CALIFORNIA
Senate
Republican Caucus

Updated
Highlights and Analysis of the 2009-10 Budget

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SENATE REPUBLICAN FISCAL OFFICE

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Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

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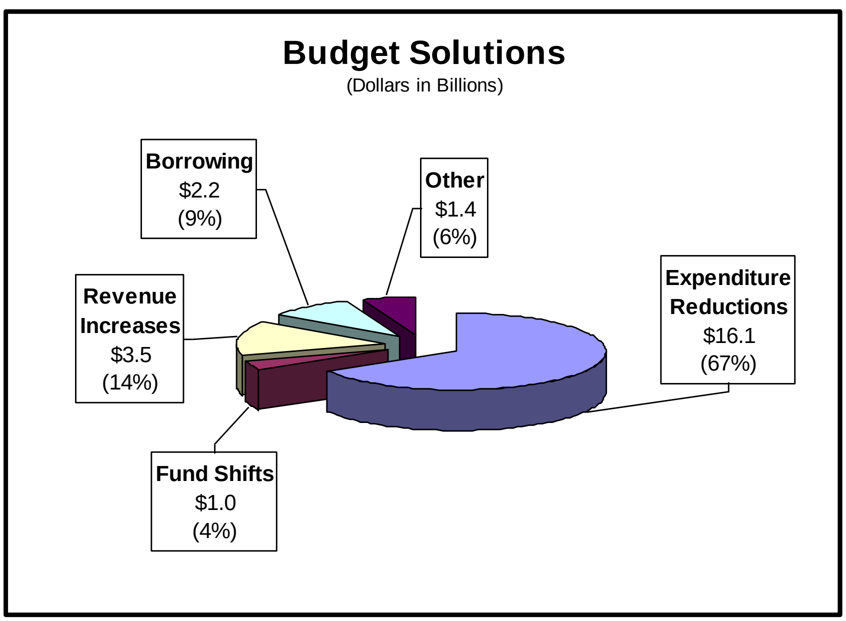
July 28, 2009

Executive Summary

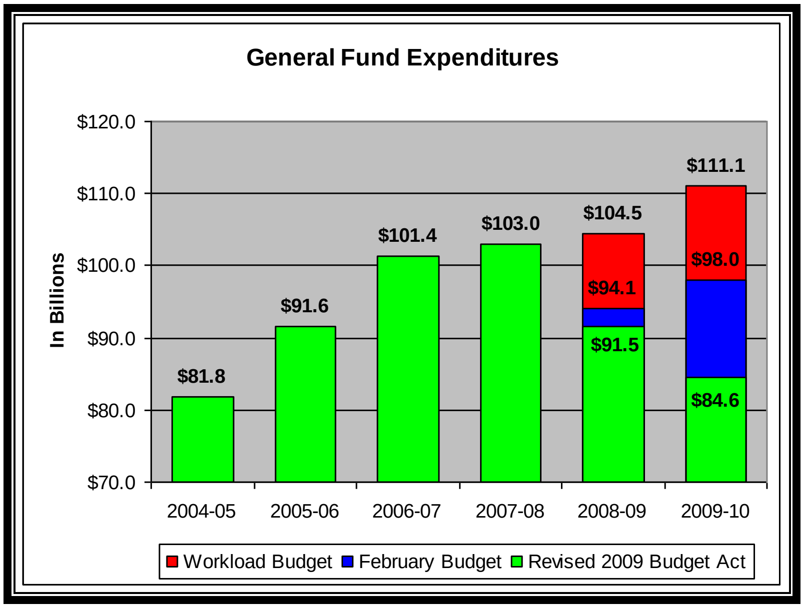
On February 20, 2009 the Governor signed the 2009-10 Budget Act and related budget measures that addressed the combined 2008-09 and 2009-10 "budget problem" of $39.5 billion General Fund. At that time it was clear that the budget plan would have to be revisited after the May Revision because of continued economic weakness and a variety of "budgetary risks."

As anticipated since the February enactment of the 2009-10 Budget Act, the state budget has fallen back out of balance. The revised state General Fund revenue and expenditure forecasts indicate that a new budget gap of $23.1 billion has emerged (about $7.1 billion in 2008-09 and $16 billion for 2009-10). The revised 2009-10 Budget Act includes a combination of major spending reductions, some revenue increases, fund shifts and borrowing – but **no new taxes** – to make up the budgetary shortfall. Including about $657 million additional spending reductions via Governor's veto authority, the budget is balanced with a reserve of approximately $500 million. The following charts reflect the current solution allocations:



Major Expenditure Reductions. The revised budget plan reflects over $16.1 billion in proposed expenditure reductions, the vast majority of which ($8.5 billion or 53 percent) impact K-14 and Higher Education. However, nearly $8 billion of these reductions ***will be offset*** by increased federal economic stimulus funds – thus the actual programmatic impact will be mitigated. Of the remaining $7.1 billion in spending reductions, nearly $3.3 billion impact Health and Human Services programs, $786 million comes from an unallocated reduction to Corrections and Rehabilitation, and $1.7 billion is a shift from Redevelopment Agency funds to offset General Fund expenditures. The remainder impacts Courts, Employee Compensation and variety of General Government programs.

Expenditure Comparison. Under the revised 2009-10 Budget Act, state General Fund expenditures are about $84.6 billion, which is significantly lower than the 2005-06 spending level of $91.6 billion and approaches the $81.8 billion spending level for 2004-05.



Borrowing Proposals. A significant component of the revised budget plan involves borrowing. The largest element of borrowing is nearly $2 billion from local governments pursuant to Proposition 1A (2004), which allows the state to borrow up to eight percent of local government property taxes and requires repayment (with interest) within three years. *(see Local Government section on page 7)*

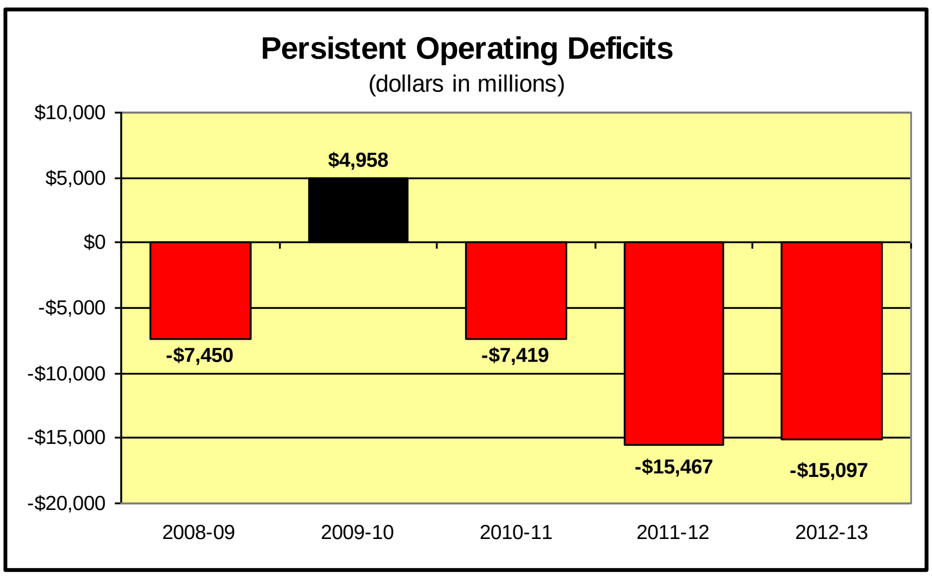
Revenues. The revised 2009-10 Budget Act anticipates total available General Fund resources (revenues and transfers) of nearly $89.5 billion. This includes over $2.6 billion from accelerating collection of personal and corporate income taxes, a variety of fund shifts and fee increases, and it assumes the Governor's proposal to obtain $1 billion via sale of a portion of the State Compensation Insurance Fund (SCIF) to a private entity. (*See General Fund Revenues section on page 5*).

Reforms for the Long Term Fix. In addition to major spending reductions that address the structural deficit, the 2009-10 budget plan includes reforms that should save billions of dollars and significantly reduce the size of future budget deficits. These include reforms, long sought by Republicans, in state welfare programs (CalWORKs and In-Home Support Services [IHSS]) that will reduce costs and fraud. Also, prospective changes in the administration of the State's Medi-Cal, CalWORKs and Supplemental Nutrition Assistance Program through the development of a new centralized eligibility determination and enrollment system that will be more efficient than the multiple different systems currently operated by county welfare departments. Additional reforms include enhanced cost containment from the expansion of Medi-Cal Managed Care, the elimination of many statutory Cost of Living Adjustments (COLAs) that drive state expenditures, streamlined Information Technology procurement processes, and structural changes that will allow better state asset management (*see Reforms section on page 29*).

Budget Threats. Annual budget projections are always subject to uncertainty and most state budgets contain assumptions that fail to materialize. This budget plan assumes billions of General Fund savings from several proposals that face legal and other challenges. For example, 1) the sale of the State Compensation Insurance Fund ($1 billion) is subject to an uncertain market place and potential legal challenges; 2) The shift of Redevelopment Agency funds ($1.7 billion) will be subject to a lawsuit; 3) the use of gasoline sales tax "Spillover" funds ($877 million) to pay for past and current General Fund transportation bond debt is currently being challenged in court; 4) the budget assumes nearly $800 million of savings from Corrections and Rehabilitation despite the fact that this state department has been operating in a deficit mode for the past decade; and 5) it anticipates $1 billion of additional federal funds to offset cost in the Medi-Cal program if the state can successfully resolve several long running disputes with the federal government. Taken together, these actions represent $5.4 billion of "solutions" that address the budget gap, and if they fail to materialize the budget will be out of balance yet again.

Future Deficits. Given the magnitude of the state's structural budget deficit, it is unlikely that even the major spending reductions and significant reforms enacted as part of this budget plan will be sufficient to prevent future deficits from occurring. No official (Department of Finance or Legislative Analyst Office) projections for 2010-11 and beyond are yet available but it is likely those deficits will be in the $10-$20 billion range.

Updated Operating Deficits. According to the Department of Finance's multi-year projections, the state will continue to face large annual operating deficits (growing to $15.5 billion in 2011-12). As shown in the table below, General Fund revenues and transfers will exceed expenditures in 2009-10 by nearly $5 billion. However, given the $7.5 billion operating deficit that materialized in 2008-09, and the negative beginning balance in 2009-10, the state's budgeted General Fund reserve for 2009-10 is only about $500 million. Following a positive year in 2009-10 expenditures will continue to outpace revenues each year through 2012-13. Cumulatively, these deficits will be nearly $38 billion.



Conclusion: This new state budget plan relies primarily on expenditure reductions to balance the budget (nearly 70 percent of total solutions), but additional revenues plus some new borrowing and fund shifts are included to fully close the budget gap. It also lays the groundwork for implementing major reforms in the most costly health and human services programs, which Republicans have been seeking for years. However, there are significant budgetary threats as noted above, and it is almost certain that multi-billion dollar budget deficits will re-emerge in 2010-11 if not sooner. Additional reforms, such as pension reform, will be critical to solving the long term structural budget deficit. Further, in order to increase state revenues without new taxes in the future it is clear that California must create a more "business friendly" environment that encourages investment in the state and creates jobs.

General Fund Revenues

The revised 2009-10 Budget Act is based on total available General Fund revenues and transfers of approximately $89.6 billion. Baseline General Fund revenues at the 2009 May Revision were projected to be $88.8 billion for 2009-10, but those estimates declined rapidly as a result of weakening global, national, and state economies. Within weeks of the Governor releasing the May Revision, the Legislative Analyst's office indicated that May Revision estimates optimistic and potentially $3 billion over-estimated.

