Highlights and Analysis of the Governor's 2010-11 May Revision

May 18, 2010
SENATE REPUBLICAN FISCAL OFFICE

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Budget Briefs

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Executive Summary

The January Governor's Budget proposal assumed a ***$19.9 billion*** General Fund budget deficit across two fiscal years ($6.6 billion in 2009-10 and $12.3 billion in 2010-11 plus $1 billion for a reserve). For the Governor's May Revision, the 2009-10 deficit is projected to increase by $1.1 billion to $7.7 billion, and the 2010-11 deficit is $2.1 billion lower at $10.2 billion for a combined two year total gap of ***$19.1 billion*** including a $1.2 billion reserve.

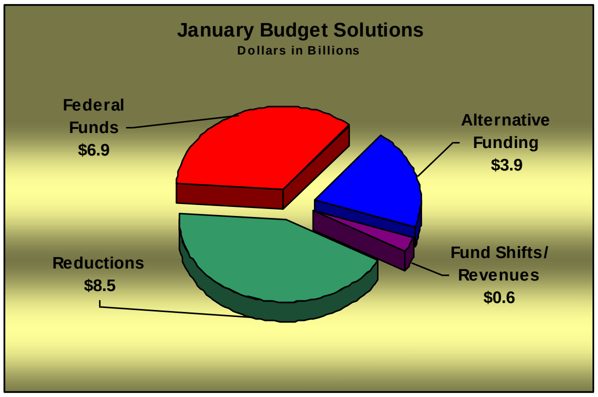
The net $800 million deficit reduction reflects the inclusion of $2.1 billion of solutions already achieved (i.e., $1.4 billion of solutions were enacted in March 2010 - primarily the "gas tax swap" in the Eighth Extraordinary Special Session to address the fiscal emergency - and $700 million of federal funds that have already been received). Absent those solutions the deficit would be $21.2 billion, which is $1.3 billion higher than the January budget deficit (i.e., $600 million lower revenues and $500 million of higher costs plus another $200 million to increase the reserve). The chart below details the factors that have changed:

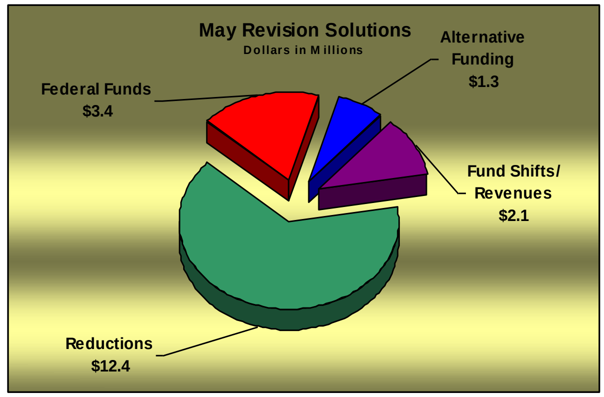
How the Deficit Changed
(Dollars in Billions)

Budget Shortfall Projected in the 2010-11 Governor's Budget	*-$19.9*
Special Session Approved Solutions	*1.4*
Achieved Federal Funds	*0.7*
Revenue Decline	*-0.6*
Cost Increases	*-0.5*
Increase in Reserve	*-0.2*
Total Budget Solutions Proposed	*-$19.1*

The 2010-11 May Revision builds upon the Governor's Budget plan by maintaining $9.3 billion of budget solutions that were included in January and proposes an additional $9.8 billion of new solutions. It is important to recognize that the Democrats' failure to take timely action in the Eighth Extraordinary Special Session to reduce state spending resulted in the loss of $2.8 billion of January budget solutions and significantly contributes to the depth and magnitude of reductions included in the May Revision. Democrats ignored more than $5 billion of expenditure reductions proposed by the Governor and gambled that a May Revision revenue windfall would bail them out of making difficult choices. Unfortunately, their gamble has resulted in the need for $2.8 billion of additional, painful, spending reductions.

By choosing not to include any new general tax increases that would threaten California's fragile economic recovery, the May Revision protects California's families who are still suffering from the $12.5 billion in tax increases enacted last year. The May Revision budget plan largely prioritizes the Judiciary, K-12 and Higher Education funding. Thus, state welfare programs such as CalWORKS, In-Home Supportive Services, and child care programs are the focus of the new state spending reductions.   The Governor has revised the expectations for new federal funds and rescinded the January "federal funds trigger" concept that included tax increases and additional reductions *(See Federal Fund Section on Page 10)*. The May Revision proposes a significant amount of new special fund borrowing and fund shifts *(See Special Fund Borrowing on Page 35)*, and the level of alternative funding solutions is much lower, which reflects lost opportunities such as the redirection of Propositions 10 and 63 funds and Tranquillon Ridge revenues. The following chart compares the January Governor's Budget solution allocation to the May Revision approach:





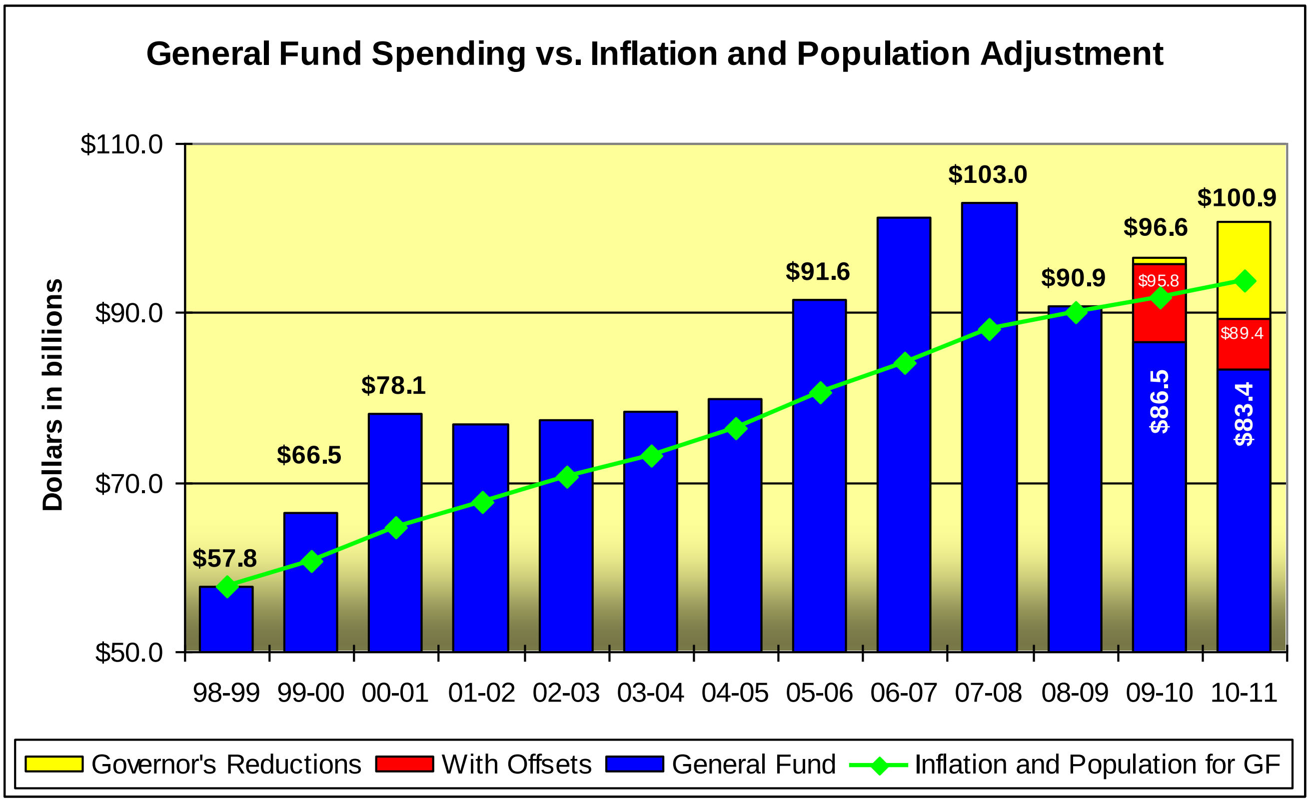
In conclusion, Republicans can applaud the Governor's strong stand against increasing taxes in the midst of an economic crisis, but must recognize that the proposed spending reductions will have far reaching impacts that will test priorities. Unpleasant as it may be, this budget lays out a serious plan to get the California state budget back into balance. Some of the pain, $2.8 billion worth to be precise, could have been avoided if Democrats would have joined with Republicans and the Governor to take early action on spending reductions. Additionally, in order to address the state's structural budget problems it is imperative that the Legislature enact public employee pension reform and economic stimulus measures proposed by Republicans that encourage job creation. Without substantial private-sector job growth, California will not generate the revenue necessary to sustain investments in infrastructure, public safety, education and other vital services.

Key Points:

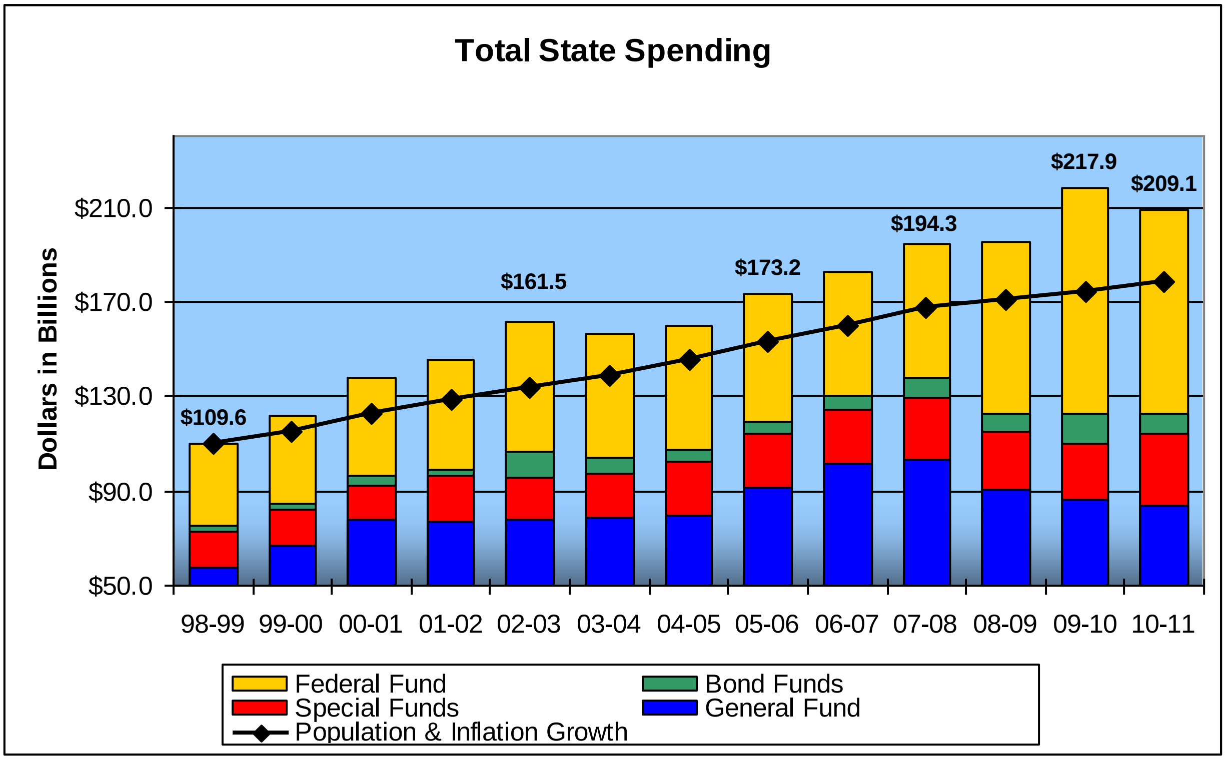
Lower Taxes vs. Higher Spending. The Governor wisely adopted a no-new-taxes stance for his May Revision (although it does continue to include the Emergency Response Initiative and assumes $892 million of new revenue from the federal government allowing the repeal of the estate tax to sunset and the state "pick up" tax going back into effect). While Democrats and the spending lobby will condemn the spending reductions, two Harvard economists conducting a study for the non-partisan National Bureau of Economic Research (NBER) recently confirmed that "*fiscal stimuli based upon tax cuts are **more likely to increase growth** than those based upon spending increases. As for fiscal adjustments, those based upon spending cuts and no tax increases are **more likely to reduce deficits** and debt over GDP ratios than those based upon tax increases. In addition, adjustments on the spending side rather than on the tax side are less likely to create recessions."* The NBER is the nation's leading nonprofit economic research organization. Sixteen of the 31 American Nobel Prize winners in Economics and six of the past Chairmen of the President's Council of Economic Advisers have been researchers at the NBER.

Major Expenditure Reductions. The May Revision budget plan includes a net $3.4 billion of additional spending reductions relative to the January Governor's Budget. The largest and most controversial include the elimination of CalWORKS ($1.2 billion) and child care programs except pre-school and after school ($1.2 billion), In-Home Support Services savings ($637 million), a shift of County Mental Health Realignment funding ($602 million), and the Local Public Safety Block Grant system ($244 million) that shifts certain state felons to local jails and provides a block grant of about $11,500 per offender to counties for probation services.

