



SUMMARY OF GOVERNOR'S PROPOSED 2010-11 BUDGET

JANUARY 8, 2010

Noreen Evans

CHAIR, ASSEMBLY BUDGET COMMITTEE

TABLE OF CONTENTS

Overview.....	2
Proposition 58.....	4
Federal Revenue and Trigger	4
Alternative Revenue Sources	7
Summary of Charts	10
K-12 Education.....	12
Higher Education.....	14
Transportation	20
Human Services	23
Health Care Services	26
Natural Resources and Environmental Protection.....	29
Public Safety.....	32
General Government and Local Government	35

OVERVIEW

The Governor has released his 2010-11 budget to address a projected \$19.9 billion General Fund shortfall. The budget relies mostly on reductions to bridge the shortfall, but also assumes a large increase in federal funding. The proposal contains a trigger mechanism to that would automatically make \$4.6 billion in ongoing reductions and suspend \$2.4 billion in tax credits and reductions for one year if the federal funding is not received. The Governor's budget envisions that the Legislature would adopt both a Special Session package that would be enacted by March 1, 2010 and an annual budget package that would need to be enacted before July 30, 2010.

The chart below illustrates the proposed solutions, by category:

2009-10 and 2010-11 General Fund Solutions (in millions)

Source	2009-10	2010-11	Total	Percent
Program Reduction and Cuts	\$1,034	\$7,475	\$8,509	43%
Federal Funding	8	6,905	6,913	35%
Alternative Funding	150	3,736	3,886	20%
Fund Shifts	0	572	572	3%
<i>Total</i>	\$1,192	\$18,688	\$19,88	

The proposed budget's reserve is \$1 billion.

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

- ◆ Should we gamble the future of important programs that take care of the elderly and disabled, provide health care to children, and provide training to low income workers on a trigger tied to federal funding assumptions? How likely is it that we will meet this trigger given that it assumes federal funding for undocumented correctional inmates, an item that California has fruitlessly sought funding for since the Wilson Administration?
- ◆ Just because it is constitutionally permissible, does it make sense to manipulate the Proposition 98 guarantee to cut schools, possibly by over \$2.4 billion?

- ◆ How will the scheme to shift gas tax money impact the level of funding for transportation projects and transit now and in the future? Given the important role that infrastructure jobs play in our economic recovery, what will the economic impact be from the loss of these funds?
- ◆ During tough economic times does it make sense to take money out of the pockets of those that can least afford it with such proposals as cutting SSI payments, eliminating Health Families to 204,000 children, and cutting the pay for IHSS workers to minimum wage while there is no similar sacrifice from those that can afford it in a way that will not impact the economy?
- ◆ Is it conscionable to eliminate critical benefits for needy aging and disabled legal immigrants that have played by the immigration rules?

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

FAILED SOLUTIONS INCREASES DEFICIT

More than half of the increase in the projected deficit is the result of failed gimmicks and reductions that were overturned or stalled up by court action.

The July 2009 budget package projected a shortfall for the 2010-11 fiscal year of \$6.9 billion, this deficit has grown by \$13 billion in the budget for the following reasons:

Result of Federal and State Court Litigation	\$4.9 billion
Erosion of Previously Enacted Solutions	\$2.3 billion
Growth in caseload and population	\$1.4 billion
Revenue Decline	\$3.4 billion

Some of the major gimmicks that failed to materialize from last year's budget:

- ◆ \$2.4 billion related to the court decision which limits the state's ability to use "spillover" gasoline sales tax and Public Transportation Account funds to reduce General Fund spending.
- ◆ \$1.1 billion from costs for the corrections receiver that was not included in the budget.
- ◆ \$1 billion from failure to sell the State Compensation Insurance Fund.

- ◆ \$972 million from failure to achieve savings assumed in corrections.
- ◆ \$1.1 billion in federal flexibility for Medi-Cal that was assumed in the budget, but did not occur.

Overall the \$19.9 problem identified by the Governor's Budget is the result of a shortfall of \$6.3 billion in 2009-10 and \$12.3 billion in 2010-11 combined with the assumption of a \$1 billion reserve.

PROPOSITION 58 SPECIAL SESSION

At the time of releasing his proposed budget on January 8th, the Governor declared a fiscal emergency and accordingly called a Proposition 58 Special Session. Under this Special Session the Governor may submit legislation to address the fiscal emergency and has done so with his proposed amendments to the 2009-10 Budget and his proposed 2010-11 Budget. The Legislature is required to take action to address the problem within 45 days of the special session being called (by Monday February 22nd) and may not take action on any other legislation during that time period.

The Governor's proposed budget assumes some of the proposals are enacted under the special session and take effect on March 1, 2010. This results in \$1.1 billion in savings in 2009-2010 with increasing savings in the budget year. The budget also assumes many of the solutions for 2010-11 are adopted in the special session and are implemented in time to allow a full year of savings to accrue. In the sections that follow these policies are identified, when noted by the Governor's proposal.

FEDERAL REVENUE AND TRIGGER

The Governor's budget proposes program reforms and federal reimbursement requests that total \$6.9 billion worth of solutions. The Governor requests program flexibility from the federal government to allow the following program reductions:

- ◆ Medi-Cal funding by \$750 million by placing limits on services and utilization controls, and increased cost-sharing through co-payment requirements, premiums, or both.
- ◆ In-Home Supportive Services (IHSS) by \$77.9 million in 2009-10 and \$872.6 million in 2010-11 by limiting the provision of services to consumers with the highest level of need and reducing state funding for IHSS workers wages.

- ◆ Federal Receiver's budget by \$811 million to reduce per-inmate medical costs to a "level comparable to other correctional health care programs".

The Governor additionally requests federal reimbursements for the following programs:

- ◆ Increases the federal matching fund rate for Medicaid to the national average from the Current base Federal Medical Assistance Percentage (FMAP) rate for California. This would raise the rate from 50 percent to 57 percent (\$1.8 billion).
- ◆ Reimbursement from Medicare for previous state expenditures and changes in the required level of state payment for Medicare prescription drug benefits (\$1 billion).
- ◆ Increases special education mandates to a level commensurate with requirements under federal law (\$1 billion).
- ◆ Requests full reimbursement for the cost of incarcerating undocumented immigrants through the State Criminal Alien Assistance Program (SCAAP) (\$879.7 million).
- ◆ Expands federal funding for foster care cases (\$94.4 million).

Trigger

The Governor's proposals above request approximately \$6.9 billion in federal funding/spending reductions. If these levels of revenue/savings are not achieved, the Governor has proposed a variety of additional budget solutions that would be "triggered". These solutions include program cuts, which are proposed as permanent cuts, and reimbursement revenue, which is one time only. The spending cuts included in the trigger total (\$4.6 billion in General Fund), they:

- ◆ Eliminate the California Work Opportunity and Responsibility to Kids (CalWORKs) Program (\$1.044 billion).
- ◆ Fund existing mental health services with Proposition 63 funds (\$847 million).
- ◆ Reduce Medi-Cal eligibility to the minimum allowed under current federal law and eliminate most remaining optional benefits (\$532 million).
- ◆ Reduce state employee salaries by an additional 5 percent (\$508 million). (The Governor also proposes a separate 5 percent reduction regardless of

this trigger mechanism, along with a 5 percent increase in employee contributions to their retirement benefits.)

