Highlights and Analysis of the 2011-12 Budget

July 1, 2011
SENATE REPUBLICAN FISCAL OFFICE

Table of Contents

Budget Briefs

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Executive Summary

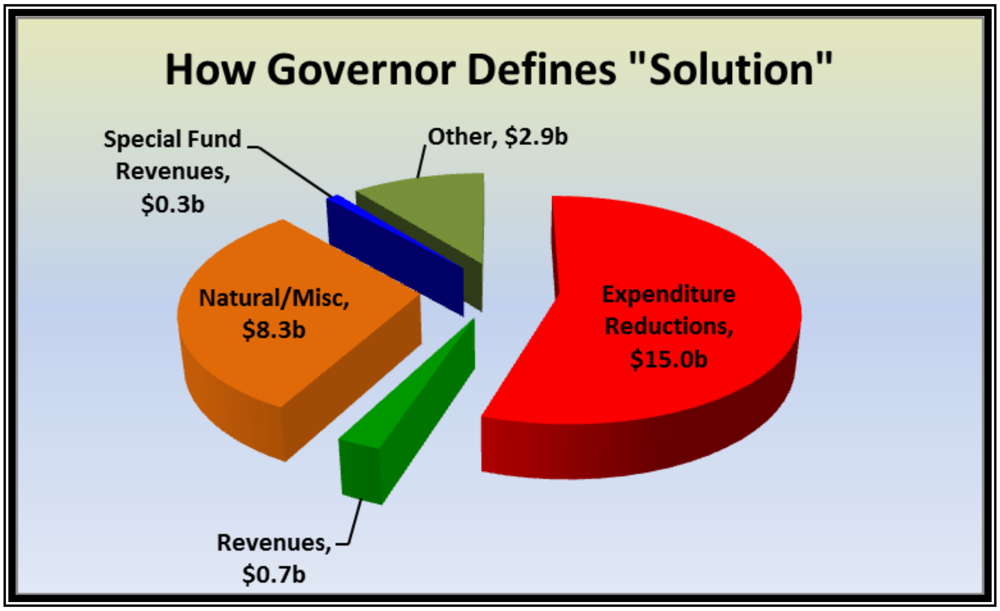
This "majority-vote" budget was enacted on a partisan vote. Republicans did not support a budget they had no hand in crafting. This budget reflects the legislative Democrats' priorities and fails to include any Republican reforms to make government more efficient and effective, improve the economy and create jobs. At present, the Administration expects a structural budget gap of less than $5 billion to emerge next year, but in all likelihood it will be significantly larger given the various "budgetary threats" (*see Key Points page 5)*.

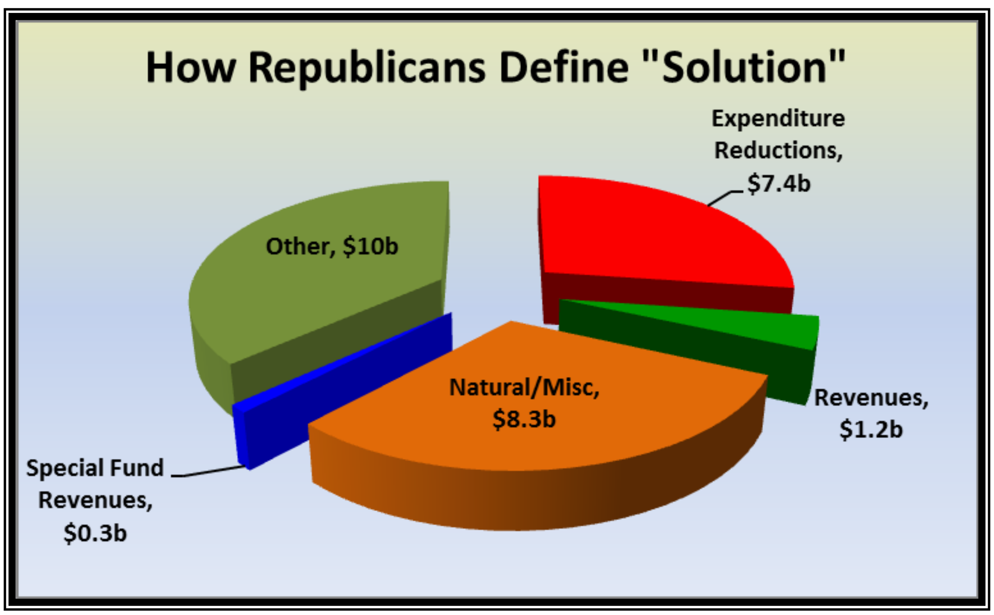
In January, the Governor's Budget identified a General Fund budget deficit of $25.4 billion. That deficit grew to $26.6 billion when the Governor cancelled the $1.2 billion sale of state buildings approved by former Governor Schwarzenegger. In March the Legislature enacted a package of bills that provided about $13.4 billion of "solutions," including about $7 billion in spending reductions and $6.4 billion of fund shifts, loans, transfers, and increased revenues (but no new taxes).

Next, the Governor's May Revision updated the General Fund budget deficit to $9.6 billion ($4.8 billion carry-in deficit from 2010-11 and $4.8 billion operating shortfall in 2011-12). According to the Administration, the new deficit accounted for the $11 billion of solutions already adopted by the legislature and another $2.4 billion awaiting the Governor's signature. It also reflected $6.6 billion of higher-than-anticipated revenues and $3 billion of higher spending (including a backfill for $1 billion of Proposition 10 funding currently subject to litigation).

Now, the final 2011-12 Budget Act reflects an additional $5.2 billion of unanticipated revenues from state taxpayers without any new general tax increases. General Fund spending is about $1.4 billion higher than it was in the Governor's January Budget proposal ($86 billion as opposed to $84.6 billion) and the revised 2010-11 General Fund spending level is nearly $5 billion higher than the 2010-11 Budget Act ($91.5 billion as opposed to $86.5 billion). In the event the revenue assumptions in this budget fail to materialize, there are a series of "trigger cuts" that are supposed to take effect to fill any budgetary gaps (*see Trigger Cuts on Page 42)*, which means the 2011-12 spending level could be reduced further.

The Administration has indicated that the solutions in this budget reflect $15 billion of Expenditure Reductions, $2.9 billion of Other Solutions, $992 million of Revenues, and $8.3 billion of "Natural Solutions and Miscellaneous Changes". The total solution package is $27.2 billion and provides for a $543 million reserve. However, a closer analysis of the solutions adopted suggests that the Governor mischaracterized $7.6 billion of fund shifts, deferrals, and revenue increases as expenditure reductions. From a Republican perspective, real **programmatic spending reductions are only about $7.4 billion** and the Other Solutions are about $10.0 billion, including such solutions as the fund shift from RDAs ($1.7 billion), the fund shift from Proposition 63 ($861 million), fund shifts and borrowing associated with the Governor's realignment plan ($2.6 billion), and the use of transportation weight fees to fund debt service ($1.1 billion). The charts below compare the Governor's solution mix to the revised Republican view of the solution mix.





Key Points:

Republicans Protected California Families. Republicans successfully fought the $58 billion five-year tax increase proposed by the Governor and Democrats. As a result the average family of four will save over $1,000 per year on its tax bill, and California's business climate will be a little better for job creation (For a list of the tax increases avoided *see Revenues on Page 9*).

No Tax Increase Necessary. As a result of higher than expected income tax and sales tax receipts the budget assumes nearly $12 billion of additional revenue that was not anticipated in the Governor's

January budget, *nearly $1 billion more than the tax increases proposed by the Governor in his May Revision*. This clearly proves that no new tax increases were needed to close the budget gap.

No Good Government Reforms or Job Creation. The budget represents the fourth majority-vote budget without any Republican support in just three months. It clearly demonstrates that **legislative Democrats prioritize the needs of their special interest allies over necessary government reforms the people of California want and deserve,** such as pension reform that addresses unfunded liabilities and benefit manipulation, and a hard state spending limit that prevents overspending in boom years and pays down budgetary debt. This budget also lacks any reforms to improve the state's business climate and create jobs for the millions of unemployed Californians.

"Bridge Taxes" Ploy to Avoid Reforms. Given the recent $12 billion revenue bonanza, it's clear that the supposed need for the so-called "bridge tax" was never real. **There was no budgetary need for those taxes**. The bridge tax proposal was only a ploy to ensure the people of California would never get to vote on taxes or the critical reforms Republicans wanted to fix California. The special interests made it clear that such a vote should not take place and so it won't. But it's because legislative Democrats chose their special interest allies over the people of California – not because Republicans weren't willing to compromise.