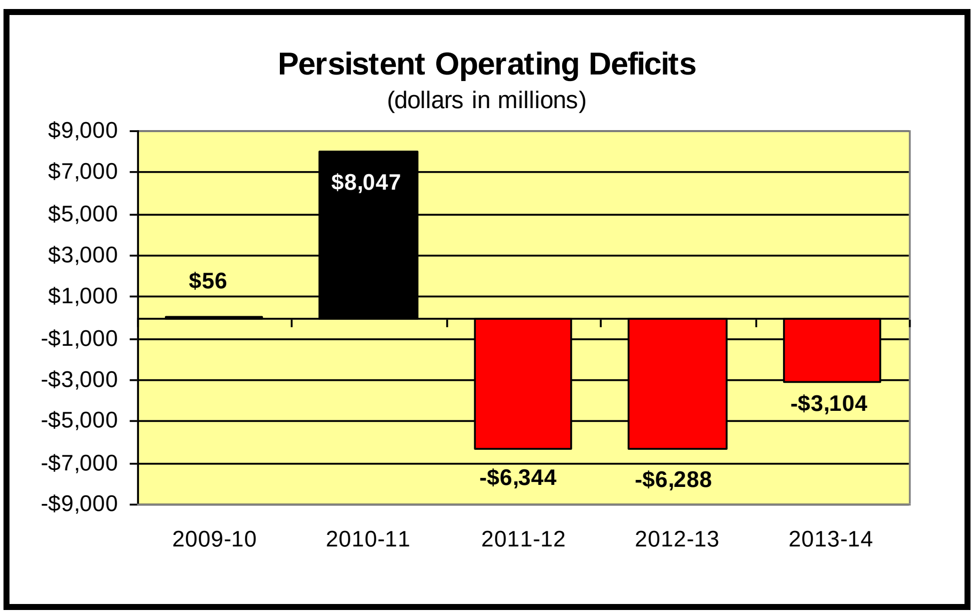
General Fund Spending. Fiscal year 2010-11 will be the third year in a row that California faces actual year-over-year reductions to General Fund spending, following peak General Fund expenditures of $103 billion in 2007-08. The May Revision adjusts General Fund spending projections for 2010-11, which continue to be well below population and inflation adjusted revenues over the past 12 years ($83.4 billion vs. $93.9 billion). However, absent the Governor's proposed $12.4 billion of expenditure reductions (yellow bar), General Fund spending would be $100.9 billion, which is almost back to peak spending levels. The "true" underlying General Fund expenditure level (red bar), which recognizes federal fund offsets, the General Fund offsets from borrowing local government property taxes pursuant to Proposition 1A, and the shift of redevelopment agency funds in 2009-10 ($9.3 billion) and 2010-11 ($6.0 billion), moves the state more in line with population and inflation trends.



Total State Spending. Though General Fund spending is usually the focus of state budget conversations, it is just one component of total state spending. As the chart on the next page demonstrates, total state spending from all fund sources has continued to increase each year over the past 12 years and the proposed 2010-11 spending level exceeds population and inflation growth by over $31 billion ($178.1 billion vs. $209.1 billion). Absent this data, most people would assume that state spending has been drastically reduced in the wake of the "great recession," but the truth is that California continues to spend significantly more than it did before the recent economic downturn.



Operating Deficits Persist. Assuming the Legislature adopts all of the Governor's budget and May Revision solutions, the proposed plan is projected to achieve a $1.2 billion reserve for 2010-11. However, even after implementing these difficult solutions, operating deficits would return the following year (2011-12). As shown in the chart below, following a positive year in 2010-11, expenditures will continue to outpace revenues each year through 2013-14, with operating deficits ranging between $3.1 billion and $6.3 billion. Cumulatively, these deficits will total over $15.7 billion.



The "operating deficit" differs from the bottom line "reserve" in that it reflects only the difference between projected revenues and expenditures for that specific year, and ***does not include*** any surplus or deficits from the previous year in the calculation. The reserve includes the impact of prior year balances (for example: in 2010-11, the operating surplus is $8.0 billion, but the reserve is only proposed to be $1.2 billion because the General Fund will have started the year with a reserve balance of negative $5.3 billion and an additional $1.5 billion is set aside as a reserve for encumbrances.)

Expenditures

General Fund expenditures at the May Revision are projected to be $86.5 billion for 2009-10 and $83.4 billion for 2010-11. These projections have increased by nearly $1.9 billion (2.23 percent) for 2009-10 and $503 million (0.61 percent) for 2010-11since the Governor's Budget. The following table compares point-in-time expenditure projections for 2009-10 and 2010-11.

General Fund Expenditures By Agency

(dollars in millions)

Agency	2009-10 Budget Act	Revised 2009-10	2010-11 Governor's Budget	2010-11 May Revision	Change From Governor's Budget
Legislative, Judicial, Executive	$1,884	$1,828	$2,825	$2,905	$80
State and Consumer Services	$569	$510	$587	$599	$12
Bus, Trans, and Housing	$2,585	$2,512	$902	$765	-$137
Resources	$1,842	$1,873	$1,732	$2,037	$305
Environmental Protection	$73	$71	$68	$65	-$3
Health and Human Services	$24,953	$24,408	$21,000	$22,859	$1,859
Corrections and Rehabilitation	$8,210	$8,186	$7,983	$8,981	$998
K-12 Education	$35,042	$35,869	$36,004	$35,133	-$871
Higher Education	$10,547	$10,570	$11,836	$11,794	-$42
Labor and Workforce Dev.	$64	$57	$59	$58	-$1
General Government	$998	$967	$1,112	$1,122	$10
Other*	-$2,184	-$386	-$1,207	-$2,914	-$1,707
Total, General Fund Expenditures	**$84,583**	**$86,465**	**$82,901**	**$83,404**	**$503**
Percentage Change in 2009-10 Estimate from Budget Act to May Revision		***2.23%***			
Percentage Change in 2010-11 Estimate from Governor's Budget to May Revision					***0.61%***

* The *Other* category expenditures includes a variety of statewide savings proposals that have not yet been allocated to specific departments or programs, including the Governor's Personal Leave Program, health and dental benefits for annuitants, and assumptions for federal fund offsets related to education and health and human services programs.

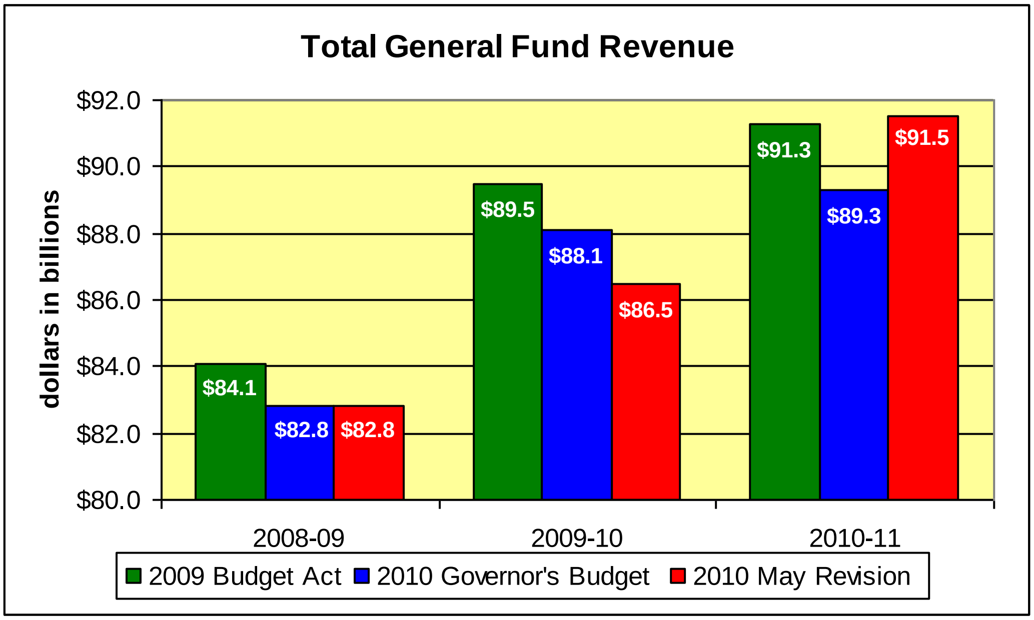
Increased expenditure projections for 2009-10 and 2010-11 reflect a multitude of changes that have occurred since the Governor proposed his budget in January. Despite increasing the amount of spending reductions, lower expectations for federal funds and lost opportunities for alternative funding sources result in a net bottom-line General Fund increase of $503 million in 2010-11.

In past years, this chart has provided a valuable look into how General Fund dollars are spread across state agencies and how amounts change from year to year. However, following three-plus years of repeated fund shifts, transfers, deferrals, accounting maneuvers, and spending offsets, this chart no longer provides a clear understanding of spending by agency. The bar charts included on pages 4 and 5 of this document better reflect General Fund spending and total state spending over time.

Additional detail regarding specific expenditure solutions that contribute to the comprehensive spending picture (identified in the chart above) is included in the following sections of this document.

Taxes & Revenues

General Fund revenues at the May Revision are projected to be $86.5 billion for 2009-10 and $91.5 billion for 2010-11. This revised projected revenue is $1.6 billion less for 2009-10 and $2.1 billion more for 2010-11 than was projected in the January Budget. As you can see in the bar chart below, the Governor's Budget continued to project softening revenue collections as compared to the revised 2009 Budget Act (green bar versus blue bar).



Over the first five months of 2010, revenue projections continued to soften for 2009-10 fiscal year, but appear to be rebounding for 2010-11. As noted in the chart above, revenue projections for 2010-11 slightly exceed projections included in the 2009 Budget Act (green bar versus red bar). The following sections will shed additional light on how the individual components of General Fund revenue have changed since January, including significant increases in borrowing and transfers from special funds to the General Fund.

Personal Income Tax (PIT)
Since January, the PIT forecast has decreased by $2.6 billion (5.6 percent) for 2009-10 and $617 million (1.5 percent) for 2010-11. The following table compares the baseline May Revision estimate to the 2010-11 Governor's Budget estimate:

(dollars in billions)	Personal Income Tax		
	2008-09	**2009-10**	**2010-11**
2010 Governor's Budget	$43.4	$46.6	$46.9
2010 May Revision	$43.4	$44.0	$46.2
Change In Estimate	**$0.0**	**-$2.6**	**-$0.7**
Percent Decrease	**0.0%**	**-5.6%**	**-1.5%**

Historically, April is the largest revenue collection month of the year. Prior to April, year-to-date PIT receipts exceeded estimates by $1.1 billion. However, PIT receipts for April were very disappointing, coming in $3.1 billion lower than projections. The Department of Finance indicates that there are several explanations for the April 2010 revenue shortfall, including:

- More people than expected carried their 2008 capital investment losses into the 2009 tax year. It is assumed that these losses had a significant dampening impact on 2009 capital gains, which largely accrue to taxpayers subject to the top tax rate.
- Small-business owners had less income in 2009 than had been realized at the time of the Governor's Budget.
- Analysts underestimated the timing impact of 2009 tax year payments related to the increase in marginal rates and reduction of the dependent credit, which were enacted as part of the $12.5 billion of tax increases included in the February 2009 budget deal.

The estimate for 2010-11 includes a 5-percent increase over 2009-10 reflecting a moderate economic recovery and higher capital gains due to higher stock prices.

Sales and Use Taxes
Since January, the sales and use tax forecast has actually increased by $816 million (3.1 percent) for 2009-10 and $1.1 billion (4.2 percent) for 2010-11. The following table compares the baseline May Revision estimate to the 2010-11 Governor's Budget estimate:

(dollars in billions)	Sales & Use Taxes		
	2008-09	**2009-10**	**2010-11**
2010 Governor's Budget	$23.8	$26.0	$25.9
2010 May Revision	$23.8	$26.8	$27.0
Change In Estimate	**$0.0**	**$0.8**	**$1.1**
Percent Decrease	**0.0%**	**3.1%**	**4.2%**

The state is projecting higher sales and use tax revenues in the current year and budget year due to a moderately stronger economic outlook and the recent strength in sales and use tax cash receipts. The budget year forecast reflects a $1.1 billion increase, which is net of the impact of the fuel tax "swap" that eliminated the General Fund portion of the sales and use tax on motor vehicle gasoline sales ($1.6 billion reduction).

Bank and Corporation Taxes
Since January, the corporation tax forecast has decreased by $21 million for 2009-10 and decreased by $273 million (3.0 percent) 2010-11. The following table compares the baseline May Revision estimate to the 2010-11 Governor's Budget estimate:

(dollars in billions)	Bank & Corp Taxes		
	2008-09	**2009-10**	**2010-11**
2010 Governor's Budget	$9.5	$9.4	$10.1
2010 May Revision	$9.5	$9.4	$9.8
Change In Estimate	**$0.0**	**$0.0**	**-$0.3**
Percent Decrease	**0.0%**	**0.0%**	**-3.0%**

For 2009-10, corporation tax revenues are tracking very closely with the Governor's Budget forecast. As a result of weaker-than-expected first estimated payment for the 2010 tax year and a *California economy that is improving at a slower pace than the rest of the nation*, the Department of Finance projects a $273 million decline in corporation tax revenues in 2010-11.