- ◆ Eliminate the IHSS Program (\$495 million).
- ◆ Redirect additional county savings (\$325 million).
- ◆ Eliminate non-court required inmate rehabilitation programs, implement banked parole for low-risk serious and violent offenders, expand crimes where convicted felons will serve time in local jails, and increase the number of parolees each agent will supervise (\$280 million).
- ◆ Eliminate the Healthy Families Program (\$126 million).
- ◆ Eliminate funding for enrollment growth at the University of California and the California State University (\$111.9 million).
- ◆ Eliminate various health services programs funded by Proposition 99 (\$115 million).
- ◆ Make an unallocated reduction to trial courts (\$100 million).
- ◆ Freeze the level of awards and income eligibility for Cal Grants (\$79 million).
- ◆ Eliminate funding for the Transitional Housing Placement for Foster Youth-Plus Program (\$36 million).

The Governor proposes an additional \$2.4 billion in revenue under the trigger to:

- ◆ Extend suspension of a business's ability to reduce taxable income by applying net operating losses (NOL) from prior years to reduce current income (\$1.2 billion). This suspension, approved in Sept. 2008 (AB 1452), is currently set to expire in 2010-11.
- ◆ Extend reduction in the credit for each dependent on the personal income tax from \$319 to \$102 (\$504 million).
- ◆ Delay use of business credits by unitary groups of corporations and instead retain current law which requires subsidiaries to have their own tax liability to use research and development and other credits (\$315 million).

- ◆ Delay the change to the single sales factor allocation method for multi- state corporate income and instead retain the double weighted sales, property, and payroll formula (\$300 million).

Lower to 30 percent the first year phase-in of the ability of corporations to carry back losses two years to offset prior tax profits (\$20 million).

ALTERNATIVE REVENUE SOURCES

The Governor proposes a variety of "alternative funding" solutions. These solutions provide funding for a wide variety of programs/projects, but move the costs away from the General Fund. These solutions include:

- ◆ Funding CAL FIRE's Fire Protection Program from the "Emergency Response Initiative" — A reduction of \$200 million in General Fund and replacement with revenue generated from a 4.8 percent statewide surcharge on all residential and commercial property insurance. Beginning in 2011- 12, the Emergency Response Initiative would provide funding to enhance the state's emergency response capabilities, including enhancements for CAL FIRE, the California Emergency Management Agency, the Military Department, and assistance to local first response agencies in support of the state's mutual aid system.
- ◆ Funding State Parks from Tranquillon Ridge Oil Revenues — A reduction of \$140 million in General Fund and replacement with revenue generated from the Tranquillon Ridge oil lease. It is estimated that the Tranquillon Ridge oil lease will generate \$1.8 billion in advanced royalties over the next 14 years. This revenue will be used to fund state parks. The Governor's Budget assumes that the State Lands Commission will approve the Tranquillon Ridge proposal. If not approved by the Commission, legislation would be necessary.
- ◆ Children's Health Coverage — A decrease of \$240 million from available proceeds (\$80 million per quarter from April 2009 until December 2010) authorized in law from newly enacted hospital fees. This is in addition to the \$320 million reduction reflected in the budget as a workload adjustment.
- ◆ Cigarette and Tobacco Products Surtax Fund (Proposition 99) — Savings of \$36 million from using available one- time Proposition 99 reserves to offset costs in Medi- Cal. The 2010 Budget also contains \$25 million from the available special funds to replace one- time 2009- 10 savings (from a change in payment methodology) made available from the Access for

Infants and Mothers Program to meet anticipated demand for health care in 2010- 11.

- ◆ California Children and Families Act of 1998 (Proposition 10) — A reduction of \$550 million in General Fund through a redirection of Proposition 10 funding from the California Children and Families Commission budget to high- priority state programs serving children. This proposal includes shifting (for five years) approximately 50 percent of the Proposition 10 revenues currently directed to state and local accounts within the Commission's budget (\$242 million in 2010- 11) and a one- time sweep of state and local reserves (\$308 million). The redirected funds will be used to support children enrolled in programs administered by the Department of Social Services and the Department of Developmental Services. Implementation of this proposal will require voter approval. The Governor anticipates this initiative will be included in the June 2010 election.
- ◆ Redirection of County Savings — Decreases by \$505.5 million General Fund by redirecting a portion of the county savings resulting from reductions in IHSS and CalWORKs (discussed in the Human Services section of this report) to fund an increased county share in Department of Social Services children's programs.
- ◆ Community Mental Health Services — Reduces by \$452.3 million in General Fund and substitutes with Mental Health Services Act (Proposition 63) funding for a portion of the EPSDT program and a portion of the Mental Health Managed Care program. This requires amending the non- supplantation and maintenance- of- effort provisions of Proposition 63 and requires voter approval. The Governor anticipates this initiative will be included in the June 2010 election.
- ◆ Automated Speed Enforcement Revenue — Increased revenues of \$337.9 million, which allows for a \$296.9 million General Fund reduction to the Trial Courts. In addition, these revenues would allow for a \$41 million augmentation for trial court security, which would address the trial court security funding shortfall. The new speed enforcement program would utilize red light violation monitoring systems to identify and fine persons speeding through intersections.
- ◆ Forensic Labs Fund Shift — Reduces by \$45.1 million by shifting support of the DOJ's regional forensic labs, including lease revenue debt service costs, by increasing penalty assessments. The proposed change would permanently raise an existing penalty assessment based on fines imposed for criminal offenses from \$1 to \$3, and broaden the use of the DNA Identification Fund to include DOJ's crime laboratory operations.

- ◆ Property Tax Shift — Funds \$350 million in trial court costs with property tax revenues resulting in a comparable level of General Fund savings.
- ◆ Science Center — Reduces by \$12 million General Fund resulting from charging an admission fee.

There are additional "alternative funding" items included in the budget. Both items included above and those omitted are also identified within their respective subject areas

It is worth noting that the Governor's budget does NOT include the sale of the State Compensation Insurance Fund (SCIF) as a revenue solution. The 2009-10 approved budget included \$1 billion in anticipated revenue from the sale of a portion of the SCIF. This sale has not yet materialized, but the Governor has not re-proposed this sale as part of his budget package.

SUMMARY OF CHARTS

2010-11 General Fund Summary (in millions)

	2009-10	2010-11
Prior Year Balance	-\$5,855	-\$3,863
Revenues and Transfers	\$88,084	\$89,322
Total Resources Available	\$82,229	\$85,459
Non-Proposition 98 Expenditures	\$51,432	\$46,811
Proposition 98 Expenditures	\$34,660	\$36,090
Total Expenditures	\$86,092	\$82,901
Fund Balance	-\$3,863	\$2,558
Reserve for Liquidation of Encumbrances	\$1,537	\$1,537
Regular Reserve (SFEU)	-\$5,400	\$1,021
Budget Stabilization Account	-	-
Final Reserve	-\$5,400	\$1,021

2010-11 General Fund Revenue Sources (in millions)

Source	Amount
Personal Income Tax	\$46,862
Sales Tax	\$25,851
Corporation Tax	\$10,052
Insurance Tax	\$1,897
Tobacco Taxes	\$101
Liquor Tax	\$354
Other	\$1,810
<i>Total</i>	\$86,927

General Fund Expenditures
(in millions)

	2009-10 Budget Act	Revised 2009-10	Proposed 2010-11	Change	% Change
Category					
Education (K-12)	36,319.40	35,954.30	37,382.20	1,427.90	0.04
Health and Human Services	29,939.50	29,897.50	27,494.40	-2,403.10	-0.08
Higher Education	6,461.10	6,468.60	6,693.10	224.50	0.04
Business, Transportation and Housing	2,034.30	1,934.60	538.90	-1,395.70	-0.72
Legislative, Judicial, Executive	3,369.40	3,352.90	3,160.40	-192.50	-0.06
General Government	955.30	948.30	1,054.50	106.20	0.11
Corrections and Rehabilitation	8,419.70	9,348.30	8,162.10	-1,186.20	-0.13
Resources	1,066.40	1,131.80	794.40	-337.40	-0.30
Environmental Protection	67.60	68.60	60.60	-8.00	-0.12
State and Consumer Services	562.90	558.40	581.20	22.80	0.04
Labor and Workforce Development	64.00	61.80	58.40	-3.40	-0.06
Total	89,259.60	89,725.10	85,980.20	-1,341.80	-1.23