In order to mitigate rapidly declining General Fund revenues, the Administration and the Democrats proposed a multitude of revenue accelerations and other increases totaling $8.2 billion in 2009-10 to shore up the General Fund. Following multiple rounds of negotiations, the final budget package includes approximately $3.5 billion of revenue solutions, including $1 billion from the proposed sale of a portion of State Compensation Insurance Fund Book of Business.

Of the $3.5 billion in revenue solutions in 2009-10, $2.3 billion equates to one-time revenues that result from borrowing from taxpayers. This does not increase tax liability, but it requires tax payers to provide advance tax payments to the state. Effectively it is a forced, no interest loan to the state.

- <u>$1.7 billion in 2009-10</u> ($98 million in 2010-11) related to increasing personal income tax withholding by ten (10) percent. For wages earned on or after October 1, 2009 this budget (1) increases personal income tax withholding by 10 percent, (2) increases the rate of withholding for supplemental wages from six percent to 6.6 percent, and (3) increases the rate of withholding for stock options and bonus payments that constitute wages from 9.3 percent to 10.23 percent.
- <u>$610 million in 2009-10</u> ($95 million in 2010-11) related to revising the schedule for personal income and corporate income tax estimated payments. For taxable years on or after January 1, 2010, revises the "estimated payments" structure from 30/30/20/20 to 30 percent, 40 percent, zero percent, and 30 percent for the 1st, 2nd, 3rd, and 4th quarter payments, respectively.

In addition to revenue accelerations, the revised 2009-10 Budget Act includes about $58 million of tax "enforcement" measures, including:

- <u>$26 million in 2009-10</u> ($123 million in 2010-11) related to requiring non-retailers to register with the Board of Equalization and report and pay by April 15, the use tax owed for purchases made during the year. This section would not apply to the purchase of a vehicle, vessel, or aircraft. Opponents point out that this measure is a new mandate on employers and requires them to expend time and money in order to identify these taxpayers and to withhold more taxes from them or be liable for the unheld taxes. California Chamber of Commerce notes that the requirement will cost companies $1 million to $2 million to implement; due to the computer reprogramming that will be needed.
- <u>$32 million in 2009-10</u> ($32 million in 2010-11) related to conforming to federal income tax backup-withholding rules related to various non-wage payments. Requires withholding at a rate of seven percent for California purposes whenever it is required for federal purposes with respect to rents, prizes and winnings, compensation for services, including bonuses, and other fixed or determinable annual or periodic gains, profits, and income. This action could result in an increase in the level of recordkeeping that would be required of taxpayers subject to the mandatory reporting requirement. It is the first step toward establishing a framework for the state to begin auditing for Use Tax, and subjecting taxpayers to interest and penalties for underreporting Use Tax if they have not kept adequate records to support their claims on the return.

No New Taxes

Republicans successfully eliminated a number of taxes and fees from the conference budget proposal. The following proposals were removed from the final budget package.

- Homeowners Insurance Tax, which would have increased homeowners' insurance premiums to support the Governor's Emergency Response Initiative.
- Increased car tax proposal saving taxpayers $500 million in 2009-2010.
- Abusive Tax Shelter Definition Penalties.
- Financial Institutions Records Match project that would have provided the Franchise Tax Board with access to private financial records of individuals.
- Independent Contractor 3 percent income tax withholding.
- Revocation of professional and occupational licenses for late taxes.
- Sales tax "nexus."
- Hospital taxes.

Local Government Issues

The revised 2009-10 Budget Act includes approximately $3.7 billion of funding shifts from local governments to the state to support state spending. However, this budget package goes a long way to mitigate the negative impact of these shifts on the operation of local governments.

Proposition 1A (2004) Suspension. The revised 2009-10 Budget Act borrows nearly $2 billion of property taxes from local governments pursuant to Proposition 1A of 2004. Proposition 1A prohibits the transfer of ad valorem property taxes to the state for state expenditures, but allows the state to borrow up to eight percent of local government property taxes that are not dedicated to Proposition 98 education. Repayment is required, with interest, within three years of the suspension.

In order to mitigate the negative impact on local governments that rely on property taxes for local services, the budget package authorized a Joint Power Authority (JPA) to issue bonds and purchase Proposition 1A "receivables" from cities and counties. In addition, the authorizing legislation appropriated sufficient funds to cover ALL costs, including interest, related to the securitization of Proposition 1A "receivables." As a result, local governments should be held harmless during the borrowing period.

Redevelopment Agency (RDA) Fund Shift. The revised 2009-10 Budget Act shifts $1.7 billion in property tax increment revenues from RDAs to the Supplemental Educational Revenue Augmentation Fund (ERAF) for school districts in 2009-10 ($350 million in 2010-11), thereby benefiting the General Fund. This budget package also provides flexibility for RDAs to meet the transfer obligation either through suspending the 20 percent deposit requirement for Low- and Moderate-Income Housing Funds and/or entering into agreements with related cities or counties to pay a portion or all of these obligations on behalf of the RDA.

This proposal is similar to the $350 million shift that was included in the 2008-09 Budget Act, which was enjoined by the Superior Court of California because "procedures used to distribute the transferred funds from ERAFs to schools…provide no assurance that the funds will be distributed to schools serving students within the redevelopment project area or will otherwise benefit the project." Note that this shift may also become the subject of litigation, as the California Redevelopment Association (CRA) has indicated that the court decision regarding the $350 million transfer in 2008-09 did not address all of the CRA's contentions against the state. As such, the CRA believes that this shift continues to be unconstitutional.

Notable Issues Not Included in the Revised 2009 Budget Act
In the waning hours of the Senate Floor Session, the Senate approved three measures that were subsequently rejected or not taken up by the Assembly.

Highway Users Tax Account (HUTA) Fund Shift and Repayment (ABX4 30 and ABX4 24). This $971 million solution would have redirected state gasoline and diesel excise tax revenues from local entities to offset state General Fund obligations related to transportation debt service payments. This proposal would have had exemptions for cities that did not receive Proposition 1B bond funds and for city and county hardship cases in fiscal year 2009-10 only. By rejecting this shift and subsequent repayment, the Assembly did not achieve approximately $1 billion of solutions that were planned for the revised 2009-10 Budget Act.

RDA Securitization (ABX4 27). The Senate also approved a proposal that would have authorized RDAs to extend the time limits on the effectiveness of the redevelopment plan by 40 years in exchange for volunteering to annually transfer ten (10) percent of tax increment revenues (after meeting the 20 percent low/mod housing requirements) to the ERAF, and would have established public trust to securitize the annual transfer payments. Proponents believe that securitizing the new transfer payment would generate at least $7.4 billion of one-time revenues to offset state costs ($3 billion was assumed for the 2009-10 budget).

This proposal also included trigger provisions that would render it inoperative under certain conditions. In order to maintain operability:

- The I-Bank would have to certify on or before December 1, 2009 that bonds or other indebtedness would generate $7.4 billion for deposit into the State Educational Revenue Augmentation Fund on or before June 30, 2010, and
- The state's courts would have had to make a finding by December 1, 2009 that these provisions comply with the constitution and that there is no legal bar to the securitization of the payments by redevelopment agencies to the state.

If the trigger is pulled, making the securitization proposal inoperative, this bill would authorize the suspension of Proposition 1A (2004) and the state would borrow approximately $2 billion of property tax revenues from local governments. And, the state would continue its planned loan of HUTA funds to the General Fund for state purposes.

Absent this proposal, the trigger is effectively pulled. As a result of inaction by the Assembly on the above two proposals, the revised 2009-10 Budget Act will borrow approximately $2 billion from local governments pursuant to suspending Proposition 1A (noted above).

Education

Falling Revenues Reduce Proposition 98 Minimum Guarantee. The continued erosion of revenues driven by the state's deepening recession has necessitated spending reductions in every area of the budget, including education. The following chart summarizes Proposition 98 spending over four years:

Proposition 98 Spending for K-14 Education

($ in billions)	2006-07	2007-08	2008-09	2009-10
Prop 98 guarantee	$55.2	$56.6	$49.1	$50.4
Other spending for base Prop 98 programs	$0.0	$0.9	$5.0	$4.9
	$55.2	$57.4	$54.1	$55.3
(actual $)				
K-12 per-pupil spending -- Prop 98	$8,270	$8,609	$8,029	$8,340
K-12 per-pupil spending -- all funds[1/]	$11,449	$12,109	$11,402	$12,199

Notes:

[1/] includes funding from all sources, not just those displayed above

Dollars are displayed "programmatically" (in the year in which they are expected to be spent)

The information in this chart was provided by the Legislative Analyst's Office

2008-09 Prop 98 Actions. Because the Proposition 98 guarantee of spending for K-14 education is tied to General Fund revenues, the 2008-09 guarantee continued to fall after enactment of the February budget, to $49.1 billion by the end of the fiscal year. This resulted in an "overappropriation" of about $1.6 billion. As part of the effort to close the state's structural budget deficit, these funds, which had not yet been allocated to schools, are reverted to the General Fund by one of the education trailer bills, ABX4 3.

That same measure also "closes the books" on several past fiscal years and locks in a Proposition 98 "maintenance factor" obligation of about $11.2 billion ($1.4 billion of which already existed, and $9.8 billion of which was associated with 2008-09). The statutory establishment of the maintenance factor obligation was met with significant resistance based on its similarity to Proposition 1B, which was just rejected by the voters in May 2009. However, as the Administration notes, if 2008-09 turns out to be a "Test 3" year (which the Department of Finance believes will be the case), then the state will owe the $11.2 billion regardless, in which case the action will ultimately have little real effect.

2009-10 Prop 98 Actions. Falling state revenues have also driven a decrease in the 2009-10 Proposition 98 guarantee, from an estimated $54.9 billion in February 2009 to $50.4 billion in July 2009. The adjustments made to reduce spending to the minimum required by law mostly notably include:

- $2.4 billion reduction to K-12 school apportionments (general purpose "revenue limits"). "Deficit factors" were created to track these reductions, which signals an intention to eventually restore revenue limit funding as new funds becomes available in future years.

- $1.7 billion deferral of payments to K-12 schools from 2009-10 to 2010-11.
- $282 million augmentation in funding for home-to-school transportation (to fund the program consistently with other categorical programs, after its special fund support was redirected to another purpose)
- $334 million reduction to Community College categorical program funding
- $185 million reduction to Community College enrollment growth funding
- $120 million unallocated reduction to Community College funding

Enhanced Flexibility. The revised budget offers additional flexibility to enable K-12 schools and Community Colleges to survive this lean budget environment by redirecting funds to the highest locally-determined priorities. The most significant actions in the omnibus education trailer bill (ABX4 2) include:

- **Instructional materials.** Suspends the requirements that local educational agencies (LEAs) buy newly-adopted instructional materials and that the State Board of Education adopt such materials through 2012-13.
- **Charter schools.** Prohibits school districts from retaining funding intended for charter schools, authorizes funding that reflects changes in charter school attendance, and prohibits school districts from redirecting charter schools' funding during the flexibility period. Clarifies that new schools, including charters, are eligible to apply for categorical funding during the flexibility period (with the caveat that the statutorily-authorized redirection of unspent funds to cover deficiencies in the charter school categorical block grant shall not be used to restore "across the board" reductions made to *all* categorical programs). Starting in 2009-10, authorizes forward funding of the Charter School Facility Grant Program, which was previously funded on a reimbursement basis.
- **Option for shorter school year.** For 2008-09 through 2012-13, permits school districts to reduce the number of school days (or the equivalent instructional minutes) by five days, from 180 per year to 175, while maintaining longer year incentive funding for those districts that currently receive it.
- **K-12 ending balances.** Authorizes LEAs to use funds remaining in various accounts as of June 30, 2008, for any educational purpose.
- **Deferred maintenance.** For 2008-09 through 2012-13, specifies that school districts will not be required to make the usual deposits (1% of general fund expenditures) into their deferred maintenance funds if they maintain their facilities in good repair, and suspends the requirement that districts provide local matching funds.
- **Proceeds from the sale of surplus property.** Permits school districts, through 2011 and under specified conditions, to sell surplus property and use the proceeds for any one-time general fund purpose.
- **'Extreme hardship' facilities funding.** For 2008-09 through 2012-13, relaxes the conditions under which a school district may be granted "extreme hardship" deferred maintenance funding.