Cut Higher Education but Give Pay Raises. The budget reduces state General Fund support of the University of California by $650 million. Despite that cut, the majority party, at the request of the American Federation of State, County, and Municipal Employees (AFSCME labor union), has included language that would **force UC to redirect $3 million of its remaining resources for an additional pay increase for its AFSCME union employees** (this is on top of a salary increase already negotiated for those same workers). This action prioritizes union demands over the needs of students.

State Employees Protected and Rewarded. The budget makes no significant reductions in employee compensation expenditures (reduction of $110.8 million in 2011-12 out of total General Fund compensation costs of approximately $7 billion – **less than a two percent reduction**). Currently, all bargaining units have approved contracts, including a one-day-a-month personal leave program, minimal increases in retirement contributions, and additional personal holidays. **The agreements will increase state expenditures by hundreds of millions of dollars**, beginning in 2013-14 as a result of additional pay increases and higher state contribution levels for health care (See *Employee Compensation* Page 37)

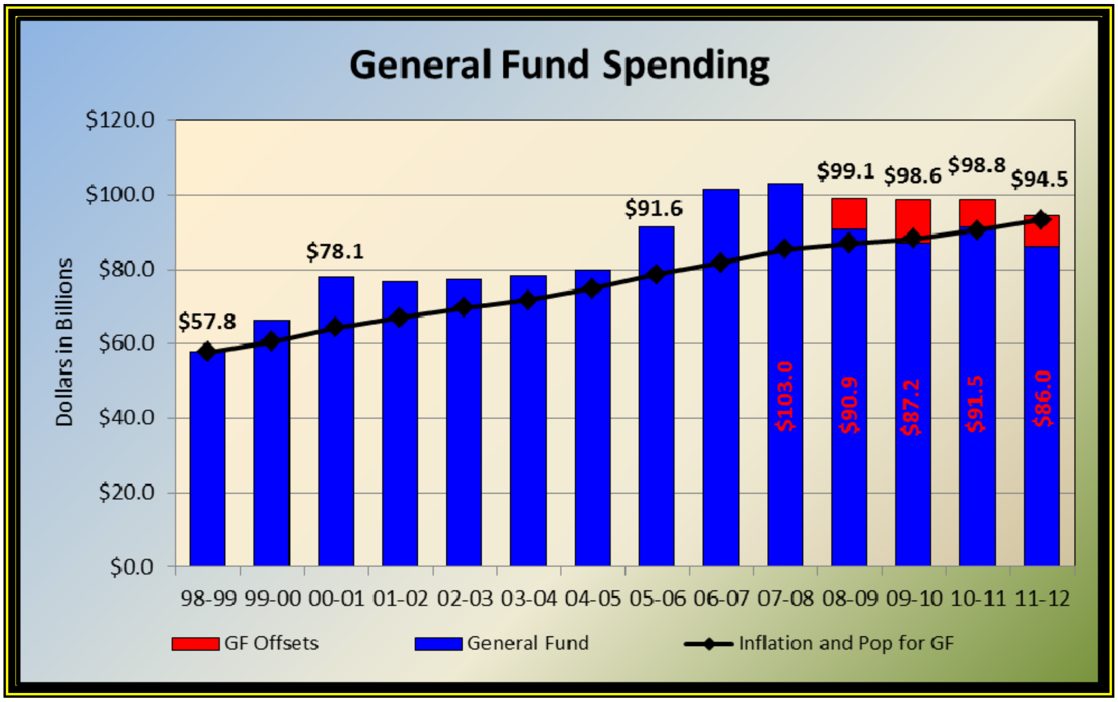
Ties the Hands of School Districts. Instead of implementing the common sense education reforms proposed by Republicans, this budget reduces districts' ability to effectively manage resources by suspending a statute that allows them to conduct employee layoffs during the period following budget passage through August 15. **The suspension of the current rules is clearly designed to protect public employee union positions, even if the district cannot afford to pay for the services.** (See *Education* Page 16)

Operating Deficits. The budget appears to be balanced in the near term because it spends less than the projected revenues the state will bring in for the 2010-11 and 2011-12 fiscal years. However, beginning in 2012-13 the state will return to its chronic operating deficits as it continues to spend more than it brings in (*see chart on the next page*). Democrats claim that they have closed 75 percent of the state's structural deficit problem. This may be true on paper, but given the various problems that threaten the integrity of the solutions included in this budget (discussed on the next page), it is likely that these operating deficits are significantly understated.

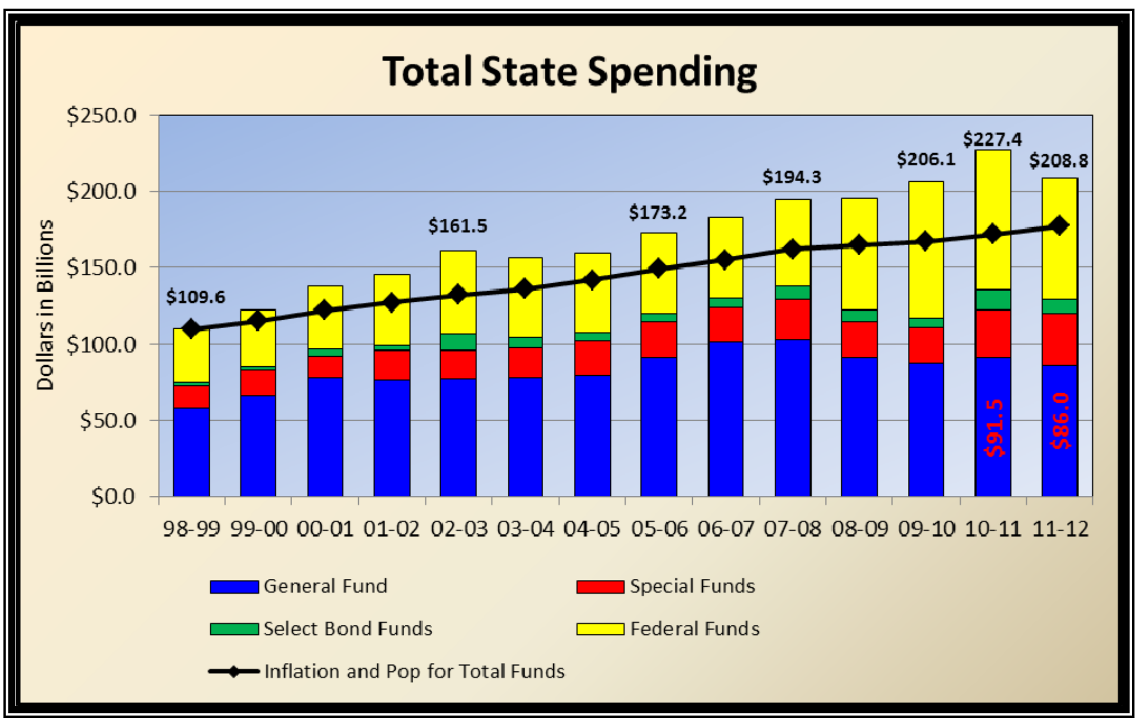
Budgetary Threats. As noted above, the state's structural deficit has been reduced (on paper), but there are issues that threaten the integrity of the Democrat's solution by more than $10 billion, including:

- The $1.7 billion transfer from Redevelopment Agencies (RDA) is unlikely to materialize as RDAs prepare to challenge the constitutionality of the state extorting them to fund state costs or face elimination.
- $4 billion of revenue is suspect as there appears to be limited information to justify such a large projected increase in the face of the state's sluggish economic recovery.
- The $2.1 billion reduction to the Proposition 98 guarantee resulting from the realignment proposal will have to be repaid if voters do not weigh in to sustain the transfer of sales tax revenue to fund realignment or if it's challenged in court.
- $1.1 billion of savings related to "rebenching the Proposition 98 guarantee as a result of shifting child care funding out of Proposition 98 may be in jeopardy if the California School Boards Association moves forward with a legal challenge.
- Unknown increased costs (potentially in the tens to hundreds of millions of dollars) if the state is compelled under a 1992 California Supreme Court ruling to make emergency 'bailout' loans to fiscally-troubled school districts that become insolvent as a result of prohibiting school districts from conducting layoffs to control costs and suspending fiscal oversight systems.
- $687 million of savings related to Medi-Cal provider rate reductions is tenuous because it assumes that California will prevail in its appeal to the U.S. Supreme Court to overturn previous court rulings that enjoin past attempts to reduce these rates.
- $514 million of savings related to implementing Medi-Cal copayments may not materialize if the state does not receive federal approval in its waiver request (these proposals are somewhat at risk).