K-12 EDUCATION

Proposition 98

2008-09 Fiscal Year (FY) Adjustments:

- ◆ Reduces Proposition 98 spending for the 2008-09 Fiscal Year (FY) by \$82.9 million, resulting in a funding level of \$49 billion. According to the Governor, this funding level matches the level of expenditures and is \$2.2 billion higher than the Governor's estimate of the minimum guarantee for 2008-09, which has fallen due to lower revenues. The Governor estimates that the 2008-09 minimum guarantee is now \$46.8 billion.
- ◆ Counts a portion of the \$2.2 billion "overappropriation" for the 2008-09 FY towards satisfying \$1.3 billion owed to schools in outstanding maintenance factor for the 2007-08 FY. Making this change lowers the minimum guarantee for the 2009-10 FY and the 2010-11 FY.

2009-10 FY Adjustments:

- ◆ Reduces current year Proposition 98 funding from \$50.4 billion to \$49.9 billion in order to fund at a projected lower minimum guarantee. This reflects a reduction of \$567.5 million or 1.2 percent less than was provided in the 2009-10 Budget Act.
- ◆ Delays the "in-lieu" maintenance factor payments for two years. This funding obligation was negotiated as part of the 2009-10 Budget Act to ensure schools receive \$11.2 billion over time, beginning in 2010-11. These payments will now be delayed until 2012-13.

2010-11 FY Adjustments:

- ◆ Provides \$50 billion for Proposition 98 for the 2010-11 FY to fund at the Governor's projected minimum guarantee. Specific adjustments:
 - ◆ Reduces school district and county office of education (COE) revenue limits by approximately \$1.5 billion in targeted reductions to administrative costs, including changes to contracting-out statutes.
 - ◆ Reduces school district and COE revenue limit and categorical programs by \$202.2 million due to lower Cost-of-Living adjustments.

- ◆ Reduces the K-3 Class Size Reduction program by \$550 million due to projected savings in the program.

- ◆ Suspends all K-12 mandates except costs associated with behavioral intervention plans (\$65 million), inter/intra district transfers (\$7.7 million) and the California High School Exit Exam (\$6.8 million).

- ◆ Proposes statutory changes to give local school districts the ability to layoff, assign, reassign, transfer or rehire teachers without regard to seniority and proposes to repeal statute that gives teachers who have been laid-off first priority for substitute assignments.

- ◆ Proposes statutory changes to teacher layoff notification requirements that allow layoffs to occur 60 days after the state budget is adopted or amended.

- ◆ Continues to allow schools to reduce the school year by up to five days through 2012-13 and suggests other reforms that are aligned with the federal Race to the Top initiative.

HIGHER EDUCATION

- ◆ Proposes to increase by \$224.5 million, or 3.5 percent, not including \$610 million in one-time General Fund offsets used in 2009-10. In 2009-10, Higher Education General Fund expenditures are \$5.9 billion and proposes to fund at \$6.7 billion in 2010-11.
- ◆ Intends to propose funding for Higher Education facilities in the May Revise. Notes that almost all bond funds that have been approved by voters for Higher Education are committed to projects.
- ◆ Proposes a Constitutional Amendment to earmark 10 percent of the state General Fund for "higher education," that consists of only the University of California and California State University, not California Community Colleges, beginning in 2014. These funds would be derived from savings by "privatizing" California prisons and contracting out for prison-related services, but forbids the state from releasing prisoners early in order to achieve the intended savings. The calculations required by this proposal would more than double the amount of General Fund support to UC and CSU by 2014, bringing their annual general fund appropriation amounts from a combined \$4.73 billion annually to over \$10 billion annually within a four-year period.

California State Library (CSL)

- ◆ Increases by \$769,000 for the costs of relocation during renovation (\$596,000) and the Integrated Library System Replacement Program (\$173,000).
- ◆ Increases \$560,000 in the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) bond funds to CSL to administer local grants for additional California Cultural and Historical Resource Preservation projects and to complete a survey required pursuant to Chapter 1126, Statutes of 2002.

University of California (UC)

- ◆ Increases \$305 million to backfill one-time reductions, which include \$255 million in reductions that were backfilled in 2009-10 by federal ARRA funds and additional \$50 million reduction, consistent with Government Code Section 99030 which contained specific reductions and revenue increases that were not to occur if the state received \$10 billion in additional federal funding to offset General Fund costs.

- ◆ Increases by \$51.3 million, for a 2.5 percent enrollment growth, that would fund approximately 5,121 Full-Time Equivalent Students (FTES).
- ◆ Increases Annuitant Benefits by \$14.8 million for UC, CSU, and Hastings College of the Law, of which \$14.1 million is for UC.
- ◆ Reduces \$5 million to reflect the original UC Merced phase-out plan for startup funding, but then proposes to increase by \$5 million to reflect a longer transition period resulting from lagging enrollments and higher-than-expected costs.
- ◆ Reduces \$2.7 million for expiring deferred maintenance loan repayments.
- ◆ Increases \$97.9 million in 2009-10 to reflect the mid-year 15 percent fee increase that was approved by the UC Regents in November. Includes the initially approved fee increases of 9.3 percent, systemwide undergraduate fees increased from \$7,126 in 2008-09 to \$8,373 in 2009-10. These increases also apply to professional and graduate students. Consistent with current policy, at least one-third of additional fee revenue will be set aside for institutional financial aid to preserve equitable access for low-income students.
- ◆ Increases by \$662.7 million in 2010-11 to reflect annualization of the mid-year fee increase plus an additional 15 percent increase approved by the UC Regents, based upon the estimated funded level of FTES. Systemwide undergraduate fees will increase from \$8,373 to \$10,302. Fee increases for professional schools at UC will range from 0 to 30 percent, and reflect establishment of a professional fee for seven additional disciplines.
- ◆ Decreases by \$600 million in 2010-11 to reflect the one-time nature of reimbursement estimated for the three higher education segments in the revised 2009 Budget Act. Further, 2009-10 decreases by \$152 million to conform the amounts budgeted for this segment.

California State University (CSU)

- ◆ Increases \$305 million to backfill one-time reductions, which include \$255 million in reductions that were backfilled in 2009-10 by federal ARRA funds and additional \$50 million reduction, consistent with Government Code Section 99030 which contained specific reductions and revenue increases that were not to occur if the state received \$10 billion in additional federal funding to offset General Fund costs.

- ◆ Increases by \$60.6 million, for a 2.5 percent enrollment growth, that would fund approximately 8,290 Full-Time Equivalent Students (FTES).
- ◆ Reduces \$1.9 million for expiring deferred maintenance loan repayments.
- ◆ Increases \$237.2 million in 2009-10 to reflect the 20 percent fee increase that was approved by Trustees in July. Includes the initially approved fee increases of 10 percent, systemwide undergraduate fees increased from \$3,048 in 2008-09 to \$4,026 in 2009-10. These increases also apply to professional and graduate students. Consistent with current policy, at least one-third of additional fee revenue will be set aside for institutional financial aid to preserve equitable access for low-income students.
- ◆ Increases by \$390.7 million in 2010-11 to reflect annualization of the mid-year fee increase and continuation of the current-year fee increases, based upon the estimated funded level of FTES. Systemwide undergraduate fees will increase from \$4,026 to \$4,429. These increases would apply to professional and graduate students. Fees increases for professional schools at UC will range from 0 to 30 percent, and reflect establishment of a professional fee for seven additional disciplines.
- ◆ Decreases by \$600 million in 2010-11 to reflect the one-time nature of reimbursement estimated for the three higher education segments in the revised 2009 Budget Act. Further, 2009-10 decreases by \$152 million to conform the amounts budgeted for this segment.