- **Reserves for economic uncertainty.** For 2009-10, permits school districts to reduce their "reserves for economic uncertainties" to one-third of the amounts normally required to be held.

- **Flexibility cleanup: class size reduction.** For 2008-09 through 2011-12, specifies that local educational agencies are eligible to receive class size reduction funding for the same number of classes for which they had applied to receive funding as of January 31, 2009. This is intended to ensure that the state does not pay for a higher level of participation than existed before flexibility was initially provided in February 2009.

- **Flexibility cleanup: CalSAFE, adult education, supplemental instruction, and ROCPs.** Establishes a basis for the funding of the CalSAFE program for pregnant and parenting teens, and for the adult education, supplemental instruction, and regional occupational centers and programs (ROCPs) operated by county offices of education throughout the flexibility period. Average daily attendance in these programs could change substantially, depending on how school districts choose to spend their flexible categorical funds, but the funding stream for these programs will be stable through 2012-13.

- **Community Colleges – categorical flexibility.** Establishes authority for Community College districts to move funds between specified categorical programs, similar to the authority already provided to K-12 schools.

Other budget actions. In addition to the reductions and flexibility actions noted above, the revised budget makes several other significant changes, including:

- **School district fiscal transparency reduced.** For the 2009-10 fiscal year, prohibits county superintendents and the State Superintendent of Public Instruction from assigning a qualified or negative certification to a school district if that certification is associated with the loss of one-time federal economic stimulus funds. *Republicans opposed this action, which will obstruct the state's ability to track the fiscal condition of school districts and will potentially result in a raft of "surprise" emergency apportionments in subsequent years.*

- **Special education students exempted from CAHSEE.** Commencing in 2009-10, exempts certain students with disabilities from the requirement to pass the California high school exit exam (CAHSEE) as a condition of graduation from high school.

- **Community College fees return to $26/unit.** Effective with the fall term of 2009, increases student fees at the California Community Colleges from $20/unit to $26/unit, the same level in effect from 2004 through 2006. This will generate about $80 million to support the operation of the system, and California's community college fees will *still* be the lowest in the nation.

- **Quality Education Investment Act (QEIA) funding suspended.** Creates $450 million in one-time General Fund savings by suspending the scheduled 2009-10 QEIA "settle-up" payment. For K-12 schools, authorizes $402 million in base 2009-10 Proposition 98 funding in lieu of QEIA funding, reduces 2009-10 revenue limit funding by the same amount, and authorizes schools whose revenue limit funding was reduced to apply for federal Title I funding. For Community Colleges, authorizes $48 million in base 2009-10 Proposition 98 funding in lieu of QEIA funding (all of which will be spent for career technical education) and increases deferrals by the same amount to "make room" for the CTE funding.

Update to the QEIA funding. SB 84 (Steinberg) was gutted and amended on Sept. 10, 2009 (the day before session recessed), to permit the $402 million revenue limit reductions to QEIA local education agencies *only* upon determination by the Superintendent of Public Instruction and Director of the Department of Finance that an equivalent amount of federal or state funds that can be used for general purposes has been made available to those local educational agencies. This majority vote, last-minute bill violates the July 2009 budget agreement and exposes the state to an additional $400 million General Fund expenditure.

Federal stimulus funds should ease the pain of state reductions. The state's budget crisis would have required substantial reductions in state funding for education, regardless of the availability of federal funds. Fortunately, however, California expects to benefit from almost $8 billion in federal "stimulus" funding over the next two years, which should provide some relief to K-12 schools, community colleges, and universities. Specifically, California is likely to receive:

- $4.9 billion in general purpose fiscal stabilization funds. The breakout of these funds among K-12 schools, Community Colleges, UC, and CSU is pending the Administration's revised federal application; it should be finalized by August 2009.
- $1.3 billion for special education
- $1.1 billion in Title I funding for low-income students and English learners
- $346 million in "School Improvement Grants" for low-performing schools (a categorical program similar to the High Priority Schools program referenced earlier)
- $220 million for child care and development programs
- $71 million for education technology
- $14 million for homeless student programs
- $13 million for child nutrition

In addition, California can compete for a share of the $250 million available nationwide for state longitudinal data systems, and the $200 million available nationwide for teacher incentive grants.

Federal "Race to the Top" funding in jeopardy. In addition to the stimulus funding referenced above, the federal Department of Education recently announced that $4.35 billion will be made available nationwide for "Race to the Top" grants to states who take specific actions toward education reform. However, federal Education Secretary Arne Duncan has warned that states who bar the use of student test scores to evaluate teachers, as California does, are risking those funds. Statutory language enacted at the behest of the teachers' union in 2006 states that "Data in the system may not be used . . . for purposes of pay, promotion, sanction, or personnel evaluation of an individual teacher or group of teachers, or of any other employment related decisions related to individual teachers." Thus, if California does not eliminate that statutory prohibition, it may be disqualified from receiving a share of these funds.

Higher Education

To help bridge the gap between state revenues and expenditures, the revised budget reduces 2008-09 General Fund support of the University of California and the California State University by a total of about $1.4 billion and 2009-10 General Fund support by a total of about $566 million, spread evenly between them. These reductions will be partially offset by expected federal stimulus funding of at least $600 million each for UC and CSU. The following chart summarizes final funding levels for UC and CSU across three fiscal years:

Higher Education Funding
selected funds -- $ in millions

	2007-08	2008-09[3]	2009-10
UC			
General Fund	$3,257.4	$2,417.5	$2,636.2
Fee revenue[1]	1,593.1	1,734.7	1,903.1
Lottery	25.5	26.8	26.8
Federal stabilization funds[2]	0.0	268.5	331.5
	$4,876.0	$4,447.4	$4,897.6
CSU			
General Fund	$2,970.6	$2,154.3	$2,338.0
Fee revenue[1]	1,176.3	1,251.3	1,540.2
Lottery	58.1	44.6	44.6
Federal stabilization funds[2]	0.0	268.5	331.5
	$4,205.1	$3,718.7	$4,254.3

[1] Systemwide fees, including 9.3% increase at UC and 32% increase at CSU
[2] Estimates, pending federal approval of revised state application
[3] Amounts reflect reversions in 2009-10 budget bill

The information in this chart was provided by the Legislative Analyst's Office

Student Fees. To mitigate the loss of state funds, both the UC Board of Regents and the CSU Board of Trustees have chosen to increase student fees. System-wide fees in 2009-10 will be $7,788 for resident undergraduates at UC and $4,026 for those at CSU, up from $7,126 and $3,048 respectively in 2008-09. Even at the higher levels, CSU fees remain among the lowest of any comparable four-year college in the nation, and UC fees remain below the average of comparable research universities nationwide.

Student Financial Aid. The revised budget replaced $32 million of General Fund support for CalGrants with support from the Student Loan Operating Fund, for one-time General Fund savings of the same amount. However, it did *not* include any of the Governor's proposed reductions to CalGrant funding, which would have lowered General Fund costs by about $288 million, nor did it include his proposal to decentralize the administration of student financial aid programs from the Student Aid Commission to individual campuses across the state, which he believes could lower General Fund costs by $2 million in 2009-10 and $4 million annually thereafter. In response, the Governor vetoed $6.3 billion from the Student Aid Commission's state operations budget, of which $4.3 billion was set aside for restoration contingent on enactment of legislation to decentralize the administration of student financial aid programs. The other $2 billion represents expected savings associated with the decentralization of that function.

Health

The budget revision package for 2009-10 includes General Fund savings actions totaling about $2.2 billion for health-related programs. The single largest savings action is a shift of $1 billion from the General Fund (GF) to new federal funds that the budget assumes the state will receive for the Medi-Cal Program in 2009-10. Savings for each department are discussed below. The budget's best opportunities for long-term improvements in health programs are found in reform actions related to expanding coordinated care models and in developing a statewide eligibility and enrollment system. These reforms are discussed separately in this report (*See "Reforms" section on page 29*).

The health budget actions also include an increase of $492 million GF to reflect the voters' rejection in the May special election of Propositions 1D and 1E, which would have shifted that amount of GF spending to a combination of Proposition 10 and Proposition 63 special funds. In addition, the budget package reflects various adjustments for program caseloads, federal funds changes, and other amendments.

Department of Health Care Services (DHCS)

The budget package includes General Fund savings of $1.4 billion in 2009-10 for Medi-Cal and other health programs as a result of the following policy changes:

- **New Federal Funds Assumed—**A shift of $1 billion from the General Fund to new federal funds for Medi-Cal in 2009-10 that the budget assumes the state will receive if it can successfully resolve several on-going funding disputes with the federal government.
- **Freeze Medi-Cal Rates for Nursing Facilities—**Generates savings of $69 million GF by freezing Medi-Cal rates paid to skilled nursing facilities and certain other long-term care facilities. Skilled nursing facilities pay a fee under the AB 1629 program that the state uses to obtain federal matching funds and pay higher rates to those facilities and certain other long-term care facilities. This freeze would apply to facilities that participate in the AB 1629 program and those that do not.
- **County Administration Reduction**—A Governor's veto reduction of $61 million GF to the amounts that Medi-Cal pays to county welfare departments to administer the eligibility and enrollment process.
- **Medi-Cal Pharmacy Savings Actions—**Generates combined savings of $51 million GF in 2009-10 through a combination of pharmacy cost reductions:
    - ***HIV/AIDS Drug Rebates:*** Requires manufacturers of HIV/AIDS drugs to provide the state with rebates of at least ten percent on those drugs or have their products subjected to a prior authorization requirement.
    - ***Maximum Allowable Ingredient Cost:*** Revises the standards for Medi-Cal to apply the MAIC, one of the upper payment limits that Medi-Cal may use to determine the payment rate for generic drugs.
    - ***Pharmacy Upper Billing Limit:*** Establishes a new upper billing limit that pharmacies may charge Medi-Cal for prescription drugs. The new limit would be the lower of (1) the lowest overall price paid to the pharmacy by other third-party payers in California, excluding Medi-Cal managed care plans and Medicare Part D plans, or (2) the lowest price routinely offered to any segment of the general population. The DHCS argues that other third-party payers have contracts with pharmacies that provide lower reimbursement rates than those paid by Medi-Cal.
    - ***Use of "340b" Drug Prices:*** Requires providers that are able to obtain drugs at deeply discounted federal 340b prices to bill to dispense those drugs to Medi-Cal enrollees when possible and bill Medi-Cal only those low rates for the drugs. Payment rates authorized by Medi-Cal are generally higher than 340b prices, and DHCS contends that some entities who

are able to obtain drugs at 340b prices sell those drugs to Medi-Cal at the higher rates instead of passing along their savings.