Other General Fund Revenues and Transfers
Since January, the forecast for all other General Fund tax categories, including Insurance Tax, Alcoholic Beverage Taxes, Cigarette Taxes, etc., has *increased* by a net $262 million (3.3 percent) for 2009-10 and a net $1.9 billion (28.8 percent) for 2010-11. The following table compares the baseline May Revision estimate to the 2010-11 Governor's Budget estimate:

(dollars in billions)	Other Revenues		
	2008-09	**2009-10**	**2010-11**
2010 Governor's Budget	$6.1	$6.1	$6.6
2010 May Revision	$6.1	$6.3	$8.5
Change In Estimate	**$0.0**	**$0.2**	**$1.9**
Percent Decrease	**0.0%**	**3.3%**	**28.8%**

Included in this forecast are increases of $75 million and $70 million in the Insurance Tax estimate for 2009-10 and 2010-11, respectively. These revenue increases are the result of slightly stronger cash receipts and an expected delay in refunds associated with a previous Board of Equalization decision on the accounting method used by insurers.

Borrowing
As noted above, the May Revision includes a significant increase in “other” revenues to support General Fund expenditure levels. These solutions include two loans to the General Fund ($650 million from the Highway Users Tax Account and $250 million from the Motor Vehicle Account), a $72.2 million transfer of non-Article XIX revenues to the General Fund, and a delayed repayment date for $230 million in loans from the State Highway Account and other transportation funds. *More detail on these solutions is provided in the Transportation Section on Page 27 of this document.*

Death Tax
Though the Governor has not proposed any tax increases in the May Revision, it is important to note that 2010-11 revenue projections include $892 million of new tax revenue related to the state’s pick-up tax (tied to the federal estate tax), which is scheduled to be reinstated for deaths occurring on and after January 1, 2011. The availability of this funding for the General Fund could potentially change, depending on possible changes to federal tax law.

Property Tax Revenues
In January, the Governor’s Budget projected property tax growth rates of -2.9 percent and -2.2 percent for 2009-10 and 2010-11, respectively. Over the past four months, the Administration consulted with county assessors throughout the state and subsequently revised those estimates downward to -4.1 percent for 2009-10 and -3.1 percent for 2010-11.

These reduced growth rates take into account an approximately 30 percent decline in median sales prices for residential properties in 2009. Declining 2009 sales prices drive reductions in the 2010-11 assessed values of neighboring properties. The decline in property tax revenues from 2009-10 to 2010-11 is offset by the fact that existing home sales increased by 1.4 percent from 2008 to 2009.

Emergency Response Initiative
The May Revision continues to support the Governor’s Budget proposal to assess a 4.8 percent statewide surcharge on all residential and commercial property insurance to enhance the state’s emergency response capabilities, including enhancements for CAL FIRE, the California Emergency Management Agency, the Military Department, and to local first response agencies. *For additional detail see the Resources and Environmental Protection Section on Page 30 and Statewide Issues Section on Page 34.*

Federal Funds

The May Revision updates the Governor's target for federal funding relief and provides a different approach to the budget trigger. In January, the Governor's budget included $6.9 billion in federal funds but also proposed a back-up list of specific tax increases and spending reductions totaling the same amount that would be triggered on if the federal funds did not materialize. The May Revision reduces the level of proposed federal funds relief to $4.1 billion, including $3.4 billion not yet approved, and no longer includes a list of specific trigger solutions. Instead, the May Revision indicates that the Governor will propose unspecified "additional solutions" in the near future if the federal government does not provide the requested level of funding. Republicans should be wary that the tax increase may reappear at that time.

The table below compares the Governor's January federal funds solutions with the May Revision version. As shown there, the Administration now believes that January proposals totaling $2.8 billion will not be available, including $1.8 billion for a permanent increase to the base Federal Medical Assistance Percentage and $1.0 billion related to special education mandates. On the other hand, the Administration has been able to secure $682 million related to Medicare Part D costs. In addition, the Administration has incorporated several specific savings targets from January into a general $1.6 billion statewide federal funds target for the May Revision. This amount includes a number of the same concepts from January but does not attribute specific amounts to any particular item.

Federal Fund Relief Target Summary
Dollars in Billions

Description	January Budget	May Revision	Comment
Still Pending			
Extension of American Recovery and Reinvestment Act (ARRA) funds	*$ 2.1*	*$ 1.8*	*Decrease reflects reduction of ARRA funds related to CalWORKs, partially offset by increased amounts for other departments.*
Permanent increase in base Federal Medical Assistance Percentage	*1.8*	*-*	*Determined to be unavailable*
Medicare-related costs	*1.0*	*-*	*$682 million for Medicare Part D "clawback" payments has already been approved by federal government. The remainder is incorporated into statewide target below.*
Special education mandates	*1.0*	*-*	*Determined to be unavailable*
State Criminal Alien Assistance Program (SCAAP)	*0.9*	*-*	*Incorporated into statewide target below*
Foster care	*0.1*	*-*	*Incorporated into statewide target below*
Statewide target	*-*	*1.6*	*Includes Medicare payments, SCAAP, and other. Does not provide specific amount for any single item.*
Subtotal (Matches May Revision)	***$ 6.9***	***$ 3.4***	
Approval Received			
Medicare-related costs	*$ -*	*$ 0.7*	*Approval received for Medicare Part D "clawback" payment adjustments*
Total	**$ 6.9**	**$ 4.1**	

Legislative, Judicial, Executive

Judicial Branch

The Governor's May Revision still includes proposals from his January budget that would authorize a revenue-generating Automated Speed Enforcement (ASE) program and shift funding on a one-time basis from Redevelopment Agencies to offset Trial Court costs. The January proposals are intended to help close the budget gap primarily by funding existing court operations using alternative revenue sources, rather than the General Fund. The Governor's revised budget builds on these proposals as follows:

Erosion of ASE Revenues. The May Revision includes an updated revenue projection for the ASE program to reflect erosions resulting from the proposal's failure to be adopted during the Eighth Extraordinary Session. The revenue erosions result in a need for $90.8 million in additional General Fund for support of Trial Court operations, as compared to the Governor's January spending plan.

Implementation of Electronic Court Reporting. The May Revision includes a $13 million General Fund reduction to the Trial Courts' budget to reflect first-year savings from a proposal to phase in electronic court reporting. The plan, which is identical to the concept proposed by the LAO in 2009-10, would require the courts to replace court reporters with electronic court reporting at a rate of 20 percent of courtrooms per year for five years. According to the LAO, annual savings at full implementation would be approximately $100 million.

Court Security Fee Increase. There has been much recent debate as to the appropriate level of funding for Trial Court security. The Trial Courts are required by law to contract with local sheriffs for security operations at trial court facilities. Because the law is very broad regarding which costs the sheriffs can pass through to the courts, the state finds itself on the hook for salaries, benefits, overtime, uniforms, ammunition, firearms, screening stations, and more. Over the years, the Trial Courts have identified a significant and growing shortfall in the budget for court security. The Administrative Office of the Courts has managed to plug the hole each year through a series of one-time solutions, but is now taking the position that there are no more one-time fixes available to address the problem. The court security fee, which is assessed on convictions for criminal and traffic-related violations, was increased as part of the 2009-10 budget solution from $20 to $30 to help address the immediate shortfall. The fee is scheduled to revert to the **$20** level on July 1, 2011. The revised 2010-11 budget would increase the fee again by another $15, taking it from $30 to **$45**, generating an additional $60 million to fully fund trial court security. The $45 fee would be in effect until July 1, 2016, at which time it would revert to $20, barring legislation to extend or delete the sunset provision.

Department of Justice

In addition to his January proposal to convert the Department of Justice's (DOJ's) General Fund clients to a billable status, the Governor's revised budget proposes a fund shift in the current year that would replace $13.7 million General Fund with a corresponding amount from the DNA Identification Fund. This fund shift is possible because the Legislature approved an increase to the penalty assessed on criminal convictions and traffic violations that supports DOJ forensic laboratory operations as part of the Eighth Extraordinary Session. No General Fund savings were scored at the time, so this proposal seeks to capture them now.

K-14 Education (Proposition 98)

Proposition 98 funding roughly flat, with exception of child care. Despite a two-year budget shortfall of almost $20 billion, the Governor's May Revision does not suspend the Proposition 98 minimum guarantee of funding for K-14 education in either the current or upcoming fiscal year. Significant reductions to child care funding are proposed, as described below, but programmatic funding for K-12 schools is not reduced from the level proposed in January.

- **2008-09.** The May Revision abandons the January proposal to "recertify" the 2008-09 Proposition 98 spending level. However, by the Administration's calculations, the 2008-09 spending level of $49.1 billion **exceeded the minimum guarantee by about $2 billion**, and the May Revision thus continues to score that over-appropriation in full satisfaction of the $1.3 billion maintenance factor obligation that existed at the end of 2007-08.
- **2009-10.** The 2009-10 minimum guarantee has fallen by about half a billion dollars, to about $49.9 billion. However, given that the school year is almost over, the Governor does not propose to reduce spending by that amount. Instead, he scores the over-appropriation toward the $11.2 billion maintenance-factor obligation statutorily established in AB X4 3 (Chapter 3, Statutes of 2009), which would reduce the state's obligation under that measure to $10.7 billion. In addition, he continues to propose deferring the 2010-11 payment required by AB X4 3 to 2011-12.
- **2010-11.** The May Revision fully funds the 2010-11 minimum guarantee at about $48.4 billion. Although this is a lower level of funding than was provided in 2009-10, the reduction will not result in additional programmatic reductions beyond those proposed in January. Rather, it is largely a reflection of the Governor's proposal to reduce Proposition 98 funding for child care, which drives a downward adjustment ("rebenching") of the guarantee. It also reflects the Governor's proposal to ***not* hold Proposition 98 harmless from the effect of the gas tax swap** enacted in February 2010, which replaced gasoline sales tax revenues that *are* scored toward the Proposition 98 guarantee with excise tax revenues that are *not.* Holding Proposition 98 funding harmless from the effects of this swap would have increased it by roughly $700 million.

The following chart summarizes the Governor's proposed Proposition 98 funding:

Proposition 98 Funding
Source: Legislative Analyst's Office
($ in millions)

	2007-08	2008-09	January 2009-10	May 2009-10	January 2010-11	May 2010-11	09-10 to 10-11 $ change	09-10 to 10-11 % change
K-12 education								
General Fund	$37,752	$30,075	$30,844	$32,022	$32,023	$30,927	-$1,095	-3.4%
Local property tax revenue	$12,592	$12,969	$13,237	$12,105	$11,950	$11,529	-$576	-4.8%
K-12 subtotal	$50,344	$43,044	$44,082	$44,127	$43,974	$42,456	-$1,671	-3.8%
California Community Colleges								
General Fund	$4,142	$3,918	$3,722	$3,722	$3,981	$3,991	$269	7.2%
Local property tax revenue	$1,971	$2,029	$1,953	$1,962	$1,913	$1,907	-$55	-2.8%
CCC subtotal	$6,112	$5,947	$5,675	$5,683	$5,895	$5,898	$214	3.8%
Other Agencies	$121	$105	$94	$93	$85	$89	-$4	-4.5%
Total Proposition 98	$56,577	$49,096	$49,851	$49,903	$49,954	$48,442	-$1,461	-2.9%
General Fund	$42,015	$34,098	$34,660	$35,837	$36,090	$35,007	-$830	-2.3%
Local property tax revenue	$14,563	$14,997	$15,191	$14,066	$13,864	$13,435	-$631	-4.5%
Prop 98 per-pupil funding (K-12)	$8,509	$7,226	$7,444	$7,452	$7,418	$7,162	-$290	-3.9%
K-12 per-pupil, excluding child care	$8,175	$6,944	$7,138	$7,143	$7,137	$7,088	-$55	-0.8%

2010-11 programmatic proposals. After determining a spending level for Proposition 98, the Governor and Legislature must then decide *how* these funds should be programmed. In this respect, the May Revision is substantially similar to the January budget proposal, with one significant exception: it proposes to reduce budgeted General Fund support of child care by about $1.2 billion, to about

$439 million, all of which would be spent to support state preschool programs.[1] Past media reports have identified many instances of waste, fraud, and abuse in state-funded child care programs.[2] Accordingly, the Governor also proposes more aggressive actions to minimize waste and seek collection of overpayments in child care programs.

Revenue limit reductions remain. As was the case in January, significant programmatic reductions will still be necessary to backfill one-time solutions used in 2009-10 (e.g., the $1.7 billion deferred to 2010-11). The most notable of these is a $1.5 billion reduction to school "revenue limits," after which revenue limit funding would total about $31.1 billion. Revenue limit funding is general-purpose funding, so school districts will decide at the local level how to implement the reductions.

Contracting out. The January proposal that schools reduce costs by $300 million annually by contracting out for non-instructional services also continues, but is no longer tied to a specific dollar amount. The revenue limit reduction formerly associated with this proposal remains part of the $1.5 billion reduction referenced above.

Mandates. The Governor continues to propose suspension of all K-12 mandates except those for special education behavioral intervention plans ($65 million), inter/intra-district transfers ($7.7 million) and the California High School Exit Exam ($6.8 million). Most mandates were funded at $1,000 in 2009-10, so this will not reduce 2010-11 spending, but it *will* avoid building the state's "education credit card" balance by another $200 million, and will relieve schools of the necessity to comply with the suspended mandates, thus freeing up funds for higher local priorities.