True General Fund Spending. Over the past four years General Fund spending has ranged from $86 billion to $91.5 billion, following peak General Fund expenditures of $103 billion in 2007-08. This budget spends $86 billion from the General Fund in 2011-12. In addition to General Fund resources, the budget contains approximately $8.5 billion of "offsets" to General Fund costs, including fund shifts of $3.4 billion (RDA sources, Proposition 63, and transportation funds) and the realignment of various state programs to the local level ($5.1 billion). As noted in the chart below, the "true" General Fund programmatic expenditure level (red bar), which recognizes these "offsets," shows that actual General Fund-like spending still hovers around $95 billion and is in line with population and inflation growth.



Total State Spending. General Fund spending is always the focus of state budget conversations. However, it is not the only component of total state spending. As the chart below shows, total state spending from all fund sources has continued to increase each year. Even with the decrease from 2010-11 to 2011-12, the proposed 2011-12 spending level still exceeds population and inflation growth by $31.7 billion ($177.1 billion vs. $208.8 billion). Disregarding this data leads many people to 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.*



Conclusion. This budget reflects the legislative Democrats' vision for California and they are responsible for any risks in the revenue assumptions that may trigger deeper spending reductions to education and public safety. Senate Republicans were clear and consistent in stating that there were votes to put the Governor's proposed tax increases before the voters along with Republican proposals for pension reform that addresses abuse and unfunded liabilities, and a hard state spending limit that prevents overspending in boom years and pays down budgetary debt.

Unfortunately, Democrats and the Governor chose to protect their special interest allies rather than let the people vote on important reforms. Republicans want to fix the state's structural budget and governmental problems and get California back on a path to good governance and economic well-being. Republicans want to create jobs by improving the state's business climate and fixing an out-of-control regulatory process. The people of California deserve the opportunity to vote on reforms.

Lastly, there was never a need for legislatively mandated tax increases (so-called "bridge taxes"). That was just a ploy to ensure the people of California would never get to vote on taxes or critical reforms because the Public Employee Unions did not want that election to occur. The $12 billion tax windfall assumed in this budget is more than the $11 billion of taxes the Governor was asking to put on the ballot in January, it is clear the tax increases were never necessary to balance the budget.

This budget represents a missed opportunity to get California back on track. Simply put, we could have done better, Republicans are disappointed that the Governor and legislative Democrats let the people down.

Revenues

The 2011-12 Budget Act assumes total available General Fund revenues and transfers of approximately $88.5 billion for 2011-12. Baseline General Fund revenues at the Governor's January budget were projected to be $90.7 billion for 2010-11-10 and $83.5 billion for 2011-12. As you can see, revenue projections for 2011-12 are $5 billion higher than projected in January (*discussed below*).

In order to continue unsustainable spending levels, the Democrats and Governor initially proposed to increase taxes by $11 billion through increased personal income taxes, vehicle license fees, and sales taxes. ***However,*** the final budget package includes no broad tax increases. Instead, the Democrats and Governor have chosen to score additional nearly $12 billion of "unanticipated" over 2010-11 and 2011-12, leaving one to question whether there really was a need for tax increases in the first place. This budget relies on the following major assumptions:

- **May Revision Unanticipated Revenues**. In May, the Governor notified the Legislature that the state could rely on an additional $6.6 billion of revenues that would occur on the natural. As we noted in May, this increase offsets adjustments made in the January budget that recognized a $5.5 billion decrease in baseline General Fund revenues. In reality, General Fund revenues are about $1.1 billion higher than projected when the Governor signed the budget last October. One thing is for certain, there is consistent uncertainty related to revenue projections.

- **June 27 Unanticipated Revenues.** On June 27, the Governor Brown and the Democrats hosted a "press availability" session to announce their newest compromise deal. That deal, subsequently passed by the majority on June 28, included scoring an additional $1.2 billion of revenue for 2010-11 and $4 billion of revenue for 2011-12. This revenue projection is based solely on higher than anticipated collections in May ($408.3 million) and June (unknown as the Controller has not released his report on cash receipts yet). At this time, we have no way to validate whether increased collections will translate into $5.2 billion of additional revenues in 2010-11 and 2011-12 (the Legislative Analyst's Office has chosen not to weigh in), but such a large leap from $408 million in May to $5.2 billion over two years appears suspect.

- **Use Tax Nexus (Amazon Tax).** The Democrats have scored $200 million in 2011-12, in an attempt to collect use tax on sales from out-of-state retailers. The largest of these out-of-state retailers is Amazon.com (thus the name), but other retailers such as Overstock.com and Ebay will be effected.

  This proposal *assumes full compliance with no behavioral changes* by out-of-state retailers that do not currently collect use tax. We already know these estimates are overstated. On June 29, 2011, Amazon notified more than 10,000 California Affiliates that their contracts had been terminated, stating:

  > "Unfortunately, Governor Brown has signed into law the bill that we emailed you about earlier today. As a result of this, contracts with all California residents participating in the Amazon Associates Program are terminated effective today, June 29, 2011. Those California residents will no longer receive advertising fees for sales referred to Amazon.com, Endless.com, MyHabit.com, or SmallParts.com."
  >
  > "To avoid confusion, we would like to clarify that this development will only impact our ability to offer the Associates Program to California residents and will not affect your ability to purchase from Amazon.com, Endless.com, MyHabit.com, or SmallParts.com."

  Given the flexibility of the internet marketplace, it is highly likely that no additional use tax revenue will be collected as a result of this measure. And, adding insult to injury, it is likely that this proposal would actually decrease General Fund revenues related to lost personal income and corporate tax revenue as Amazon.com and others eliminate their affiliate programs. It is estimated that affiliate marketers paid upwards of $125 million in income taxes to the General Fund in 2009. If only 50 percent of that revenue is decreased as a result of severed ties, this bill would reduce General Fund revenues by $62.5 million. Only time will tell.

- **Abusive Tax Avoidance Transaction (ATAT) Amnesty Program.** FTB estimates that this bill would increase General Fund revenues by $270 million in 2010-11, offset by revenue decreases of $50 million in 2011-12 and $35 million in 2012-13. These revenue changes would be offset by increased implementation costs of about $500,000 annually.

- **Refundable Child and Dependent Care Credit.** FTB indicates that in 2007 approximately $106 million of the $152 million of credits allowed were refunded to "taxpayers." This proposal estimates that approximately $100 million would be saved and credited to the General Fund.

- **Senior Citizens and Disabled Citizens Property Tax Postponement Program.** This bill would redirect $10 million from the General Fund (one-time) to the Senior Citizens and Disabled Citizens Property Tax Postponement Fund, effectively increasing General Fund costs by $10 million. As a result, these funds would not be available to other General Fund priorities.

Budgetary Borrowing. In addition to optimistic revenue projections, this budget includes $2.1 billion of borrowing from education funds (associated with shifting sales and use tax for realignment) and more than $2.2 billion of additional borrowing from special funds, either new loans or deferring payments of loans due in 2011-12. Additional budgetary borrowing only continues to build on the Governor's $35 billion "wall of debt."

Final Budget Protects Hardworking Families

In holding out for reforms to fix California, Republicans forced Democrats and the Governor to abandon the $58 billion tax increase proposed by the Governor and Democrats. ***The following proposals were removed, and are not included in the final budget package:***

- 4-year increase in the personal income tax surcharge (0.25 percent), which would have increased revenues by $1.3 billion in 2011-12 ($9.4 billion over four years).
- 5-year increase related to reducing the dependent exemption credit to the same level as the personal exemption credit (from $299/dependent to $99/dependent), which would have increased revenues by $799 million in 2010-11 and $1.4 billion in 2011-12 ($7.3 billion over five years).
- 5-year increase in the vehicle license fee (from 0.65 percent to 1.15 percent) that would have generated revenues of $270 million for the General Fund ($1.6 billion over five years) and $1.1 billion of revenues to fund the Governor's realignment plan ($6.4 billion over five years).
- 5-year increase in the state's sales and use tax (one cent increase), which would have generated $4.5 billion of revenues to fund the Governor's realignment plan ($26.4 billion over five years).
- Permanent mandatory "single sales factor" and "market rule" for apportioning sales revenues to California. This proposal would have generated $470 million of General Fund revenues in 2010-11 and $950 million in 2011-12 ($5.4 billion first five years).
- Reforming Enterprise Zone Tax Benefits, which would have increased General Fund revenues by $32 million in 2010-11 and $85 million in 2011-12 ($943 million over the first five years).