- **Proposition 99 Fund Shifts—**Savings of $50 million by replacing GF spending for Medi-Cal outpatient services with Prop 99 funds previously allocated to other health programs. This amount includes a reduction of $22 million in Prop 99 funds that were used to provide additional reimbursement to emergency room physicians for uncompensated care costs. Other programs from which Prop 99 will shift are described in their respective departments.
- **Increased Anti-Fraud Efforts—**Savings of $36 million GF through greater efforts targeting physician and pharmacist fraud. Additional staff positions are necessary for this action.
- **Community-Based Clinic Reductions—**$35 million in GF savings (including $25 million vetoed by the Governor) through the following reductions to clinic programs:
    - $13.5 million GF reduction to the Expanded Access to Primary Care (EAPC) clinic program. Also, the budget shifts $3.9 million in Proposition 99 funds from this program to replace GF in other Medi-Cal outpatient payments. These reductions leave $10 million in Prop 99 funds available for the program.
    - $8.2 million reduction to eliminate the Rural Health Services grants.
    - $6.9 million reduction to eliminate Seasonal Migratory Worker grants.
    - $6.5 million reduction to eliminate American Indian grants.
- **Medi-Cal Adult Day Health Center Benefit—**Savings of $22 million GF in reduced costs for adult day health care (ADHC) benefits by setting a cap of three days of service per week, freezing ADHC rates, and performing on-site treatment authorization. The weekly cap would be in place temporarily until DHCS establishes new, stricter medical necessity criteria that beneficiaries would need to meet in order to use this benefit.
- **Reduction to Hospital Reimbursements—**$18 million in one-time GF savings by shifting $6 million in special funds for distressed private hospital reimbursement to the GF and by redirecting additional GF payments that otherwise would be paid to distressed hospitals that meet certain guidelines and apply for one-time funding.
- **Reduction to Certain Supplemental Payments—**$18 million in GF savings through a ten percent reduction to private hospital supplemental payments known as Disproportionate Share Hospital replacement payments.
- **Additional Revenue from Skilled Nursing Facilities—**$17 million in new GF revenue by including Medicare revenues in the base on which skilled nursing facilities pay fees under the AB 1629 program. Currently, these facilities exclude their Medicare revenue when calculating how much they owe. Medi-Cal will pay back $4.9 million of this amount in the form of higher Medi-Cal rates, resulting in a net GF benefit of $12 million in 2009-10. The administration estimates the annual net benefit to be over $20 million GF.
- **Eliminate State-Only Mental Health Payments—**Savings of $14 million GF by eliminating state-only payments for ancillary health services provided in Institutions for Mental Disease. Individuals receiving these services are generally not Medi-Cal eligible, but the state was paying for these services due to a billing system error.
- **Rate Reduction for Some Small and Rural Hospitals—**Generates $7 million in GF savings through a ten percent reduction in Medi-Cal payment rates for certain non-contract small and rural hospitals. The 2008-09 budget included the same reduction for all non-contract hospitals with the exception of small and rural hospitals. However, small and rural hospitals that qualify as federal Critical Access Care hospitals or Rural Referral Centers will continue to be exempt from this reduction.
- **Electronic Verification of Social Security Numbers (SSNs)—**Permits the Medi-Cal Program to seek to match applicants' SSNs with an electronic federal database in order to verify eligibility for full-scope Medi-Cal benefits. This process is expected to result in a decrease in eligibility processing costs $6.6 million GF.
- **Genetically Handicapped Persons Program (GHPP)—**Generates GF savings of $2.1 million through a combination of (1) increasing enrollment fees for GHPP beneficiaries with incomes above 200 percent of the federal poverty level, (2) authorizing DHCS to pay premiums to enroll

GHPP beneficiaries in private health care coverage when cost-beneficial to the state, and (3) adding provisions to avoid “crowding out” private insurance.

- **Lead Construction Program—**Provides for General Fund savings of $500,000 in 2009-10 through the one-time use of funds from the Occupational Lead Poisoning Prevention Account for the Lead Construction Program. Also establishes a new special fund to receive existing fee revenue for the lead-related construction accreditation.

Department of Public Health (DPH)
The budget package includes GF savings $160 million in 2009-10 for DPH as a result of various reductions and fund shifts, including the following policy changes:

- **HIV/AIDS Funding—**Reduces funding by $86 million GF (including $52 million by Governor’s veto) for various HIV/AIDS programs. This includes a fund shift of $25 million from GF support for the AIDS Drug Assistance Program (ADAP) to the AIDS Drug Rebate Fund, as well as a reduction of $3.4 million for 18 positions and other administration costs within the Office of AIDS. However, the Legislature rejected a Governor’s proposal to save $2.3 million GF by implementing premiums for ADAP enrollees with incomes higher than 200 percent of the federal poverty level. Despite GF savings in this area, total funding for ADAP is budgeted to increase from $356 million in 2008-09 to $414 million in 2009-10, an increase of over 16 percent, due to an increase of $79 million in the AIDS Drug Rebate Fund.
- **Immunization Assistance—**A one-time reduction of $18 million GF for the Immunization Assistance Program, which will be replaced with increased federal funds from the economic stimulus package.
- **Maternal and Child Health (MCH) Programs—**Generates GF savings of about $24 million (including a $12 million veto) through the following actions:
  - The elimination of GF support totaling $17 million for the Black Infant Health, Adolescent Family Life, Local County MCH, and Provider Training programs
  - A $3.5 million reduction to MCH state operations (including Birth Defects Monitoring)
  - A shift of $3 million from GF to the federal MCH block grant for the CCS program.
- **Domestic Violence Program –** Eliminates grant funding of over $20 million GF for domestic violence shelters, including a Governor’s veto of $16.3 million.
- **Richmond Laboratory Modifications—**Savings of $3 million GF by delaying certain modifications for biosafety laboratories.
- **Alzheimer’s Research Centers—**A reduction of $3 million, or 50 percent, to state funding provided for these centers.
- **Children’s Dental Disease Program—**Saves $2.9 million GF by eliminating the program, which provides prevention and education services to lower-income children. Many of these children continue to be eligible for dental services through Medi-Cal or the Healthy Families Program.
- **Small Water System Fees -** Raises $1.5 million (special funds) in new fee revenue by updating the fee schedule for about 7,000 small public water systems that DPH regulates. This action has no GF impact.

Managed Risk Medical Insurance Board (MRMIB)
The budget authorizes reductions of $179 million GF related to programs operated by MRMIB, as follows:

- **Healthy Families Program—**The budget package reduces funding by $174 million GF for the Healthy Families Program (including a veto of $50 million) and directs MRMIB to establish a waiting list for the program to achieve these savings if necessary. The MRMIB indicates that it would need to begin disenrolling children from Healthy Families upon their annual eligibility renewal date if other means of achieving the savings are not found, such as alternate sources of funding or reductions to program benefits. The First 5 Commission is expected to provide some funds, but the amount is not yet known.

Update for the Healthy Families Program. On September 3, 2009, the Legislature passed AB 1422 (Bass) to partially restore a budget reduction for HFP. Other actions taken since the 2009-10 budget enactment also will provide new funding or savings to help HFP meet its reduced budget without limiting program enrollment.

AB 1422 Raises Revenue and HFP Premiums. In order to offset part of the HFP budget reduction, AB 1422 would both raise new state revenue and increase the premiums that families must pay in order to participate in HFP.

First, AB 1422 would raise $157 million in new revenue by expanding an existing gross premiums tax to include Medi-Cal managed care plans. Currently, insurance plans (including health, auto, and other types of insurance) pay a gross premiums tax of 2.35 percent, but managed care plans pay corporate tax instead. Medi-Cal managed care plans would now pay the gross premiums tax in addition to their current taxes. The state would use $60 million of the new revenue to obtain additional federal matching funds and make increased payments totaling $157 million to Medi-Cal managed care plans. The remaining $97 million of the new revenue would be available for HFP.

In addition, AB 1422 would generate GF savings of $5.5 million by increasing the premiums that families in the two highest income tiers pay to participate in HFP.

Other HFP-Related Actions. Besides the steps that AB 1422 would implement, two other actions are expected to help HFP adjust to its reduced budget. On August 13, 2009, the independent First Five Commission committed to making up to $81 million available in 2009-10 to HFP enrollees who are five years old or younger. Also, MRMIB approved several actions administratively on August 27, 2009, to generate HFP savings of up to $12 million GF, including increases to various copayments and restructuring delivery of the dental benefit.

- **Major Risk Medical Insurance Program (MRMIP) Transfer—**Decreases the transfer of tobacco tax revenue from Proposition 99 for MRMIP in 2009-10. This frees up $6.6 million to offset other GF spending for Medi-Cal. (The GF savings are reflected in the Medi-Cal budget).
- **Access for Infants and Mothers (AIM) Fund Shift—**Decreases Prop 99 funds allocated to AIM by $4.9 million in order to shift these funds to offset GF spending in Medi-Cal. (The GF savings are reflected in the Medi-Cal budget).
- **Certified Application Assistance—**A reduction of $4.6 million GF associated with providing incentive fees for community organizations that assist with joint applications for Medi-Cal and Healthy Families.

Department of Developmental Services (DDS)

The budget includes new GF savings of $284 million in 2009-10 through a variety of cost shifts and program savings. In addition, language enacted as part of the budget package provides the specific means to achieve an unallocated reduction of $100 million GF adopted as part of the February budget package. In addition, the budget adds back $265 million GF to reflect the voters' rejection in the May special election of Proposition 1D, which would have shifted these costs to Prop 10 funds. The specific budget savings actions include the following:

- **State Plan Amendment for Increased Federal Funds:** A shift of $60 million GF to federal funds by seeking a federal "1915(i)" amendment to obtain additional federal reimbursement for clients enrolled in Medi-Cal who are living in the community but do not meet current federal requirements related to the level of medical care provided.

- **Reduction for Services to Children Under Five Years:** A Governor's veto of $50 million GF for regional center purchase of services for children up to age five. In his veto message, the Governor directs DDS to request funds from the First Five Commission to support these services in lieu of GF.
- **Early Start Program Modifications:** Savings of $42 million GF through the following changes to the Early Start Program, which provides services to infants and toddlers up to three years of age and their families:
  - ***Use of Private Insurance:*** $7 million GF savings by requiring the use of a family's private health care coverage for medical services when appropriate.
  - ***Revised Eligibility Standard:*** $29 million GF savings by limiting participation to those infants and toddlers at highest risk of a developmental disability. The DDS would also establish a new prevention program to address the needs of those who would be ineligible for Early Start. The new prevention program would be subject to appropriation.
  - ***Service Limitations:*** $6 million GF savings by limiting the services available to durable medical equipment and those services that are federally required.
- **Individual Choice Budget Model:** $27 million GF savings by establishing a new Individual Choice Model, which would require clients to choose from a menu of certain recreational or educational services within a finite budget. Until DDS develops the new model, these services would be suspended. An exemption process would be available.
- **Use of Least Costly Services:** Savings of $24 million GF by requiring services to be provided by the least costly vendor that is able to meet the client's needs, as determined by his or her individual program plan.
- **Developmental Center Projects:** One-time savings of $23 million by delaying various capital outlay projects at developmental centers.
- **Behavioral Services Limitations:** $19 million GF savings by implementing various controls for certain behavioral services known as applied behavioral analysis services. These controls include providing only services that meet evidence-based practices, discontinuing such services once the client's treatment goals are met, and prohibiting use of these services for purposes of respite, day care, or school services.
- **Expanded Use of Other Coverage:** $18 million GF savings by prohibiting the purchase of specified services that could be covered by other public coverage, such as Medi-Cal or the California Children's Services Program, when the family appears eligible for other coverage but has not applied.
- **Transportation Reform:** $17 million GF savings by requiring the use of the least expensive type of transportation that meets the client's needs, as determined through his or her individual program plan. Types of transportation may include vouchers, taxis, bus passes, private specialized transportation, and transportation provided by residential or day programs. Other transportation limits would also be established.
- **Preschool and Group Training:** $17 million GF savings by specifying that regional centers should consider (1) group training for parents in lieu of in-home training, and (2) neighborhood preschools in lieu of specialized infant development programs.
- **Uniform Holiday Schedule:** $16 million GF savings by increasing the number of uniform holidays to fourteen, which four more than observed by most regional centers and programs. Certain services would not be reimbursed on the uniform holidays. The DDS could also modify the holiday schedule.
- **Custom Endeavors Option:** $13 million GF savings by establishing alternative, customized program for adults who wish to expand their employment or volunteer opportunities in lieu of their current program.
- **Amend Supported Living Services:** $7 million GF savings through various changes to standards for supported living services, including a requirement to first make use of all appropriate generic services, a requirement that clients who live together use the same supported living service provider, and various limits on making rent or mortgage payments.
- **Regional Center Operations:** A reduction of $7 million to regional center operations.