COLA. The cost-of-living adjustment for K-12 programs changed slightly, from -0.38 percent to -0.39 percent, which results in an additional $4 million reduction to K-12 revenue limit funding.

Other reforms for local savings. The Governor continues to support several personnel policy reforms first proposed in January, to enable local savings. These reforms most notably include loosening seniority rules to allow school districts more latitude in assigning, transferring, and re-hiring teachers, and extending the March 15 deadline by which districts must provide teachers with preliminary layoff notifications (SB 955, Huff).

California Community Colleges (CCCs). In the Governor's proposed budget, the Community Colleges' share of Proposition 98 funding ("the split") is just over 12 percent. Most of the adjustments proposed in January continue, including:

- $126 million augmentation for 2.2 percent enrollment growth.
- $22.9 million reduction for a -0.39 percent cost-of-living adjustment (the COLA changed from -0.38 percent in January to -0.39 percent in May, but the Governor did not adjust for the 0.01 percent change).
- $20 million augmentation to career technical education (CTE) to maintain average funding of $58 million, the same amount provided in 2008-09.
- $10 million reduction each to the Extended Opportunity Programs and Services (EOPS) and part-time faculty compensation categorical programs.

In addition, the following adjustments are newly proposed:

[1] This is in addition to $550 million in Proposition 98 General Fund support of before- and after-school programs, which is "off budget" under the terms of Proposition 49 of 2002.
[2] For example, in 2008 more than 50 people were charged by the Los Angeles County district attorney in a $3 million child care scam that involved bogus corporations and child care facilities set up to receive state welfare funds.

- $6 million decrease in federal Temporary Assistance to Needy Families (TANF) funding for special services to CalWORKS student recipients, consistent with the Governor's proposal to eliminate CalWORKS in 2010-11.
- $4.4 million in federal Workforce Investment Act (WIA) reimbursement authority to UC, to support nursing and allied health education.

CCC categorical flexibility. The Governor continues his proposal to move three previously-restricted categorical programs into the group of programs that enjoys categorical flexibility: EOPS, basic skills, and the Fund for Student Success. He also continues his January proposal to correct a technical error in the 2009-10 budget by clarifying that Career Technical Education (CTE) is *not* included in the group of categorical programs that enjoy categorical flexibility.[3]

CCC student fees. The May Revision makes no proposal to change CCC student fees, which would remain at $26 per credit unit, still the lowest in the nation by far. An increase to $40 per unit, as the Legislative Analyst has suggested, would generate roughly $150 million in additional fee revenue to support community college operations.

[3] The Administration and minority staff believe that the 09-10 budget agreement was to keep CTE out of the flex; majority staff do not share that view. Given the budgetary priority granted to vocational and workforce training, the CCC Chancellor's office has administered CTE in 09-10 as though it was *not* in the flex group.

UC, CSU, & Student Financial Aid

The May Revision seeks no budget solutions from UC nor CSU. Rather, it would augment their budgets by almost $800 million from current-year levels (by roughly $1.5 billion including new student fee revenue). As discussed below, the May Revision withdraws the January "trigger cuts" for education: those cuts are now "off the table", regardless of how much or little federal support is received. General Fund support for higher education would be about $800 million above the maintenance-of-effort level necessary to retain federal "stimulus" funding. The following chart summarizes proposed funding for UC and CSU:

UC & CSU Funding
(Selected core funds, in millions)

	Fund	2007-08 actual	2008-09 actual	2009-10 estimated	2010-11 proposed	09-10 to 10-11 $ change	09-10 to 10-11 % change
UC	**General Fund**	**$3,257**	**$2,418**	**$2,596**	**$3,019**	**$423**	**16.3%**
	Fees [1/]	**$1,593**	**$1,677**	**$2,001**	**$2,566**	**$565**	**28.2%**
	ARRA [2/]	**$0**	**$717**	**$0**	**$0**	**$0**	**0.0%**
	Lottery	**$25**	**$25**	**$29**	**$27**	**-$1**	**-4.2%**
	Total UC	**$4,876**	**$4,837**	**$4,626**	**$5,612**	**$986**	**21.3%**
CSU	**General Fund**	**$2,971**	**$2,155**	**$2,350**	**$2,723**	**$373**	**15.9%**
	Fees [1/]	**$1,176**	**$1,406**	**$1,593**	**$1,747**	**$154**	**9.6%**
	ARRA [2/]	**$0**	**$717**	**$0**	**$0**	**$0**	**0.0%**
	Lottery	**$58**	**$42**	**$46**	**$44**	**-$2**	**-4.2%**
	Total CSU	**$4,205**	**$4,320**	**$3,990**	**$4,515**	**$525**	**13.2%**
	Grand total [3/]	**$9,081**	**$9,156**	**$8,615**	**$10,127**	**$1,511**	**17.5%**

[1/] Includes amounts diverted to financial aid controlled by UC and CSU
[2/] Federal American Recovery and Reinvestment Act funding. These funds were received in the 2009 calendar year and spent on activities that occurred in the 2008-09 fiscal year
[3/] May Revision numbers are virtually identical to those proposed in January 2010

Source: Legislative Analyst's Office

Several of the budget adjustments proposed in January for UC and CSU would continue, most notably:

- $610 million augmentation, $305 million to each segment, to restore one-time reductions made in 2009-10 (a $255 million veto and a $50 million "trigger cut" to each segment).
- $111.9 million augmentation for 2.5 percent enrollment preservation funding at UC ($51.3 million) and CSU ($60.6 million). In the January Governor's Budget, these funds were contingent on receipt of several billion dollars in federal funding. As noted above, *that contingency has now been withdrawn*; the May Revision proposes to provide these funds regardless of federal support.
- $5 million in continued "start-up" funding for UC Merced, previously scheduled to expire after 2009-10, to reflect a longer start-up period resulting from lower-than-projected enrollments.

In addition, the May Revision proposes a new $2.7 million augmentation in federal workforce Investment Act (WIA) reimbursement authority to UC, to support the education of 185 nursing graduates through 2013-14.

UC and CSU student fees. The May Revision continues the January assumption that student fee increases approved by the UC Regents and pending before the CSU Trustees will go forward. Specifically, it anticipates that UC systemwide undergraduate fees will rise to $10,302 in 2010-11, and that CSU fees will rise to $4,429.

Institutional Aid. Consistent with past practice, one-third of additional fee revenue will be set aside for student financial aid controlled by UC and CSU. The diversion of one-third of the new revenue resulting from these fee increases will bring UC-controlled financial aid to over $800 million annually, and CSU-controlled aid to over $500 million (including direct General Fund support of over $52 million and $34 million respectively).[4] These amounts are in addition to state-funded financial aid (e.g., CalGrants) of over $1 billion per year.

State financial aid. In contrast to the very few changes proposed for UC and CSU, the May Revision makes several significant changes to the Governor's January proposals for 2010-11 student financial aid. Specifically, the May Revision:

- Withdraws two 'trigger cuts' proposed in January ($79 million in savings from freezing the award levels and income eligibility ceilings of CalGrant recipients, and $45 million in savings from suspending the Competitive CalGrant program). Neither of these cuts would now be imposed, regardless of how much or little federal support is received. Neither was scored as 'solution' in January, so their withdrawal does not change the General Fund totals now.
- Creates $75 million in General Fund savings by backfilling a reduction of the same amount with revenue from the Student Loan Operating Fund.
- Increases funding for CalGrants by $10.6 million to fully fund expected demand, and increases 2009-10 CalGrant funding by $11.1 million for the same purpose.
- Creates $7.2 million in General Fund solution by replacing state support for financial aid programs with federal College Access Challenge Grant funds.
- Increases a state operations augmentation of $550,000 proposed in January for the Student Aid Commission by $676,000, to a total of about $1.2 million, to backfill costs currently borne by the EdFund, contingent on the sale of that entity.

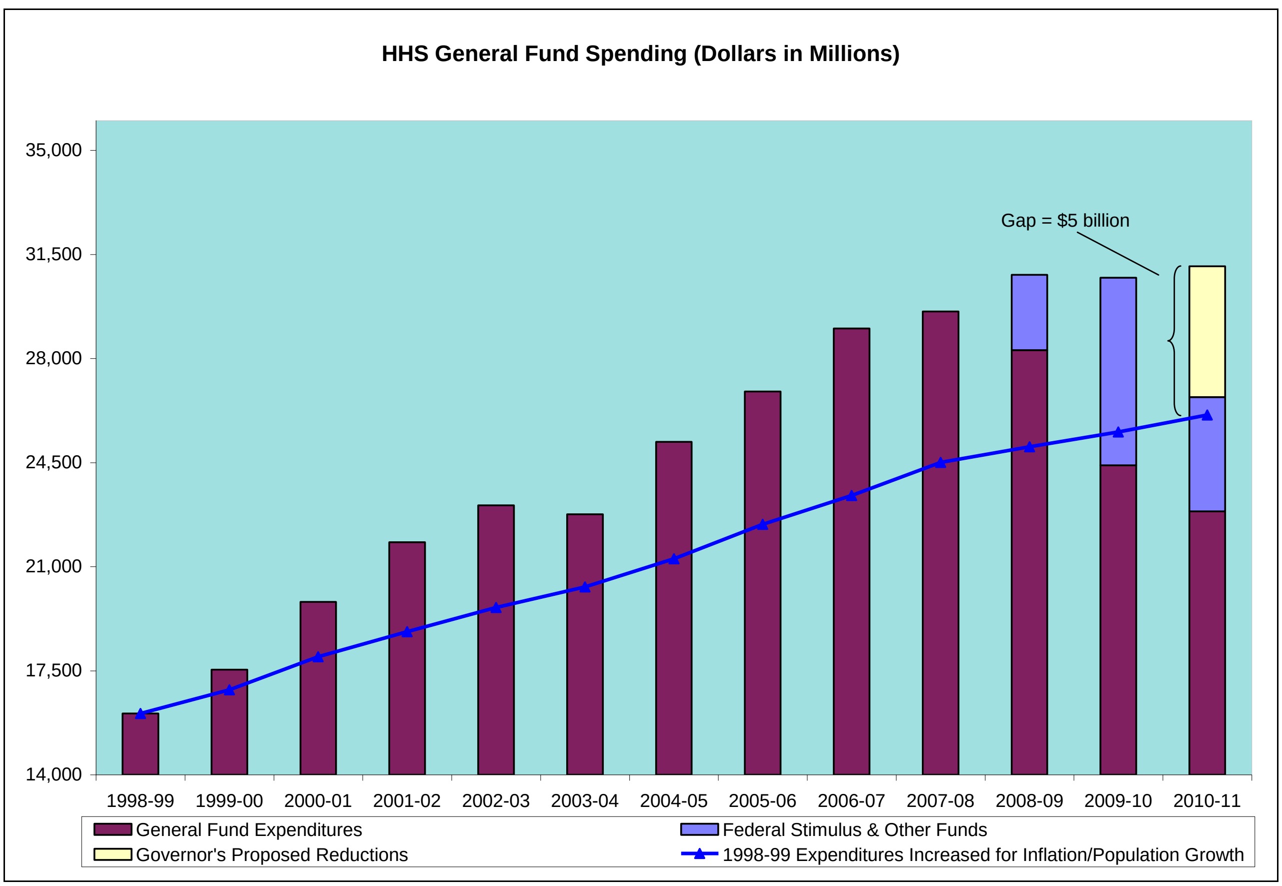
[4] This practice appears to conflict with Education Code Section 66021, which states Legislative intent that funds for increased student financial aid be provided from sources other than student fees.

Health & Human Services

The May Revision includes total General Fund expenditures of $22.9 billion for all Health and Human Services Agency budgets, which represents a decrease of $1.5 billion (6.4 percent) from the revised 2009 Budget Act. **General Fund costs would have increased by $2.9 billion** above 2009-10 if it were not for $4.4 billion in total health and human services budget solutions (includes proposals from January and May Revise), which include the following major reduction proposals since January:

- Eliminating the CalWORKs program ($1.5 billion).
- Restructuring the In-Home Supportive Services program ($637.1 million).
- Restructuring county mental health realignment programs to offset expenditures in child welfare services and adult protective services ($602 million).
- Establishing limits and cost-sharing for Medi-Cal benefits ($309 million).

The proposed 2010-11 reductions are in addition to several significant program reductions included in previous budgets in an attempt to reverse more than a decade of unsustainable growth in Health and Human Services programs. As the chart below demonstrates, until recently General Fund expenditures had increased far faster than inflation and population. The May Revision includes additional policy changes that, together with those proposed in January, will help to align program service levels with projected revenues for the budget year.