Hastings College of the Law (HCL)

- ◆ Reflects an increase \$8.1 million, or 22.5 percent increase, which has been approved by the HCL governing board. Enrollment fees will increase from \$29,383 to \$26,000.

California Student Aid Commission (CSAC)

- ◆ Proposes a Cal Grant Reform that reduces \$45.5 million to reflect suspension of new awards for the Competitive Cal Grant program, affecting access to 22,5000 students who are non-traditional, returning, and community college students.
- ◆ Proposes a net increase of \$197.4 million in 2010-11 in local assistance cost, including \$32 million to backfill the use of one-time Student Loan Operating Fund resources. It continues to fund the unanticipated current-year fee increases for UC and CSU (\$97.1 million), additional budget year fee increases of 15 percent for UC (\$59 million) and an assumed 10 percent budget year fee increase for CSU (\$19.5 million), that are partially

offset by a \$4.6 million reduction in estimated Assumption Program of Loans for Education (APLE) payment and other adjustments.

- ◆ Proposes a net increase of \$32.9 million in 2009-10 in local assistance reflecting increased costs in the Cal Grant program (\$37 million) resulting primarily from unanticipated undergraduate fee increases for CSU and UC that are partially offset by a reduction in estimated APLE payment (\$4 million).
- ◆ Restores \$4.3 million for CSAC state operations in 2009-10 and 2010-11 pursuant to Chapter 644, Statutes of 2009.
- ◆ Proposes a TANF Reimbursement shift, by taking \$18.3 million of local assistance Cal Grant costs from the General Fund to TANF reimbursements in the budget year. The TANF funds are available as a result of the 15.7 percent CalWORKs Grant reduction discussed in the Health and Human Services section.
- ◆ Proposes the California National Guard Education Assistance Award Program of \$1.7 million in 2009-10 and \$3.3 million in 2010-11, as a result of an interagency agreement with the Military Department to promote the pursuit of higher education and to provide education benefits to members of the California National Guard, pursuant to Chapter 12, Statutes of 2009, Fourth Extraordinary Session.

California Community Colleges (CCC)

- ◆ Increases by \$1.9 million the State Teachers' Retirement System for additional costs for CCC employees based on 8.2 percent of applicable payroll.
- ◆ Decreases by \$130 million in 2010-11 to reflect the one-time nature of reimbursement estimated for the three higher education segments in the revised 2009 Budget Act. The 2009-10 budget decreases by \$95 million to conform the amounts budgeted for this segment.
- ◆ Increases by \$12.1 million for 2009-10 and \$4.5 million in 2010-11 in estimated Lottery revenues.
- ◆ Increases by \$64,000 in federal funds to complete grant-funded activities that improve coordination of math and science related professional development improvements. Of this amount, \$6,000 is for state operations and \$58,000 is for local assistance.

- ◆ Increases reimbursement of \$6.2 million in 2009-10 as a result of a revised interagency agreement with the Department of Social Services. This increase allows the state to meet maintenance-of-effort requirements to leverage over \$275 million in TANF Emergency Contingency Funds for subsidized employment programs made available through ARRA.
- ◆ Increases reimbursement of \$1.7 million in 2009-10 and \$1.8 million in 2010-11, as a result of an interagency agreement with the California Energy Commission to expand college instructional programs in transportation technology and alternative fuels. Of these amounts, \$150,000 and \$250,000 are for state operations in 2009-10 and 2010-11, respectively, and \$1.5 million is for local assistance in each year.
- ◆ Offsets to General Fund Revenues – although current year property tax estimates increased by \$6.3 million, student fees and oil and mineral estimated decreased by \$9.8 million and \$1.6 million, respectively. As a result, the base apportionment deficit increases slightly from \$58 million to \$63.1 million.
- ◆ Increases by \$126 million for 2.2 percent growth in apportionments, sufficient to fund approximately 26,000 FTES.
- ◆ Decreases by \$48 million to reflect the one-time nature of the 2009-10 agreement to fund the Quality Education Investment Act's (QEIA) Career Technical Education (CTE) program through the proceeds of the 2009-10 Proposition 98 Guarantee. QEIA payments from settle-up funding resume in 2010-11, thereby providing the same level of funding in the budget year.
- ◆ Decreases by \$22.9 million to reflect a -0.38 percent cost of living adjustment for apportionment (-\$22.1 million) and applicable categorical programs (-\$786,000).
- ◆ Increases by \$39.3 million to offset estimated decreases in local property taxes (\$33.7 million), oil and mineral revenues (\$1.6 million), and student fee revenue (\$1.9 million); plus increased costs to compensate colleges for the Administration of fee waivers (\$2.1 million).
- ◆ Increases by \$2.1 million in estimated lease purchase payments.
- ◆ Increases by \$163 million to reflect the ongoing costs of the deferral of program funding for 2009-10. The appropriation for this purpose was made in Chapter 23, Statutes of 2009, Fourth Extraordinary Session, by revising the ongoing deferral appropriation from \$540 million to \$703 million.

- ◆ Holds student fees constant at the current level of \$26 per unit.

Child Care & Development (Proposition 98)

- ◆ Decreases by \$12.4 million to reflect expected savings in CalWORKs Stage 2 Child Care (\$9 million) and CalWORKs Stage 3 (\$3.4 million) caseload-driven programs based on revised estimates.
- ◆ Decreases by \$13.8 million to reflect revised estimates in the caseload-driven CalWORKs Stage 2 (\$12.6 million) and Stage 3 programs (\$1.2 million).
- ◆ Decreases by \$5 million in one-time funding appropriated for the phase-out of the program that was enacted in 2009-10.
- ◆ Increases by \$65.5 million to backfill Pre-School one-time funds used in the current year.
- ◆ Decreases by \$5.9 million to reflect a -0.38 percent cost-of-living adjustment for applicable programs.
- ◆ Proposes to decrease by \$77.1 million to reduce reimbursement rate limits in voucher-based programs from the 85th percentile of the market to the 75th percentile, based on the 2005 regional market rate survey, effective July 1, 2010. This proposal will also reduce the reimbursement rate limits for licensed-exempt providers from 90 percent of the ceilings for licensed family child care homes to 70 percent. This proposal affects all voucher programs, including the Alternative Payment Program (\$12 million), and the caseload-driven CalWORKs Stage 2 (\$37 million), and Stage 3 (\$28.1 million) programs.
- ◆ Reduces by \$122.9 million the CalWORKs Stage 3 Child Care to achieve additional ongoing Proposition 98 General Fund savings. Although Stage 3 has been funded in the past to continue care for all income-eligible CalWORKs families after their Stage 2 transitional entitlement has ended, Stage 3 is not an entitlement. Funding constraints require that Stage 3 must serve only the neediest families.

TRANSPORTATION

Alternative Transportation Funding Proposal

For 2010-11, the Governor's budget is proposing to eliminate the state sales tax on gasoline and increase the state excise tax on gasoline by 10.8 cents. This action is intended to provide \$1.8 billion in General Fund savings while keeping transportation programs whole. In order to achieve this, the proposal eliminates nearly a billion dollars in 2010-11 funding (the spillover account) otherwise eligible for state transit, cuts \$506 million from state transit programs and depends on a subsequent cut of \$878 million from K-12 education in order to realize General Fund savings targets.