Expenditures

The 2011-12 budget includes total General Fund expenditures of $86 billion, approximately $600 million lower than expenditures appropriated for 2010-11 in the 2010-11 Budget Act. Absent additional information, General Fund expenditures would be level year-over-year. However, as noted in the table below, between October 2010 and June 2011 General Fund expenditures for 2010-11 grew by nearly $5 billion, lending credence to claims that the Legislature (Democrats) cannot control spending within a fiscal year.

General Fund Expenditures By Agency
(dollars in millions)

Agency	2010-11 Budget Act	2010-11 (June '11)		2011-12 @ Governor's Budget	2011-12 Budget Act
Legislative, Judicial, Executive	$3,149	$3,145		$2,507	$3,151
State and Consumer Services	$598	$583		$597	$624
Bus, Trans, and Housing	$905	$417		$691	$603
Resources	$2,108	$1,990		$2,066	$1,946
Environmental Protection	$77	$75		$63	$51
Health and Human Services	$26,346	$26,541		$21,175	$23,043
Corrections and Rehabilitation	$8,931	$9,596		$9,165	$9,821
K-12 Education	$36,079	$35,849		$36,211	$34,302
Higher Education	$11,490	$11,608		$9,814	$10,248
Labor and Workforce Development	$58	$42		$414	$371
General Government	$1,120	$1,511		$1,544	$1,465
Other/Statewide Savings/Expenditures*	-$4,309	$123		$367	$312
Total, General Fund Expenditures	**$86,552**	**$91,480**		**$84,614**	**$85,937**
Change since Governor's Budget		$4,928			$1,323
- As a Percentage		**5.7%**			**1.6%**

** The Other/Statewide Savings/Expenditures category includes a variety of statewide proposals that have not yet been allocated to specific departments or programs, including employee compensation reductions, health and dental benefits for annuitants, the PERS deferral, and assumptions for federal fund offsets related to education and health and human services programs.*

General Fund spending is only a part of total state spending. Including special funds, bond funds, and federal funds, total state spending for 2011-12 is projected to be $208.7 billion. This level of total state expenditures follows record expenditures of $227.4 billion in 2010-11, aided by higher than usual federal funds. Despite the great recession and Democrats' claims of "cutting to the bone," total state spending remains at record high levels. Total state spending is near all-time highs as a result of the fund shifts, federal funds, and General Fund offsets such as the "realignment" scheme. Expenditures per $100 of personal income are consistent with historic averages at about $7.73.

True state General Fund program spending, which accounts for fund shifts, transfers, and General Fund offsets - remains near $100 billion. This level of spending has remained consistent throughout the "Great Recession" and despite Democrat claims to have reduced spending by tens of billions (*see table on next page*).

Underlying General Fund Program Spending (dollars in billions)					
	2007-08	2008-09	2009-10	2010-11	2011-12
Schedule 9 Expenditures	**$103.0**	**$90.9**	**$86.6**	**$91.5**	**$86.0**
"Offsets" to Maintain General Fund Program Levels*	--	$8.2	$11.4	$7.3	$8.5
Total, General Fund Program Expenditures	**$103.0**	**$99.1**	**$98.0**	**$98.8**	**$94.5**

Though General Fund spending is down (compared to 2007-08), true "underlying" General Fund spending, which recognizes federal fund offsets, fund shifts, and deferrals employed to support General Fund programs, is still in excess of $97 billion for both the current and prior budget years. In addition to $86 billion General Fund, the 2011-12 Budget Act relies on (1) extorting $1.7 billion from redevelopment agencies to fund education and special districts, (2) realigning $5.1 billion of public safety programs to the local level, and (3) funding state mental health programs using Proposition 63 funds, and (4) using weight fees to pay general obligation bond debt. In prior years, the Legislature has relied on additional federal funds, redevelopment agencies, inter-year Proposition 98 deferrals, employee compensation deferrals and local property tax borrowing to maintain General Fund programs in the absence of General Fund revenues.

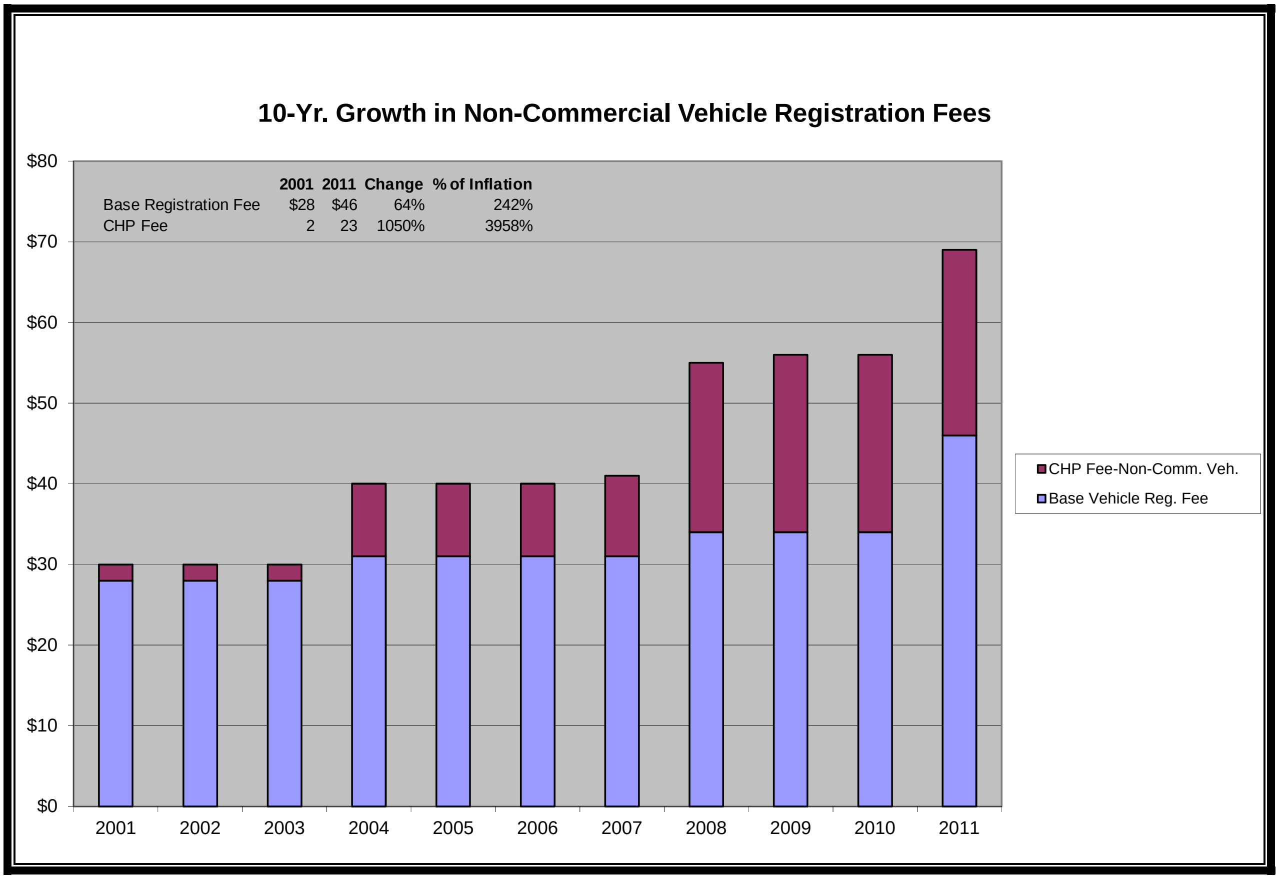
Realignment

Funding

The budget includes $5.6 billion in 2011-12 to implement the Governor's realignment plan, which he first introduced in January. The plan shifts many core functions of government from the state to the local level. Funding to implement realignment is made available by (1) shifting $300 million of existing vehicle license fee (VLF) revenues from Department of Motor Vehicles (DMV) operations and backfilling them with new revenues from a $12-per-vehicle registration fee increase, (2) directing $153 million of existing VLF revenues, which are currently used by local governments for general purposes, to realignment implementation, and (3) redefining a portion of the state sales and use tax (SUT), equivalent to a tax rate of 1.0625 percent, as a local sales and use tax, providing an estimated $5.1 billion in revenues.

