 to \$42) and the maximum limit for a family with three or more children would increase by \$54 to \$126. No increase was proposed for families with incomes under 150 percent of poverty.
- **Increase Co-Payments**—This proposal increased co-payments for emergency room visits from \$15 to \$50 and inpatient stays from \$0 to \$100 day/\$200 maximum, to conform to a similar Medi-Cal cost-containment proposal. This proposal would take effect after appropriate provider and beneficiary notification, and result in savings of \$4.9 million.
- **Vision Benefit Cost Containment**—This proposal will result in lower plan rates for vision services projected to generate \$3.3 million in General Fund savings in 2011-12.
- **Continue Collecting Revenues from Taxes Assessed on Managed Care Plans**—This proposal will extend the statutory authority to December 31, 2013 for California to collect taxes assessed on managed care organizations for savings of \$103.3 million in 2011-12 (current statute expires June 30, 2011). These revenues are used to draw down federal funds, to fund rate increases in Medi-Cal and health coverage in Healthy Families. Health plans benefit by receiving higher rates than would otherwise result.



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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- Shift Healthy Families Children to Medi-Cal—A decrease of \$108.8 million in 2011-12 due to shifting Healthy Families Children to Medi-Cal. This proposal reflects the early implementation of the Medicaid expansion for children to 133 percent of the federal poverty level required under federal health care reform and takes the additional step of transitioning all Healthy Families children to Medi-Cal. The net statewide impact of this proposal is a savings of \$31.2 million General Fund in 2011-12.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals and workload adjustments:

- Healthy Families Program Base Estimate Adjustment—A decrease of \$5.3 million in 2010-11 and \$12.6 million in 2011-12 compared to base costs adopted by the Legislature. These decreases are primarily due to decreased program enrollment.
- Erosions to Governor's Budget Solutions—An increase of \$2.2 million in 2010-11 and \$0.9 million in 2011-12 are mainly caused by the one-month delay in implementation of budget solutions and revised costing of enacted policies.
- Increased Managed Care Organization Tax Revenues—A decrease of \$15.3 million in 2011-12 due to increased revenue projections of \$6.1 million in 2011-12, as well as \$9.2 million in 2010-11 revenues carried over into the budget year.
- Funding of CHIPRA Implementation Requirements—An increase of \$34.1 million in 2011-12 for prospective payments for services provided through Federally Qualified Health Centers and Rural Health Clinics, which includes \$20.1 million for federally required retroactive payments for the period of October 2009 through June 2011.

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### **DEPARTMENT OF PUBLIC HEALTH**

The Department of Public Health (DPH) is charged with protecting and promoting the health status of Californians through programs and policies that use population-wide interventions.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solution in March, which is in pending legislation.

- Childhood Lead Poisoning Prevention Fund Transfer to the General Fund—A transfer of \$9.1 million in 2011-12 to repay the General Fund for support provided to the Childhood Lead Poisoning Prevention Program in fiscal year 1996-97.

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### OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS

The May Revision includes the following significant policy proposals and workload adjustments:

- AIDS Drug Assistance Program—A net decrease of \$17.3 million (\$17 million General Fund) in 2010-11 and \$20.2 million (\$21 million General Fund) in 2011-12. Major program changes include modifications to the eligibility requirements of the Comprehensive AIDS Resources Emergency/Health Insurance Premium Payment Program (CARE/HIPP), enrollment of clients in the Pre-Existing Condition Insurance Plan (PCIP), and additional federal funds available from the Safety Net Care Pool.
- Every Woman Counts Program—A net decrease of \$7.2 million (\$9.4 million General Fund in 2011-12). Major program changes include a reduction in claims paid to providers due to a 10-percent reduction in Medi-Cal rates, and a one-time increase in the amount of available Breast Cancer Control Account funds.
- Partial Restoration of Immunization Funding—An increase of \$7.3 million General Fund in 2011-12. This increase would restore funding for influenza vaccine purchases for local health departments to provide influenza vaccinations for the elderly and other at-risk Californians.
- Health Care Surge Transition—A two-year reappropriation of \$1.8 million General Fund (\$1.3 million in 2011-12 and \$560,000 in 2012-13) for Health Care Surge Capacity funding. This funding would support the storage, maintenance, and transportation costs associated with transitioning DPH's healthcare surge stockpile and the Emergency Medical Services Authority's mobile field hospitals to public and private organizations.
- Licensing and Certification in Los Angeles County—These functions are currently performed through a contract with Los Angeles County, which is set to expire June 30, 2011. The DPH will renew the contract for one year, during which time the

state and Los Angeles County will decide whether to maintain this arrangement in future years or transfer the function to the state.

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## **DEPARTMENT OF DEVELOPMENTAL SERVICES**

The Department of Developmental Services (DDS) serves approximately 243,000 individuals with developmental disabilities in the community and 1,970 individuals in state-operated facilities. Proposed funding for 2011-12 is \$4.6 billion (\$2.6 billion General Fund). Services are provided through the developmental centers and one community facility and the regional center system. Prior to 1969, services for individuals with developmental disabilities were primarily limited to those provided in state-operated institutions. The Lanterman Developmental Disabilities Services Act established a statewide network of regional centers and related services to allow consumers to live independent and productive lives in the community.

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### **RECENTLY ADOPTED SOLUTIONS**

The Legislature approved the following major solution in March, a portion of which has been signed into law by the Governor; the remainder is in pending legislation.

- **Developmental Services System Wide Reductions**—A decrease of \$591 million in 2011-12. Chapter 9, Statutes of 2011 authorized ongoing savings of \$389.3 million through various cost containment measures. Increased federal funds and continued reimbursement funding from the California Children and Families Commission offset the need for additional General Fund cost containment measures.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals necessary to achieve the full savings assumed with the adoption of various cost containment measures by the Legislature in March:

- **Developmental Centers**—An increase of \$3.6 million in 2011-12. The Legislature approved a \$15 million reduction to developmental centers in 2011-12. The DDS has identified savings associated with staff reductions and program consolidations to achieve the \$15 million reduction. However, due to implementation lags, only \$11.4 million will be achieved in 2011-12, with the additional savings of \$3.6 million achievable in 2010-11. The May Revision provides an increase for

2011-12 and maintains the \$15 million reduction to developmental centers over the two-year period.

- Regional Centers—An increase of \$28.5 million in 2011-12. The Legislature approved a \$174 million reduction to purchase of services to be identified by the DDS and proposed with the May Revision. The DDS conducted several workgroups and public hearings to identify proposals that would reduce costs by \$174 million. The proposals achieve ongoing savings of \$174 million; however, due to the time necessary to implement some of the proposals, the savings in 2011-12 is \$145.5 million with the additional savings of \$28.5 million achievable in 2010-11. The May Revision provides an increase for 2011-12 and achieves the \$174 million reduction to regional center services over the two-year period.

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### DEPARTMENT OF MENTAL HEALTH

The Department of Mental Health (DMH) ensures that a continuum of care exists throughout the state for children and adults who are mentally ill by providing oversight of community mental health programs and direct services through state hospitals. The May Revision includes \$4.5 billion (\$1.3 billion General Fund) in 2011-12.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They have either been signed into law by the Governor or are in pending legislation.

- Fund Community Services Programs with the Mental Health Services Fund (MHSF)—A decrease of \$861.2 million in 2011-12. Chapter 5, Statutes of 2011 authorizes the one-time use of the MHSF for the Early and Periodic Screening, Diagnosis and Treatment program, the Mental Health Managed Care program, and mental health services to special education students.
  - The May Revision continues to provide \$98.6 million MHSF to county mental health agencies on a one-time basis for mental health services to special education students; however, ongoing responsibility for these services is proposed for realignment to school districts instead of counties.
  - Shifting the responsibility for providing mental health services, including out-of-home residential services, to school districts would lead to greater

cost containment and ensure that services provided are related to educational outcomes.

- Sex Offender Commitment Program (SOCP)—A decrease of \$3.9 million in 2011-12. The SOCP was reduced to reflect fewer evaluations estimated in 2011-12.

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## OTHER POLICY PROPOSALS

The May Revision includes the following significant policy proposals necessary to address a structural deficit in 2010-11, enhance safety and security at the state hospitals in 2011-12, and provide planning resources for activation of the new California Health Care Facility:

- 2010-11 Funding Shortfall—An increase of \$50 million in 2010-11. A review of the department's budget indicates the state hospital system has a funding shortfall of up to \$50 million in 2010-11. This amount is roughly double the \$24 million in 2009-10 expenditures DMH rolled over into 2010-11. In order to continue necessary treatment and to ensure the safety of staff, patients, and visitors, it is crucial that the state hospitals are not operating in a funding shortfall situation. There are many potential factors that could contribute to the state hospital funding shortfall, but the specific cause remains unclear. Some of the potential factors include:
  - Rollover of the 2009-10 shortfall
  - Increase in overtime to cover required staff-to-patient ratios in response to vacancies and furloughs
  - Increased overtime to cover staff redirected to security activities
  - Increased admissions activity due to patients entering the state hospitals as a result of the *Mille* and *Coleman* court orders
- Safety and Security Improvements—An increase of \$9.5 million and 78 positions in 2011-12. The May Revision provides funding to increase safety and security at Napa State Hospital, Metropolitan State Hospital, and Patton State Hospital.
- Planning for the Activation of the California Health Care Facility (CHCF)—An increase of \$1.4 million and 8 positions in 2011-12 to provide planning assistance and support to the California Department of Corrections and Rehabilitation's planned CHCF. The CHCF is scheduled for activation in 2013.

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## DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They have either been signed into law by the Governor or are in pending legislation.

#### CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CalWORKs)

- Reduce the Time Limit on Aid for Adults—A decrease of \$102.6 million in 2011-12 from reducing the cumulative total of months aided adults can receive a monthly cash benefit from 60 months to 48 months. This reduction will result in approximately 22,500 adults being removed from aid.
- Reduce Monthly Grants by 8 Percent—A decrease of \$314.3 million in 2011-12 from reducing by 8 percent the maximum monthly CalWORKs aid payment levels. This reduction will reduce the maximum monthly grant for a family of three from \$694 to \$638.
- Reduce Monthly Grants for Cases with Unaided Adults—A decrease of \$86.3 million in 2011-12 from reducing the monthly aid payment (after applying the 8-percent reduction described above) by up to 15 percent for cases without an aided adult. These cases include sanctioned, safety net, and other child-only cases, and payments will be reduced based on the number of aided months beyond 60 months. Specifically, the aid payment for these cases will be reduced by 5 percent, 10 percent, and 15 percent commencing with the 61<sup>st</sup>, 73<sup>rd</sup>, and 85<sup>th</sup> cumulative month on aid, respectively.
- Reduce Earned Income Disregard—A decrease of \$83.3 million in 2011-12 from reducing the amount of income that is not counted for purposes of calculating a family's monthly grant. The income disregard will be modified to not count the first \$112 of monthly earned income and 50 percent of each dollar earned beyond \$112.
- Extend the Short-Term Reforms—A decrease of \$412.6 million in 2011-12 from extending, for one year, the reduction in the county single allocation for employment services and Stage 1 child care that has been in place since 2009-10. Enacted legislation implemented a deeper reduction to the county single allocation and

provided additional county flexibility by authorizing an extra exemption for adult recipients from work participation requirements.

- **Suspend Cal-Learn Program**—A decrease of \$43.6 million in 2011-12 from suspending for one year the Cal-Learn program, which provides intensive case management, supportive services, and fiscal incentives and disincentives to encourage teen parents to earn a high school diploma or equivalent degree. This reduction would still maintain the fiscal incentives (cash bonuses and supplements) during this period for pregnant or parenting teenagers who continue to make satisfactory progress per report card period and upon graduation.
- **Other CalWORKs Reductions**—A decrease of \$25 million in 2011-12 from eliminating funding provided to the Department of Public Health for Community Challenge Grants aimed at reducing adolescent and unwed pregnancies (\$20 million) and reducing the amount of funding for counties to provide mental health and substance abuse services (\$5 million).

#### **IN-HOME SUPPORTIVE SERVICES (IHSS)**

- **Eliminate Services for Recipients without Medical Certification**—A net decrease of \$67.4 million in 2011-12 from requiring the provision of IHSS to be contingent upon a written certification from a licensed health care professional that personal care services are necessary to prevent out-of-home care.
- **Implement Community First Choice Option**—A decrease of \$128 million in 2011-12 from the assumption that the state will receive a 6-percent increase in federal matching funds by exercising a federal option for home and community-based attendant services benefiting all IHSS federally eligible recipients.
- **Implement Pilot Project for Medication Dispensing Machines**—A decrease of \$140 million in 2011-12 from implementing a pilot project that would utilize automated medication dispensing machines with associated telephonic reporting services for monitoring and assisting Medi-Cal recipients with taking prescribed medications. This reduction is assumed to prevent unnecessary hospital and nursing home admissions that result from high-risk individuals not taking their medications as prescribed. To the extent the pilot project and/or alternative savings proposals enacted by the Legislature do not achieve a combined net annual General Fund savings of \$140 million, enacted legislation also requires an across-the-board reduction in authorized hours for IHSS recipients beginning October 1, 2012, to make up the shortfall.

- Eliminate State Funding for IHSS Advisory Committees—A decrease of \$1.5 million in 2011-12 from eliminating the mandate for counties to establish IHSS advisory committees, which provide ongoing advice and recommendations regarding IHSS to the county board of supervisors. With this reduction counties would have the option to continue advisory committees receiving \$3,000 General Fund each (with the ability to draw down additional federal funds).
- Caseload Reduction—A decrease of \$29.5 million in 2010-11 and \$53.7 million in 2011-12 from a reduced IHSS caseload projection.

### **SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT (SSI/SSP)**

- Reduce SSI/SSP Grants for Individuals to the Federal Minimum—A net decrease of \$178.4 million in 2011-12 from reducing monthly SSP grants for individuals to the federally required minimum payment standard. With this reduction, the maximum monthly SSI/SSP cash grant for individuals will be reduced by \$15 per month (from \$845 to \$830). SSP grants for couples were previously reduced to the federal minimum in November 2009.

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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Newly proposed solutions are needed to address the remaining budget shortfall. They include:

- Suspend the CWS/Web Project—A decrease of \$3.1 million in 2011-12 from indefinitely suspending the development of the Child Welfare Services/Case Management System Web (CWS/Web) Project. The federal Administration for Children and Families has recently indicated that it intends to revise its requirements for the statewide automated child welfare information system. The CWS/Web Project is in the planning and procurement phase, and is currently scheduled to move to the system design and implementation phase in 2012-13, which will require significant additional resources. This reduction also makes available \$838,000 in federal Temporary Assistance for Needy Families (TANF) Block Grant funds that can be transferred to the California Student Aid Commission to offset a like amount of General Fund costs for Cal Grants.
- Suspend the LEADER Replacement Project—A decrease of \$26.2 million in 2011-12 from indefinitely suspending the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting Replacement (LEADER Replacement) system. This project, which is in the planning and procurement phase, will replace



Los Angeles County's existing automated system for eligibility and benefit determination for CalWORKs, CalFresh, Medi-Cal and various social services programs. This reduction also makes available \$13.8 million in TANF Block Grant funds that can be transferred to the California Student Aid Commission to offset a like amount of General Fund costs for Cal Grants.

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## OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS

The May Revision includes the following significant policy proposals and workload adjustments:

- **CalWORKs Caseload Increase**—An increase of more than \$14 million in 2010-11 and approximately \$80 million in 2011-12 due to an increase in the caseload projection and cost per case. CalWORKs caseload is projected to be 586,900 average monthly cases in 2010-11, an increase of 0.8 percent from the budget forecast reflective of actions previously taken by the Legislature. For 2011-12, the average monthly caseload is projected to be 593,800 cases, an increase of 3.1 percent from the budget forecast reflective of actions previously taken by the Legislature.
- **IHSS Caseload Decline**—A decrease of \$6.9 million in 2010-11 and \$7 million in 2011-12 from a decrease in projected caseload, partially offset by an increase in cost per case. IHSS caseload is projected to be 430,500 cases in 2010-11, a decrease of 0.8 percent from the budget forecast when the Legislature took action on the Budget in March. For 2011-12, the average monthly caseload is projected to be 438,000 cases in 2011-12, a decrease of 1.0 percent compared to the March budget forecast.
- **Foster Care Rate Increase**—An increase of \$10.7 million in 2011-12 to increase payment rates for foster family homes as well as prospective Adoption Assistance Payment, Kinship Guardianship Assistance Payment, and Non-Related Legal Guardian payment rates pursuant to the *Foster Parent Association, et al vs. John A. Wagner, et al* court case. This increase is partially offset by savings of \$1.6 million as a result of the elimination of the supplemental clothing allowance for foster family homes.
- **Funding for residential Care for Seriously Emotionally Disturbed Pupils**—A decrease of \$68 million in 2011-12 to reflect a shift in responsibility of funding for Seriously Emotionally Disturbed placements from the DSS to schools and a decrease in county

## HEALTH AND HUMAN SERVICES

administrative costs for this program. Of the total amount, \$66.6 million will now be included in Proposition 98 General Fund for this program.

## K THRU 12 EDUCATION

The May Revision includes total funding of \$66 billion (\$38.7 billion General Fund and \$27.3 billion other funds) for all K-12 Education programs.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### PROPOSITION 98

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline. The sections that follow provide an overview of K-12 funding adjustments, while the Higher Education section contains the Proposition 98 adjustments for the Community Colleges.

For 2011-12, the Proposition 98 Guarantee is \$52.4 billion, of which \$38.3 billion is General Fund. Increased property tax and General Fund revenue estimates result in a Guarantee that is \$3 billion higher than the \$49.4 billion level approved by the Legislature in March. This is also the highest the Guarantee has been since 2007-08, and will begin to restore the disproportionate budget reductions K-12 schools and community colleges have borne since that time.

The increase over the March Budget Conference Committee level reflects an increase in General Fund revenues projected for 2011-12, revenue policy changes included in the May Revision and the effect of rebenching Proposition 98 for revenue and program shifts.

Chapter 11, Statutes of 2010, Eighth Extraordinary Session, eliminated the sales tax and increased the excise tax on motor vehicle fuel in 2010-11, reducing the amount of revenue that is counted as General Fund within the State Appropriation Limit (SAL) for the purposes of the Proposition 98 calculation. The tax swap statute also included “hold harmless” language to ensure that level of Proposition 98 funding was not impacted by this change.

The Administration proposes to shift responsibility for mental health services, including out-of-home residential services, from local mental health and county welfare agencies to school districts. This shift requires Proposition 98 funding for a program that was not previously accounted for under the Proposition 98 Guarantee.

According to the Proposition 98 constitutional formula, K-14 education is guaranteed the same percentage of SAL General Fund revenue that was provided in the base year of 1986-87. When a factor in the calculation changes or a new program is added, Proposition 98 is adjusted or “rebenched” to continue to accurately reflect the base year distribution of state revenues to K-14 education. In 2011-12, there are two rebenching impacts: an increase of \$629.6 million to ensure that the Guarantee does not decrease with the shift in motor vehicle fuel revenues and an increase of \$221.8 million to reflect the inclusion of mental health and out-of-home care as noted above.

For 2010-11, the Proposition 98 Guarantee is suspended at \$49.7 billion.

The Administration proposes to fund slightly above the suspended level at \$49.8 billion, to fully fund natural workload changes from the Budget Act of 2010 level, primarily related to changes in revenue limit funding, which are general purpose revenues provided to schools. The General Fund share of the Proposition 98 Guarantee for 2010-11 is \$35.7 billion.

For 2009-10, the Proposition 98 Guarantee is \$51.5 billion; however, the funded level is \$49.9 billion with a General Fund share of \$35.3 million. The difference is a settle-up obligation owed to schools in future years. A settle-up payment of \$300 million was provided in the Budget Act of 2010.

## TESTING, DATA COLLECTION, AND ACCOUNTABILITY

California's schools are currently subject to a myriad of complex testing, data collection, and accountability requirements. Federal law requires states to test students' achievement of the state's academic content standards in each of grades 3 through 8 and once in the range of grades 10 through 12 in English language arts (ELA) and math. States must also test students once in the range of grades 3 through 5, grades 6 through 9, and grades 10 through 12 in science. The state exceeds these minimum federal requirements and assesses students in grades 2 through 11 in ELA, math, science, history and social sciences. In addition to these core achievement tests, the state requires all high school students to take a high school exit exam (the CAHSEE) and achieve a passing score to receive a public high school diploma.