In prior years, spillover revenue from the sales tax on gasoline that is designated for state transit programs has been used to offset General Fund costs (nearly a billion dollars in 2009-10). By eliminating the sales tax and shifting transportation funding to the state excise tax, the state will no longer be required to shift funding to the to the spillover account and because the elimination of the fuel sales tax will reduce statewide Proposition 98 "General Fund" revenue, the Proposition 98 guarantee will subsequently be reduced by \$836 million GF.

Though the basic structure of transportation funding will be shifted, this proposal will not have impacts in 2010-11 on transportation funding. However, because this proposal eliminates the state spillover account, it removes a funding source that could total around \$1 billion and otherwise be used for state transit. In total, funding for local transit will be reduced by \$506 million. Remaining transit expenditures total \$40 million and are as follows: \$36 million for capital projects; \$131 million for intercity rail; \$19 million for planning; and \$254 million for bond debt service. Lastly, by lowering the Proposition 98 guarantee and shifting special funds to service general obligation debt, this proposal will provide a total savings of \$1.8 billion in 2010-11 though the following actions:

Fund/Savings			Savings	Description
New	Excise	Tax	\$603 million	New excise tax revenue will be used to reimburse the General Fund for highway bond debt service costs.
Revenue/\$603 million				
State	Highway		\$72 million	Miscellaneous Caltrans revenues transferred to the PTA under prior law will instead be retained in the State Highway Account to offset a portion of Proposition 116 rail bond debt services.
Account				
Public Transit Account			\$311 million	PTA revenue from 2009-10 will be used for transit program bond debt in 2009-10 and 2010-11.
Proposition 98			\$836 million	The elimination of the sales tax eliminates General Fund revenues under Proposition 98 thus reducing the Proposition 98 guarantee by \$836 million.
Total			\$1.8 billion	

State Transit Assistance

- ◆ Includes \$350 million in Highway Safety, Traffic Reduction, and Port Security Bond Act funding for local transit projects. Funding for Proposition 1B can be used for Intercity Rail Improvements, Commuter and Urban Rail Improvements and projects nominated by local or state transportation officials.

Department of Transportation (Caltrans)

- ◆ Increases staffing by \$9.1 million and 71.3 positions to administer, plan and program Proposition 1B projects. Total funding from Proposition 1B will be nearly \$4 billion which is roughly equal to 2009-10 budget appropriations.
- ◆ Includes an annual increase of \$115 million for Public Private Partnerships. This funding can be used to pay state partners for a portion of the costs to construct and maintain new or rehabilitated portions of the state highways system.
- ◆ Includes \$680 million in new Grant Anticipation Revenue Vehicles (GARVEE) bonds to accelerate three major projects – Doyle Drive in San Francisco; State Route 10 and Interstate 605 interchange in Los Angeles, and State Route 710 rehabilitation in Los Angeles. Funding in this proposal will be split between \$495 million for project costs and \$185 million in federal funds debt service over the next 12 years.
- ◆ Augments \$57.3 million (Special Funds) to retrofit 147 vehicles and replace 288 vehicles to comply with state and federal air quality mandates.

- ◆ Saves \$12.5 million (multiple funds) by shifting the costs of developing Project Initiation Documents for local projects to local agencies.

High Speed Rail

- ◆ Includes \$956 million (\$581.4 million - Proposition 1A/ \$375 million Federal ARRA funding) and 25.7 positions to move forward with environmental planning and preliminary engineering and to begin purchasing land on which portions of the high speed rail system will be built. In prior years, the High Speed Rail Authority (HSRA) has operated primarily with contracted staff. This proposal would be the first year in which the HSRA operates primarily through in-house staff.

California Highway Patrol

- ◆ Augments Highway Patrol officer staffing by \$17.8 million (MVA) and 180 new positions.
- ◆ Increases state revenues by \$337.9 million, \$296 million to be used by the courts, by using red light camera technology statewide to identify and ticket vehicles breaking the speed limit.

HUMAN SERVICES

In-Home Supportive Services

- ◆ Reduces funding for the In-Home Supportive Services (IHSS) program by \$77.9 million in 2009-10 and \$872.6 million in 2010-11 through the following proposals, proposed to go into effect June 1, 2010:
 - Reintroduces the Governor's 2009 May Revision proposal to limit IHSS services to consumers with a Functional Index Score (FI) of 4.0 and above, thereby eliminating services for 87 percent of the caseload, reducing the caseload from 485,000 consumers to 63,000. The adopted 2009-10 Budget included elimination of all services for consumers with an FI of below 2.0 and domestic and related services for those with an FI of below 4.0. These changes based on consumer need have been enjoined in pending litigation and are not in effect.
 - Reduces state participation in wages of IHSS workers to the state minimum wage of \$8.00 per hour, plus \$0.60 per hour for health benefits. The adopted 2009-10 Budget included reduction in state participation in wages from \$12.10 per hour (combined wages and benefits) to \$10.10 per hour. This change has also been enjoined in pending litigation and is not in effect.

The Governor's proposals for IHSS assume that the state prevails in litigation for both subjects – reductions based on functional need of the consumer and the reduction in the level of state participation in wages.

CalWORKs

- ◆ Reduces funding for the CalWORKs program through the following proposals, proposed to go into effect June 1, 2010:
 - Reduces monthly grant payments by 15.7 percent, taking the maximum grant for a family of three in a high-cost county from \$694 to \$585, for a loss of \$109 per month. In a low-cost county, this would reduce the maximum grant from \$661 to \$557, for a loss of \$104 per month. This reduction provides savings of \$47 million in 2009-10 and \$539 million in 2010-11, which does not account for the change under the federal ARRA.
 - Reduces the level at which the state reimburses child care providers, producing \$54.8 million in the Department of Social Services savings

effective July 1. Additional savings of \$77.1 million are represented in the California Department of Education's budget. Additionally, there is an unallocated reduction of \$123 million in Proposition 98 funds for Stage 3 child care.

- Eliminates the Recent Noncitizen Entrants program, which provides benefits to legal immigrants who have been in the United States for less than five years. This elimination affects approximately 24,000 individuals. This reduction provides savings of \$3.3 million in 2009-10 and \$55 million in 2010-11.

Supplemental Security Income/State Supplementary Program

- ◆ Reduces the Supplemental Security Income/State Supplementary Program (SSI/SSP), which provides a basic living benefit to the aged, blind, and disabled population, effective June 1, 2010 by \$21.8 million in 2009-10 and \$285.2 million in 2010-11 by the following:
 - Reducing SSI/SSP grants for individuals to the federal minimum by \$15 per month from \$845 to \$830, resulting in \$13.7 million in 2009-10 and \$177.9 million in 2010-11. SSI/SSP grants for couples are already at the federal minimum. Federal law requires that the state SSP portion of the grant be maintained at or above its 1983 level. Failure to comply with the MOE requirement would result in the loss of all federal Medicaid health care program funding. This change affects approximately 1 million individuals.
 - Eliminates the Cash Assistance Program for Immigrants (CAPI), which provides state-only benefits to 10,800 legal immigrants who are not eligible for federal benefits, resulting in \$8.1 million in 2009-10 and \$107.3 million in 2010-11.

Food Assistance

- ◆ Eliminates the California Food Assistance Program (CFAP), which provides state-only benefits to 37,000 legal immigrants not eligible for federal Food Stamp benefits, effective June 1, 2010, producing \$3.8 million in 2009-10 and \$56.2 million in 2010-11.