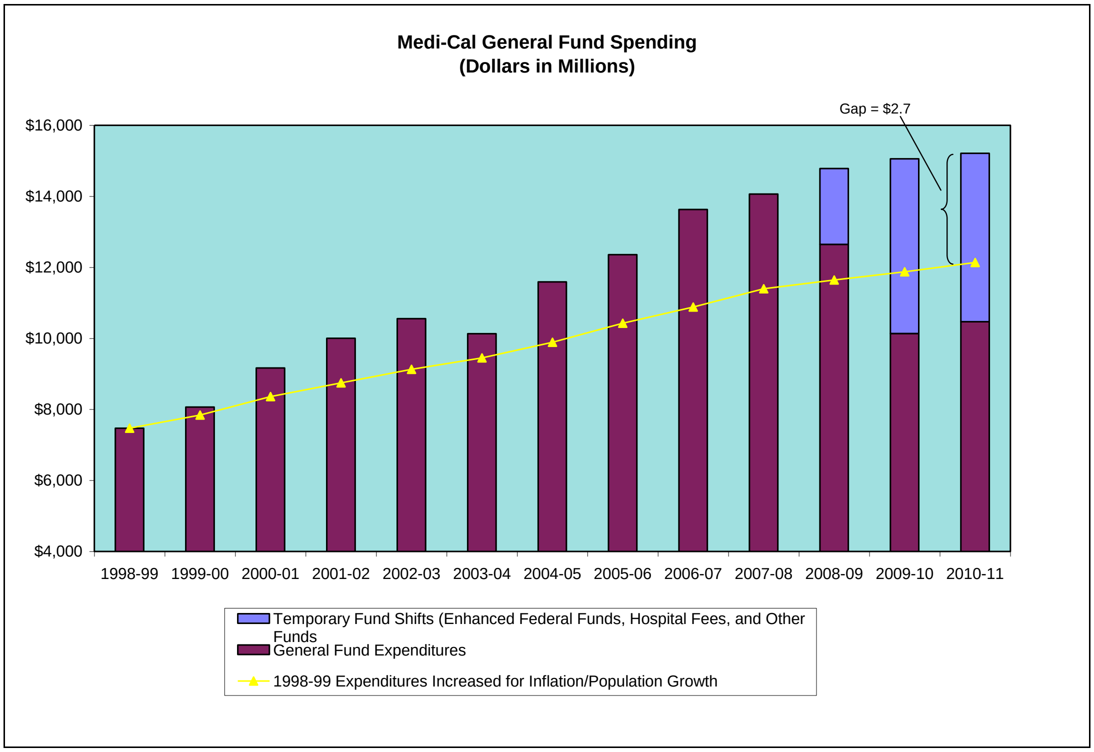


HEALTH

Department of Health Care Services (DHCS) – Medi-Cal

Overview. The May Revision provides $10.4 billion General Fund ($42.6 billion total funds) for the Medi-Cal Program in 2010-11, which represents a net increase of $1.6 billion General Fund from the Governor's January budget proposal. This change primarily reflects lower assumptions of federal funding relief. The May Revision also includes program reductions totaling $730 million. The most significant changes from the Governor's January proposal are discussed in more detail below.

Because of the assumption of significant short-term shifts in spending from the General Fund to federal or other funds, Medi-Cal General Fund expenditures are projected to fall below what a growth rate equal to inflation and population combined would indicate (see chart below). However, underlying program costs in the absence these fund shifts would result in program growth of $2.7 billion beyond that level. As illustrated in the chart, temporary fund shifts are budgeted to offset $4.7 billion in Medi-Cal General Fund spending in 2010-11.



Substanial Federal Funding Still Uncertain. The May Revision assumes $3 billion in General Fund savings for Medi-Cal through increased federal funding offsets, which is a decrease of $1 billion from the January proposal. Although the Administration has abandoned its most unrealistic savings assumption, federal funds of likely over $2.3 billion assumed in the May budget remain speculative. The federal fund proposals reflect the following changes since January:

- *Extension of the Temporary Enhanced FMAP rate.* The May Revision increases by $300 million the amount of federal funds estimated to be available for Medi-Cal through an extension of the temporary enhanced Federal Medicaid Assistance Percentage (FMAP). This is in addition to the amount assumed for this item in the January budget, and brings the total to $1.5 billion for Medi-Cal in 2010-11. The extension is included in H.R. 4213, which has been passed in different forms by the Senate and the House of Representatives, as well as in the President's proposed budget for federal fiscal year 2011.

- *Enhanced FMAP for "Clawback" Payments.* The May Revision provides increased savings of $447 million to recognize enhanced FMAP funding for the Medicare Part D clawback payments. These savings have already been approved by the federal government and are in addition to $225 million in savings assumed for this item in the Governor's January budget.
- *"Federal Flexibility and Stabilization."* The May Revision assumes a statewide target of $1.6 billion General Fund savings in which the state would receive increased federal reimbursement, generally on a one-time basis, for several items. Medi-Cal components are assumed to make up an unspecified portion of this amount, which also includes the costs of incarcerating undocumented immigrants. Possible Medi-Cal components include more favorable treatment of clawback payments, General Fund relief through a new comprehensive Medi-Cal waiver, and repayment of costs Medi-Cal improperly incurred for enrollees who were actually eligible for Medicare. The federal government has yet to approve funding for these items, and such approval appears increasingly unlikely at this late stage.
- *Removal of Permanent Increase in the Base Federal Medicaid Assistance Percentage.* The May Revision removes this proposal from the Governor's January budget because the option is no longer available. The January budget included $1.8 billion in General Fund savings for this item.

Program Reductions. The May Revision includes various new program reduction proposals totaling $567 million in savings, in addition to proposals of $163 million still remaining from policies proposed in the January budget. Major new reduction proposals include the following:

- *Medi-Cal Copayment Requirements.* The Governor's copayment proposal would generate estimated savings of $219 million. Examples include $50 for an emergency room visit, $100 for a hospital day (not to exceed $200 per stay), and $5 for prescriptions or doctor visits. These changes would require federal approval, and it is unclear whether such approval would be granted.
- *Medi-Cal Benefit Restrictions Proposed.* The May Revision proposes to implement various Medi-Cal benefit caps for savings of $90 million. The benefit caps include dollar limits on such items as durable medical equipment, a limit of six prescriptions per month, and a cap on physician or clinic visits of 10 per year. The Administration targeted these caps at the 90th percentile of usage for Medi-Cal enrollees. Over-the-counter drugs would also be eliminated. Similar to the copayments, these changes face an uncertain future with required federal approvals.
- *Hospital Rate Freeze*. This proposal would freeze hospital rates at the amounts in place as of January 1, 2010, for savings of $85 million. Some hospital contracts include scheduled rate increases, though, and it's not clear whether the state can legally change those contracts unilaterally.
- *County Administration Adjustment*. This proposal would obtain savings of $44 million by altering the methodology used to calculate payments for counties to administer eligibility. The Administration believes that the current method results in duplicative increases to county funding. In general, Medi-Cal spends an inordinate amount on eligibility processing, and any reasonable improvements in the methodology are welcomed.
- *Radiologist Rate Reduction.* The May Revision proposes to reduce radiologist rates to 80 percent of Medicare rates for savings of $11 million.
- *Elimination of Clinic Payments.* The Expanded Access to Primary Care (EAPC) Clinics Program receives $10 million in tobacco tax proceeds from Proposition 99. The May Revision would eliminate these funds and shift them to backfill General Fund in Medi-Cal. Funding for the EAPC Program was reduced substantially in the 2009-10 budget; this action would eliminate funding for the program.

Additional Fund Shifts Would Relieve General Fund. The May Revision would increase the General Fund backfill available through the newly enacted hospital fee by $160 million. This fee, authorized by Chapter 627, Statutes of 2009 (AB 1383, Jones), was already estimated to provide savings of

$560 million in the January budget proposal. The fee would be extended by six months, through June 30, 2011, to provide the increased savings. Hospitals would also realize increased revenue through a fee extension. Federal approval is still pending for the fee, which also requires an extension of the temporary FMAP, placing the total savings amount of $720 million at risk.

Budget Augmentations. Apart from the reductions and fund shift proposals described above, the May Revision includes adjustments and proposals that would increase spending. These include:

- *Court Decisions.* Court rulings that have blocked previously enacted savings proposals, such as provider rate reductions and benefit caps for adult day health centers, are estimated to cost the state an additional $109 million in 2010-11.
- *Managed Care Rates.* The May Revision includes $174 million General Fund for a 3.7 percent rate increase to Medi-Cal managed care plans.
- *Nursing Home Fees and Rates.* The May Revision proposes to expand the current nursing home fee to include additional facilities in order to provide a 3.9 percent rate increase totaling $80 million to nursing homes. The fee, authorized by AB 1629 (Frommer, 2004), would now include multi-level retirement communities, which were exempted under AB 1629. These facilities typically have much lower Medi-Cal business than more traditional nursing homes, though, and removing their exemption could have a significantly negative fiscal effect for them. (For more traditional nursing homes, the revenue gained under AB 1629 typically outweighs the fee assessed.) The proposal also calls for changing the method of calculating the fee to incorporate more recent data, and lowering licensing fees for nursing homes. The rate increase would be funded by the combination of increased fee revenue and other changes.
- *Staff Increases.* Also included in the Governor's revised budget is $4 million General Fund to pay for (1) 45.5 staff to improve the quality of care at freestanding nursing facilities, and (2) 53 limited-term staff to implement the anticipated federal hospital financing waiver.

Department of Public Health (DPH)

Overview. The May Revision proposes $272 million General Fund ($3 billion total funds) for DPH in 2010-11, a decrease of $33 million from the January budget. Even at this lower level, the General Fund spending represents an increase of $79 million or 41 percent from the 2009 Budget Act.

AIDS Drug Assistance Program (ADAP). The decrease in DPH's budget compared to the level proposed in January results from lower spending now estimated for ADAP. This reduction is the result of both a court ruling that lowered prices for certain drugs, and more recent data regarding program spending. However, despite the rapid growth in ADAP spending (described in our January budget summary) and the state's budget deficit, the May Revision fails to include any new proposals to control program spending. In addition, a recently released report by the Bureau of State Audits documented lax oversight by DPH of ADAP enrollment sites around the state.

Managed Risk Medical Insurance Board

Healthy Families Program. The Governor's revised budget includes $114 million General Fund ($1.1 billion total funds) for the Healthy Families Program (HFP) in 2010-11, which reflects a decrease of $11 million General Fund (9 percent) from January. The revised budget reflects the following adjustments since January:

- *Eligibility Reduction Proposal Rescinded.* The Governor has rescinded the January proposal to lower HFP eligibility from 250 percent of the federal poverty level (FPL) to 200 percent of FPL (or from about $55,000 to about $44,000 for a family of four). This reflects a maintenance-of-effort requirement for HFP enacted in March by the federal health care reform package. The rescission adds $64 million back to the HFP budget.
- *Increased Premiums for Restored Eligibility Group.* The increased spending for families above 200 percent FPL would be partially offset by savings of $13 million associated with raising the premium per child in this group from $24 to $42 per month. The family maximum would increase to $126 per month. This premium increase is consistent with the Governor's January proposal for families in HFP's lower income tiers.
- *Higher Managed Care Tax Revenue.* The May Revision would backfill an additional $49 million General Fund with higher-than-anticipated revenue obtained from the recently enacted managed care tax (AB 1422, Bass). This cost shift is in addition to the $137 million assumed in the January budget.
- *Increased Copayments.* The Governor's revised budget proposes savings of $3.2 million General Fund by increasing copayments for hospital visits. Consistent with the copayments proposed for Medi-Cal, the new HFP copayments would by $50 for emergency room visits (up from $15) and $100 per day for inpatient hospital visits, with a maximum of $200.

Department of Developmental Services (DDS)

Overview. The Governor's budget provides $2.6 billion General Fund ($4.8 billion total funds) for DDS, which represents an increase of $175 million compared with the Governor's January budget package. The revised General Fund total is $115 million or 4.7 percent higher than the revised estimate for 2009-10. The May Revision's significant adjustments and new policies are discussed below.

Ballot Proposal No Longer Available. The May Revision removes the Governor's January proposal to seek voter approval on the June ballot to shift $200 million shift in Proposition 10 funds from the First 5 Commission to DDS. Since the Legislature did not approve this proposal, time has run out to place such a measure on the June ballot.

Additional Federal Funds. The May Revision includes General Fund savings of nearly $54 million that result from increased federal funding for services provided through Intermediate Care Facilities for the Developmentally Disabled. Of this amount, $39 million is retroactive for 2009-10 and earlier years.

Earlier Reduction Proposal Detailed. The Governor's January budget included a savings target of $25 million General Fund for unspecified reductions to regional center spending. This savings amount would be in addition to the $334 million in various reductions enacted for the 2009-10. The May Revision specifies that the savings would be achieved by increasing the existing reduction to regional center operations and provider payment rates from 3.0 percent to 4.25 percent. The current 3.0 percent reduction has been in place since 2008-09.

Elimination of CalWORKs Funds. The May Revision includes an increase of $53 million General Fund to reflect the loss of a potential fund shift. The January budget had included a shift of some General Fund to federal funds from the Temporary Assistance for Needy Families block grant, but the Governor's proposed elimination of CalWORKs makes those funds unavailable to DDS. The CalWORKs proposal is described in more detail in the Human Services section below.

Lanterman Developmental Center (LDC) Closure. On April 1, 2010, the Governor submitted a plan to close LDC in Pomona. The Administration estimates that the process of moving LDC residents into other community treatment settings or other developmental centers will take at least two years. While closure of another costly developmental center should provide fiscal benefits in the long run, the Administration has not included any savings in the May Revision, nor provided any estimate of the savings that might eventually result. The May Revision does include a proposal to use $3.5 million in federal grant funds for staffing and other resources to assist LDC residents in moving to the community and a higher estimate of the number of residents who will move.

Department of Mental Health

Overview. The Governor's budget proposes $1.9 billion General Fund ($3.1 billion total funds) for DMH programs, an increase of $429 million General Fund (29 percent) from the January proposal. At this revised level, General Fund spending would be higher by $175 million or 10 percent than the updated estimate for spending in 2009-10. Significant adjustments since January and new proposals are discussed below.