California's testing feeds into two accountability systems: the state Academic Performance Index (API) and the federal Adequate Yearly Progress (AYP). The state system is a composite of student academic achievement at various performance levels for all of the subjects tested, which is aggregated into a growth measurement known as the API. The federal system, which was developed after the state system, measures a school's progress towards a single standard that all students be proficient in ELA and math by 2013-14. Under the federal system, schools that receive federal funds and fail to meet AYP targets for three consecutive years are identified for federal Program Improvement and must provide required services and interventions, such as offering parents free tutoring and the choice to transfer to another school. Additionally, schools that fail to meet AYP targets for five consecutive years are indentified for Corrective Action and must implement other federally-required actions such as implementing new curriculum or extending the school year or day. Lastly, schools and districts that miss AYP targets for seven years must restructure their organization.

Schools are required to report testing and accountability data to the state and federal governments. The California Longitudinal Pupil Achievement Data System (CALPADS) was going to be completed next year to collect this data which includes, among other things:

- Student-level enrollment, demographic and program participation data.
- Student-level data on exit, transfer in, transfer out, and drop out.
- Yearly assessment records for individual students.
- A teacher identifier system with the ability to match teachers to students.

- Student-level transcript information.
- Information on student transition to postsecondary institutions

A number of problems have been identified with California's state testing, data collection and accountability regime. Testing takes huge amounts of time from classroom instruction. Data collection requirements are cumbersome and do not provide timely—and therefore usable—information back to schools. Teachers are forced to curb their own creativity and engagement with students as they focus on teaching to the test. State and federal administrators continue to centralize teaching authority far from the classroom.

The Administration proposes to deal with these issues by carefully reforming testing and accountability requirements to achieve genuine accountability and maximum local autonomy. It will engage teachers, scholars, school administrators and parents to develop proposals to: (1) reduce the amount of time devoted to state testing in schools; (2) eliminate data collections that do not provide useful information to school administrators, teachers and parents; and (3) restore power to school administrators, teachers and parents. The goal is to improve the learning environment in every classroom, thereby encouraging the demanding pursuit of excellence. The May Revision proposes to suspend funding for CALPADS in 2011-12 pending this continued review of data collection requirements.

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### **PROPOSITION 98 K-12**

#### **RECENTLY ADOPTED SOLUTIONS**

The Legislature approved the following major solutions in March. They were either signed into law by the Governor or are in pending legislation.

- **Defer \$2.1 billion in K-12**—This additional deferral, enacted in law, was necessary to maintain funding for K-12 education programs at the 2010-11 funding level in the face of declining revenues. The May Revision proposes to eliminate this deferral and begin repaying the \$8.2 billion in debts to schools.

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## OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS

The May Revision includes the following significant Proposition 98 General Fund policy proposals and workload adjustments necessary to support the operations of K-12 programs:

- **K-12 Revenue Limit Apportionment Adjustment**—An increase of almost \$2.5 billion to restore revenue limit apportionment funding that had been deferred in the March Budget legislation. This augmentation completely eliminates the most recent enacted deferral of \$2.1 billion, and would provide an additional \$434 million to reduce other existing deferrals.
- **Shift In Mental Health Services from Counties to Schools**—The May Revision proposes to rebench the Proposition 98 guarantee and provide an increase of \$221.8 million Proposition 98 General Fund to shift the responsibility for providing mental health services, including out-of-home residential services, required under federal law from county mental health agencies and county welfare agencies to school districts. The May Revision also reflects the permanent repeal of the AB 3632 mandate and removes mental health services from the realignment proposal for counties.

The May Revision continues to provide \$98.6 million in Proposition 63 funds to county mental health agencies on a one-time basis in 2011-12. However, as noted above, the program will not be realigned to county mental health agencies. Schools districts can contract with counties to provide services using Proposition 63 funds but schools would be responsible for any costs exceeding this amount. In total, the May Revision proposes \$389.4 million from all fund sources, including \$69 million in federal funds currently budgeted, for mental health services.

The existing approach to delivering mental health services which reimburses county mental health agencies for claims has lacked accountability for program funding and service delivery. Shifting the responsibility for providing mental health services back to school districts would lead to greater cost containment and also create a stronger connection between the services provided and student educational outcomes.

- **Child Care and Development**—A decrease of \$97.2 million to child care and development programs, reflecting the following: (1) a net decrease of \$123.5 million due to revised estimates of caseload costs for CalWORKs Stage 2 and Stage 3 child care, primarily due to the implementation of the Stage 3 reduction included in the 2010 Budget Act; (2) a decrease of \$6.9 million to reflect a revised estimate of

growth; (3) an increase of \$40.6 million to adjust the savings generated by child care reductions adopted by the Legislature in March based on new caseload estimates; and (4) an increase of \$7.4 million in federal funds which will offset a like amount of General Fund.

While funding for Stage 3 was restored in the current year, the estimated costs reflect a significant decline in caseload. The Administration is proposing to retain \$56 million in the current-year appropriation for Stage 3, after accounting for increased current-year costs in Stage 2, and to set aside \$33.6 million in one-time funds to be appropriated for Stage 3 pending receipt of updated caseload data from the Department of Education.

- **Eliminate Selected K-14 Mandates**—A reduction of \$38.2 million to reflect the adoption of specific recommendations of the K-14 workgroup on mandate reform created by Chapter 724, Statutes of 2010. The Administration intends to pursue additional long-term reform options in collaboration with the Legislative Analyst's Office to streamline future funding of K-14 mandates through a block grant approach.
- **Charter Schools**—An increase of \$19.5 million for Charter School Categorical Block Grant and Economic Impact Aid caseload growth.
- **New Charter Schools**—An increase of \$8 million to provide charter schools that commenced operations between 2008-09 and 2011-12 with supplemental categorical funding, in lieu of categorical funding they are no longer able to apply for under current categorical flexibility provisions. This funding ensures new charter schools have access to the same funding as existing charter schools and traditional public schools. New conversion charter schools would be excluded from this funding and would instead receive a pass through payment from the school district.
- **Clean Technology and Renewable Energy Training**—An increase of \$3.2 million to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program, which creates school-business partnerships that provide occupational training for at-risk high school students in areas such as conservation, renewable energy, and pollution reduction.
- **County Offices of Education**—An increase of \$14.6 in 2010-11 and \$13.9 million in 2011-12 for updates to unemployment insurance, PERS, average daily attendance growth, and deficit factor adjustments.
- **Special Education**—An increase of \$399,000 for Special Education caseload growth.



- Local Property Tax Adjustments—Decreases of \$551.8 million in 2010-11 related to school district and county office of education property tax revenues and \$690.3 million in school district and county office of education revenue limit and special education apportionments in 2011-12. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments.

## **NON – PROPOSITION 98 K-12**

### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

- Eliminate Funding for CALPADS—A reduction of \$2.9 million federal Title VI funds and 5.3 positions to Department of Education state operations to reflect the suspension of funding for all CALPADS development and implementation activities pending continued review of the system. In lieu of continuing CALPADS, any federally required data can be collected and reported through the California Basic Educational Data System, and any other systems utilized by the Department of Education outside of the CALPADS system.
- Eliminate Funding for CALTIDES—A reduction of \$560,000 Federal Trust Fund and 3 positions to the Department of Education state operations to reflect the State Department of Education’s termination of CALTIDES as previously proposed and to conform to the suspension of CALPADS. CALTIDES was intended to provide a statewide longitudinal teacher database that would serve as the central state repository of information regarding the teacher workforce.
- Eliminate Funding for CALTIDES—A reduction of \$84,000 Test Development and Administration Account, Teacher Credentials Fund and 1 position to the Commission on Teacher Credentialing state operations to reflect the State Department of Education’s termination of CALTIDES as previously proposed and to conform to the suspension of CALPADS.
- Child Nutrition Program Administration—An increase of \$2.5 million Federal Trust Fund for child nutrition programs, including \$500,000 on an ongoing basis for workload associated with an increase in the frequency of required compliance reviews of federal child nutrition programs and \$2 million on a one-time basis for projects that will support the efficiency and quality of child nutrition program administration.

- Child Nutrition Summer Food Service Program—An increase of \$2 million Federal Trust Fund due to an anticipated increase in meals served through the Summer Food Service Program.
- Title I, Part A Basic Program—An increase of \$21.3 million federal Title I Set Aside carryover funds for allocation to all Title I local educational agencies (LEAs) using the state’s usual Title I, Part A Basic program distribution methodology. Distributing the one-time carryover to all Title I LEAs (representing approximately 6,000 Title I schools in the state) is consistent with federal law and guidance and would provide additional resources to schools and LEAs at a time of limited General Fund resources.

## HIGHER EDUCATION

**H**igher Education includes the University of California (UC), the California State University (CSU), the Community Colleges (CCC), the California Student Aid Commission (CSAC) and several other entities.

The May Revision includes total funding of \$22.7 billion (\$12.7 billion General Fund and \$10 billion other funds) for all programs included in these agencies.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### HIGHER EDUCATION SEGMENTS AND PROGRAMS

Drawing from the top 12.5 percent of the state's high school graduates, UC educates approximately 228,000 undergraduate and graduate students at its ten campuses and is the primary segment authorized to independently award doctoral degrees and professional degrees in law, medicine, dentistry, and veterinary medicine. Drawing students from the top one-third of the state's high school graduates, CSU educates about 430,000 undergraduate and graduate students at 23 campuses and independently awards doctoral degrees in education or jointly with UC or private institutions in other fields of study. Affiliated with the UC, the Hastings College of the Law (HCL) is the oldest and one of the largest public law schools in the West, providing instruction to approximately 1,300 students annually. The CCCs serve more than 2.7 million students

at 112 colleges by providing basic skills education, workforce training, and transfer courses that allow students to transfer to four-year institutions. The CSAC administers state financial aid to students attending all segments of public and private postsecondary education through a variety of programs including the Cal Grant program, loan assumption programs, and others. Over 218,000 students received Cal Grant awards in 2009-10.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They were either signed into law by the Governor or are in pending legislation.