Alcohol and Drug Treatment

- ◆ Eliminates funding for the Substance Abuse Offender Treatment Program, producing \$18 million in General Fund savings.

Proposition 10

- ◆ Redirects \$550 million in Proposition 10 funds from the California Children and Families Commission to backfill and save General Fund elsewhere. This results from a one-time sweep of \$308 million from state and local reserves and a five-year shift of approximately 50 percent of the Prop. 10 revenues currently directed to state and local accounts, producing \$242 million in 2010-11. Implementation of this requires voter approval and the Governor proposes including this in the June 2010 election.

County Child Welfare

- ◆ Proposes to use the county savings, estimated at \$505.5 million General Fund, associated with the IHSS and CalWORKs reductions above to fund revised state and county sharing ratios in Child Welfare Services, Foster Care, and the Adoptions Assistance Programs.

Federal Funds Trigger

- ◆ Proposes additional reductions totaling \$1.9 billion General Fund, effectuated by the elimination of the CalWORKs program, IHSS, and Transitional Housing Program-Plus (THP-Plus), if significant federal revenues aren't received by the state. If these programs are eliminated as a result of this federal funds trigger being pulled, \$325 million in resulting county savings would be reinvested in administration of the Food Stamp Program. This federal funds trigger mechanism is detailed in a separate section of this report. Please see page 5.

Centralizing Eligibility and Enrollment for Public Assistance

- ◆ Includes a proposal to create a modern online process to improve access to health and human services programs, resulting in savings as high as \$1 billion (\$500 million General Fund) annually by 2012-13. Accounting for the costs of this change and detail on how program savings are derived is not yet known. Trailer bill language enacted as part of the 2009-10 Budget required the development of a comprehensive plan with stakeholder involvement to consider ways to increase efficiencies in programs without increasing program costs.

HEALTH CARE SERVICES

Department of Health Care Services (Medi-Cal)

- ◆ Proposes the following programmatic changes for savings of \$750 million: 1) limits on services and utilization controls; 2) increased cost-sharing via co-payments and premiums; and 3) "other programmatic changes."
- ◆ Eliminates full-scope Medi-Cal for legal immigrants who have been in the United States less than five years, except pregnant women, PRUCOL, and Amnesty Immigrants for savings of \$118 million. Takes effect March 1, 2010.
- ◆ Eliminates Adult Day Health Care benefits for savings of \$104 million. Takes effect March 1, 2010.
- ◆ Reduces children's coverage for savings of \$240 million.
- ◆ Reduces rates paid for family planning services and restores them to 2007 levels for savings of \$28.7 million. Takes effect March 1, 2010.
- ◆ Increases funding by \$54.9 million to cover costs of managed care expansions into Ventura, Mendocino, Lake, Madera, and Kings Counties.
- ◆ Assumes savings of \$26.4 million (including the associated administrative costs) from anti-fraud efforts.
- ◆ Delays one "checkwrite" to institutional providers for savings of \$55 million.
- ◆ Expresses intent to achieve reauthorization of the Quality Assurance Fee assessed on nursing homes which currently sunsets on July 31, 2011.

Managed Risk Medical Insurance Board (Healthy Families)

- ◆ Reduces Healthy Families Program eligibility from 250 to 200 percent of the federal poverty level for savings of \$10.5 million in 2009-10 and \$63.9 million in 2010-11. Assumes corresponding savings of \$3.9 million in the California Children's Services (CCS) program due to decreased enrollment via Healthy Families eligibility.
- ◆ Eliminates vision coverage and increases monthly premiums for families with incomes between 151 and 200 percent of the federal poverty level

from \$16 to \$30 per child, and from \$48 to \$90 maximum per family, for savings of \$21.7 million.

Department of Public Health

- ◆ Reduces by \$9.5 million for the elimination of ADAP services to county jails.
- ◆ Reduces ADAP by \$37.7 million in rebate funds, which will be restored to the ADAP Rebate Fund, and will be fully backfilled with General Funds.
- ◆ Shifts \$36 million on a one-time basis from the Proposition 99 reserves to offset costs in Medi-Cal.
- ◆ Reduces \$5.2 million from the Breast Cancer Control Account for the Every Woman Counts (breast cancer screening) program.
- ◆ Restores \$18 million in General Funds for the Immunization Program.
- ◆ Increases \$3.8 million in funding for the Infant Botulism Treatment and Prevention Fund state operations to begin manufacturing the next lot of BabyBIG (Human Botulism Immune Globulin).

Department of Mental Health

- ◆ Reduces \$452.3 million in General Fund to be substituted with funding from the Mental Health Services Act (Proposition 63) for the EPSDT program and the Mental Health Managed Care program. Requires voter approval.

Department of Developmental Services

- ◆ Reduces the Regional Center Services budget by \$200 million in FY 2010-11. A substitution is proposed with Proposition 10 funding to provide developmental services to children up to age five. However, the implementation of this proposal requires the passage of a voter initiative.

Trigger Cuts

In addition to the cuts detailed above, by department, the following health-related cuts are proposed if California does not receive an additional \$6.9 billion in federal funds:

- ◆ Reduces Medi-Cal eligibility to the minimum allowed under federal law and eliminates remaining optional benefits for savings of \$532 million.
- ◆ Eliminates the Healthy Families Program for savings of \$126 million.

- ◆ Eliminates "various health services programs" funded by Proposition 99 for savings of \$115 million.
- ◆ Reduces mental health services funding by \$847 million with the intent to replace this funding with Proposition 63 funding.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

California Department of Forestry and Fire Protection

- ◆ Reduces \$32 million (General Fund) from CAL FIRE's emergency fire suppression costs in 2009-10 due to lower forecasted needs per the state's historical average.
- ◆ Funds \$200 million of CAL FIRE's fire protection program beginning in 2011-12 from the Emergency Response Initiative. The initiative will charge a 4.8 percent statewide surcharge on all residential and commercial property insurance policies.

Department of Fish and Game

- ◆ Restores \$30 million (General Fund) to restore one time fund shift of an equal amount from the Fish and Game Preservation fund in 2009-10.
- ◆ Reduces \$5 million (General Fund) from recreational hunting and fishing programs such as habitat management, support for sport hunting, and fisheries management for marine and freshwater sport fishing.
- ◆ Increases Wardens staffing by \$2 million (Fish and Game Preservation Fund) and 6.7 positions.

Department of Resources, Recycling and Recovery

- ◆ Makes significant changes to the Beverage Container Recycling Program by: augmenting the program from the repayment of prior year loans -- \$54.8 million in 2009-10 and \$98.2 million in 2010-11; eliminating industry targeted expenditures from the program; and charging a fee with the California Redemption Value (CRV) to cover the costs of recycling containers once General Fund loans are paid back in 2013-14.
- ◆ Shifts staffing from the California Waste Management Board and the Division of Recycling from the Department of Conservation to the new Department of Resources, Recycling and Recovery (CalRecycle) established pursuant to the 2009-10 budget. The 2010-11 budget reflects a \$2 million spending reduction as a result of this consolidation

State Parks and Recreation

- ◆ Shifts \$140 million ongoing in funding for State Parks from the General Fund to revenue generated from the Tranquillon Ridge oil lease. This proposal increases funding for parks by \$27 million over last year's budget and assumes that the Tranquillon Ridge lease will be approved by the State Lands Commission. If the lease is not approved, additional legislation to authorize the project will be required.

Sacramento-San Joaquin Delta Conservancy

- ◆ Provides \$1.329 million and 6.6 positions for the Sacramento-San Joaquin Delta Conservancy state operations (\$829,000 General Fund for staffing, \$500,000 reimbursements) and \$49 million for the Delta Stewardship Council (\$5.9 million general fund, \$39.5 million Prop 1E, and \$2.6 million from federal and other funds).