Ballot Proposal No Longer Available. The May Revision removes the Governor's January proposal to seek voter approval on the June ballot to shift $452 million in Proposition 63 funds to backfill General Fund programs in DMH. Since the Legislature did not approve this proposal, time has run out to place such a measure on the June ballot.

Redirection of Local Mental Health Funds. The May Revision proposes to redirect $602 million in mental health Realignment funds to backfill General Fund spending. This represents 58 percent of local governments' total pool of Realignment mental health funds, which amounts to just over $1 billion. The redirected funds would be used to offset General Fund spending on the Food Stamp and Child Welfare Services programs. This proposal raises substantial legal and policy questions about the state-local relationship established under Realignment in 1991.

Special Education Mandate Suspension. Under this proposal, the so-called AB 3632 mandate would be suspended for savings of $52 million General Fund. The AB 3632 mandate addresses the mental health services necessary for children with disabilities to benefit from their education. The 2009 Budget Act provided $104 million for AB 3632 mandate claims, but half that amount was deferred in mid-year adjustments made to the 2009-10 budget. The May Revision action would actually suspend the mandate itself, relieving county mental health departments from the obligation to provide the services.

Arguably, the state should not impose unfunded mandates on local government, so suspending the mandate itself is preferable to merely eliminating the funds needed to pay local governments. However, even under a suspended mandate, the state would still need to pay claims incurred by local governments while the mandate was in effect.

Special education mental health services are an entitlement under the federal Individuals with Disabilities Education Act (IDEA). Prior to enactment of the state's AB 3632 mandate in 1984, school districts bore responsibility for providing services under the federal entitlement. Suspending the state mandate would shift fiscal responsibility back to school districts, which would still be required to arrange the services needed by disabled children because IDEA would not be affected by the state's action.

HUMAN SERVICES

The May Revision includes reductions of $2.9 billion within the state's human services programs for 2010-11. Combined with the Governor's January proposals, program reductions for human services total $3.5 billion General Fund for 2010-11. The 2009 Budget Act included several significant program reforms within the state's human services programs that will reduce General Fund expenditures in the long run and help address the structural budget deficit. Unfortunately, many of those policy changes were the subject of litigation as soon as the budget was passed.

The courts have intervened in many cases, mostly ruling against the state, which has impeded implementation efforts and increased the state's structural deficit by hundreds of millions of dollars. The 2010-11 May Revision attempts to address the concerns identified in the litigation and proposes to work with advocates and stakeholders in hopes of an agreement that allows the state to achieve the budgeted program savings. If the courts continue to restrict the state from restructuring programs to a level that is financially sustainable the state will have no option but to eliminate these programs altogether.

Department of Social Services

May Revision Eliminates CalWORKs. The Governor's January budget included $487.9 million in General Fund savings from various CalWORKs program changes. The May Revision includes an additional $1.2 billion in General Fund savings from eliminating CalWORKs entirely. Eliminating the CalWORKs program will result in a loss of federal Temporary Assistance for Needy Families block grant funding of approximately $3.7 billion. Although CalWORKs would no longer be available to provide cash grants, child care, transportation, mental health services, substance abuse services or other job assistance training, it is presumed the approximately 500,000 families effected by the policy change would be eligible to receive assistance (such as food stamps, Medi-Cal, housing assistance, assistance with energy bills and various others) through other state programs as well as federal and local governments.

In-Home Supportive Services

Reforms Meet with Resistance. Recent efforts to reform the IHSS program and reduce expenditures have been met with resistance and litigation from unions and others. The 2009 Budget Act included savings of $520.8 million ($130 million General Fund) from various reforms, but court injunctions have prevented the state from implementing certain components and the savings are not included in the budget for 2009-10 or 2010-11. The Department of Social Services (DSS) is working with the counties and stakeholders to implement these proposals as quickly as possible and it is hoped that some level of savings can be achieved in 2010-11.

Consensus with Stakeholders Sought. The Governor has withdrawn the January IHSS reduction proposals (reductions to benefits and wage levels that would have generated more than $700 million in General Fund savings), and now proposes to reduce the IHSS program expenditures by $637.1 million General Fund ($750 million annually beginning in 2011-12) as a result of still-to-be-determined policy changes.

In consultation with stakeholders, the Administration will develop specific IHSS cost containment measures in time for legislative enactment by July 1, 2010. Issues for consideration would be those tied to eligibility, service level, and provider wages. The Administration is seeking agreement from all parties as a means to achieve expenditure reductions while mitigating litigation risks.

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

The Governor's January budget included policy changes that would generate General Fund savings of $206.4 million in 2010-11. These changes include reducing the SSI/SSP grants to the federal minimum for individuals (savings of $133 million) and eliminating the Cash Assistance Program for Immigrants ($73.6 million). These proposals continue to be assumed for 2010-11 (but with a later effective date of October 1, 2010), and no new policy changes are proposed for SSI/SSP. If the Legislature were to adopt the reduction of individual grants to the federal minimum, the state would no longer be able to reduce grant levels going forward.

California Food Assistance Program

The Governor's January budget proposed to eliminate the California Food Assistance Program, effective June 1, 2010, for General Fund savings of $3.8 million in 2009-10 and $56.2 million in 2010-11. This proposal continues to be assumed in the May Revision, but savings would now be $42.8 million in 2010-11 due to a delay in implementation (effective date for implementation would now be October 1, 2010).

Child Welfare Services

County Mental Health Realignment. The May Revision includes a proposal to shift county mental health realignment funding to county social services programs, resulting in a decrease of $602 million General Fund to the food stamp and child welfare services programs. The adjustment eliminates the majority of funding for county mental health services and retains only the amount necessary to fund mandated mental health services. The savings would be achieved by changing the state/county cost sharing ratio for child welfare services and food stamp administration.

Proposition 10 Funding Redirection Too Late. The May Revision includes an increase of $350 million General Fund to reflect that the proposal to shift state and local Proposition 10 revenues for five years was not adopted in time to be considered by the voters in the June election. These monies would have been used to offset General Fund costs in various health and human services programs.

Court Decisions Continue to Cost the State. The 2009 Budget Act included a ten percent rate reduction for foster family agencies and group homes and the January 2010 budget assumed savings of $34.6 million as a result of this policy change. The May Revision, however, includes an increase of $79.1 million General Fund due to the recent court decision that requires the state to increase the rates paid to foster care group home providers.

Expanded Federal Eligibility for Foster Care. The May Revision includes an increase of $86.9 million to reflect the erosion of the Governor's 2010 proposal to expand federal eligibility for foster care. The Administration assumes no savings will occur in 2010-11, although they continue to pursue savings in this area.

County Share of Cost Continues. The Governor's January budget included savings of $505.5 million General Fund as a result of redirecting a portion of the county savings resulting from reductions in IHSS and CalWORKs to fund an increased county share of cost for children's programs within the DSS. The May Revision reduces the level of General Fund savings by $146 million due to the delayed implementation which has led to an erosion of the savings.

Department of Alcohol and Drug Programs

The May Revision continues to propose the elimination of the Offender Treatment Program, assuming savings of $18 million General Fund in 2010-11. In addition, the May Revision includes savings of $53.4 million General Fund due to the elimination of all Drug Medi-Cal (DMC) programs with the exception of the Perinatal and Minor Consent programs (funding of approximately $15 million General Fund remains for perinatal and minor consent), effective October 1, 2010.

Since 1980, the DMC program has provided medically necessary drug and alcohol-related treatment services to Medi-Cal beneficiaries who meet income eligibility requirements (up to 250 percent of the Federal Poverty Level (FPL). More than 60 percent of the funding for DMC programs goes to the Narcotic Treatment Program, which provides outpatient methadone maintenance (heroin replacement therapy) for approximately 16,000 individuals.

Public Safety

Department of Corrections and Rehabilitation

Building on his January budget that included an $811 million unallocated General Fund reduction to the Receiver's budget, a proposal to save $292 million General Fund by sending low-level felons to jail instead of prison to serve their time, and a plan to capture $48 million in General Fund savings by reducing the ward population in the Department of Corrections and Rehabilitation's (CDCR's) Division of Juvenile Justice (DJJ), the Governor proposes further changes in the area of corrections, as follows:

Shifting Custodial Responsibility for Low Level Felons to Local Sheriffs. In lieu of his limited jail-for-low-level-felons January proposal, the May Revision proposes to effectuate General Fund savings by sending **all** felony inmates with non-serious, non-violent, non-sexual commitment offenses, having sentences of less than three years, to local jails to serve their time instead of serving it in a state prison. The new plan attempts to improve on the January proposal by mitigating the obvious threat to public safety with block grant funding for counties for evidence-based rehabilitative programs and other probation and jail services. The block grant program would be funded using a portion of the cost savings from reduced prison operations, and would allocate approximately $11,500 per offender to the receiving county. According to Administration projections, CDCR would realize net savings (after block grant payments) of approximately $243.8 million in 2010-11, increasing to $349.1 million in 2011-12. Local agencies would receive approximately $121.9 million in 2010-11 and $171.7 million in 2011-12. Compared to the January proposal, this version would result in reduced savings ($25.2 million lower in the current year, and $47.8 million lower in the budget year).

Local jails are persistently overcrowded. Many are already subject to court-imposed population caps. This proposal would result in the early release of many offenders who are currently serving time in local jails for misdemeanors and lower-level felonies. It is not at all clear that the funding proposed for enhanced probation efforts would be sufficient to ensure public safety. In fact, one need look no further than right here in Sacramento County to see that releasing offenders early, whether from the county jail or the state prison, is generally not a good idea. A mere 13 hours after being released 16 days early from the Sacramento County Main Jail, in compliance with the newly-enhanced jail credits law, Kevin Eugene Peterson allegedly attempted to rape a female counselor with whom he was meeting. He now faces four felony charges for assault to commit rape, sexual battery, false imprisonment, and violating his probation terms.

While the Community Corrections model has merit, it is dependent on an adequate and well-established base of services and service providers within local communities to ensure that offenders who are leaving custody have every opportunity to keep themselves out of trouble. Given the state of the economy and recent reductions to funding for local law enforcement agencies and community-based service providers throughout the state, it is doubtful that the Governor's proposal adequately provides for the infrastructure necessary to make a community corrections model work on such a large scale. As such, the plan is likely to result in reduced public safety, as evidenced by the Peterson case.

Juvenile Parole Realignment. The May Revision includes a proposal to prospectively transfer the supervisorial responsibilities for DJJ parolees to county probation departments. The state would provide $15,000 per parolee, per year, to local probation to mitigate local costs. The proposal is projected to save $4.6 million in 2010-11. The savings will partially offset a $42 million expenditure increase for DJJ (increases of $35.7 million General Fund and $6.3 million Proposition 98 General Fund, as compared to the January spending plan) due to the Administration's abandonment of its earlier proposal to reduce DJJ's age of jurisdiction from 25 to 21.

Population Changes. Both adult and juvenile institutional populations are projected to decrease significantly while adult and juvenile parolee populations are projected to increase slightly, resulting in net General Fund spending reductions of $15.6 million in 2009-10 and $72.5 million in 2010-11.

- *Adult Institutions.* The average daily population (ADP) in adult institutions is expected to decrease from 168,461 in 2009-10 to 163,681 in 2010-11 (decrease of 4,780 inmates), primarily as a result of enhanced inmate credit earning policies adopted as part of the 2009-10 budget.
- *Adult Parole.* Adult parole ADP is projected to increase from 118,342 in 2009-10 to 119,200 in 2010-11 (increase of 858 parolees), due to a decrease in the number of discharges from parole.
- *Juvenile Institutions.* Juvenile institutional ADP is expected to decrease from 1,624 wards to 1,517 in 2009-10 (decrease of 107) and from 1,626 wards to 1,399 in 2010-11 (decrease of 227) mainly as a result of DJJ efforts to reduce time adds given to wards for bad behavior and to increase time reductions for good behavior.
- *Juvenile Parole.* Juvenile parole ADP is projected to increase from 1,670 parolees to 1,722 in 2009-10 (increase of 52) and to increase from 1,391 parolees to 1,520 in 2010-11 (increase of 129), for largely the same reasons that institutional ward populations are expected to decrease. Wards leaving institutions are added to the parole population, so as institutional ADP goes down, parole ADP generally goes up.

Lease Revenue Bonds for Local Youthful Offender Rehabilitative Facilities. The May Revision includes a proposal to increase the lease revenue bond authority established by Chapter 175, Statutes of 2007 (SB 81) to reimburse counties for the costs of building local youthful offender rehabilitative facilities from $100 million to $400 million (increase of $300 million). The Administration indicates this funding is necessary to enhance the ability of local communities to provide an effective continuum of response to juvenile crime and delinquency.

Commitment to Ongoing Funding for Local Public Safety. With temporary Vehicle License Fee (VLF) support for local public safety programs set to expire at the end of 2010-11 (i.e., February 2009 budget deal provided a 0.15 percent VLF tax increase that sunsets June 30, 2011), the May Revision includes a proposal to provide an annual sum of $502.9 million General Fund to support local law enforcement efforts, beginning in 2011-12. This proposal would restore funding for various local public safety programs to 2008-09 levels. See table below for program distributions.