- Targeted Reductions—A decrease of \$500 million each to UC and CSU, and a decrease of \$1.5 million to the HCL. The UC and CSU will be required to report on their recommended options for implementing these reductions in a way that minimizes tuition and enrollment impacts, based on input received from the stakeholders (including representatives of students and employees), prior to adoption of a final plan by the UC Board of Regents and the CSU Board of Trustees.
- Community College Apportionment Reduction—A decrease of \$400 million General Fund in apportionment funding as a result of implementing a base reduction. However, this base reduction is offset by \$110 million in additional student fee revenue as a result of increasing student fees from \$26 per unit to \$36 per unit. Therefore, the net apportionment reduction is \$290 million.
- Offset Cal Grants with Federal Temporary Assistance to Needy Families (TANF) Reimbursements—A decrease of \$171.9 million General Fund in 2011-12 to reflect TANF funds available through an interagency agreement with the Department of Social Services pursuant to CalWORKs adjustments and reductions. At the March Budget Conference Committee, the TANF offset of General Fund was \$285.3 million. (These adjustments are discussed in the Health and Human Services section.)
- Require Income and Need Verification for Cal Grant Program Renewal Awards—A decrease of \$100 million in 2011-12. This solution requires the CSAC to verify each year that Cal Grant renewal recipients not exceed income and asset ceiling levels as a requirement to remain program eligible.
- Establish a Student Loan Default Risk Index for Cal Grant Program Participation—A decrease of \$5.7 million in 2011-12. Any institution of higher education whose three-year student loan default rate exceeds certain levels is prohibited from

participating in the Cal Grant program for one academic year. In March, this solution was estimated to be \$19 million for 2011-12. However, this solution was based on inaccurate federal data. The updated savings estimate is \$5.7 million.

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## **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals and workload adjustments:

- CCC Apportionment Adjustment—An increase of \$350 million Proposition 98 General Fund to restore CCC apportionment funding that had been deferred by Chapter 7, Statutes of 2011. This augmentation reduces the amount of apportionment funding deferred from \$961 million to \$611 million.
- CCC Property Tax Adjustments—An increase of \$57.8 million in 2010-11 and \$75.1 million in 2011-12 due to an increase in estimated local property tax and other local revenues.
- Eliminate Duplicative Audits to Achieve Efficiencies—The May Revision proposes trailer bill language to eliminate duplicative audits required biennially at each of the 23 campuses of the CSU, which the university estimates will save \$1.6 million annually.



## LABOR AND WORKFORCE DEVELOPMENT

The Labor and Workforce Development Agency was established to address issues relating to California workers and their employers. A leading Agency goal is to better serve workers and employers by coordinating services and programs in an efficient, effective manner that is relevant to current and future economic conditions. The Agency is primarily responsible for three functions: labor law enforcement; workforce development; and benefit payment and adjudication. The Agency plays a central role in the Economic and Employment Enforcement Coalition, the purpose of which is to help legitimate businesses and California workers combat the underground economy, through a combination of enforcement and education activities.

Departments within the Agency include the Employment Development Department (EDD), the Department of Industrial Relations, the California Workforce Investment Board, and the Agricultural Labor Relations Board. With the exception of the Employment Development Department, none of these entities had significant adjustments included in the Governor's Budget.

The May Revision includes total funding of \$26.4 billion (\$370.7 million General Fund and \$26 billion other funds) for all programs included in this Agency.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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## **EMPLOYMENT DEVELOPMENT DEPARTMENT**

The EDD administers the Unemployment Insurance (UI), Disability Insurance (DI) and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax. The EDD connects job seekers with employers through a variety of job services programs and at one-stop service centers, and provides employment training programs through the Employment Training Panel and the Workforce Investment Act of 1998. The Budget includes \$26 billion (\$361 million General Fund) and 10,208 positions to support the EDD programs.

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### **RECENTLY ADOPTED SOLUTIONS**

The Legislature approved the following major solution in March.

- Offset Unemployment Interest Payment—A savings of \$362.3 million in 2011-12. The Budget authorized a loan from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI interest expense. The May Revision assumes this interest payment will be reduced by \$42.8 million.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant proposals necessary to support the delivery of UI benefits.

- Unemployment Insurance Benefits—An increase of \$620.2 million Unemployment Fund in 2010-11 in UI benefit payments, primarily due to recently enacted federal incentives. With this adjustment total benefit payments in 2010-11 will be \$22.2 billion. No changes are proposed for 2011-12.
- Alternative Base Period Program Support—An increase of \$48 million Unemployment Fund in 2010-11. Trailer bill language to amend the 2010 Budget Act is required to appropriate \$48 million from the American Recovery and Reinvestment Act incentive funds tied to implementation of an Alternative Base Period (ABP) methodology for calculating UI benefits. These funds will be used to support program operations through fiscal year 2014-15.
- Unemployment Compensation Modernization Project—An increase of \$15.6 million Unemployment Fund in 2011-12 to provide continued support for the Single Client Database Conversion and the ABP Project.



## CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) is responsible for the incarceration of convicted felons, the supervision of these felons after their release on parole, and the provision of rehabilitative strategies designed to successfully reintegrate offenders into their communities. The CDCR is responsible for providing safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic instruction, and vocational training.

The May Revision includes total funding of \$9.5 billion (\$9.4 billion General Fund and \$134.2 million other funds) for all programs included in this Agency.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They are either signed into law by the Governor or in pending legislation.

- Program Reductions—A one-time decrease of \$150 million General Fund for CDCR adult inmate and parolee programs which will be focused on terminating contracts and delaying new services.

- Unallocated Reduction to Receiver's Medical Services Program—A decrease of \$82.6 million in 2010-11 and \$163.2 million in 2011-12, which represents five-percent and ten-percent reductions, respectively. The Medical Services Program continues to be costly at approximately \$11,000 per inmate annually, and it is necessary to reduce this high cost of delivering medical care to inmates through the implementation of cost-saving measures.

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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- Capital Outlay Reductions—A decrease of \$6.5 million General Fund for capital outlay. This includes \$6.1 million for design of a heating, ventilation, and air conditioning project at Ironwood State Prison and \$436,000 for a minor project to install blast chillers at Wasco State Prison. These projects are being deferred.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy and workload proposals:

- Workforce Cap Savings Control Section—An increase to CDCR's budget of \$291.7 million General Fund and \$670,000 Other Funds in 2011-12 and ongoing to reflect the shifting of workforce cap savings from the Department's budget to Control Section 3.93. This will facilitate the separation and accurate accounting of workforce cap and realignment savings. In addition, the amount of the required workforce cap General Fund savings is being recalculated to \$194.5 million General Fund, to reflect the reduced size of the CDCR budget after realignment is fully implemented.
- Pooled Money Investment Board Loan Repayment—The May Revision includes a one-time increase of \$19.2 million General Fund in 2011-12 to repay a loan provided to the CDCR from the Pooled Money Investment Board, which funded the design of the San Quentin Condemned Inmate Complex project. The Administration has decided not to move forward with the San Quentin Condemned Inmate Complex project and as such, the CDCR must repay loans associated with the design of that project.

- **Population Adjustment**—The May Revision includes a decrease of \$6.5 million General Fund in 2010-11 for various costs directly related to changes in the budgeted populations of adult inmates, juvenile wards, and adult and juvenile parolees. In 2011-12 there is an increase of \$342,000 General Fund for the same purpose. This reflects a decrease of 165 inmates in the current year, compared to previous projections, and no change in the budget year, for a total of 163,634 in 2010-11 and 163,152 in 2011-12. The projection also reflects increases in the estimated parolee population of 478 in 2010-11 and 352 in 2011-12, increasing to a total of 114,168 in the current year and 107,354 in the budget year. For juveniles, the population funding request projects a decrease of 34 wards and no change in parolees in the current year and a decrease of 104 wards and 342 parolees in the budget year, resulting in totals of 1,270 wards and 1,520 parolees in the current year and 1,165 wards and 1,178 parolees in the budget year.
- **Board of Parole Hearings Revocation Workload Reductions**—The May Revision includes a decrease of \$36.2 million General Fund in 2011-12 related to revocation workload reductions that will occur as a result of moving revocation hearings to the Judicial Branch. This is consistent with the passage of AB 109, in which the Board will no longer be responsible for making final revocation decisions for offenders who violate the terms of their parole.
- **Community Corrections Performance Incentive Grants**—The May Revision includes an increase of \$30 million General Fund for the California Community Corrections Performance Incentive Act. The Act established a system of performance-based funding that shares state General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison because of committing new crimes or violating the terms of probation. As of the May Revision, approximately 6,200 felony probationers were successfully kept out of state prison as a result of this program.
- **Deficiency Funding**—The Administration is requesting deficiency funding of \$414.9 million in 2010-11 as a result of various structural and operational shortfalls. With improved internal controls and transparency in the Department's fiscal operations, along with \$379.6 million proposed in the Governor's Budget for 2011-12 to address CDCR's structural shortfalls, the Administration anticipates that CDCR will manage its budget so as to avoid future deficiency requests.

The May Revision also includes changes to the 2011 Realignment proposal that affect CDCR. For more information, see the Realignment chapter.



## **GENERAL GOVERNMENT: NON-AGENCY DEPARTMENTS**

**T**he May Revision includes total funding of \$4.5 billion (\$498.9 million General Fund and \$4 billion other funds) for all programs included in this chapter.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### **CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE**

The California Department of Food and Agriculture (CDFA) protects and promotes California's agriculture industry and ensures that only safe and quality food reaches the consumer. Following the recently adopted solutions below, approximately \$84.1 million General Fund remains in the CDFA's 2011-12 budget for a number of programs, such as agricultural plant and animal health, pest prevention, and food safety services.

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#### **RECENTLY ADOPTED SOLUTIONS**

The Legislature approved the following major solutions in March. They are either signed into law by the Governor or are in pending legislation.

- Eliminate General Fund Support for the Network of California Fairs—A permanent decrease of \$32 million beginning in 2011-12 as a result of removing state funding for support of the fairs.