- **Respite Services Limits:** $5 million GF savings by restricting the purchase of respite services per client to 21 days of out-of-home respite services in a year or 90 hours of in-home respite services in a quarter.
- **Annual Statements:** $4 million GF savings by requiring regional centers to provide at least annually to the client or the parents of a minor client a statement showing detailed information on the number, type, and cost of services used. The intent of this statement is to ensure that units that are purchased are actually delivered.
- **Changes in Duty for Respite Workers:** $3 million GF savings by expanding the type of care that certain respite workers can provide following completion of training in specified care activities, such as changing colostomy bags.
- **Consolidate Qualify Assurance Evaluation:** $2 million GF savings by requiring DDS to develop a streamlined, unified qualify assurance process that would obtain benchmark data that could be compared with other states.
- **Porterville Secure Treatment Residents:** $2 million GF savings by shifting state costs to federal funds. This would be achieved by specifying that 30 existing residents receiving services in the transition treatment area are to be included in the facility's resident cap, thereby making them eligible for federal funds.
- **Alternative Program for Seniors:** $1 million GF savings by requiring specified vendors of services for adults to offer an alternative program option for adults over 50 years of age. This alternative is intended to accommodate clients who desire a less rigorous day program, and would have a less stringent staff-to-client ratio requirement and a lower rate of reimbursement.
- **Generic Resources in Supported Living:** $1 million GF savings by enacting certain restrictions on the purchase of supportive services, including prohibiting regional centers from purchasing supportive services for a client who meets the criteria for the generic In-Home Supportive Services Program but refuses to apply.
- **Prohibition on Experimental Treatments:** $1 million GF savings by prohibiting regional centers from purchasing experimental treatments, therapeutic services, or devices that have not been clinically determined to be effective or safe.
- **Reduce Usage of Large Facilities:** $1 million GF savings by prohibiting a regional center from approving as a new vendor a 24-hour residential care facility with a licensed bed capacity greater than 15 beds. Facilities of this size generally are not eligible for federal funds. The savings estimate assumes that six facilities will become eligible for federal funds by transitioning to smaller sizes or becoming more home-like, as determined by federal standards.
- **Eliminate Regional Center Triennial Review:** $1 million GF savings by eliminating the requirement that regional centers perform at least triennial reviews of community care facilities.
- **Parental Fee Update:** $1 million GF savings by increasing the fees required from families with a child under 18 years of age who lives in an out-of-home placement. These fees had not been updated since 1989. The income level below which parents would be exempt from fees would be increased to the current federal poverty level (which increases the number of exempt families).

Department of Mental Health (DMH)

The budget enacts $170 million in savings for DMH programs as well as an increase of $227 million to reflect the voters' rejection of Proposition 1E in the May special election. Prop 1E would have shifted that amount of GF costs to Mental Health Services Act (Prop 63) funding. The savings items include the following changes:

- **Mental Health Managed Care—**A reduction of $64 million GF to reflect the elimination of services other than federally required inpatient and other services in the Mental Health Managed Care Program.
- **Mental Health Services Act Costs—**A reduction of $28 million GF in state support for county programs developed using Mental Health Services Act (Prop 63) funding.

- **Special Education Mandate Cost Deferral—**A deferral of $52 million in county mandate claims for expenses related to providing mental health services to special education students (also known as the AB 3632 mandate).
- **Prior-Year Cost Settlement Deferral—**A deferral of $16 million GF in county mandate claims related to prior year cost settlements for the Early and Periodic Screening, Diagnosis, and Treatment Program.
- **Caregiver Resource Centers—**A reduction of $7.5 million (including $4 million by veto) to Caregiver Resource Centers, which provide support services to caregivers of family members who have a cognitive impairment. Following this reduction, $3 million GF remains available for the program.

Emergency Medical Services Authority

The budget includes a reduction of $3 million GF from the California Poison Control System. This reduction leaves about $3 million GF remaining in state support for the program, which also receives $2.3 million in federal funding as well as funds from other sources.

Human Services

The revised 2009 Budget Act includes expenditure reductions that will result in General Fund savings of $891.1 million in 2009-10 for the state's human services programs. The revised budget also includes significant reforms within both the CalWORKs and In-Home Supportive Services (IHSS) programs that will lead to savings in the hundreds of millions upon full implementation by 2012-13.

CalWORKs

The revised 2009 Budget Act includes policy changes that will result in additional savings of $395 million in 2009-10. The proposals include the following:

- The budget reduced the county single allocation by $375 million and transfers $20 million from the Employment Training Fund, to be utilized for CalWORKs recipients. The budget adds two new exemption criteria that counties can use to exempt CalWORKs recipients from welfare to work activities through
  January 1, 2012. Additional exemptions would be made for those with one child between the age of 12 and 23 months, and for those with two children under six years of age. The budget stops the recipient's welfare "clock" during this time period and also allows the counties to redirect funding from substance abuse treatment services and mental health services for CalWORKs employment services, until July 1, 2011.
- The revised budget trailer bill eliminated from statute the requirement to provide an annual cost of living adjustment for CalWORKs grants. Eliminating the automatic spending formula will allow the state to avoid costs of $383 million by 2012-13, and will contribute to realigning the state's expenditures and revenues in the near future.
- The revised budget trailer bill also includes major policy changes within the CalWORKs program that will generate savings in the hundreds of millions of dollars in subsequent years *(See "Reforms" section page 29).*

In-Home Supportive Services

The revised 2009 Budget Act includes policy changes that would result in savings of $266.4 million, bringing total General Fund expenditures to approximately $1.3 billion in 2009-10. The significant program revisions included in the budget should start to impact the fast-growing pace of the program, but it is likely that more reductions may need to be implemented to reduce expenditures even further within the program. The proposals included in the budget are as follows:

- $130 million savings for In-Home Supportive Services Fraud Initiative. The revised 2009 Budget Act includes policy changes (*see "Reforms" section page 29 for details*) that will send a strong message to those who may be committing fraud that the state is reforming its policies and creating tougher policies which will uncover fraud quickly and will ensure that the funding for the program is going to those most in need. The budget includes tighter controls by requiring IHSS providers seeking employment and submitting an application to do so in person with a county worker prior to acceptance into the program. Requiring a face-to-face submission of paperwork will provide county workers with a chance to verify identity and could mitigate potential future fraudulent activities.

- $53.2 million savings for IHSS benefit changes. The revised budget includes changes in benefit levels for certain recipients but **does not include a reduction in the portion of provider wages paid by the state**. The budget reduces the level of services received by IHSS recipients with a functional index (FI) score of less than four. effective September 1, 2009. The budget eliminates IHSS domestic and related services for recipients with FI rankings below four. About 75,000 recipients would be impacted by the reduced hours. Additionally, the budget eliminates all IHSS services for recipients with FI scores below two. This would result in about 40,000 recipients losing IHSS services altogether.

The Governor **vetoed an additional $28.9 million General Fund** as a result of eliminating specific exemptions from service reductions that had been part of the final budget. Eliminating these exemptions will increase the number of beneficiaries affected by the service reductions.

- $41.1 million savings for elimination of IHSS share of cost subsidy. The budget eliminates the state's portion of providing for a recipient's share of cost within the IHSS program effective October 1, 2009. IHSS recipients have had the difference between their determined Medi-Cal share of cost and the SSI share of cost paid for by the state.
- $13.2 million savings as a result of reducing administrative costs for IHSS Public Authorities. Of the $13.2 million, $8.6 million was a result of the Governor's line item veto, reducing the amount of funding available to IHSS Public Authorities to $10 million General Fund for 2009-10.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)
The revised 2009 Budget Act includes policy changes within the SSI/SSP program that will generate General Fund savings of $115.9 million in 2009-10. The policy changes include the following:

- $115.9 million savings for SSI/SSP grant reduction. The revised budget reduces the SSI/SSP grant for couples to the federal minimum ($1,407 per month) and reduces the grants for individuals by $5 (down to $845 per month) beginning September 1, 2009.
- Eliminates the automatic cost of living adjustment provided on an annual basis for SSI/SSP. Suspension of the annual COLA's will result in cost avoidance of nearly $400 million by 2012-13.

Child Welfare Services and Foster Care
The revised 2009 Budget Act includes $120.6 million General Fund savings as a result of the following program adjustments:

- $80 million reduction for county Child Welfare Services by $80 million. This reduction was part of the Governor's line item veto to the supplemental budget bill. Counties would need to prioritize remaining funds in order to maintain the health and safety of children, while striving to meet federal outcome requirements.
- $26.6 million savings as a result of reducing rates paid to group homes, foster family agencies, and seriously emotionally disturbed children by ten percent
- $5 million savings as a result of reducing funding for the Transitional Housing Placement Program. Total program expenditures after reduction would be about $40 million General Fund for the program, which serves former foster youth. The program has seen significant expansion in the past few years due to funding changes that eliminated the requirement that a participating county share in a portion of the program costs. This has resulted in the program growing from $1 million General Fund in 2004-05, to more than $40 million General Fund projected for 2009-10.
- $4 million reduction for maintenance and operations funding necessary to maintain the case management and reporting information technology system used by county social workers.
- $4.2 million reduction in funding for health oversight, case planning, and relative search and engagement activities.
- $900,000 savings as a result of eliminating automatic increases in financial support available to families adopting a child with special needs. Prior to this, monthly Adoption Assistance Program grants automatically increased with the age of the child. The policy change would result in savings of $2 million upon full implementation.

Community Care Licensing
The revised 2009 Budget Act includes $7.4 million savings within the Community Care Licensing (CCL) division of DSS. The savings will be offset with a ten percent fee increase (would offset $2.1 million) and a shifting of funds from Department of Education's child care program to CCL (would offset $5.3 million) as CCL provides licensing activities for child care facilities. Full cost of the community care licensing activities is about $120 million currently, with only about $20 million from fee revenue. It is appropriate for the state to charge fees for services provided, however the increase is relatively minor compared to total program cost and further fee increases may be necessary as the state continues to seek balance between expenditures and revenues.

Department of Aging
The revised 2009 Budget Act includes savings of $4.2 million for reductions within various Department of Aging Community Based Services Programs, including a $2.5 million reduction to Linkages and a $1.2 million reduction to Alzheimer's Day Care Resource Center program. The Governor **also vetoed an additional $6.3 million** within the Department of Aging. The reductions include eliminating the Linkages program (savings of $4.0 million General Fund) and eliminating Community Based Services Program (savings of $2.3 million General Fund) consistent with the May Revision.