As previously noted, the budget shifts existing VLF revenues from DMV operations to realignment, backfilling those revenues with new revenues from increased vehicle registration fees. In enacting legislation to accomplish this revenue shift without a single Republican vote in either house, Democrats circumvented the 2/3 vote requirement to increase the Vehicle License Fee (VLF). Regardless of whether or not the maneuver was technically legal, it flies in the face of Proposition 26 of 2010, which sought to reduce the incidence of tax increases disguised as fees.

Over the past ten years, fees imposed on California motorists have increased sharply. For example, including the $12 fee hike enacted with this budget, the base vehicle registration fee has grown by 68 percent (more than twice the rate of inflation) and the component of non-commercial vehicle registration fees that is dedicated to the CHP has increased by 1,000 percent (nearly 40 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. This most recent fee increase continues to heap the burden of out-of-control governmental spending on the backs of the motoring public under the guise of a cost-saving measure. In reality, this realignment simply shifts state costs to local agencies without providing any real savings to the taxpayer. The chart on the next page provides a historical perspective on vehicle registration fees for non-commercial vehicles.



Implementation

The realignment proposal still lacks implementation detail in the non-criminal justice areas, such as mental health, adoption, and transitional housing services. Chapter 15, Statutes of 2011 (AB 109, Committee on Budget) was the first of the realignment bills to be enacted. It provided some detail about the criminal justice aspects of realignment, but left many substantive questions unanswered, such as how funding allocations to each county will be determined, how funds earmarked for program growth will be allocated between programs, how the realignment of court security will work, etc. Chapter 40, Statutes of 2011 (AB 118, Committee on Budget) allocates 2011-12 realignment funding between counties based on a formula that was developed by the California State Association of Counties, but falls short of establishing a permanent allocation methodology. This, like so many other details of the 2011 realignment, is left to future legislation.

The Governor's plan realigns approximately $5.6 billion in programs previously administered by the state and supported by the General Fund, as follows:

Public Safety. Responsibility for various aspects of the management of certain felons will become the responsibility of local law enforcement agencies or the courts, as follows:

- *Low-level offenders and parole violators.* All parole violators and "low-level" offenders will become the responsibility of local jurisdictions. The definition of "low-level" offenders excludes those convicted of certain crimes that local law enforcement agencies found too egregious. However, the updated list of crimes for which an offender will go to jail, rather than prison, still includes many offenses that most people would consider serious felonies. Responsibility for the parole revocation process will ultimately become the responsibility of the courts, although most of that transition is delayed until 2013. AB 109 set up a menu of alternative sanctions for parole violators. Under realignment, parole violators will no longer be returned to state custody, but will instead become the responsibility of local law enforcement. Due to inadequate local funding, jail capacity, staffing, and program space, the timing of this shift spells disaster for public safety. General Fund spending reductions associated with this shift are approximately $574 million in 2011-12, growing to roughly $1.8 billion by 2014-15. The state savings reflect a shift of existing revenues that would otherwise be used by the state and by local governments for general purposes, in addition to new revenues from an increase in vehicle registration fees.

- *Adult parole*. Local agencies will assume responsibility for all adult parolees, the costs of which will be paid by the previously-described vehicle registration fee increase, SUT shift, and VLF revenue shifts, resulting in state General Fund spending reductions of approximately $110 million in 2011-12, growing to a projected $170 million by 2014-15. AB 109 created a construct to replace parole at the local level, referred to as "postrelease community supervision," which essentially shifts responsibility for parolees to local probation departments. However, because these offenders will technically not be on parole, they will be able to vote, and in some relatively rare cases, specific sex offenders will not be tracked by GPS. While probation officers do a great job at the local level with the resources they are given, they are not equipped or funded to handle the number of inmates the state plans to transfer. In some cases they already have caseload ratios that exceed 1,000 probationers for every probation officer. Even if fully funded, it will take years to hire and train the thousands of agents that will be needed.

- *Division of Juvenile Justice (DJJ)*. AB 109 shifted the remaining wards under the jurisdiction of DJJ to county responsibility and authorized counties to contract back with DJJ for bed space. Annual General Fund spending reductions associated with this shift are projected to be approximately $242 million, beginning in 2011-12. Again, state savings come from the vehicle registration fee increase and the SUT and VLF revenue shifts described above.

- *Prior juvenile realignments.* Under realignment, the existing Youthful Offender Block Grant program and the costs of supporting juvenile parolees that were shifted to the counties in 2010 will be funded from the vehicle registration fee increase and associated SUT and VLF fund shifts.

- *Local public safety programs*. Funding for previously state-supported local law enforcement programs will also come from the realignment VLF and SUT fund shifts and the fee increase. Affected programs include the Citizens' Option for Public Safety (COPS) program, Juvenile Justice Crime Prevention Act (JJCPA) grants, "booking fees," funding for small and rural sheriffs, juvenile probation and camps, and various local public safety grant programs administered by the California Emergency Management Agency. No General Fund savings are associated with this portion of the realignment plan, as these programs have been supported for the last two years by the temporary 0.15 percent VLF increase that expired on June 30, 2011.

- *Court security*. Local governments will be responsible for providing security for courthouses within their respective jurisdictions. As with the January proposal, the enacted budget fails to provide details on exactly how this will work. However, the Administration projects an annual General Fund spending reduction of approximately $485 million associated with this portion of realignment, as the shifted VLF and SUT revenues will fund court security at the local level henceforward.

Health and Human Services. Under realignment, local agencies will assume full fiscal and operational responsibility for administering various health and human services currently funded and/or administered in part by the state, as follows:

- *Community Mental Health Services.* The Governor's January realignment plan proposed shifting responsibility for three state-funded community mental health programs from the Department of Mental Health to local governments, beginning in 2012-13. The three programs are the Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT), mental health managed care, and state-mandated special education mental health services (known as AB 3632 services). Counties largely administer these three programs already. The state's current role is to provide funding and, in the case of EPSDT and mental health managed care, program oversight. The budget reflects an alteration of the January plan with respect to the shift of the AB 3632 services. The amended proposal shifts responsibility for these services to school districts, instead of counties, beginning in 2012-13. This is a welcome change in direction that should address the confusion and misalignment of responsibility between counties and schools that has plagued the system up to now. In every other state, schools are responsible for providing these services based on a mandate in federal law.

- *Substance Abuse Treatment.* To date, the Department of Alcohol and Drug Programs (DADP) has been responsible for administering prevention, treatment, and recovery services for alcohol and drug abuse. Under realignment, counties will receive funding ($184 million from redirected revenues that are dedicated to the program) and responsibility for these services. In the past, DADP has contracted with 57 counties to provide inpatient and outpatient alcohol and drug treatment services. Though implementing legislation has not yet been enacted, as described by the Administration, realignment will remove the state contractual process, allowing counties to prioritize funding, and will enable counties to continue to provide services that meet community needs.

- *Foster Care and Child Welfare Services.* The Child Welfare Services (CWS) system provides a continuum of services to children and their families through the CWS, Foster Care, and Child Abuse Prevention programs. CWS is currently administered by the counties and, to date, non-federal funding has been shared between the state and counties at a split of 40 percent state General Fund and 60 percent county funds. Though implementing legislation has not yet been enacted, as described by the Administration, realignment will transfer primary program responsibility for CWS to the counties, offsetting $1.6 billion General Fund for the program with revenues shifted as described above and directed to the counties to provide for these services.

- *Adult Protective Services.* The Adult Protective Services (APS) program provides services, without regard to income, to persons aged 65 and older who are functionally impaired, unable to meet their own needs, and who are victims of abuse, neglect, or exploitation. To date, this program has been administered by the 58 local APS agencies. Although implementing legislation has not yet been enacted, as described by the Administration, this entire program ($50.1 million General Fund) will be transferred to the counties under realignment. To fund APS, revenues generated by the vehicle registration fee increase and associated VLF revenue shifts will also be directed to counties.