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### **PUBLIC UTILITIES COMMISSION**

The California Public Utilities Commission (PUC) regulates critical and essential services such as privately owned telecommunications, electric, natural gas, and water companies. The PUC oversees the safety of gas transmission and distribution systems in California.

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### **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals

California Renewable Resources Act (SBX1 2)—An increase of \$2.1 million Public Utilities Reimbursement Account and 10 positions in 2011-12 to implement a 33 percent Renewable Portfolio Standard (RPS) by 2020. The enabling legislation requires the PUC to determine annual procurement targets and enforce compliance, review and approve investor-owned utility (IOU) renewable energy procurement plans, review IOU contracts for RPS eligible energy, establish standard terms and conditions for IOU contracts for eligible renewable energy, and calculate market price referrals for non-renewable energy as benchmarks for renewable energy pricing.

Public Safety Risk Assessment and Analysis Unit—An increase of \$1.1 million Public Utilities Reimbursement Account and the redirection of 4 vacant positions to develop and implement a risk analysis-based public safety program to review and identify public safety risks associated with the provision of gas and electricity. Pending reports by the National Transportation Safety Board and a panel convened by the PUC, following the San Bruno gas pipeline accident, are scheduled for release later this year. These reports may identify the need for additional efforts and resources to ensure safe utility operation. The resources proposed in the May Revision are intended to begin the development of a comprehensive safety program reform, and this limited approach is mindful of the restrictive fiscal environment facing the state while taking action on the most critical safety priorities.

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## COMMISSION ON STATE MANDATES

The Commission on State Mandates is a quasi-judicial agency that hears test claims to determine whether local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Constitution requires the Legislature to either fund or suspend specified mandates in the annual Budget Act.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solutions in March. They are in pending legislation.

- Suspension of State Mandates—A decrease of \$228.3 million in 2011-12 as a result of suspending most mandates not related to law enforcement or property taxes.
- Deferral of Pre-2004 Mandate Obligations—A decrease of \$94 million in 2011-12 as a result of deferring the 2011-12 payment for costs incurred prior to 2004-05.

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### OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS

The May Revision includes the following significant policy proposal necessary to fund law enforcement mandates:

- Law Enforcement Mandates—These mandates will now be funded with General Fund rather than being included in the realignment proposal. These mandates include those related to peace officer protections, domestic violence arrest policies, victim assistance and treatment services, child abduction and recovery services, and civil commitment procedures for sexually violent predators.

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## MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs.

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### **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- Reduce Military Retirement Program—A decrease of \$1.5 million in 2011-12 and ongoing to reflect reduced costs associated with military retirements.

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### **VETERANS AFFAIRS**

California owns and operates six veterans homes located in Yountville, Chula Vista, Barstow, Lancaster, Ventura, and West Los Angeles. Two additional homes in Redding and Fresno are under construction. These homes provide residential and medical care services to honorably discharged California veterans who served on active duty and are over the age of 62 or disabled. County Veterans Services Offices, in coordination with the California Department of Veterans Affairs, assist veterans in receiving the federal benefits for which they are eligible.

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### **RECENTLY ADOPTED SOLUTIONS**

The Legislature approved the following major solutions in March which are in pending legislation.

- Enterprise-Wide Veterans Home Information System and Federal Sharing Agreements Savings—A decrease of \$5.6 million to reflect savings achieved through efficiencies of the Enterprise-Wide Veterans Homes Information System and savings resulting from the cancellation of federal sharing agreements at the West Los Angeles Veterans Home.
- Delay Opening of Redding and Fresno Veterans Homes—A decrease of \$8.1 million to reflect savings achieved by delaying the opening of the Redding and Fresno Veterans Homes by three months and staggering the implementation of Residential Care Facility for the Elderly and Skilled Nursing Facility services.
- Reduce State Support for County Veterans Services Offices—A decrease of \$7.3 million to reduce state operations for veterans' services and local assistance to County Veterans Services Offices.



## TAX RELIEF AND LOCAL GOVERNMENT

This part of the budget contains state and federal funds used for tax relief and provided to local governments. The largest programs are the homeowners' property tax exemption (\$442 million General Fund), the apportionment of fuel taxes to local governments (\$1.7 billion special fund), and the apportionment of Vehicle License Fees to local governments (\$173 million special fund). The state also shares the property tax with local agencies and redevelopment agencies by applying the school share toward the Proposition 98 funding guarantee for schools and community colleges. Redevelopment agency allocations of property taxes shift \$2.1 billion away from K-14 schools, increasing state costs by the same amount. These costs are reflected in the K-14 education budgets.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### RECENTLY ADOPTED SOLUTIONS

The Legislature approved the following major solution in March that was signed into law by the Governor:

- Eliminate Funding for Williamson Act Subventions—A decrease of \$10 million in 2010-11, and in each subsequent year. The funding partially backfilled revenues lost by local governments when they enter into voluntary contracts with landowners to

assess property at a lower rate in exchange for the landowners' agreement to use the land only for agricultural or open space purposes.

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## **SOLUTIONS TO ADDRESS REMAINING SHORTFALL**

The following previously proposed solution is needed to address the remaining budget shortfall:

- **Redevelopment Agency Elimination**—An increase of \$1.7 billion in 2011-12 associated with eliminating redevelopment agencies (RDAs) and using a portion of the property tax increment that remains after RDA debt service payments to reimburse the state for providing Medi-Cal and trial court services. This is proposed as a one-time General Fund benefit. In subsequent years all property tax increment remaining after RDA debt service payments and other approved expenses will flow to cities, counties, special districts, and K-14 schools.

## STATEWIDE EXPENDITURES

The Statewide Expenditures Section includes issues that affect multiple departments in various major program areas.

In addition to the changes discussed in this chapter, the May Revision includes proposals to reduce state operations and achieve statewide efficiencies. Please see the Reducing State Government chapter for the details of the Governor's proposal.

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### SOLUTIONS TO ADDRESS REMAINING SHORTFALL

Previously proposed or newly proposed solutions are needed to address the remaining budget shortfall. They include:

- Elimination of Unallocated Capital Outlay Budget Package Funds—A reduction of \$500,000 in 2011-12 from capital outlay planning and study funds. The reduction is a result of fewer capital outlay projects being funded because of limited General Fund resources and debt concerns. Consequently, fewer budget packages and infrastructure project studies are being requested.

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## **OTHER POLICY PROPOSALS AND MAJOR WORKLOAD ADJUSTMENTS**

The May Revision includes the following significant policy proposals and workload adjustments:

2011-12 State Appropriations Limit Calculation—Pursuant to Article XIIIB of the California Constitution, the 2011-12 State Appropriations Limit (SAL) is estimated to be \$81.468 billion. The revised limit is the result of applying the growth factor of 3.07 percent. The revised 2011-12 limit is \$314 million below the \$81.782 billion estimated in January. This decrease is due to changes in the following factors and shifts in financial responsibility

- Per Capita Personal Income
  - January Percentage Growth: 2.66%
  - May Revision Percentage Growth: 2.51%
- State Civilian Population
  - January Percentage Growth: 0.88%
  - May Revision Percentage Growth: 0.77%
- K-14 Average Daily Attendance
  - January Percentage Growth: 0.18%
  - May Revision Percentage Growth: 0.19%

For SAL purposes, per capita personal income is defined as calendar fourth quarter California personal income, as estimated by the US Bureau of Economic Analysis (BEA), divided by California civilian population, estimated by the California Department of Finance. Since BEA does not release its personal income estimate until April, the Department of Finance uses its own estimate for the Governor's Budget in January. The May Revision reflects the BEA's estimate of California personal income.

The SAL for 2010-11 does not change since it was statutorily established by Control Section 12.00 of the 2010 Budget Act.

- Budget Year Debt Service—General Fund debt service expenditures will decrease by \$130.9 million, to a total of \$5.481 billion. This is comprised of a decrease of \$127 million for General Obligation debt service (\$4.8 billion total) and a decrease of \$3.9 million for lease revenue bonds (\$617.5 million total). The modest decrease in General Obligation debt service reflects a workload reduction as a result of a lower projected need for a fall 2011 bond sale and associated interest savings. The decrease in the size of the fall bond sale will be accomplished by using existing bond cash more efficiently. The balance of unspent bond proceeds available from previous bond sales is currently in excess of \$11 billion. In an effort to ensure additional bonds are issued only when necessary, the Department of Finance will work with departments and agencies, in concert with the State Treasurer's Office, over the next several months to more closely evaluate existing cash balances and reported future bond cash needs. It is estimated that only a limited amount of new bonds will need to be issued in the fall for new and existing projects. General Fund offsets from the Transportation Debt Service Fund remain unchanged (\$777.5 million).
- Current Year Debt Service—General Fund debt service for General Obligation bonds will decrease by \$140.5 million, for a total of \$4.750 billion, to reflect lower than previously estimated interest costs and fees on variable rate bonds and commercial paper (\$50.2 million) and increased General Fund offsets from the Transportation Debt Service Fund (\$90.3 million).



## REALIGNMENT

The May Revision reflects the Governor's continued strong support of his public safety realignment proposal.

Based on ongoing discussions with local government officials, members of the Judiciary and other interested parties, the Governor has refined his proposal, as amended on February 25. These changes are reflected in the May Revision and do not alter the fundamental structure or policy goals of realigning certain state programs to the local level.

In addition to normal May Revision caseload changes, the following program changes are proposed for realignment.

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### **FIRE PROTECTION SERVICES**

Realignment proposed \$52 million for fire protection services. This is the amount the state reimburses six entities at the local level for fire and emergency services. Because only three of the six entities are counties, the Administration has concluded this program should not be included in the final realignment package.

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## **STATE PENALTY FUNDS SUBVENED TO LOCALS AND CURRENTLY FUNDED PUBLIC SAFETY MANDATES**

These two program areas were included in the February revision at a cost of \$40.5 million for state penalty fund subventions, including \$21 million for peace officer training funds administered by the Commission on Peace Officer Standards and Training and \$19.5 million for corrections training funds administered by the Corrections Standards Authority, and \$50.9 million for mandate reimbursement. These programs employ reimbursement methodologies with numerous cities and counties receiving varying amounts each year for submitted claims. Unless new methodologies were devised, realignment would unnecessarily complicate the reimbursement process; thus, these programs have been removed from the proposal.