Department of Alcohol and Drug Programs
The revised 2009 Budget Act eliminates funding for the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36) ($90 million General Fund) and includes a ten percent reduction in Drug Medi-Cal provider reimbursement rates ($8.8 million General Fund) for total savings of $98.9 million General Fund. The budget includes a one-time augmentation for the Offender Treatment Program (OTP), which serves drug court clients. The $50 million augmentation is supported by a one-time increase in federal Byrne JAG grants, bringing total funding for the OTP in 2009-10 to $68 million (includes $18 million General Fund).

Transportation

"Spillover" Funding. The Revised 2009-10 Budget Act includes an increase of $562 million in spillover revenue in 2009-10, which will fund transportation related General Obligation debt service costs. Debt service for transportation related bonds would have otherwise been paid for by the General Fund. An additional $315 million in transit funding will be redirected from the Home-to-School transportation program to fund transportation related debt service payments. "Spillover" revenues occur when revenue derived from sales taxes on gasoline is proportionately higher in relationship to revenue derived from all taxable sales, and generally reflect higher gas prices.

State Highway Account. The budget includes a loan of $135 million from the State Highway Account to the General Fund. The loan will be repaid by June 30, 2013.

Aeronautics. Local airport grants will be suspended in 2009-10 and $4 million will be transferred from the Aeronautics Account to the General Fund.

Driver License/Identification Card Fee Increase. The revised budget includes a $2-per-card fee increase for California Driver License and Identification (DL/ID) cards. The fee increase applies to original issue, renewal, and replacement cards, including all classes of driver licenses and most California Identification Cards. In addition, baseline fees for commercial and firefighter restricted licenses will be subject to the annual California Consumer Price Index inflationary adjustment currently applied to original issuance and renewal fees for non-commercial driver licenses. This fee increase is projected to raise approximately $8 million of additional revenue for the Motor Vehicle Account (MVA) in 2009-10, increasing to $16 million annually thereafter. The additional revenues will first be used to pay the increased costs of a new vendor contract for the production of DL/ID cards. According to the Administration, any surplus revenue will help to address out-year MVA pressures.

Motor Vehicle Account Transfer. The enacted budget includes a one-time $70 million transfer from the MVA to the General Fund. Although the MVA is projected to have a reserve sufficient to allow for the transfer, it should be noted that this use of MVA resources erodes a significant portion of the temporary reserve projected to result from the $11-per-vehicle registration fee increase that was enacted in September 2008.

Highway Users Tax Account.

The Senate passed, but the Assembly failed to approve the following two proposals:

The Senate approved AB X4 30 authorizing the state to redirect $ 971 million in 2009-10 and $750 million in 2010-11 from the Highway User Transportation Authority (HUTA) funds from local governments to pay for transportation related General Obligation debt service payments. The Senate also approved AB X4 24 that would have repaid these funds from the General Fund starting in 2011-12 and continuing over a ten year period. The repayment would have included interest based on the Pooled Money Investment Board interest rates.

Resources & Environmental Protection

State Parks. The Revised 2009-10 Budget Act includes loans from several special funds to keep as many state parks open as possible in the 2009-10 fiscal year ***while avoiding the proposed $15 tax on registered vehicles.*** These loans include $35 million from the Renewable Resources Trust Account, $22 million from the Off-Highway Vehicle account, and $5 million from the Harbors and Watercraft Revolving fund. The Department of Parks and Recreation received an $8 million General Fund reduction to its operating budget. The Governor vetoed an additional $6.2 million General Fund from the operating budget for a total of $14.2 million. The reduction when fully implemented in 2010-11 will result in $22.2 million in General Fund savings. The reduction could result in the closure of approximately 100 parks after October 1, 2009. The specific park closures will be determined by the department.

Department of Forestry and Fire Protection. The budget includes $113 million in General Fund to continue the department's fire fighting activities while ***eliminating the proposed Emergency Response Initiative tax*** (*See Public Safety section on page 25*) ***and State Responsibility Area (SRA) fee.*** This new fee would have placed a $30 to $50 cost on residential structures located within the SRA. Since most residents within the SRA already pay a local fee or property taxes for structural fire protection, this would have required residences to pay twice for the same level of service.

However, the department did receive a $27 million General Fund reduction from 1) a delay in vehicle and equipment replacements for one year ($17 million), 2) a cancellation of an existing DC-10 aircraft contract ($7 million), and 3) an unallocated reduction to the Resources Management program ($3 million).

Local Conservation Corps. The Budget included $16.5 million for the California Conservation Corps, with language directing that the funds be allocated to local conservation corps. The Governor vetoed $8.25 million of this amount because it was being funded by the General Fund.

California Integrated Waste Management Board. The Board was eliminated under SB 63, Strickland, 2009 (*See Board Consolidations section on page 33*).

Tranquillon Ridge Project.

The Senate passed, but the Assembly failed to approve the following proposal:

The Senate approved AB X4 23 which would have authorized the reconsideration of an oil and gas lease application that would generate General Fund revenues of $100 million in 2009-10 and an estimated $1.8 billion over the 14 year term of the lease. The State Lands Commission rejected a similar negotiated proposal earlier this year. The Tranquillon Ridge project would yield significant immediate and long-term financial benefits to the state's General Fund at a critical time, as well as providing new revenues to Santa Barbara County once the project is approved.

Public Safety

Corrections

Unallocated Reduction. This budget includes an unallocated General Fund reduction to the California Department of Corrections and Rehabilitation (CDCR) of approximately $786 million, which will be implemented through legislation to be enacted in August 2009. Senate Republicans propose to achieve the specified General Fund savings without jeopardizing public safety.

Update to Unallocated Reduction: On September 11, 2009, Legislative Democrats unilaterally passed SBX3 18 (Ducheny) to partially implement the $786 million unallocated reduction discussed above. Senate Republicans worked to replace policy changes included in SBX3 18 with cost-saving measures that would have minimized the negative impacts on public safety. These alternatives were rejected without consideration and Senate Republicans joined law enforcement and victims' groups in opposing the bill, stating that it is unconscionable and bad public policy to consider putting felons back on the streets merely to save money.

Specifically, SBX3 18 does the following:

- Summary Parole – Eliminates parole supervision and the possibility of revocation for parolees who meet the following criteria: are not sex offenders, do not have a serious or violent current or prior offense, do not have a serious disciplinary offense in prison, are not a validated prison gang member, do not refuse to sign any written notification of parole requirements or conditions, and are evaluated by the department's validated risk assessment tool as not posing a "high-risk" to reoffend.

  Effects on public safety: Potential for increased crime by offenders who would otherwise be returned to prison for parole violations. Costs of incarcerating parolees who commit new crimes while on parole will be shifted to local law enforcement.

  Estimated savings: $178 million.

- Inmate Credit Expansion – Expands the avenues through which inmates can receive sentence-reducing credits in state prisons and county jails and creates a day-for-day credit entitlement for most inmates, as follows:

  - Requires CDCR to award inmates one day of credit for each day served without disciplinary action (day-for-day credits) without requiring enrollment in programming or work programs.
  - Requires CDCR to award an additional one to six weeks of credit per year to inmates who complete "milestones" in rehabilitative programming. Leaves the definition of "milestones" for CDCR to establish via regulation.
  - Authorizes day-for-day credits for time served in local jails.

  Effects on public safety: Potentially more crime victims because dangerous felons will serve less of their sentences and be released earlier. Local prosecutorial and law enforcement resources will be further strained.

  Estimated savings: $42 million.

- Property Crime Value Thresholds – Indexes for inflation the value thresholds that must be met or exceeded for various property crimes to be deemed felonies. For example, prior to SBX3 18, cargo theft and credit card fraud were punishable as misdemeanors unless the value of the stolen property was at least $400, in which case it was punishable as a felony. SBX3 18 increases that $400 value threshold to $950.

Effects on public safety: Overall property crime rates (felonies plus misdemeanors) are likely to increase, although the mix will likely change due to the re-benching of thresholds separating the two classes. As the ratio of misdemeanor to felony property crimes increases, local prosecutorial and law enforcement agencies will bear increased costs.

Estimated savings: $30 million.

- Probation Subsidy - Provides funding to counties that successfully retain felons on probation rather than sending them to state prison. Splits savings from reduced prison terms with local probation departments according to the relative success of each department.

  Effects on public safety: This change could result in better local rehabilitative program offerings and utilization, reducing recidivism and enhancing public safety by reducing crime rates. However, it could also provide a perverse financial incentive for local probation departments NOT to revoke probation when probationers violate their probation terms, jeopardizing public safety by leaving offenders on the streets.

  Estimated savings: $30 million.

Note: The savings identified above, totaling $280 million, are significantly less than the $786 million savings assumed in the budget.

Department of Justice

Reversion. Instead of charging forensic lab fees and reducing funds for the Bureau of Narcotics Enforcement to achieve $40 million in General Fund savings, as Democrats proposed, the enacted budget reverts $40 million General Fund from the Budget Act of 2008 that the Department of Justice will not spend due to its recent elimination of vacant positions.

Judicial Branch

Unallocated Reduction. The budget includes an unallocated General Fund reduction to the Judicial Branch of approximately $178.6 million in addition to approximately $214.4 million in reductions made in February. In order to achieve the total savings of $393 million, the Legislature authorized the Judicial Council to close the courts one day per month ($102 million), increase various court user fees ($58 million), and utilize available special fund balances and court reserves ($201 million). The remaining $32 million will be absorbed within existing court operations and programs.

Emergency Response

Rejection of New Tax - Emergency Response Initiative. The Governor's Budget included a proposal to tax insurance premiums paid by homeowners and commercial property owners and to use revenues from the new tax to backfill General Fund reductions to the Department of Forestry and Fire Protection (Cal Fire). In addition, the plan proposed to enhance the state's firefighting capacity by increasing staffing and purchasing equipment for Cal Fire, the California Emergency Management Agency, and the California Military Department. The enacted budget rejects the new tax and restores General Fund support for Cal Fire.

General Government

CA National Guard Education Assistance Award Program. The budget includes $1.8 million General Fund for the newly established California National Guard Education Assistance Award Program. The program will be used as a recruitment and retention tool, providing limited reimbursement of tuition and other education-related expenses for active members of the California National Guard, the State Military Reserve, and the Naval Militia who seek to further their educations through qualified learning institutions.

Small Business Loan Guarantee Program. Transfers $10 million that is not needed to guarantee or to administer existing loans from the Small Business Expansion Fund to the General Fund.

Office of the Chief Information Officer (OCIO) Reporting. Includes trailer bill language that requires the OCIO to produce an annual IT performance report to assess and measure the state's progress toward (1) enhancing IT human capital management, (2) reducing and avoiding costs associated with the acquisition, development, implementation, management, and operation of IT assets, infrastructure and systems, (3) improving energy efficiency in the use of IT assets, (4) enhancing the security, reliability, and quality of IT networks, services, and systems, and (5) improving the IT procurement process. Trailer bill also requires the OCIO to report, at least annually, to the Director of Finance costs savings achieved through these improvements.

Chrome Plating Fund Sweep. Transfers approximately $3.5 million from the Chrome Plating Pollution Prevention to the General Fund, and requires all future loan repayments to be deposited in the General Fund.