Education

K-14 Education

The 2011-12 budget fully funds the Proposition 98 minimum guarantee of funding for K-14 education at about $48.7 billion, roughly flat from the 2010-11 funding level, after accounting for a shift of almost $1.1 billion in child care funding out of the guarantee.[1] The $2.2 billion in additional K-14 funding deferrals enacted in March 2011 remain in place; year-to-year deferrals will grow to about $10.4 billion. The chart below displays Proposition 98 funding over time:

Proposition 98 Funding

Source: Legislative Analyst's Office

($ in millions)

	2007-08	2008-09	2009-10	2010-11	2011-12	$ change	% change
K-12 education							
General Fund	$37,752	$30,075	$31,732	$31,722	$29,328	-$2,394	-7.5%
Local property tax revenue	$12,592	$12,969	$12,328	$12,147	$13,823	$1,676	13.8%
K-12 subtotal 1/	$50,344	$43,044	$44,060	$43,868	$43,151	-$717	-1.6%
California Community Colleges							
General Fund	$4,142	$3,918	$3,721	$3,885	$3,466	-$419	-10.8%
Local property tax revenue	$1,971	$2,029	$2,000	$1,949	$1,949	-$1	0.0%
CCC subtotal	$6,112	$5,947	$5,721	$5,834	$5,415	-$419	-7.2%
Other Agencies	$121	$105	$93	$85	$85	$0	-0.2%
Total Proposition 98 1/	$56,577	$49,096	$49,874	$49,787	$48,651	-$1,137	-2.3%
General Fund	$42,015	$34,098	$35,546	$35,691	$32,879	-$2,812	-7.9%
Local property tax revenue	$14,563	$14,997	$14,327	$14,096	$15,772	$1,676	11.9%
Prop 98 per-pupil funding (K-12) 1/	$8,464	$7,226	$7,424	$7,369	$7,232	-$137	-1.9%

1/ Absent the shift of $1.055 billion in child care funding out of Prop 98, total Prop 98 spending would have been about **$49.705 billion** and per-pupil funding would have been about **$7409**, roughly flat from 2010-11.

Layoffs prohibited & fiscal oversight gutted to protect unions. The education budget trailer bill (AB 114) suspends existing statute that normally allows school districts to conduct employee layoffs during the period from budget passage through August 15 if per-pupil funding does not rise by at least two percent from the preceding year. It further requires districts to project for 2011-12 the same level of funding received in 2010-11 and *to "maintain staffing and program levels commensurate with that level" -- even if actual funding is inadequate to support that level of operations.* This protects union members, but severely erodes districts' ability to manage costs. Districts that withdrew March layoff notices on the assumption that Proposition 98 would be funded at the level proposed in the Governor's May Revision (about $3 billion higher statewide) may find themselves unable to reduce costs to match resources. Those who become insolvent will approach the state for emergency loans, which the state must provide under a 1992 California Supreme Court ruling.

To make matters worse, the trailer bill suspends the existing 'early warning system' that identifies districts in fiscal distress by suspending the existing requirement that local educational agencies certify in writing whether they will be able to meet their financial obligations for the two subsequent fiscal years. Thus, local budgets normally flagged as 'negative' or 'qualified' may not be so flagged, and the

[1] The minimum guarantee would have been about $1.1 billion higher if child care funding had not been shifted out of Proposition 98 to non-98 General Fund, and another $2.1 billion higher absent the shift of sales tax revenue to local governments included in the Governor's 'realignment' proposal. The legality of both shifts is being questioned by school advocates.

legislature and public may not even become aware that these agencies are skidding into insolvency until they approach their Senators and Assembly members to request emergency loans.

Further Proposition 98 'trigger cuts' possible. Pursuant to budget trailer bill AB 121, if state General Fund revenues fall by $1 billion or more from the projected level of $88.5 billion, funding reductions of up to $23 million for state preschool programs and up to $30 million for Community Colleges would be automatically triggered, along with a $10 Community College fee increase. If revenues fall by $2 billion or more from the projected level, additional K-12 funding reductions of up to $1.8 billion ($1.54 billion in revenue limit funding for up to seven school days, and up to $248 million in home-to-school transportation funding) would be triggered, as well as an additional reduction of up to $72 million in Community College apportionments (See *Trigger Cuts* Page 42).

Revenue Limit Reductions and Deficit Factors. The budget establishes a county office of education revenue limit deficit factor of 20.041% and a school district deficit factor of 19.754% to reflect 2011-12 reductions in revenue limit (per-pupil general purpose) funding. These are slightly higher than March 2011 deficit factors, reflecting a higher estimate of foregone COLA. Creating these factors in statute is entirely unnecessary, but signals an intention to eventually restore revenue limit funding to 100% of what it would have been absent reductions, including foregone COLAs.

AB 3632 mental health services for special education students. The budget repeals the existing state-level AB 3632 mandate, deferring to the requirements of a similar federal mandate. This action shifts responsibility for education-related mental health services for students with disabilities from counties to schools, consistent with federal law. In addition to about $222 million in Proposition 98 funding, schools will receive $69 million in federal special education funds for this purpose, and county mental health agencies will get about $99 million in one-time Proposition 63 funds for transitional services. Total funding may significant exceed program need in 2012. Schools will be free to contract with counties to provide these services if they so choose.

New Schools Funding. The budget provides $11 million to support categorical funding of $127 per pupil to new charter schools (except for conversion charters) established after 2008-09 when categorical flexibility began, and requires school districts to pass through a like amount of funding to new conversion charters. This will ensure that new charters receive categorical funding roughly equitable with that received by other schools.

"Green" education. The Governor's May Revision proposes $3.2 million in Proposition 98 funding for a new "Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program" enacted through SB X1 1 (Chapter 2/2011, Steinberg), which received no support from Senate Republicans. It makes no sense to expand one particular categorical program while simultaneously continuing reductions to schools' existing general purpose funding and all other categorical program funding.

Child care. The budget restores about $200 million of the funding reductions made to child care programs in March 2011, and shifts $1.054 billion in child care funding out of the Proposition 98 guarantee, thus lowering the guarantee by that same amount. The only child care funding now included in Proposition 98 is $374 million for state preschool programs, which could fall by up to $23 million if 'trigger cuts' are eventually made pursuant to AB 121.

Community Colleges. In March, the Legislature made a $400 million General Fund reduction to 2011-12 CCC apportionment funding. The June budget retains that reduction, funding the colleges at about $5.4 billion, which reflects their full statutory share of Proposition 98 funding (roughly 11 percent). The March budget also includes a $10 per-unit fee increase beginning in fall 2011 (taking fees from $26 per unit to $36 per unit). This fee increase is expected to raise $110 million in additional fee revenues, thereby resulting in a net reduction to the system of $290 million. Pursuant to budget trailer bill AB 121, 'trigger cuts' to the colleges' funding of up to $30 million will be made in December 2011 if 2011-12 revenue projections fall by $1 billion or more from the budget's projected level, and additional trigger cuts of up to $72 million will be made if revenues fall short by $2 billion or more. Should any such trigger cuts be made, student fees will increase from $36 to $46 per credit unit beginning in January 2012, which will raise additional revenues to partially backfill these 'trigger' cuts. Even at this higher level, CCC fees would still be among the lowest in the nation.[2]

Secretary for Education Eliminated. The Office of the Secretary for Education was eliminated in March 2011, for annual savings of $1.6 million in 2011-12 and beyond.

Missed Opportunities. The budget does *not* bring **Proposition 49** before-and after-school programs back 'on-budget' so as to make its $550 million in Proposition 98 funding available for higher priority (core educational) uses. It does not repeal the restrictions on schools' authority to **contract out** for non-instructional services originally enacted in SB 1419 (Ch. 894/2002), which could free up several hundred million dollars each year for higher priority uses. It does not make any of the **other needed reforms** relative to seniority-driven layoffs, substitute pay, layoff notice deadlines, or employee dismissal for cause.

[2] Students from families with incomes of up to $65,000 would continue to receive fee waivers and pay nothing. Those from families with incomes of up to $160,000 could get full fee refunds through federal tax credits, thus effectively increasing the percentage of California's federal tax dollars flowing back to the state.