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## **COURT SECURITY**

The \$485 million estimate used in the February document was for 2010-11. This estimate has been refined by the Administrative Office of the Courts to be \$484.6 million.

An additional \$2.5 million has been added to address court security costs associated with parole revocation hearing workload. An inflation factor of 2.2 percent (\$10.7 million) has been applied to more accurately reflect a 2011-12 cost figure. The final court security estimate for 2011-12 is now \$497.8 million.

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## **LOCAL PUBLIC SAFETY GRANTS**

The \$506.4 million estimate in the February document included approximately \$2 million in grant funding that goes to entities other than local public safety agencies, including the state Department of Justice and the UC Board of Regents.

The May Revision moves this funding to the state operations and local assistance budgets of the California Emergency Management Agency and the Department of Justice, resulting in a new Local Public Safety Grant total of \$504.4 million.



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## **LOCAL JURISDICTION OF LOWER-LEVEL OFFENDERS AND PAROLE VIOLATORS**

The May Revision reflects two funding changes in this area. First, resources have been added for county costs associated with increased workload for District Attorneys and Public Defenders dealing with parole revocation hearings.

Second, the original model for calculating local costs did not include program dollars for offenders serving time in jail. Program dollars were previously only included for those offenders assumed to be in the community or serving a revocation term. Funding program costs for all offenders will ensure a continuum of services beginning while offenders are in jail and extending to services provided in the community. This service model makes the most sense and should lead to even better outcomes, including reduced recidivism.

These two changes add \$44.6 million to the amount being allocated to counties.

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## **AB 3632 – RESIDENTIAL AND MENTAL HEALTH SERVICES**

In January, the Governor included both residential and mental health services for special education pupils (generally referred to as AB 3632) as part of realignment. In 2011-12, \$98.6 million of mental health services are funded. In 2012-13, \$150 million was proposed from Realignment 2011 funds for these services. Residential services were funded beginning in 2011-12 based on the regular state/county shares of cost.

There has been confusion in the current year about who is responsible for funding mental health and residential services provided to special education pupils. This was caused by the lack of funding for the state's share of residential services and the elimination of funding through a veto of the mandate item for mental health services in the 2010 Budget Act.

Notwithstanding this additional confusion, it has become increasingly clear in the past few years that this program is not working well for a variety of program and fiscal reasons.

Therefore, the May Revision proposes that this program no longer be realigned to counties, but instead, be realigned to school districts. Please see the Mental Health and Proposition 98 sections for additional details regarding this proposal.

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## **FOSTER CARE AND CHILD WELFARE SERVICES**

In addition to a 2011-12 reduction of \$68 million in Foster Care costs due to realigning residential services for special education pupils from counties to school districts, a number of other May Revision changes are proposed in the realignment of these programs.

There are three counties that perform the activities associated with independent adoptions workload: Los Angeles, San Diego and Alameda. The Department of Social Services does the work for the 55 other counties.

Given that this is a fee-driven program and the work is performed primarily by the state, the May Revision proposes to reduce the amount realigned to counties by \$1.7 million and have the Department of Social Services contract with the 3 counties that currently perform this work. The Department of Social Services will continue to do the work associated with independent adoptions for the 55 counties.

In terms of Agency Adoptions, 28 counties currently perform this work with the Department of Social Services doing the work for the remainder of the counties. The May Revision proposes to include approximately \$6 million that had been state operations costs in realignment. The 30 counties that currently have the Department of Social Services perform the Agency Adoptions workload for them can either contract with the Department of Social Services to do this work, choose to take on the work themselves, or join with other counties to perform the work.

The May Revision proposal also retains \$911,000 at the state level to perform Foster Care and Child Welfare Services work for all tribal-state agreements.

Finally, the May Revision proposal retains \$8.2 million for the Department of Social Services to contract for Child Welfare training activities. Because this is of statewide import, it is not an appropriate expenditure within realignment.

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## **REVENUE**

Due to these changes, fewer resources need to be included for the realignment program. Therefore, the May Revision proposes that 0.4 percent of the VLF increase be allocated for realignment versus the 0.5 percent included in January. The one-cent sales tax extension continues as part of realignment.

The May Revision assumes extension of these taxes effective July 1. Revenues will be deposited into the State's Local Revenue Fund 2011. The proposed Constitutional Amendment will extend these taxes and provide ongoing funding for those services, thereby providing important protections for counties.

The following Figure REA-01 outlines the revised funding for the May Revision revenue and realignment programs.

Figure REA-01				
<b>Realignment Funding - May Revision Plan</b>				
(Dollars in Millions)				
<b>Program</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Court Security	\$497.8	\$497.8	\$497.8	\$497.8
Vehicle License Fee Public Safety Programs	504.4	504.4	504.4	504.4
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	302.3	611.0	759.1	762.2
Reimbursement of State Costs	653.0	-	-	-
Realign Adult Parole				
Local Costs	157.9	295.6	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Realign Remaining Juvenile Justice Programs	241.5	241.5	241.5	241.5
Mental Health Services				
EPSDT	-	579.0	579.0	579.0
Mental Health Managed Care	-	183.7	183.7	183.7
Existing Community Mental Health Programs	1,077.0	1,077.0	1,077.0	1,077.0
Substance Abuse Treatment	183.6	183.6	183.6	183.6
Foster Care and Child Welfare Services	1,567.2	1,567.2	1,567.2	1,567.2
Adult Protective Services	55.0	55.0	55.0	55.0
Existing Juvenile Justice Realignment	97.1	104.1	103.2	103.3
Growth*	-	274.0	615.3	1,069.6
<b>Total</b>	<b>\$5,599.4</b>	<b>\$6,173.9</b>	<b>\$6,623.8</b>	<b>\$7,012.0</b>
1% Sales Tax	4,520.0	4,932.0	5,324.0	5,655.0
0.4% VLF	1,079.4	1,241.9	1,299.8	1,357.0
<b>Total Revenues</b>	<b>\$5,599.4</b>	<b>\$6,173.9</b>	<b>\$6,623.8</b>	<b>\$7,012.0</b>

\*-This amount will be subject to discussion and is intended to cover county costs and reimburse reasonable state costs.



## REDUCING STATE GOVERNMENT

Building on the Governor's actions to reduce the cost of operating the Executive Branch by limiting cell phones, travel and state vehicles, the Administration is proposing to reduce state operations by eliminations, consolidations, reductions, and efficiencies. In some cases, entities have outlived their usefulness. In others, the function and mission remains important, but there is a better, less costly way to achieve the same goal. This Chapter outlines these specific proposals.

The following also provides preliminary estimates of the savings to be achieved in 2011-12, based on a January 1, 2012 effective date for those items that require enabling legislation. These proposals will be used to achieve savings outlined in Control Section 3.91 as reflected in pending legislation (Senate Bill 69). In total, these proposals save \$82.7 million (\$41.5 million General Fund).

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### ELIMINATION OF BOARDS, COMMISSIONS, TASK FORCES, AND OFFICES

- **Accelerate End of American Recovery and Reinvestment Act Task Force—**  
This reflects a ramp-down of activities and elimination of the American Recovery and Reinvestment Act of 2009 (ARRA) Task Force by January 1, 2012, and decentralizes the quarterly reporting required by the federal government to departments. This results in a decrease of \$0.8 million all funds (\$0.4 million General Fund) and 3.4 personnel years in 2011-12.

- **Eliminate the California Privacy Security Advisory Board**—The Board develops and recommends privacy and security policies for California’s Health Information Exchange. There are 14 board members; however there are also an advisory group, a committee, and task groups. The committee and task groups would be used to cover the work of the Board.
- **Eliminate the Health Care Quality Improvement and Cost Containment Commission**—The Commission’s role is to research and recommend changes for promoting high quality care and containing health care costs. The Commission is inactive and implementation of federal health care reform will be California’s vehicle to improve quality and contain costs.
- **Eliminate the Colorado River Board**—The Colorado River Board is responsible for developing a plan for using Colorado River water. Although these responsibilities are necessary to maintain an adequate water supply from the Colorado River, the eight members of the Board are all Southern California Colorado River water users and the Board is funded entirely by Southern California water districts. It is more appropriate that the Board’s functions be transferred to a local entity. This results in a decrease of \$800,000 reimbursements and 5.6 personnel years in 2011-12.
- **Eliminate the Salton Sea Council**—Chapter 303, Statutes of 2010 created the Salton Sea Restoration Council as a separate department under the Natural Resources Agency. The Council is required to evaluate Salton Sea restoration plans and, by June 30, 2013, report to the Governor and the Legislature with a recommended Salton Sea restoration plan. While the Administration supports the restoration efforts at the Salton Sea, it is inefficient to create a new department for a limited time with only one employee. Furthermore, it would be premature to develop preferred alternatives until a viable funding plan is created. The cost estimates for the existing preferred alternatives are estimated in the billions of dollars.
- **Eliminate the State Mining and Geology Board**—The State Mining and Geology Board serves as a regulatory, policy, and appeals body representing the state’s interests in geology, geologic and seismologic hazards, conservation of mineral resources, and reclamation of lands following surface mining activities. To streamline state government functions, this proposal will move the appeals process to the Office of Administrative Hearings, and the balance of the Board’s responsibilities to the Office of Mine Reclamation within the Department of Conservation.
- **Eliminate Nine Advisory Committees and Review Panels at the Department of Fish and Game**—This proposal will eliminate (1) the Commercial Salmon

Fishing Review Board, (2) the Commercial Sea Urchin Advisory Committee, (3) the Dungeness Crab Review Panel, (4) the Recreational Abalone Advisory Committee, (5) the California Advisory Committee on Salmon and Steelhead Trout, (6) the State Interagency Oil Spill Committee Review Subcommittee, (7) the State Interagency Oil Spill Committee, (8) the Striped Bass Advisory Committee, and (9) the Abalone Advisory Committee. These advisory groups are no longer necessary, have completed their statutory requirements, or can be replaced by as needed consultation with stakeholders.