Reimbursable State Mandates. Trailer bill includes a variety of changes to existing state mandates to help minimize the amount of costs that are reimbursable by the state, including:

1) Allows a community care licensing facility to charge a fee to cover the actual cost of pre-inspection services.
2) Deletes the requirement that victims and witnesses of crimes be notified of all pending pretrial dispositions, and replaces it with a requirement to provide notification upon request by the victim or witness.
3) Repeals the "animal adoption" mandate, reducing the required holding period for cats and dogs in county animal shelters from the current six (6) days back to three (3) days (pre-1975 statutory requirement).
4) Finds and declares that, by approving Proposition 83 at the November 7, 2006 General Election, voters amended the sexually violent predator law to strengthen and improve the laws that punish and control sexual predators. As a result, the Legislature finds and declares that no reimbursement is required pursuant to mandate reimbursement law.

FI$Cal Analysis. Trailer bill requires the Department of Finance to submit a written report to the Legislature that (1) summarizes the two vendor assessments of the state's current financial system and future automation goals, (2) provides details about the two proposals for the development of FI$Cal, including vendor costs and timeframes, and (3) explains the FI$Cal project's rationale for selecting the winning vendor.

State Compensation Insurance Fund. The revised 2009 Budget Act includes revenue expected from the sale of a portion of the State Compensation Insurance Fund's Book of Business to a private entity. The budget assumes the sale will achieve $1 billion in revenue in 2009-10.

Cash Management Savings. The revised 2009-10 Budget Act includes savings of $210 million due to a projected decreased need for external borrowing that resulted from the adoption of the budget and cash flow solutions. In addition, the state saved $92 million in interest costs for Revenue Anticipation Notes issued to cover 2008-09 cash flow in 2008-09. This savings resulted from smaller than anticipated RANs issued in 2008-09.

Suspend Williamson Act Program. The revised 2009-10 Budget Act includes only $1,000 for the Williamson Act Open Space program (as a result of a Governor's veto), effectively suspending the program. This local subvention program partially backfills property tax revenues foregone by local governments when they enter into voluntary contracts with property owners who agree not to develop their open land in exchange for reduced property tax assessments.

Funding for Contingencies and Emergencies. For the revised 2009-10 Budget Act, the Governor vetoed $24 million from the set-aside appropriation for contingencies and emergencies (reducing it from $44 million to $20 million). Use of this set-aside has historically been lower than anticipated. The Administration used only $13.2 million in 2006-07 and only $18.6 million so far in 2007-08.

Labor and Workforce Development

The revised 2009 Budget Act includes a General Fund reduction of $40.1 million for 2009-10 ($61.8 million annually thereafter) resulting from increased employer fees to fund the Divisions of Labor Standards Enforcement and Occupational Safety and Health. The increased assessments for the Occupational Safety and Health fee and the proposed new Labor Enforcement and Compliance fee would be assessed based on the size of the employer. These assessment increases were imposed even without legislation to repeal existing statutes that encourage frivolous lawsuits and inhibit job creation.

Statewide Issues

Employee Compensation

The revised 2009 Budget Act includes major policy changes in employee compensation. In addition to the two furlough days included in the February 2009 Budget Act, the revised budget includes an additional furlough day, as ordered by the Governor. While there is more that can and should be done to reform both employee compensation and pension and health benefits, these proposals result in significant General Fund savings. Policy changes and expenditure reductions include the following:

- $950 million savings in 2009-10 for employee compensation payroll deferral. The budget includes a shift of expenditures as a result of delaying the June 30 payday until July 1, effective 2010. This solution is one time in nature and will not contribute to the long term solvency of the state.
- $425 million savings as a result of adding a third furlough day for state employees. The three day a month furlough program would run through June 2010. The state expects to save about $1.2 billion in 2009-10 as a result of all three furlough days.

- $100 million savings as a result of CalPERS using excess PPO health plan reserves for a two month "premium holiday." There would also be savings for local governments that contract with PERS for health coverage.
- $77 million savings for reduced health care costs in 2009-10 based on final premium increases released by CalPERS in mid-June.
- $14.6 million for the elimination of the Rural Health Care Equity Program. The program provided a state subsidy for state employees residing in certain rural counties. The subsidy will remain in place for Bargaining Unit 5 (CHP) until their current contract expires on July 2, 2010, and at that time would cease to operate.

The revised 2009 Budget Act also assumes savings as a result of the Legislature not passing legislation for SEIU's labor agreement with the Administration. Only Bargaining Unit 5 (CHP) has a current labor agreement in place (expires July 2, 2010).

Major Reform Proposals

HEALTH

Medi-Cal Managed Care

The budget package authorizes the Department of Health Care Services (DHCS) to begin the process of reforming health care delivery for certain high-cost, high-need populations into more coordinated and efficient models of care. This effort would be focused on four groups in particular: (1) seniors and persons with disabilities, (2) those dually eligible for Medicare and Medi-Cal, (3) children with special health care needs enrolled in the California Children's Services Program, and (4) persons with behavioral health conditions. Restructuring care into more coordinated models will both deliver higher quality care for these groups and help to control wasteful spending on redundant or otherwise ineffective services. The budget requires DHCS to submit an application to the federal government for a demonstration project to restructure the organization and delivery of care for these groups to be more responsive to their needs. Federal approval is needed to make the program modifications necessary to achieve these aims.

No costs or savings are reflected in the budget package for the enrollment of any enrollees in new coordinated care arrangements because the first enrollments would not likely occur until after FY 2009-10. Once implementation of the expansion of coordinated care begins, however, there would be unknown but potentially major transition costs over the short term. In the longer term, potential major savings in the hundreds of millions General Fund will potentially result due to lower health care costs in Medi-Cal, CCS, and other state-funded programs.

Statewide Eligibility System for Health and Human Services Programs

The budget package requires DHCS and the Department of Social Services (DSS) to develop a comprehensive plan for a statewide enrollment and eligibility determination system for CalWORKs, Medi-Cal, and the Supplemental Nutrition Assistance Program (SNAP; formerly known as the Food Stamp Program). A stakeholder process and certain other procedural requirements are included. Subject to legislative approval of the plan, the budget package authorizes the two departments to proceed with procurement of the statewide system.

Currently, county welfare departments in each of the 58 counties administer the eligibility determination process for these programs, but the state reimburses them for the vast majority of their costs. The result of this disjointed approach, which involves four separate information technology (IT) systems among the counties, is a hodge-podge of inconsistent, labor-intensive, and costly county efforts that are often inconvenient for the populations these programs seek to serve. In contrast, the statewide approach would seek to develop one common IT system and incorporate Internet-based application methods to provide a more flexible and comprehensive way to apply for these programs while reducing labor costs and program inconsistencies.

No costs or savings are reflected in the budget package for this effort, which will likely require two to three years. The Administration indicates that there will be unspecified up-front costs to implement a statewide eligibility system but that California could achieve roughly $500 million in GF savings thereafter.

HUMAN SERVICES

CalWORKs

The budget implements several major reforms that will increase personal responsibility and compliance with program requirements, as well as result in savings of hundreds of millions of dollars at a time when the state needs to reduce expenditures. The following reforms represent a major policy shift not seen since the 1996 welfare reform overhaul. The components of the reform proposal are as follows:

- Requires face-to-face self-sufficiency reviews every six months for recipients not complying with the state's required level of participation in the welfare to work program. If recipient fails to attend a review, after 30 days the county worker may reduce the grant level by 50 percent, and the reduced grant level would continue until the recipient came in to county office for the review. At that time, the full grant would be restored.

- Reduces grant levels for sanctioned recipients that fail to cure their sanction after three months. After three months of noncompliance, the grant would be reduced by the amount of the adult recipient, after six months of noncompliance, the entire family grant would be reduced by 25 percent, and after nine months, the family grant would be reduced 50 percent until such time as the recipient cured their sanction status and came into compliance with program requirements.

- Requires counties to provide services (child care, transportation) to those individuals that have "timed-out" of the program after 60 months on aid (safety net population) in order for the recipient to comply with work requirements. If the recipient fails to comply with work requirements after 60 months on aid, the family grant would be reduced by 25 percent. If after three months the recipient is still not compliant with work requirements, the family grant would be reduced by 50 percent and would remain at that level until the adult became compliant with program requirements.

- Requires counties to provide services to undocumented immigrants, drug and fleeing felons that have children currently receiving aid through what is known as the "child-only" CalWORKs program only if an appropriation is made to provide for these services. The counties would be required to provide services in order to enable the adult to comply with program requirements, and if after providing the services, the adult is still not compliance, the family grant would be reduced by 25 percent after 60 months, and further reduced for a total reduction of 50 percent after three additional months.

In-Home Supportive Services

The budget would result in significant policy changes within the IHSS program that will immediately have an impact on the level of fraud within the program, saving the state potentially hundreds of millions of dollars at full implementation and restoring a measure of program integrity to one of the state's fastest growing programs. The components of the reform proposal are as follows:

- Requires providers be notified of authorized hours and activities, effective December 31, 2011.

- Requires new providers complete an orientation at the time of enrollment, effective November 1, 2009.

- Requires provider timesheets to include the fingerprint image of both the provider and the recipient, include a statement of civil penalties risk for fraudulent activities, and requires a statement of verification upon penalty of perjury that all is true and accurate, effective July 1, 2011.

- Requires criminal background checks for all new (effective October 1, 2009) and current providers (complete by July 1, 2010), and requires the expense be borne by the provider.

- Requires the state to develop and implement standardized fraud training for all county social workers by July 1, 2010.

- Authorizes the state and counties to create and utilize targeted mailers to convey program integrity concerns.

- Authorizes and requires counties to conduct unannounced home visits.

- Requires the counties to fingerprint recipients, and allows an exemption to the fingerprint requirement for minors and those physically unable to comply, effective April 1, 2010.

- Authorizes counties to investigate fraud in conjunction with the Department of Health Care Services.

- Requires a physical address for provider be included on the enrollment form and specifies that a paycheck for providers may not be mailed to a PO Box without written or oral approval from county, including an explanation as to why a PO Box must be used.

Together, both the CalWORKs and IHSS reform proposals transition the state towards program integrity while motivating recipients towards program compliance. The reforms move the state back to a true welfare to work program, not just a welfare program, and provide a vehicle to serve the personal responsibility of the recipient, working towards long-term success in such a way as to achieve long-term self-sufficiency.

STATEWIDE

Elimination of Statutory Annual Cost of Living Adjustments

The budget includes statutory changes that eliminate the automatic spending increases that are included in the budget each year, with anticipated savings growing to over $2.0 billion by 2012-13. The following areas will no longer have annual increases built into the workload budget, but would continue to be part of budget conversations as needs arise and funding permits:

- CalWORKs
- SSI/SSP
- University of California, California State Universities
- State Courts, Agencies and Departments

ASSET MANAGEMENT

Realizing the equity from high-valued state properties is considered one way to provide some ongoing relief to the state's fiscal woes. AB X4 22 (Evans) makes a variety of structural changes with regards to the asset management of the State of California. Secondly, this bill provides DGS with the authority to lease out various state properties if it determines that there is no immediate need to the state but may have some potential future use. It authorizes DGS to sell several state buildings, and lease back that property for use by state departments. Finally, it requires state departments and agencies to provide greater specificity and detail in the reporting on their real property holdings, including current uses, projected uses, and surplus properties.

Orange County Fairground

The bill authorized the Department of General Services (DGS) to establish a mechanism whereby all or a portion of the Orange County Fair located in the City of Costa Mesa, the 32nd District Agricultural Association (DAA) can be sold. Selling the Orange County Fairgrounds, which is in a highly desirable location, could generate as much as $96 million of revenues to offset General Fund costs in lieu of cutting state programs. Traditionally, fairs have been agricultural venues in rural locations and provided a place for locals to showcase this agricultural acumen. The Orange County Fair has become an entertainment complex. Orange County, itself, is home to some of the greatest privately held entertainment complexes in the world, including Disneyland and Knott's Berry Farm. There really is no need for the state to be in the business of owning and operating an entertainment complex in such a location. The mechanism envisioned by this bill provides for the sale of this property to the highest responsible bidder through a competitive bid process with the final disposition of the proceeds from the sale being the state's general fund.