Higher Education (non-Proposition 98)

UC and CSU. The Governor's January budget proposal, approved by the Legislature in March, imposed ongoing General Fund reductions of $500 million each at UC and CSU, offset by a $107 million augmentation to each segment to backfill the loss of one-time federal stimulus funds. This budget reduces total UC and CSU funding by another $150 million each. Core funding for the segments is displayed in the chart below:

UC & CSU Funding

(Selected core funds, in millions)

	Fund	2007-08	2008-09	2009-10	2010-11	2011-12
UC	General Fund [1/]	$3,257	$2,418	$2,596	$2,912	$2,374
	Fees [2/]	$1,593	$1,677	$2,001	$2,566	$2,749
	ARRA [3/]	$0	$717	$0	$107	$0
	Lottery	$25	$25	$28	$30	$30
	Total UC	$4,876	$4,837	$4,625	$5,614	$5,153
CSU	General Fund [1/]	$2,971	$2,155	$2,350	$2,683	$2,141
	Fees [2/]	$1,176	$1,406	$1,593	$1,718	$1,940
	ARRA [3/]	$0	$717	$0	$107	$0
	Lottery	$58	$42	$46	$46	$46
	Total CSU	$4,205	$4,320	$3,990	$4,553	$4,127
	Total	$9,081	$9,156	$8,615	$10,168	$9,280

[1/] Additional 'trigger cuts' of $100 million at each segment will be made in December 2011 if state General Fund revenue projections fall by $1 billion or more

[2/] Includes amounts diverted to financial aid controlled by UC and CSU. Both segments will likely increase student fees to partially offset state funding reductions

[3/] Federal American Recovery and Reinvestment Act ('stimulus') funding for 2008-09 was received in the 2009 calendar year

Source: Legislative Analyst's Office

It is likely that the UC Regents and the CSU Trustees will increase annual student fees (currently $11,124 and $4,884 respectively) to offset the loss of state funding. Pursuant to budget trailer bill AB 121, should state General Fund revenue projections fall by $1 billion or more from current levels, UC and CSU funding would lose an additional $100 million each. Such an action could trigger even higher student fees.

Student Financial Aid. The budget provides about $1.4 billion in state General Fund for student financial aid, including the CalGrant entitlement program. This $1.4 billion is in addition to the over $1.3 billion in student fee revenue redirected by UC and CSU to their own financial aid programs. Under current law, should UC and CSU raise student fees, state funding for CalGrants would rise to cover the cost of the higher fees. The state's cost to cover student fee increases is unknown but could easily run into the tens or even hundreds of millions of dollars.

California Postsecondary Education Commission. The Governor's May Revision proposed to eliminate CPEC for half-year General Fund savings of $927,000 in 2011-12 and twice that amount in subsequent years. The Legislature denied the elimination, but the Governor subsequently vetoed all General Fund support of CPEC. Only an $8.2 million federally-funded teacher quality grant program and $447,000 in associated federal administrative funding remains with the commission. Presumably administration of this program will ultimately be shifted to the Department of Education or the Commission on Teacher Credentialing.

Health & Human Services

HEALTH

The budget package includes General Fund savings actions totaling about $3.4 billion for health-related programs in 2011-12 and $397 million in 2010-11. In addition, another $115 million in “trigger” reductions are included for health programs that would take effect only if revenue levels assumed in the budget do not materialize by December. Significant budget actions for each department are discussed below.

Department of Health Care Services (DHCS)

Savings Actions. The budget package enacts General Fund savings of $2.2 billion in 2010-11 and 2011-12 for Medi-Cal. An alarming portion of these savings face some risk of not being achieved due to the need for approval from either the federal government or the courts, or because specific actions to achieve the savings have not yet been enacted. Key savings items are the following:

- *Payment Rate Reductions.* Savings of $623 million General Fund by reducing the payment rates to various providers by ten percent. Past attempts to reduce Medi-Cal provider rates have been enjoined by the courts, but the state has appealed to the U.S. Supreme Court to overturn those rulings. The savings assume that California prevails in its appeal, which the Supreme Court may decide in the Fall of this year.
- *Copayments.* Savings of $514 million General Fund in 2011-12 by requiring mandatory copayments for certain Medi-Cal services. The savings would be achieved by deterring utilization and by reducing the rates the state pays to providers by the amount of the copayment (assuming the provider will collect that amount from the enrollee). However, Medi-Cal needs to obtain federal approval for a waiver to implement the copayments, and obtaining that approval is uncertain, placing the savings somewhat at risk. The specific copayments would be:
  - $5 for physician, clinic, dental, and pharmacy services ($3 for lower-cost preferred drugs).
  - $50 for emergency room services, regardless of whether there is truly an emergency or not.
  - $100 per day for hospital services, up to a $200 maximum.
- *Unallocated Reductions.* Unallocated savings of $345 million General Fund. Of this amount, $320 million is likely intended to be filled by revenues obtained through a revision and extension of the hospital “quality assurance fee” that would be authorized by SB 335 (Steinberg, Hernandez). The hospital fee, which expired July 1, 2011, would bring in billions of federal funds for hospitals annually through increased Medi-Cal rates and provide $320 million in fee revenue that the state would use to offset General Fund costs. The remaining $25 million amount is somewhat similar to the savings amount originally proposed for the shift of the Healthy Families Program to Medi-Cal, which was not included in this budget, but it is unclear how the savings might be achieved at this point.
- *Replacement of the Adult Day Health Center (ADHC) Benefit.* Net savings of $85 million General Fund by eliminating the ADHC benefit and replacing it with a yet-to-be-developed program called Keeping Adults Free from Institutions (KAFI). The Governor’s January budget proposed to simply eliminate the ADHC benefit for savings of $170 million, but legislative Democrats added $85 million back and enacted language to develop KAFI. The Governor sustained the funding but vetoed budget bill language that would have designated the $85 million for transition and replacement services for ADHC participants. However, the Democrats passed a trailer bill (AB 96, Committee on Budget) that established broad parameters for KAFI.

- *Fund Shifts.* Various fund shifts that will provide savings include:
  - $78 million in 2011-12 by shifting special funds that were previously designated for supplemental payments to hospitals.
  - $34 million in 2011-12 by applying a 20 percent administrative fee to funds that counties transfer to the state in return for additional federal funds and enhanced reimbursement rates.
  - $95 million in federal “waiver” funds in 2010-11 that certain public hospital would otherwise use to obtain supplemental payments.
- *Managed Care Pharmacy Rebates.* Savings of $64 million General Fund by obtaining rebates on prescription drugs provided through Medi-Cal managed care plans. The Medi-Cal Program has long received drug rebates based on fee-for-service drugs, but a provision in federal health care reform will allow collection of rebates for managed care drugs as well.
- *Benefit Limits.* Savings of $57 million General Fund by placing limits on certain Medi-Cal benefit usage. The bulk of these savings ($41 million) results from placing a “soft cap” on physician visits of seven per year. If additional visits are needed, the doctor would need to certify that necessity. Also included are limits on nutritional supplements for adults ($14 million), the elimination of over-the-counter cough and cold medicine for adults ($2 million), and an annual spending cap on hearing aids ($0.3 million).
- *Trigger Reduction*. The budget package includes a possible additional reduction of $15 million to specialty Medi-Cal managed care plans that is part of the “trigger” cut package. The trigger cuts would only take effect if certain revenues assumed in the budget do not materialize by December. In that event, the ten percent rate reduction, the hearing aid limit, and the seven visit limit for physician services would be applied to three specialty managed care programs that are otherwise exempt: the Program for All-Inclusive Care for the Elderly, the Senior Care Action Network, and the AIDS Healthcare Foundation.

Department of Public Health (DPH)

The budget package includes General Fund savings of $17 million in 2011-12 for DPH, primarily as the result of several fund shifts. The largest of these is a one-time shift of $9 million from the Childhood Lead Poison Prevention Fund, which borrowed that amount from the General Fund in 1996-97 and never repaid it.

Managed Risk Medical Insurance Board (MRMIB)

No Shift of Healthy Families Program to Medi-Cal. The Governor’s proposal to shift the Healthy Families Program (HFP) to Medi-Cal is not included in the budget package. The proposal included $31 million in net General Fund savings for 2011-12 but did not account for all costs. Achieving any savings would have been doubtful, and the proposal raised other significant policy concerns for Republicans.

No Extension of Managed Care Tax. The budget package does not include an extension of the managed care organization (MCO) tax, which raised concerns for Republicans in the context of the Governor’s proposal to eliminate HFP and shift its enrollees to Medi-Cal. Authorized in 2009 through AB 1422 (Bass), the MCO tax temporarily extended the existing 2.35 percent gross premiums tax to include Medi-Cal managed care plans, with the goal of providing funding for HFP. Proceeds of the tax were used to obtain new federal funds, increase Medi-Cal rates to managed care plans, and provide funding for HFP. The Governor proposed to extend this tax but simultaneously to eliminate HFP, the original justification for the tax. In place of the General Fund savings associated with the tax, the budget package includes an unallocated savings of $103 million for HFP. Democrats may pursue extension of the tax through policy legislation, but Republicans should not support any extension absent a bipartisan resolution of the Healthy Families shift.