- **Eliminate the Commission on Emergency Medical Services**—The commission's role is limited to providing advice to the Emergency Medical Services Authority (EMSA) and approving regulations when they are brought forward by EMSA. EMSA can obtain input from various other groups without the commission structure in place. This results in a decrease of \$38,000 (\$9,000 General Fund) in 2011-12.
- **Eliminate the California Health Policy and Data Advisory Commission (CHPDAC)**—The Commission was created in the late 1980's to advise the Office of Statewide Health Planning & Development (OSHPD) on its data collection and dissemination and outcome reporting programs. Now that these data programs are mature and the Office has transitioned to utilizing federal outcome models, the relevance of this committee has diminished. OSHPD will look to other less formal means of obtaining advice/input on regulations. This results in a decrease of \$85,000 Special Fund and 0.5 personnel years in 2011-12.
- **Eliminate the Healthcare Workforce Policy Commission**—The functions performed by the Commission can be performed by the Office of Statewide Health Planning with public input.
- **Eliminate the Rural Health Policy Council**—This Council is made up of Department Directors in the Health and Human Services Agency. The interaction with rural Supervisors and constituents regarding health care policy will be accomplished in a less formal and more consistent manner.
- **Eliminate the Public Health Advisory Committee (PHAC)**—This Committee provides advice and makes recommendations on the development of policies and programs that seek to prevent illness and promote the public's health. The Department of Public Health (DPH) is able to obtain this advice from ongoing consultation rather than a formal committee. The PHAC will sunset in June 2011 and should not be extended.

- **Eliminate the California Medical Assistance Commission (CMAC)—**  
This proposal would eliminate CMAC and have the CMAC Executive Director report to the Secretary of the California Health and Human Services Agency by July 1, 2012. CMAC's remaining responsibilities would be transferred to the Department of Health Care Services (DHCS) following implementation of a revised hospital payment structure DHCS is developing. The Budget Act of 2010 transferred authority for Geographic Managed Care contract negotiations to DHCS. This results in a decrease of \$129,000 and 3.5 personnel years in 2011-12.
- **Eliminate the Rehabilitation Appeals Board (RAB)—**Currently, Department of Rehabilitation (DOR) consumers who are dissatisfied with decisions made regarding their eligibility for services or the type of services they receive may appeal to the RAB, which consists of seven members appointed by the Governor. This proposal would eliminate the RAB and, instead, have appeals heard by hearing officers, resulting in a more efficient and timely appeal process for DOR consumers. This results in a decrease of \$30,000 (\$6,000 General Fund) in 2011-12.
- **Eliminate the Continuing Care Advisory Committee (CCAC)—**The CCAC, is responsible for advising the Department of Social Services (DSS) concerning matters in the continuing care industry. The CCAC currently consists of 11 members, who are appointed based on their interest and expertise in the area of continuing care. Instead of a statutory advisory body, the DSS can convene workgroups as necessary with stakeholder members selected for their specific knowledge or expertise. This results in a decrease of \$1,000 Continuing Care Provider Fee Funds in 2011-12.
- **Eliminate the Early Learning Advisory Committee (ELAC)—**The ELAC was established through an executive order in 2009 to make California eligible for a three-year \$10.8 million planning grant to pilot a recommended quality rating improvement system and to develop a data tracking system for children ages 0-5, including preschool. While the elimination of this advisory council will result in the loss of the remaining federal grant funds, the council's work represents a new initiative that the state cannot presently afford. This results in a decrease of \$3.6 million in federal funds in 2011-12.
- **Eliminate the California Postsecondary Education Commission—**The California Postsecondary Education Commission (CPEC) is intended to be California's higher education coordinating and planning agency, providing policy analyses, advice and recommendations to the Legislature and the Governor on statewide policy and funding priorities for colleges, universities, and other postsecondary



education institutions. This elimination would have little programmatic impact as the functions it performs are either advisory in nature or can be performed by other agencies. Elimination would require that one federal grant program be moved to the State Department of Education. This results in a decrease of \$927,000 in 2011-12.

- **Eliminate the Office of the Insurance Advisor (OIA) within the State and Consumer Services Agency**—The OIA provides the Governor’s Office with independent policy advice on insurance matters and makes policy recommendations on legislation. This function can be performed by existing staff. This results in a decrease of \$250,000 reimbursements and 1.9 personnel years in 2011-12.
- **Eliminate the California Anti Terrorism Information Center (CATIC)**—This program is operated by the Department of Justice through a \$6.4 million grant provided by the California Emergency Management Agency (Cal EMA). Cal EMA operates the State Terrorism Threat Assessment Center (STTAC) using federal homeland security funding. Eliminating the CATIC will streamline state anti-terrorism functions and save General Fund resources given the federal government’s financial support of the STTAC. This results in a General Fund decrease of \$3.2 million and 23.3 personnel years in 2011-12.
- **Eliminate the Office of Gang and Youth Violence Prevention**—This office was created by Chapter 459, Statutes of 2007 and provides grants to various local governments to combat gang-related issues. The grants will continue to be administered by staff of the California Emergency Management Agency. This results in a General Fund decrease of \$0.6 million and 3.8 personnel years in 2011-12.
- **Eliminate the California Council on Criminal Justice (CCCJ)**—The CCCJ establishes funding priorities for federal criminal justice grants. In recent years, the Legislature and Administration, with local input, have taken a more active role in the allocation priorities for these grants reducing the continued need for the CCCJ. This results in \$30,000 in federal fund savings beginning in 2011-12.
- **Eliminate Governor's Emergency Operations Executive Council (GEOEC)**—The GEOEC was established as a result of Governor’s Executive Order S-04-06, which required the Directors of the Office of Homeland Security and Emergency Services to convene a coordinating body for emergency management and homeland security activities across California state government. In 2008, legislation created the California Emergency Management Agency (Cal EMA) by merging these

two departments. There are several other established committees that maintain the state's emergency plan, making the need for the GEOEC unnecessary.

- **Eliminate California Emergency Council (CEC)**—The CEC is responsible for recommending and approving orders, regulations, and emergency planning documents for the Governor. The members of this group can be convened as necessary.
- **Eliminate the Economic Strategy Panel**—The Panel reviews the economic base and industry sectors to guide policy decisions for economic growth. The Panel's work can be absorbed by other entities. This results in a decrease of \$79,000 other funds and 0.7 personnel years in 2011-12.
- **Eliminate the Commission on the Status of Women**—The Commission advises the Governor and the Legislature on public policy issues impacting women. There are numerous formal and informal avenues for seeking such advice on a continual basis. This results in a decrease of \$234,000 all funds (\$233,000 General Fund) and 2.1 personnel years in 2011-12.
- **Eliminate the California Law Revision Commission**—The Commission is responsible for reviewing California law, recommending legislation to make needed reforms, and making recommendations to the Governor and the Legislature for revision of the law on major topics. This results in a decrease of \$333,000 all funds (\$325,000 General Fund) and 2.7 personnel years in 2011-12.
- **Eliminate the Commission on Uniform State Laws**—The Commission presents to the Legislature uniform laws recommended by the National Conference of Commissioners on Uniform State Laws and then promotes passage of these uniform acts. This results in a decrease of \$74,000 General Fund in 2011-12.
- **Eliminate the Office of Privacy Protection within the State and Consumer Services Agency**—There are many other state, federal, and business resources that promote and protect the privacy rights of consumers. This results in a decrease of \$435,000 all funds (\$250,000 General Fund) and 3.3 personnel years in 2011-12.
- **Eliminate the Unemployment Insurance Appeals Board**—The Administration will consult with stakeholders and evaluate options to phase out the full-time board that handles high-level appeal decisions. This collaborative process will culminate in the elimination of seven board members in 2012-13.

- **Eliminate the Fair Employment and Housing Commission**—The Administration will consult with stakeholders and evaluate options to phase out the stand-alone commission that handles appeals of employment and housing discrimination cases by January 1, 2012. Adjudication of employment and housing discrimination cases will be appealed to the Director of the Department of Fair Employment and Housing effectively eliminating the stand-alone Commission and consolidating workload. This results in a decrease of \$428,000 all funds (\$344,000 General Fund) and 1.4 personnel years in 2011-12.
- **Eliminate the Occupational Safety and Health (OSH) Standards Board**—Eliminate the separate OSH Standards Board and transfer responsibility to the Division of Occupational Safety and Health within the Department of Industrial Relations, similar to the federal model for standards development, including stakeholder advisory panels. This results in a decrease of \$324,000 other funds and 1.9 personnel years in 2011-12.
- **Eliminate the Managed Risk Medical Insurance Board (MRMIB)**—Eliminate the Board and have MRMIB's Executive Director report to the Secretary of the California Health and Human Services Agency by July 1, 2012. In 2011-12, the Healthy Families Program and the Access for Infants and Mothers (AIM) Program will transfer to the Department of Health Care Services. In 2012-13, the remaining MRMIB programs—high-risk pools (Pre-Existing Conditions Insurance Plan (PCIP) and Major Risk Medical Insurance Program (MRMIP)) and the County Children's Health Initiative Program (provides coverage for children in families with income between 251-300 percent of the federal poverty level using county and federal funds)—would transfer to DHCS.

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## CONSOLIDATIONS

- **Consolidation of the State Personnel Board and the Department of Personnel Administration**—This consolidation will result in a single California Department of Human Resources to more effectively manage and administer the state's human resources functions. The consolidation effective July 1, 2012, is estimated to save \$2.2 million all funds (\$0.3 million General Fund) and 24.2 personnel years in 2012-13 and increasing to a full year value of \$4.3 million all funds (\$0.7 million General Fund) and 48.3 personnel years in 2013-14.