Land-Lease

The land-lease provisions of this bill give the state the opportunity to realize revenue from underutilized property it owns. It can offer long-term leases unused land at the periphery of existing facilities, for instance, that that will provide a steady stream of revenue that the state would otherwise not see. The state has already entered into land lease partnerships with private developers to build affordable housing on state-owned land. It is a process whereby the state contributes the land and the developer pays for the buildings – the partners share rent revenues and, at the conclusion of the lease, the state owns the buildings. This practice can be extended to a number of sites where the state has an interest in retaining long-term ownership of the land but no need or interest in development. The state temporarily contributes land that will not be used in the foreseeable future in exchange for a steady income stream.

Sale-Leaseback

The state owns all of its major office buildings and should have the option to enter into sale-leaseback agreements where there is potential for revenue. Many corporations in the private sector have arranged to sell their real estate buildings in order to free up the equity tied up in the building. This sale would combine a long-term lease including an option for the seller to buy back the building. The proceeds of these sales would first pay of the bonds on the building with the state receiving the difference as cash deposited in the General Fund. A sale-leaseback option could free up to $660 million in equity over eleven large office buildings.

Reporting Requirements

It is widely known that the state owns a vast amount of real property, but detailed information regarding the use, or lack thereof, is extremely limited. Though existing law requires departments and agencies to report surplus property, DGS indicates that such reporting has been poor. A more detailed reporting of the state's real property assets could lead to a better understanding of the state's needs, as well as its potentially excessive land holdings. This bill revises that requirement to include a "detailed" description of the current uses of the property including programmatic uses, and whether the property is fully utilized, partially utilized, or excess, with regards to either an existing or ongoing program of the agency. It requires a detailed description of every lease, license, or other agreement relating to the use of the property.

PROCUREMENT REFORM

Historically, the state has fumbled through all aspects of information technology (IT), including IT procurement, systems development, and system implementation. Some of the key stumbles faced by the state included the creation and demise of the Department of Information Technology (DOIT) in 2002, the ill-fated software contract with Oracle in 2000, and the failure to implement the Child Support Automation System in the late 1990s (which resulted in significant federal penalties). AB X4 21 (Evans) made a variety of reforms to the state's IT procurements by clarifying the multi-phased procurement process and providing greater flexibility in the state's risk mitigation process. Furthermore, it updates the law regarding the "good faith effort" requirement for Disabled Veteran Business Enterprises (DVBE).

Multi-phased Procurement

"Multi-phased Procurement" which is a process that allows for the state to have IT products developed in stages. AB X4 21 authorized multi-phased contracting when the Department of General Service (DGS) and the Chief Information Officer (CIO) determine that there is no conflict of interest and that it is in the best interest of the state to utilize this procurement method. Current law generally prohibits a consultant from bidding or being awarded a "follow-on" contract that is based on the product of a previous consulting services contract by that consultant. Although DGS has been experimenting with this procurement method, vendors have been hesitant to participate in "phased procurements" due to current law prohibiting "follow-on" contracts, fearing that such phased procurements could be interpreted as follow-on contract. This reform clarified current law to specify that follow-on contract prohibition shall not apply to multi-phased procurements.

Retention

Retention is the practice of holding back a portion of the contract amount to ensure project completion. It is a form of insurance to guarantee completion of a project to the specifications of the state. For IT contracts, current law requires ten percent retention. A contractor who bids on a job must anticipate the financing of as much as ten percent of the total value of the contract for an undefined period of time. Other forms of insurance, such as performance bonds, payment bonds, and warranty bonds, have become difficult to obtain because of the economic climate. The reform found in AB X4 21 attempts to rectify this by authorizing the department to determine that lesser withholding levels are appropriate based upon an evaluation of risk on contracts valued over $10 million. In such circumstance, the department may withhold no less than five percent of the contract price. When the contract price is less than $10 million, the department may withhold no less than three percent of the contract price.

DVBE "Good Faith" Reform

The state established the DVBE Participation Program to acknowledge disabled veterans for their service. The program is supposed to encourage further DVBE participation in state contracting, promote competition and encourage greater economic opportunity. When a contract participation goal is set by DGS for a contract, current law requires a bidder to either meet the stated goal or make "good faith efforts" to do so. The good faith provisions require both bidders and departments to review large volumes of paperwork that does not necessarily enhance the DVBE participation goals. Unfortunately, the good faith requirement has also lead to some instances of fraudulent activity in attempting to convince DGS bid scorers that bidders tried to find DVBE with whom to conduct business but were unsuccessful. AB X4 21 should help make this program more effective and less prone to fraud by those who falsely claim to have undertaken a "good faith effort" to employ DVBEs as part of their bids and thus undermine the intent and benefit of the program.

Board Consolidations

Over the past five years, the Legislature has worked to eliminate outdated functions, become more efficient, eliminate redundancy and reduce costs. The budget includes provisions to allow state government to increase efficiency, spend less and eliminate duplication and functions that are not absolutely critical.

Specifically, the budget includes Special Fund savings in excess of $150,000 in aggregate as a result of the following policy changes:

- **Bureau of Naturopathic Medicine**: Eliminates the Bureau of Naturopathic Medicine and moves oversight responsibilities to the Osteopathic Medical Board of California. Creates a nine-member Naturopathic Committee under the Osteopathic Board, and adds two naturopathic doctors to the Osteopathic Board's make-up. These provisions will be repealed on January 1, 2013.

- **Board of Geologists and Geophysicists:** Consolidates the Board of Geologists and Geophysicists with the Board for Professional Engineers and Land Surveyors. Transfers two personnel-years to the Board for Professional Engineers and Land Surveyors to handle issues relating to geologists and geophysicists.

- **Inspection and Maintenance Review Committee:** Place a sunset date of January 1, 2012 on the Inspection and Maintenance Review Committee.

- **Bureau of Home Furnishings and Thermal Insulation and the Bureau of Electronic and Appliance Repair:** Consolidates the Bureau of Home Furnishings and Thermal Insulation and the Bureau of Electronic and Appliance Repair into a single bureau within the Department of Consumer Affairs.

- **Structural Pest Control Board:** Consolidates the Structural Pest Control Board within the Department of Pesticide Regulation, keeping the board and its licensing and regulatory functions intact and maintaining the transparency and public input of the board's regulatory operations.

Additionally, the budget includes major savings estimated at approximately $2 million annually as a result of the following policy change:

Integrated Waste Management Board: Abolishes the California Integrated Waste Management Board and transfers the Board's duties to the newly created Department of Resources Recycling and Recovery. The new department would assume all recycling and hazardous waste management functions and be under the jurisdiction of the Natural Resources Agency.

Fee List

Amendments to the 2009 Budget Act Fee List

(Dollars in Thousands)

Dept	Issue Title	2008-09 Fee Revenues GF $	2008-09 Fee Revenues OF $	2009-10 Fee Revenues GF $	2009-10 Fee Revenues OF $
Judicial Branch	Various Court Fees to Offset General Fund Reductions	$0	$0	$0	$58,000
Housing and Community Development	Employee Housing Operator Fees	0	0	0	241
Motor Vehicles	Drivers License and Identification Card Fee Increase	0	0		8,500
Environmental Protection Program	Environmental License Plate Fee				4,200
Health Care Services	Expand Revenue Base for Skilled Nursing Facility Rates	0	0	6,400	6,400
Department of Public Health	Infection Surveillance, Prevention, and Control Program	0	0	0	1,452
Department of Public Health	Small Water Systems	0	0	0	1,552
Developmental Services	Parental Fee Program	0	0	900	0
Mental Health	Licensing and Certification: Psychiatric Health Facilities and Mental Health Rehabilitation Centers	0	0	0	63
Social Services	Community Care Licensing 10 Percent Fee Increase	0	0	0	2,100
CSU	Increase CSU Mandatory Fees Above Higher Education Compact	0	0	0	221,059
DIR	Shift GF costs of DLSE and DOSH to new and increased fees.	0	0	0	40,100
CDVA	Increase Member Fees	0	0	2,725	0
Total as of Budget Amendments		**$0**	**$0**	**$10,025**	**$343,667**

Governor's Vetoes

(Dollars in Thousands)

VETO-PROGRAM/ISSUE	GF	P98 or Non GF
California Conservation Corps - Augmentation for Local Conservation Corps.	$8,250	
Parks - Additional reduction	6,200	
Reduce funding for Child Welfare Services - 10 percent reduction in funding, consistent with May Revision.	79,956	
Aging - Eliminate Linkages Program consistent with May Revision.	3,958	
Aging - Eliminate Community Based Services Programs consistent with May Revision.	2,308	
Health - Eliminate General Fund support for various Community Clinic Grants--consistent with May Revision.	25,000	
Medi-Cal 6.7% reduction (State Funds) in County Administration Funding.	60,569	$60,569
IHSS - Reduction in Admin funding for Public Authority.	8,655	
IHSS - Additional Savings from eliminating specific exemptions from service reductions	28,900	
Public Health - Maternal, Child and Adolescent Health Program Reduction (Local Assistance) - consistent with May Revision.	12,003	
Public Health - Domestic Violence Program Reduction, consistent with May Revision.	16,337	
Public Health - Office of AIDS Prevention and Treatment Program Reductions, (exclude AIDS drug assistance), consistent with May Revision.	52,133	
Public Health - California Tobacco Control Program: One-time Funds for Media Campaign/Grants.		6,800
Reduce Healthy Families Program - Disenrollments at annual redetermination to begin September 2009.	50,000	
Developmental Services - Reduce funding for Early Start Program, seek funding from California Children and Families Commission (First Five).	50,000	
Mental Health - Reduce Caregiver Resource Centers Program, consistent with May Revision.	4,082	
Department of Education - Eliminate Curriculum Commission Funding.	705	
Department of Education - Delete Proposition 98 General Fund for State Special Schools Student Transportation.		(3,894)
Student Aid Commission - Reduce State Operations consistent with May Revision for CalGrant Decentralization.	2,000	
Hastings - Reduce General Fund Support by an Additional Ten Percent.	1,000	
Eliminate funding for increases in employees health care costs for departments (unallocated reduction).	25,000	30,000
Williamson Act - Open Space Subventions to Counties, Reduce to $1,000, consistent with May Revision.	27,791	
Augmentation for Contingencies or Emergencies - DOF has ability to allocate up to $44 million for unanticipated, unavoidable costs. This reduces that to $20 million.	24,000	
Total Vetoes	**$488,847**	**$97,369** [1/]

[1/] Includes $70 million of vetoes in federal funds and reimbursement authority which are not included in Figure SUM-06 of the State Budget 2009-10 publication.

NON-VETO ISSUES		
2008-09 RANs interest cost savings	$92,000	$0
2008-09 9840 Deficiency Funding savings	25,953	0
Renewable Resource Trust Fund Loan	50,000	0
Total Vetoes and Non-Veto Issues	**$656,800**	**$97,369**

Language Only Vetoes
Energy Resource Conservation - Veto of language that restricts Alternative and Renewable Fuel and Vehicle Technology Program: H2 Component
CDCR - BBL: Overtime Report
CDCR - BBL: Restriction of Expenditure Authority for Specified Purposes
CDCR - Provisional Language: San Quentin State Prison, Condemned Inmate Complex
Interest Payments on General Fund Loans - Language Change: Payment Delay Program

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