Proposed Local Public Safety Funding Split	
Citizens' Option for Public Safety (COPS)	$107,100
Juvenile Justice Crime Prevention Grants	107,100
Booking Fees	31,500
Small and Rural Sheriffs; Grants	18,500
Juvenile Probation Funding	$151,842
Juvenile Camp Funding	29,430
Cal-MMET	$19,500
Vertical Prosecution Block Grants	14,558
Evidentiary Medical Training	583
Public Prosecutors and Public Defenders	7
California Gang Violence Suppression Program	1,607
CALGANG	270
Multi-Agency Gang Enforcement Consortium	84
Rural Crime Prevention	3,729
Sexual Assault Felony Enforcement	5,130
High Tech. Theft Apprehension & Prosecution	11,970
Total	**$502,910**

Transportation

New Loans and Repayment Extensions. The Governor's May Revision proposes to loan $650 million from the Highway Users Tax Account to the General Fund to be repaid by June 2013. The funding provided in AB X8 9 of 2010 (Gas Tax Swap) is available on a one-time basis for transportation related purposes. The Governor proposes to use these funds in the future for the State Highway Operations and Protection Program.

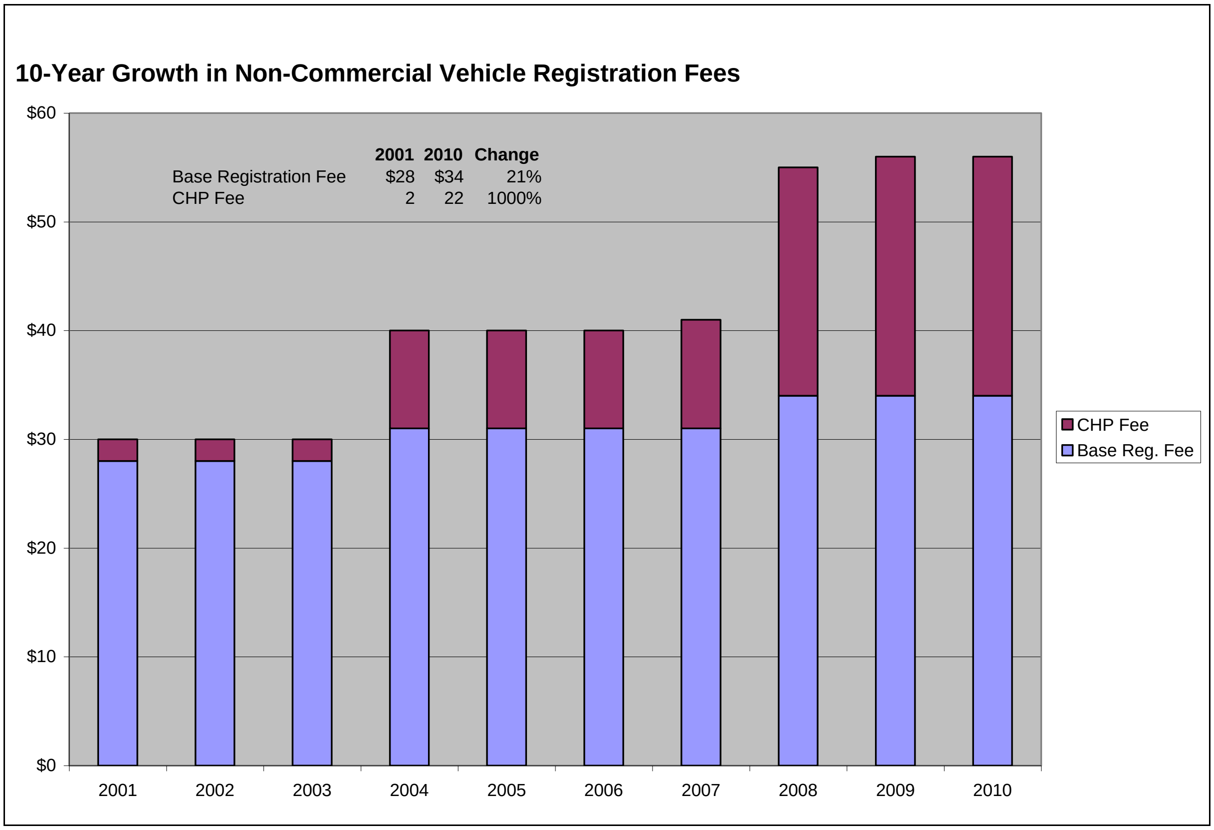
Furthermore, the May Revision would extend the repayment date for $230 million in loans from the State Highway Account and other transportation funds from June 2011 to June 2012. According to the Administration, projects planned for 2010 would not require these funds.

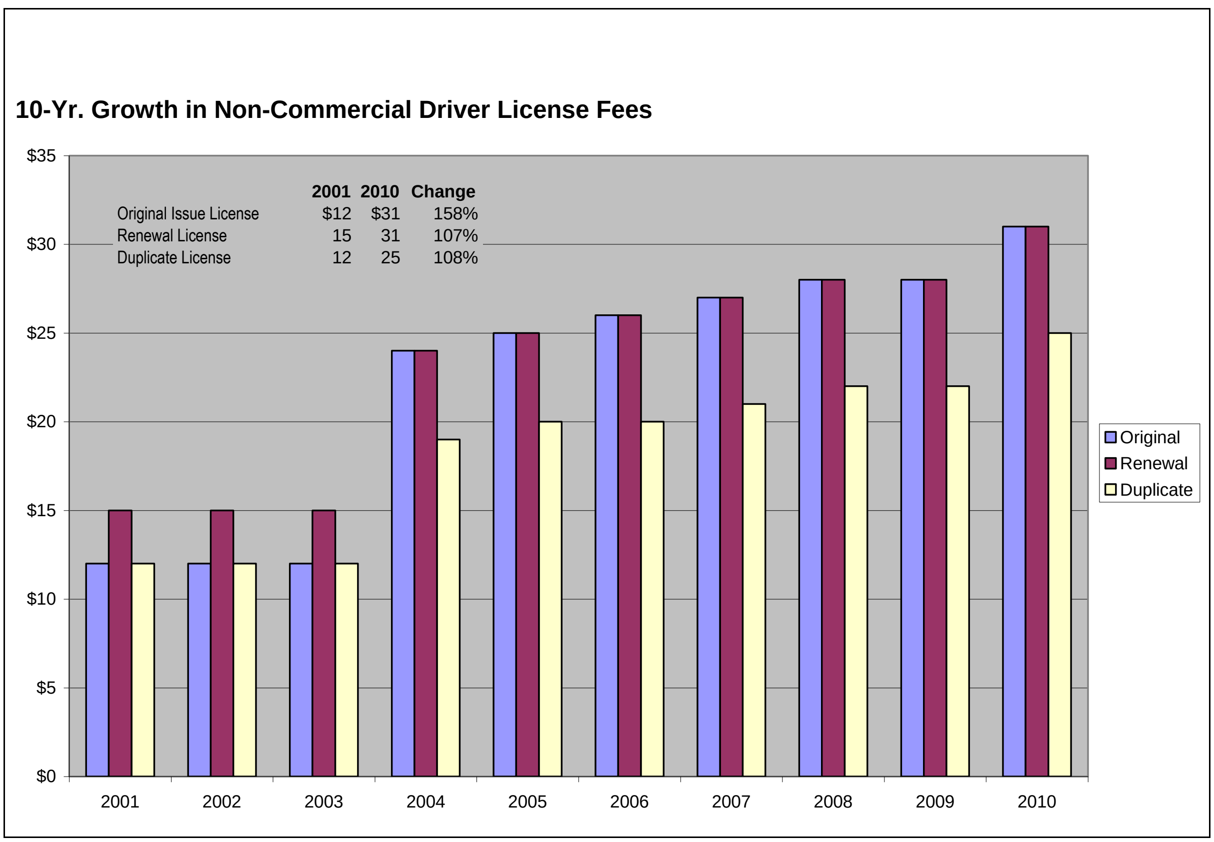
Motor Vehicle Account Transfer and Loan. The revised budget proposes two separate one-time solutions involving the Motor Vehicle Account (MVA), as follows:

- *Transfer of Non-Article XIX Revenues from the MVA to the General Fund*. The Governor's plan would transfer $72.2 million from the MVA to the General Fund from revenues not covered by Article XIX of the California Constitution. Article XIX restricts the use of revenues from fees and taxes on motor vehicles to the enforcement of motor vehicle laws, including environmental regulations relating to the operation of motor vehicles, and to transportation infrastructure planning, improvements, construction, and maintenance. The $72.2 million figure represents revenues to the MVA from sources other than motor vehicle fees and taxes, such as funds received from the sale of documents and various other services to the public.

- *Loan from the MVA to the General Fund*. The Governor also proposes to loan up to $250 million from the MVA to the General Fund. The availability of these funds for transfer would depend upon the adoption of the Governor's January proposals to reduce state staffing costs, which would result in MVA savings due primarily to reduced personnel costs for CHP and DMV.

Over the past ten years, fees imposed on California motorists have risen sharply. For example, although the base vehicle registration fee has remained relatively stagnant, growing just 21 percent (20 percent less than inflation), the component of non-commercial vehicle registration fees dedicated to the California Highway Patrol (CHP) has risen by 1,000 percent (38 times inflation). During the same period, fees for non-commercial driver licenses, including originals, renewals, and duplicates, have more than doubled, outpacing inflation by nearly six times for original issue licenses. The charts on the following page summarize these changes.


10-Year Growth in Non-Commercial Vehicle Registration Fees
2001 2010 Change
Base Registration Fee $28 $34 21%
CHP Fee 2 22 1000%
CHP Fee
Base Reg. Fee
$60
$50
$40
$30
$20
$10
$0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010


10-Yr. Growth in Non-Commercial Driver License Fees
2001 2010 Change
Original Issue License $12 $31 158%
Renewal License 15 31 107%
Duplicate License 12 25 108%
Original
Renewal
Duplicate
$35
$30
$25
$20
$15
$10
$5
$0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010

As the people of California become increasingly burdened by the size of government and the costs to support it, California's economy continues to suffer. These two proposals maintain the pattern of shifting General Fund costs to special funds in lieu of making necessary reductions. These are one-time "solutions" that do nothing to address the ongoing structural imbalance between General Fund revenues and spending. In fact, the MVA loan proposal actually compounds the problem in the out years because the borrowed funds will have to be repaid.

Capital Outlay Support Staffing. The May Revision proposes to decrease the capital outlay support program and workload by a net $42.3 million. This includes a/an:

- Decrease in state staff of 750 positions and $52.3 million.
- Decrease in cash overtime of $7.8 million.
- Decrease in other operating expenses of $4.2 million.
- Increase of 69 contract positions and $14.9 million.
- Increase of $7.1 million in one-time operating expenses.

The Administration indicates that the new funding levels reflect greater efficiencies in project delivery that the department has achieved over the last several years. The state staff reductions will come from attrition over a 12-month period and the elimination of vacant positions. Overall, the 10,943 proposed staffing level consists of 89 percent state staff and only 11 percent contract staff for the entire capital outlay support and bond-related activities. The $42.3 million in savings is proposed to be transferred to the maintenance program for highway maintenance activities.

Intercity Rail. The May Revision proposes $100.2 million of American Recovery and Reinvestment Act (ARRA) funding with no required state match for intercity passenger rail improvement projects. These projects include the Capitol, San Joaquin, and Pacific Surfliner intercity rail corridors.

Resources & Environmental Protection

Governor Withdraws Proposal to Fund State Parks from Tranquillon Ridge Oil Revenues. The May Revision proposes an increase of $140.1 million General Fund to reflect the withdrawal of the Governor's budget proposal to fund state parks from Tranquillon Ridge oil revenues. The increase of $140.1 million fully restores funding for state parks in the 2010-11 fiscal year. The rationale for this flip-flop seems to be the recent oil spill in the Gulf of Mexico. But it's not clear how that accident relates to the Tranquillon Ridge Project which uses a completely different method for drilling. For instance, the drilling in the Gulf of Mexico uses a floating platform in 5,000 feet of water. This well contains tremendous pressure with safety shut off valves located at the ocean floor. By contrast, platforms in California are all fixed legs in shallow water (150-1200 feet) with surface shut off valves that are fully visible and accessible. These wells contain moderate pressure unlike the well in the Gulf of Mexico.

California off-shore drilling has occurred incident free for over 40 years. The Nation's demand for oil has risen more than 35 percent over the past four decades, while domestic production has declined by a third. Oil imports have doubled, and the United States now buys about two-thirds of its oil from other countries.

Emergency Response Initiative Tax. The Administration proposes an increase of $124 million General Fund for the Department of Forestry and Fire Protection to reflect the loss of revenues due to the delay in the enactment of the Emergency Response Initiative (ERI). The Governor's budget proposed a shift of $200 million in baseline fire protection services for 2010-11 from the General Fund to the Emergency Response Fund (ERF) that would be created if the ERI is enacted. The ERI would impose a 4.8 percent statewide "surcharge" on all residential and commercial property insurance to fund state and local fire protection and emergency response activities. Legislative Counsel, in a written opinion dated March 17th, 2010, concluded that the ERI surcharge is a "tax." The May Revision reflects $76 million of General Fund savings from the department's baseline budget associated with a July 1, 2010 ERI enactment date. (See Statewide Issues on Page 34)

Department of Fish and Game Funding. The May Revision contains a $5 million General Fund reduction for conservation and restoration programs, including the Marine Life Protection Act program; review of timber harvest plans, and grants for fisheries restoration projects. This proposal does not impact funding for game wardens.