Delta Stewardship Council

- ◆ Provides \$49 million and 55.1 positions for the new Delta Stewardship Council (\$5.9 million general fund, \$39.5 million Prop 1E, and \$2.6 million from federal and other funds).

Department of Water Resources

- ◆ Increases \$210.8 million from various bond funds for FloodSAFE program activities.
- ◆ Increases \$22.6 million (State Water Project and Proposition 84 funds), for recreational and fish and wildlife enhancements at State Water Project facilities. This proposal also includes amendments To the Davis Dolwig Act to clarify the Legislatures constitutional appropriation authority and provides an annual transfer of \$7.5 million from the Harbors and Watercraft Fund to DWR for boating related recreation and fish and wildlife enhancements.

State Water Resources Control Board

- ◆ Shifts \$6.4 million in funding from the General Fund to increased fee revenue for Water Rights, Irrigated Lands and National Pollutant Discharge Elimination System programs.
- ◆ Augments \$158 million from the Underground Storage Tank Cleanup Fund (USTCF) resulting from the enactment of Chapter 629, Statutes of 2009.

These funds will be used to reimburse claims that have previously been approved but were not paid due to insufficient funding in prior years

- ◆ Augments \$5.5 million and 32 positions to increase enforcement and investigation units at the Board for the Delta pursuant to the recent Delta Legislation Package.

PUBLIC SAFETY

Corrections and Rehabilitation

- ◆ Proposes \$176.2 million to fund projected changes in the adult inmate and parole populations, and to augment the amount provided to pay local jurisdictions that temporarily house inmates on the behalf of the Department of Corrections and Rehabilitation (CDCR).
- ◆ Reduces \$16.2 million and \$4.8 million Prop 98 General Fund due to projected changes in the state juvenile institution and parole populations, the closure of the Heman G. Stark Youth Correctional Facility, and the use of revised staffing standards.
- ◆ Proposes \$613.1 million in 2009-10 and \$359.2 million in 2010-11 to reflect revised savings estimates associated with prison reforms assumed in the 2009 Budget Act. Not all of the statutory changes assumed in the Budget Act were enacted by the Legislature, the legislation that was enacted was passed later in the year than the Budget Act assumed, and the CDCR is not on course to achieve savings that were assumed from operational changes within the Administration's authority.
- ◆ Proposes \$519.1 million in 2009-10 and \$532.2 million in 2010-11 to fund contract medical expenditures and implement various portions of the Receiver's Turnaround Plan, which includes additional nursing resources, improving information technology infrastructure, and establishing an electronic medical records system.
- ◆ Reduces \$811 million of support for the Receiver's Medical Services Program to reduce per-inmate medical costs to a level comparable to other states' correctional health care programs. In 2008-09, California spent an average of \$11,627 per-inmate compared to New York at approximately \$5,757 per-inmate, Pennsylvania at approximately \$4,418 per inmate, and Florida at approximately \$4,720 per-inmate. The Administration proposes to achieve this reduction by such measures as: reducing over-utilization of the medical services program, reducing clinician salaries, reducing referrals to outside providers, increasing use of telemedicine, reducing clinical staff to inmate ratios to levels comparable to other states, and reevaluating the classifications that provide medical services.
- ◆ Reduces \$879.7 million by assuming California will be successful in obtaining full reimbursement from the federal government for the cost of incarcerating undocumented immigrants who commit crimes.

- ◆ Reduces \$291.6 million by proposing statutory changes to modify sentences for specific non-serious, non-violent, non-sex offenses (including drug possession) to be punishable by one year imprisonment in local jails.
- ◆ Reduces \$41.3 million and \$6.7 million Proposition 98 General Fund due to proposed statutory changes to reduce the juvenile offender population by restricting the age of jurisdiction to 21, transferring offenders to adult institutions, and limiting time-adds.
- ◆ Reduces \$92.8 million in 2009-10 and 2010-11, pursuant to Control Section 4.04, to remove the inflation adjustment that was included in the 2009-10 Budget.
- ◆ Reduces \$358 million in Reimbursement Authority to reflect the expiration of American Recovery and Reinvestment Act (ARRA) funds.

Judicial Branch

- ◆ Proposes \$100 million to restore previous one-time reductions included in the 2009 Budget Act.
- ◆ Proposes \$17.9 million to fund trial court employee retirement costs and employee and retiree health benefit costs.
- ◆ Reduces \$17.4 million by delaying, for one year, implementation of the Guardianship and Conservatorship Reform Act.
- ◆ Proposes a new speed enforcement program to utilize red light violation monitoring systems to fine persons speeding through intersections. This new program projects increased revenue of \$337.9 million, which will allow for a \$296.9 million General Fund reduction and a \$41 million augmentation for trial court security.
- ◆ Shifts \$350 million in trial court costs from the General Fund to support from property tax revenues.
- ◆ Proposes \$35 million (\$30 million from the State Court Facilities Construction Fund and \$5 million in Reimbursement Authority) for the Judicial Branch to continue Trial Court Modifications authorized by Chapter 311, Statutes of 2008.

Department of Justice

- ◆ Reduces \$53.9 million to reflect the conversion of General Fund legal service clients to billable status. The funding will be allocated to departmental clients via a new Budget Act Control Section.
- ◆ Reduces \$45.1 million by shifting support of DOJ's regional forensic labs from the General fund to revenue created by increasing penalty assessments based on fines imposed for criminal offenses from \$1 to \$3 dollars. Additionally, the uses of the DNA Identification Fund is broadened to include DOJ crime lab operations.

Local Public Safety

- ◆ Increases Local Public Safety and Protection Account funds by \$21.2 million for allocations to counties that operate juvenile camps and ranches.

GENERAL GOVERNMENT

Labor & Workforce Development

- ◆ Decreases General Fund expenditures by \$3.4 million, or 5.5 percent.
- ◆ Automated Collection Enhancement System – increases by \$24.6 million to implement the Employment Development Department's Automated Collection Enhancement System (ACES). The tax revenue increase associated with implementation of ACES is estimated to be \$42.1 million General Fund for 2010-11.
- ◆ Division of Labor Standards Enforcement Fund Shift – reduces by \$21.6 million General Fund to be replaced with \$21.7 million from the Labor Compliance and Enforcement Fund for the full-year implementation of increased employer fees established in 2009-10.
- ◆ Employment Development Department October Benefit Estimate – The October Revise reflects Unemployment Insurance benefit payment decreases of \$6.8 billion in the current year and \$11.6 billion in the budget year and a Disability Insurance benefit payment decrease of \$42.4 million in the current year and an increase of the number of individuals receiving benefits has continued to increase, the May 2009 benefit payments were overestimated; these adjustments project the updated estimated need for benefit payments.
- ◆ Employment Opportunities Initiative – increases by \$230 million the Employment Training Panel (ETP) to implement a program to assist employers and employees to rebuild California's workforce. Of these funds, \$140 million will be available to employers and training providers that deliver training for unemployed and underemployed individuals, as well as for employment expansion and job retention. Reimbursement for the cost of training would be provided after the person has been gainfully employed for three months and would be calculated based on current ETP reimbursement rates.
- ◆ Proposes that the balance of the \$90 million would be available to provide a \$3,000 incentive to employers to hire and retain an unemployed individual. To be eligible for the incentive, the employee must be retained for a total of nine months. Over the life of this initiative, a total of \$500 million would be provided to expand employment opportunities in California, resulting in 140,000 individuals obtaining higher paying jobs and providing 100,000 currently unemployed individuals with a job.