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## CHANGES DUE TO REALIGNMENT

The May Revision continues to reflect the realignment for alcohol and drug programs and the remaining community mental health programs from the state to the counties. While the state will continue to have important oversight functions and federal responsibilities, it is no longer essential to have separate departments. The Administration proposes the following:

- **Eliminate the Department of Mental Health (DMH)**—Realignment proposes to transfer responsibility for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program and mental health managed care to the counties. The remaining state-level responsibilities associated with these Medicaid programs will transfer to DHCS during 2011-12. Coupled with the creation of a Department of State Hospitals, DMH will have relatively few functions remaining. The 2012-13 Governor's Budget will contain a proposal on where these remaining functions should be transferred.
- **Eliminate the Department of Alcohol and Drug Programs (DADP)**—Under the Governor's Realignment proposal, responsibility for Drug Medi-Cal will be transferred to the counties. Those state functions that are necessary for the operation of Drug Medi-Cal will be moved to the DHCS, leaving the DADP with some federal block grants, licensing, prevention, and counselor and certification programs. Rather than maintain a separate department, these functions can be shifted to another department; during the development of the 2012-13 Governor's Budget, the Administration will address the remaining components of the DADP.
- **Create a Department of State Hospitals**—The Department of Mental Health (DMH) has had two primary functions, community mental health and state hospitals. Because of the transfer of community mental health state responsibilities to DHCS, it is necessary to change the oversight of the state hospitals. In addition, the DMH's state hospitals have undergone a series of changes in recent years. The majority of patients admitted to the state hospitals are no longer civil commitments but individuals who are forensic commitments. Courts have impacted state hospital operations by requiring accelerated activation of treatment facilities and increasing admissions. The state hospitals have also been operating under a consent judgment with the federal government to change the model of providing services to patients. A Department of State Hospitals will focus efforts on addressing necessary changes in this new environment.

In addition to changes in the Health and Human Services area, there will also be changes in the public safety area because of realignment:

- **25-Percent State Operations Reduction for Realigned Public Safety Programs—** Reduce by 25 percent state operations positions and associated funding for various departments that will have programs realigned to counties beginning in 2011-12. Given the time necessary for departments to develop and implement layoff processes, it is estimated that position reductions would not be fully implemented until July 1, 2013.

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## PROGRAM REDUCTIONS AND EFFICIENCIES

- **Office of the Inspector General Workload Reduction—**A savings of \$6.4 million General Fund and 45.6 personnel years in 2011-12. This proposal would eliminate all Office of the Inspector General (OIG) workload except performing use-of-force and employee discipline oversight for the California Department of Corrections and Rehabilitation (CDCR). The oversight of correctional issues provided by the Bureau of State Audits and improved internal controls at the CDCR has made it less critical to have an additional independent entity providing oversight. Medical inspections currently performed by the OIG would be transferred to the Office of State Audits and Evaluations, thereby preserving an activity critical to addressing the *Plata* lawsuit. The proposed workload reduction includes the elimination of the California Rehabilitation Oversight Board. This proposal would retain only the most critical functions of the OIG and would also achieve savings related to the continued medical inspections.
- **Reduce the Labor and Workforce Development Agency—**A decrease of \$677,000 reimbursements and 3.8 personnel years in 2011-12 to reflect a net reduction of four positions within the Agency and the relocation of the office from leased space to existing space within the Employment Development Department. This reduction includes one position currently assigned to support the Economic Strategy Panel. The relocation from leased space to state-owned space will also result in rental savings of \$210,000 other funds in 2011-12 within the Department of Industrial Relations.
- **Eliminate General Fund Support of the State and Consumer Services Agency—**A decrease of \$965,000 all funds (\$548,000 General Fund) in 2011-12. Eliminate General Fund support of the State and Consumer Services Agency and require departments under the Agency's purview to reimburse the Agency for operational expenses. This decrease will be offset by an increase of \$965,000 reimbursements in 2011-12.

- **Decrease State Matching Funds for Tourism Office**—A decrease of \$734,000 General Fund in 2011-12. This will eliminate funding, except for support of the Executive Director. While the state will maintain an investment in the program, the tourism industry supports the marketing of California tourism through \$50 million in industry self-assessed fees.
- **Federal Funding for Small Business Loan Guarantee Support**—A decrease of \$862,000 General Fund in 2011-12. Support for the program is being partially shifted to federal funds because the program expansion is funded by a federal grant.
- **Eliminate Child Care Monitoring Support**—A decrease of \$10,000 General Fund in 2011-12 in the Department of Housing and Community Development (HCD) because these program funds have been abolished.
- **Eliminate Preservation Technical Assistance**—A decrease of \$35,000 General Fund in 2011-12 for HCD, which would eliminate funding to provide assistance in the prevention of subsidized housing converting to market rents upon the expiration of the subsidy period.
- **Eliminate Redevelopment Housing Funds Oversight**—A decrease of \$123,000 General Fund and 1.4 personnel years in 2011-12 for HCD, which would eliminate funding for oversight of redevelopment agency low- and moderate- income housing funds and an annual report on housing funds and activities. This is consistent with the budget proposal to eliminate redevelopment agencies.
- **Reduce Housing Policy Funding**—A decrease of \$1.3 million General Fund and 8.5 personnel years in 2011-12 in the Division of Housing Policy Development in HCD.
- **Eliminate General Fund Support for the Tahoe Conservancy**—A decrease of \$193,000 in 2011-12. The Tahoe Conservancy is primarily funded from special funds. Eliminating General Fund support will result in a 3-percent reduction to its budget.
- **Revert Unexpended General Fund from the Department of Parks and Recreation's Public Safety Modernization Project**—A decrease of \$4.5 million in 2010-11. As a result of unanticipated delays, funds provided in prior years for this information technology project have not yet been spent. This proposal will revert unspent General Fund dollars and continue to fund this project from other special funds.

- **Reduce General Fund Support for Department of Water Resources—**  
A decrease of \$1.8 million in 2011-12 for water data collection, support for the Central Valley Flood Board, and flood control activities. The May Revision will preserve \$64 million General Fund for the Department of Water Resources to dedicate to high priority water management and flood control programs.
- **Transfer Support of the Governor’s Commission on Employment of People with Disabilities to the Department of Rehabilitation—**This Commission currently receives staff support from the Employment Development Department. The promotion of employment of people with disabilities is a core function of the Department of Rehabilitation and can be operated more efficiently within their department. A decrease of \$403,000 other funds and 3.3 personnel years in 2011-12 is expected to be achieved by this transfer and assumes a reduction of 7 of the 11 positions that currently support this Commission. The Employment Development Department will continue to provide funding to support the work of the Commission which would increase reimbursements provided to the Department of Rehabilitation by approximately \$234,000 in 2011-12.
- **Elimination of the Human Resources Modernization Project—**A decrease of \$5.5 million all funds (\$2.3 million General Fund) and 11.3 personnel years in 2011-12. This project was created in 2007-08 and has been working to streamline the state’s civil service program. The key functions of the project will be absorbed within the proposed California Department of Human Resources (see Consolidations above).

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## REDUCING STATE GOVERNMENT’S PROPERTY FOOTPRINT

The May Revision proposes to improve the state’s asset management. The proposal consists of the following components, aimed at reducing state government’s property footprint. Savings that materialize from this proposal will be included in the 2012-13 Governor’s Budget.

- **Review and Dispose of Properties with no State Programmatic Use—**The state owns numerous properties throughout California. The review and disposition of property should be based on a determination that retaining the property is no longer needed for programmatic purposes. To this end, DGS will develop a proposal to sell properties that serve no state programmatic need. If there is a determination that these properties should remain in state ownership, DGS already has the statutory authority to pursue long-term lease agreements on these properties until there is a state need. Initial properties intended for sale include the Los Angeles Coliseum,

properties owned and managed by the Capitol Area Development Authority in Sacramento, and the Ramirez Canyon property in Southern California. Additionally, the California Department of Transportation is currently in the process of selling its share of the Montclair golf course in Oakland. As additional properties are identified, they will be submitted to the Legislature for authorization to sell.

- **Review and Dispose of Underutilized Properties**—Over the years, there have been reviews of high-value state properties and efforts to sell those properties. There has been considerably less effort focused on lower value and underutilized state properties. State agencies are required to annually review their properties and facilities they occupy and report surplus properties to the Department of General Services (DGS). For various reasons, not all underutilized properties are reported as surplus to DGS. To improve the management of assets and sell underutilized properties where possible, state agencies will be directed to review their holdings in an attempt to down-size or dispose of properties and submit a report to DGS. DGS will review the agencies report, with the assistance of Finance, and report the findings.
- **Consolidation of Under-utilized Space**—In recent years, some state agencies have experienced a downsizing of staff and consequently may have excess general office space. Additionally, other agencies may have either leased or planned for excess space anticipating various programs would grow and more state employees would be needed. In the past, DGS has completed studies that indicate some agencies could be reorganized more efficiently into state-owned space and therefore some excess lease space could be eliminated. Further downsizing of space will be realized as departments fully implement reductions to state operations. To this end, DGS will undertake a thorough space analysis with the input of state agencies to determine opportunities to eliminate lease space as well as to utilize state-owned space more efficiently.
- **Develop a Comprehensive Policy for Fairgrounds**—Individual legislative initiatives have been introduced to sell fairgrounds over the years. These proposals should be evaluated in the context of a statewide policy and a property by property review of fairgrounds. The Secretary of Food and Agriculture will develop a plan to be included in the Governor's 2012-13 Budget, addressing the future operation, maintenance, and oversight of the Network of California Fairs, including real and personal property and the feasibility to restructure the governance of the fairs within this network.



## EFFICIENCIES ACHIEVED THROUGH EXECUTIVE ACTION

- **Secretary of Education**—The Office of Secretary of Education has been eliminated.
- **Inspector General**—The Inspector General for the American Recovery and Reinvestment Act has been eliminated.
- **Governor's Office**—The Governor's Office budget has been reduced by 25 percent.
- **Ban on Non-Essential Travel**—Pursuant to Executive Order B-06-11 no travel by state employees is permitted unless mission critical.
- **Statewide Building Rental Rate Reduction**—A decrease of \$26.6 million all funds (\$5.4 million General Fund) in 2011-12. Reduce building rental rate funding for various state agencies based on lower costs within the Departmental of General Services to operate these buildings.
- **State Issued Cellular Phone Reduction**—A decrease of \$20 million all funds (\$11 million General Fund) in 2011-12. Executive Order B-1-11 directed entities under the Governor's direct executive authority to reduce state-provided cellular phones.
- **Statewide Vehicle Reductions**—Pursuant to Executive Order B-2-11, the Department of General Services is conducting an analysis of the purpose of, and necessity for, all vehicles and equipment that comprise the state fleet. This review will culminate in the elimination of any vehicles that are non-essential or are cost ineffective. When this analysis is completed, one-time savings will be achieved from the sale of surplus vehicles and corresponding operation and maintenance costs. Actual savings will be dependent on the number of vehicles eliminated and the final reduction in home-storage permits.



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