In addition, the May Revision requests $2.4 million in special and federal funds to partially backfill a $5 million general fund reduction to the Hunting, Fishing and Public Use program proposed in the Governor's Budget.

Spending the Safe, Clean, and Reliable Drinking Water Supply Act of 2010 (2010 Water Bond). The May Revision proposes an increase of $602.7 million in bond funds for the Department of Water Resources, Department of Fish and Game, Natural Resources Agency, and the Department of Public Health to begin immediate implementation of the proposed 2010 Water Bond. This proposal is meant to ensure that the expenditures for high-priority water and ecosystem restoration projects begin immediately, if approved by the voters in the November general election. The projects include local and regional drought relief projects, groundwater and conveyance projects, desalination grants, urban and agricultural water management planning grants, Red Bluff Diversion Dam, and Delta sustainability projects consistent with the Bay Delta Conservation Plan. The priority will be given to projects and grant programs that do not have existing Proposition 84 funding available.

In addition, the May Revision includes an increase of $418.9 million in 2010 Water bond funds to be allocated by the State Water Resources Control Board to fund advanced treatment technology projects, water recycling projects, and small community wastewater treatment plants.

Environmental Fee Increases. The Governor's May Revision proposes the following fee increases:

State Water Resources Control Board

Basin Planning Program. This proposal would increase waste discharge permit fees by seven percent, increasing the average permit cost from $2,400 to $2,570. These Waste Discharge Permit Funds would be used to backfill $6.1 million of General Fund for basin plans and associated activities.

Department of Conservation

Underground Injection Control and Enhanced Oil Recovery Program. This proposal would increase the assessment fee by 1.4 cents per barrel of oil on top of the current assessment of approximately 11 cents per barrel in order to provide an additional $3.2 million for regulatory oversight of the permitting process of underground injection wells.

Employee Compensation

The Governor's January budget assumed an end to furloughs in June 2010 and the May Revision continues to assume the same. In lieu of continuing the furloughs, the Governor's January budget proposed an employee compensation proposal known as the 5/5/5 plan (five percent reduction in salary, five percent increase in employee contribution to retirement, and a five percent reduction in personnel costs), which also continues to be proposed in the May Revision.

Personal Leave Program. In addition to the employee compensation policy changes noted above, the May Revision proposes a mandatory personal leave program (PLP), which would generate savings of $446 million General Fund in 2010-11. Employees would have their salaries reduced by approximately 4.6 percent effective July 1, 2010, and would receive a personal leave day to be taken in the future. Employees would be required to take PLP leave hours before other types of leave and could not cash out any unused leave. Under the Administration's proposal, state employee labor agreements reached or amended after June 1, 2010 shall be controlling if in conflict with the proposed state law to implement the PLP program

Early Retiree Reinsurance Program Under Health Care Reform. The May Revision reflects $200 million of General Fund savings due to the temporary early retiree reinsurance program contained in the recently passed federal health care reform legislation. The early retiree reinsurance program will provide $5 billion nationwide to assist employer-based health plans in providing specified high-cost coverage for retirees age 55 to 64 and their family members. Public employee health plans, such as those administered by the California Public Employees' Retirement System (CalPERS), are eligible for the temporary reinsurance program, and in California many public employees enter retirement between the ages of 55 and 64.

Retirement Costs Will Go Up. The annual budget act contains Control Section 3.60, which lists the pension contribution rates (the percentage of each state employee's pay) that the state must contribute to CalPERS. The CalPERS board sets these rates based on actuarial data and the requirement to maintain an actuarially sound pension fund. In January, the Governor's budget assumed an increase in state pension contribution rates based on guidance from CalPERS. Since that time, however, CalPERS has adopted a new long-term rate setting mechanism and also commissioned an updated actuarial "experience study" which was reviewed by the Board in April. This experience study found that increased post-retirement life expectancy, slightly earlier retirement ages, and higher salary increases for members with high service years necessitated different actuarial assumptions that require increased employer or employee pension contribution rates. The CalPERS actuarial staff recently released its recommended 2010-11 rates, which take into account both the new, higher minimum contribution, as well as the updated actuarial experience study. Although the additional amount of General Fund that will be required by the Board is unknown, it could easily be in the hundreds of millions of dollars. As we won't know the actual amount until sometime in late May or early June, we should be prepared to budget additional General Fund monies for retirement costs in 2010-11.

State Employee Retirement Compensation-Pension Reform. The state significantly expanded benefit levels in 2000 and again in 2003, enhancing average monthly compensation formulas, providing cost-of-living retirement allowance increases for state and school retirees, and expanding the definition of the State Safety retirement category to include many non-safety classifications (such as billboard inspectors and milk inspectors). In addition to the Governor's January pension reform proposals, Senator Hollingsworth has authored SB 919, which includes many of the reforms proposed by the Governor, but goes even further in limiting benefits for new hires, saving the state more than $100 billion over 30 years.

If large government pensions were part of a package that also included lower wages, they might be justified. But government employees make more money, generally speaking, than those in the private sector. According to the Bureau of Labor Statistics, average total compensation (wages and benefits) for government employees stands at $39.83 an hour, while private-sector workers receive an average of $29.40 an hour. Only about a fifth of private-sector workers qualify for any sort of pension, while nearly 80 percent of government workers do. It is time for the state to get serious about pension reform or pension costs will continue to require more and more General Fund, limiting what can be provided for higher education, public safety, roads, transportation, and the state's core health and human services programs.

General Government

California Department of Veterans Affairs (CDVA)

The May Revision provides $245 million General Fund ($392 million total funds) for CDVA, an increase of $8 million from the January proposal. At the revised level, spending for CDVA in 2010-11 would increase by $62 million or 34 percent from the 2009-10 level. The May Revision reflects the following significant adjustments since January:

- *Governor's Welcome Home Initiative.* The Governor proposes an increase of $8.4 million General Fund to support efforts by County Veterans Services Organizations to help returning veterans transition to civilian life. This is a component of the Governor's previously announced Welcome Home initiative.
- *Contingency Authorization for Pathway Home.* The May Revision requests budget bill language that would authorize the Department of Finance to approve a General Fund increase of $1.3 million for the Pathway Home Program in the event that alternative funding cannot be identified.

Statewide Issues

Emergency Response Initiative

The Governor continues to propose the Emergency Response Initiative (ERI), which would tax residential and commercial property owners' hazard insurance policies to fund the state's costs to respond to various kinds of disasters and to enhance the state's emergency response capabilities.

ERI revenues are projected to be approximately $120 million in 2010-11 and $480 million annually thereafter, which reflects a shorter budget-year collection period than was projected in January. The updated plan proposes to spend first-year revenues as follows:

- ***California Emergency Management Agency (Cal EMA).*** $792,000 to establish new collection and compliance units within Cal EMA to oversee collection of the new tax.
- ***California Department of Forestry and Fire Protection (CAL FIRE).*** $76 million to replace General Fund support for CAL FIRE's firefighting capabilities. *(See Resources Section on Page 30 for details on CAL FIRE's ERI spending proposals.)*

Beginning in 2011-12, the ERI would provide funding to improve the state's emergency response capabilities, including enhancements for CAL FIRE, Cal EMA, the Military Department, and additional support for the state's mutual aid system. These enhancements include funding for new fire trucks, helicopters, specialized firefighting equipment, and personnel. In addition, approximately $150 million per year would be set aside for CAL FIRE's Emergency Response Fund (E-Fund).

Special Fund Borrowing

Special Fund Loans & Transfers
(dollars in millions)

Fund Name	Amounts Loaned/Shifted	Original Loan	Current Repayment Date	New loan repayment date
CA Debt and Investment Advisory Commission Fund	$2.0	11/01/08	06/30/2011	07/15/2013
CA Debt Limit Allocation Committee	$2.0	11/01/08	06/30/2011	07/15/2013
CA Tax Credit Allocation Committee	$10.0	11/01/08	06/30/2011	07/15/2013
CA Tax Credit Allocation Committee	$10.0	11/01/08	06/30/2011	07/15/2013
Public School Planning, Design, and Construction Review Revolving Fund	$10.0	11/01/08	06/30/2011	07/01/2011
State Highway Account, State Transportation Fund	$200.0	11/01/08	06/30/2011	06/01/2012
Bicycle Transportation Account, State Transportation Fund	$6.0	11/01/08	06/30/2011	06/01/2012
Local Airport Loan Account	$7.5	11/01/08	06/30/2011	06/01/2012
Motor Vehicle Fuel Account, Transportation Tax Fund	$8.0	11/01/08	06/30/2011	06/01/2012
Environmental Enhancement and Mitigation Program Fund	$4.4	11/01/08	06/30/2011	06/01/2012
Historic Property Maintenance Fund	$3.0	11/01/08	06/30/2011	06/01/2012
Pedestrian Safety Account, State Transportation Fund	$1.7	11/01/08	06/30/2011	06/01/2012
Renewable Resources Trust Fund	$35.0	09/30/09	06/30/2011	06/30/2012
Tire Recycling Management Fund	$10.0	01/01/09	06/30/2011	07/01/2011
Hospital Building Fund	$20.0	11/01/08	06/30/2011	06/01/2012
California Health Data and Planning Fund	$12.0	11/01/08	06/30/2011	06/01/2012
Occupational Lead Poisoning Prevention Account	$1.1	11/01/08	06/30/2011	07/01/2012
Drinking Water Operator Certification Special Account	$1.6	11/01/08	06/30/2011	07/01/2012
California High-Cost Fund-B Administrative Committee Fund	$75.0	11/01/08	06/30/2011	06/30/2012
Universal Lifeline Telephone Service Trust Administrative Committee Fund	$45.0	11/01/08	06/30/2011	06/30/2012
Deaf and Disabled Telecommunications Program Administrative Committee Fund	$30.0	11/01/08	06/30/2011	06/30/2012
Sub-total, Deferred Loan Repayments	**$494.3**			
Victims of Corporate Fraud Compensation Fund	$10.0			2013-14
Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account	$25.0			07/15/2013
Tax Credit Allocation Fee Account	$25.0			07/15/2013
Board of Accountancy	$10.0			2011-12
Motor Vehicle Account - Transfer	$72.2			
Motor Vehicle Account	$250.0			After 2013-14
Excise Tax	$650.0			07/01/2012
Electronic Waste Recovery and Recycling Account	$75.0			07/01/2012
State School Facilities Aid Fund - Transfer	$10.0			
Department of Food and Agriculture Fund	$15.0			2013-14
Sub-total, New Loans & Transfers	**$1,142.2**			
TOTAL Special Fund Borrowing	**$1,636.5**			

Governor’s 2010-11 May Revision Fee List

Governor's 2010-11 May Revision Fee List					
Dept	Issue Title	2009-10 Fee Revenues		2010-11 Fee Revenues	
		GF $	OF $	GF $	OF $
Judicial Branch	Court Security Fee Increase	$0	$60,000	$0	$60,000
Cal EMA	Emergency Response Initiative--Home Owner Insurance Policy Fee	0	0	0	119,067
Alcoholic Beverage Control	General Liquor License Fee Increase	0	0	0	394
Alcoholic Beverage Control	Catering and Event Authorization Fee Increase	0	0	0	128
Corporations	SAFE Act Enforcement Fee	0	0	0	1,300
Real Estate	SAFE Act Enforcement Fee	0	0	0	6,000
Conservation	Orphan Facility Remediation	0	0	0	1,000
Conservation	DOGGR Program Staff Augmentation	0	0	0	3,179
Department of Resources Recycling and Recovery	Structural Changes - Used Oil Recycling Program.	0	5,000	0	10,000
Pesticide Regulation	Structural Pest Control Board: Wood Destroying Organism Inspection and Damage Repair and Report Fee	0	2,215	0	3,865
State Water Resources Control Board	Underground Storage Tank Claims Payment and Carrying Cost Reimbursement	0	48,000	0	96,000
State Water Resources Control Board	National Pollutant Discharge Elimination System (NPDES) Fund Shift	0	0	0	1,373
State Water Resources Control Board	Irrigated Land Regulatory Program (ILRP) Fund Shift	0	0	0	1,762
State Water Resources Control Board	Landfills Program Fund Shift	0	0	0	(2,000)
State Water Resources Control Board	Water Rights Program Fund Shift and Enforcement Augmentation	0	0	0	6,980
State Water Resources Control Board	Water Quality Certification for FERC Hydroelectric Projects	0	0	0	603
State Water Resources Control Board	Basin Planning	0	0	0	6,103
Department of Health Care Services	AB 1629 Reauthorization	0	0	62,992	0
Managed Risk Medical Insurance Board (MRMIB)	Increase Healthy Families Program Premiums	0	0	0	0
Social Services	Community Care Licensing Fee Increase	0	0	0	1,400
University of California	Mandatory Fee Increase	0	97,887	0	662,718
Hastings College of the Law	Mandatory Fee Increase	0	0	0	8,151
California State University	Mandatory Fee Increase	0	0	0	153,504
EDD - Employment Training Panel	Eliminate Employment Training Tax Exemption	0	0	0	50,000
Total as of May Revision		**$0**	**$213,102**	**$62,992**	**$1,193,527**

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