State Controller

- ◆ Provides \$30.7 million (General Fund) to continue implementation of the 21st Century Project, which would replace the existing statewide employment history, payroll, leave balance accounting, and position control systems.

Secretary of State

- ◆ Provides \$68.2 million to reimburse counties for costs incurred for the May 19, 2009 Statewide Special Election.

Board of Equalization

- ◆ Restores \$9.9 million for revenue collection activities, which is expected to generate an additional \$90 million (General Fund) in 2010-11.
- ◆ Provides \$4.4 million and 55 positions to expand tax enforcement activities at agricultural inspection stations by increasing from one to four inspection stations. These inspection stations allow the BOE to attain documentation from commercial trucks bringing taxable property into the state. This allows the BOE to determine if appropriate taxes have been paid for those materials.

Franchise Tax Board

- ◆ Proposes \$14.7 million and 158 temporary positions to address an existing backlog in processing returns. This temporary increase in staffing is expected to generate \$50 million (General Fund) in 2010-11.
- ◆ Proposes \$7 million and 38 positions to continue implementation of the Enterprise Data to Revenue (EDR) project. This project will enhance FTB's filing, audit, and collections activities by creating a new data warehouse accessible by all branches of FTB. This project is expected to generate \$20 million (General Fund) in 2010-11 by providing resources to clear a backlog of business entity tax returns.

Department of General Services

- ◆ Reduces State Capitol Repair and maintenance by \$5.4 million (General Fund). Necessary repair and maintenance of the Capitol would have to be funded through the Legislature's budget.

- ◆ Increased revenue (one time) of \$289 million (General Fund) for the sale of state-owned buildings. The state will enter into long-term lease agreements to retain space in those buildings, and the proposed budget includes authority to increase expenditures as necessary based on actual final leasing costs. This sale was approved in Chapter 20, Statutes of 2009 (AB 22, Fourth Extraordinary Session, Evans).

California Science Center

- ◆ Reduces the Science Center General Fund budget by \$12 million, but replaces those funds by imposing an admission fee.

Department of Consumer Affairs

- ◆ Proposes \$12.8 million for enforcement and oversight of licensees in health-related profession.

Local Government Funding

- ◆ Proposes \$90.8 million (General Fund) for interest payments on bonds that were sold by local governments to backfill the \$1.9 billion borrowed by the state pursuant to Proposition 1A of 2004. In the legislation authorizing the suspension of Proposition 1A, the state agreed to pay the interest costs associated with bonds sold to securitize the state's repayment of the borrowed funds.
- ◆ Reduces funding provided to local entities by \$11.8 million (General Fund) based on elimination of the backfill of Vehicle License Fee Revenue that was provided when the state changed the manner in which weight-based fees are assessed for commercial truck trailers.

Department of Housing and Community Development

- ◆ Proposes \$131 million in Proposition 1C housing bonds.
- ◆ Includes \$108,000 and 1 position to improve education, training and outreach on green building standards for housing.

Williamson Act Subventions

- ◆ Continues to effectively suspend funding for Subventions of Open Space reimbursement to local governments. The Governor vetoed essentially all remaining funds in this item from the 2009-10 budget.
- ◆ Proposes an increase of \$1 billion in the California Public Employees' Retirement System to fund benefit payments for state annuitants.
- ◆ Proposes an increase of \$879.8 million in the California State Teachers' Retirement System to fund benefit payments for retired teachers.
- ◆ Proposes a one-time increase of \$3 million, available for three years, for Proposition 11 (Citizens Redistricting Initiative) activities.

Office of Planning and Research

- ◆ Proposes elimination of the Office of Planning and Research by transferring functions and resources to the newly created California Agency on Services and Volunteering and the State Inspector General. Additionally, functions will be transferred to the Resource Agency, Business, Transportation and Housing Agency, Office of the State Chief Information Officer, Governor's Office, Housing and Community Development, and State and Consumer Services Agency.
- ◆ Reduces \$2.1 billion in Federal Fund Authority to remove one-time ARRA funding.

California Emergency Management Agency (CalEMA)

- ◆ Increases budget by \$792,000 for an additional five administrative support positions in the Emergency Response Fund.

Veterans Affairs

- ◆ **Veterans Homes Workload Adjustment.** Increases the Department Budget by \$8.3 million and 97.2 positions to activate business operations and begin admissions at the Veterans Homes in West Los Angeles, Lancaster, and Ventura (GLAVC). This amount includes an additional increase of \$11.7 million for the full-year cost of GLAVC implementation which began in 2009-10.
- ◆ **Veteran Homes.** Increases funding by \$2.3 million and 16.9 positions to ensure that all aspects of construction and business operations are

compliant with federal, state and local laws at the Veterans Homes in Redding and Fresno.

California Law Revision Commission and Commission on Uniform State Laws

- ◆ Reduces funding by \$666,000 for the California Law Revision and \$148,000 for the Commission on Uniform State Laws. This results in both Commissions now being funded by the Legislature.

Office of Administrative Law

- ◆ Reduces funding by \$1.7 million and substitutes fees and services provided to other entities.

Employees Compensation

- ◆ The furloughs implemented under the Governor's emergency authority in 2009-10 resulted in one-time savings of \$1.1 billion General Fund. Funding is restored to department budgets in 2010-11 consistent with the anticipated end of the furlough program adopted as a part of the 2008 and 2009 revised budget.
- ◆ **Workforce Cap.** Reduces funding by \$449.6 million achieved through a five-percent increase in salary savings, to be implemented by July 1, 2010 by Agency Secretaries and Department Directors. Attrition will be the primary factor in increasing salary savings.
- ◆ **Lower Cost Health Care.** Reduces funding by \$152.8 million in health care costs beginning January 2011 achieved by contracting for lower-cost health care coverage either directly from an insurer or through CalPERS.
- ◆ **Health and Dental Benefits for Annuitants.** Reduces funding for Health and Dental Benefits for Annuitants by \$98.1 million for pre-funding and post-employment benefits.

Statewide Expenditures

- ◆ Employee Compensation. Increases funding by \$938 million in 2010-11 for removing one-time savings in 2009-10 by shifting June 2010 payroll costs to July 2010 and each June and July thereafter.
- ◆ Increases the California Public Employees' Retirement System Contributions by \$130 million above what was budgeted in order to fund \$1.9 billion in fiscal year 2010-11 resulting from the changes in workforce and investment losses suffered through June 30, 2009.

- ◆ Increases in pre-funding for Health and Dental Benefits for Annuitants by \$98.1 million.

Chief Information Officer

- ◆ Increases by \$16 million special funds and 394.0 positions to reflect increase workload and the transfer of the employees in the Public Safety Communications Division from the Department of General Services to the Office of the Chief Information Officer.

Other expenditures

- ◆ Increases by \$6.4 million in 2009-10 and \$51.4 million in 2010-11 (General Fund) the amount allocated for interest costs related to loan repayments. The state has borrowed significantly from special funds over the past several years, and some programs dependant on those funds require early repayment of those loans.
- ◆ Proposes \$10.5 million to support oversight of ARRA funds. \$3.2 million is expected to be recovered from federal ARRA funds, with the remainder coming from the General Fund. The Governor proposes to distribute these funds as follows: \$4 million to the Governor's "California Recovery Task Force", \$3.4 million to the Governor's Inspector General, \$2.4 million to the State Controller, and \$700,000 to the Bureau of State Audits.
- ◆ Increases expenditures for debt service by \$376 million (General Fund) to reflect the projected sale of General Obligation bonds and lease revenue bonds to fund infrastructure projects. This amount includes a shift of approximately \$200 million in debt service costs from 2009-10 to 2010-11.