Savings Actions. The budget package includes nearly $31 million in specific savings actions for the HFP in 2011-12, as follows:

- *Premiums Increase.* Savings of $22 million General Fund through an increase in monthly premiums for families with incomes above the federal poverty level (FPL), which is currently $22,350 for a family of four. Families with incomes between 150 percent and 200 percent of FPL would pay an additional $14 per child per month, or $30 per child, with a family maximum of $90. Families with incomes up to 250 percent of FPL would pay an additional $18 per child per month, or $42 per child, with a family maximum of $126. The HFP also raised premiums twice in 2009, but only once (in 2005) in the history of the program before that.
- *Copayment Increase.* Savings of $5 million in 2011-12 by increasing copayments for emergency room services from $15 to $50 and by establishing a copayment of $100 per day for inpatient services (up to a $200 maximum for inpatient stays). Copayments for these two services would then be consistent with the Medi-Cal copayments. Other existing HFP copayments would not be changed.
- *Vision Benefit Reduction.* Savings of $3 million General Fund by limiting the vision benefit in HFP.

Department of Developmental Services (DDS)

Savings Actions. The budget includes General Fund savings of $554 million in 2011-12, including the following significant actions:

- *Transparency and Accountability.* $110 million through various measures to increase transparency and accountability in regional center operations and services, such as improved conflict-of-interest rules.
- *Continued Rate Reductions.* $92 million in General Fund savings by extending a 4.25 percent reduction in payments to regional centers and community developmental service providers.
- *Increased Federal Funds.* A shift of $109 million from the General Fund to federal funds by obtaining additional federal reimbursement for various programs, including the 1915(i) state plan and "Money Follows the Person" grants.
- *Statewide Standardization.* Savings of $53 million in 2011-12 ($79 million annually) through various measures intended to standardize regional center services around the state. Key components of this amount include:
  - $10.2 million to maximize utilization of generic education services.
  - $7.5 million by reducing Prevention Program funding to match actual caseload, and to shift program functions to Family Resource Centers.
  - $3.6 million by implementing family participation fees for additional families. Fees of $150 or $200 annually would be charged for families that earn more than four times the federal poverty level, or about $89,000 annually for a family of four.
- *Proposition 10 (First 5) Funds.* A continuation of a voluntary shift totaling $50 million in First 5 funds to the state.

Trigger Reduction. In addition to the mandatory savings actions, the budget package includes an additional $100 million in savings in the event that revenues fall short of the certain assumed levels. The budget would require DDS to develop the means to achieve the $100 million target in consultation with stakeholders. Because this process would apparently not start before December, and given the lead time needed to implement many possible savings actions, it is unlikely that these trigger savings would actually be achieved in 2011-12, even if the trigger is pulled.

Department of Mental Health (DMH)

Savings Actions. The budget enacts $871 million in savings for DMH, almost entirely from a one-time shift of $861 million in Mental Health Services Act (Proposition 63) reserve funds to backfill General Fund spending for three community mental health programs for one year. These programs are also part of the Governor's realignment package (See Realignment on Page 12).

These funds will be shifted as follows:

- $579 million for the Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT), an entitlement program for Medi-Cal eligible children and young adults under age 21.
- $184 million for Mental Health Managed Care, which provides inpatient and outpatient services to Medi-Cal enrollees through county mental health plans.
- $99 million for mandated mental health services for special education students (AB 3632 services). These funds are for prior year costs incurred by counties.

Special Education Mandate. The budget package formally eliminates the state mandate for counties to provide mental health services to special education students (also known as the AB 3632 mandate). The mandate has been in de facto suspension since Governor Schwarzenegger vetoed funding for it in the 2010 Budget Act. This policy will leave school districts responsible for meeting the federal mandate to ensure that students with mental health conditions receive appropriate educational assistance. This is a welcome change that should address confusion and misalignment of responsibility between counties and schools that has surrounded the state mandate. Schools and counties will receive about $390 million for these activities in 2011-12, from Proposition 98, Proposition 63, and federal fund sources.

Department Elimination and Creation. The Governor's realignment package shifts DMH's current community mental health services to counties, who already manage sizeable mental health programs. Following this shift, DMH's remaining responsibilities will consist almost entirely of managing the state mental hospitals. The Governor has set forth a broad concept to replace DMH with a Department of State Hospitals that will administer these facilities with a renewed emphasis on managing the largely forensic (i.e., criminal) patients that now reside there. However, the Administration indicates that it will develop a specific proposal for the 2012-13 budget cycle. The current budget package does not take any action in this regard.

HUMAN SERVICES

The 2011 budget includes total General Fund spending reductions of $1.4 billion within the state's human services programs. Though there are some real program reductions within the CalWORKs and SSI/SSP programs, the budget includes mostly gimmicks and fund shifts (from General Fund to federal funds) for the IHSS program, with the exception of the proposed "trigger" reduction of a 20 percent across the board reduction in IHSS service hours. The Governor had proposed to reduce child only grants within CalWORKs, as well as eliminate child care for 11 and 12 year olds, but neither of these proposals was adopted by the Legislature. The human services reductions include the following policy changes:

- $375 million General Fund - Reduced the counties' CalWORKs administration funding (also known as the single allocation).

- $314.3 million General Fund - Reduced CalWORKs grants by eight percent effective June 1, 2011.
- $102.6 million General Fund - Reduced an adult's time on CalWORKs from 60 months to 48 months, effective June 1, 2011.
- $83.3 million General Fund - Revised the earned income disregard within the CalWORKs program. Trailer bill language would revise the earned income disregard to be the first $112 of relevant income and then 50 percent of all other earnings, effective June 1, 2011.
- $40 million General Fund - Reduced funding for the Cal Learn program within CalWORKs.
- $30 million General Fund - Reduced mental health/substance abuse funding as well as community challenge grants.
- $178.4 million General Fund - Reduced monthly SSI/SSP grants for individuals to the federally required minimum level.
- $140 million General Fund - Proposed implementation of a medication dispensing pilot project for Medi-Cal beneficiaries. An unknown and untested program that will probably not achieve any savings.
- $67.4 million General Fund - Implemented a requirement that all IHSS applicants and recipients must have a physician certification of need prior to receipt of services.
- $128 million General Fund - Proposed implementation of the Community First Choice Option within the IHSS program. Although it appears this proposal may have merit and could result in the receipt of additional federal funds, it is highly unlikely that any savings would be achieved in 2011-12, creating yet another General Fund deficiency within an entitlement program.

The Budget also includes a rate increase to foster family home rates as well as prospective Adoption Assistance Payment, Kinship Guardianship Assistance Payment, and Non-Related Legal Guardian payment rates pursuant to the *Foster Parent Association, et al vs. John A. Wagner, et al* court case. The budget includes additional funding of $12.3 million in 2011-12, a 31 percent increase in rates for foster family homes.

Trigger Reductions within IHSS. The Budget includes statutory changes that tie the actual level of revenues collected for 2011-12 to imposed "trigger" reductions if those revenue projections fall short. If revenues are below a specified level, as identified in Control Section 3.94 of the Budget Act of 2011, a 20 percent across the board reduction in IHSS service hours would be implemented beginning January 1, 2012, generating savings of $100 million General Fund in 2011-12, $200 million General Fund annually thereafter. Although a program reduction within IHSS is warranted given the fast-paced growth of the program, it is likely that a reduction of this magnitude would be litigated before the state could achieve any level of savings, resulting in a General Fund deficiency within this entitlement program.

<u>Department of Alcohol and Drug Programs</u>

The Budget realigns alcohol and drug programs from the state to the counties. As a result of this redirection of workload, the budget will shift responsibility for Drug Medi-Cal program from DADP to the Department of Health Care Services. For the federal block grant programs, licensing and certification activities, and all other non-Drug Medi-Cal programs (such as the Office of Problem Gambling), the Administration will identify which state department will provide oversight during the development of the 2012-13 budget.

Department of Child Support Services

The 2011 Budget includes a reduction of $24.4 million General Fund as a result of suspending the county share of child support collections in 2011-12.

Public Safety & Judiciary

Department of Corrections and Rehabilitation

Partial Elimination of Recent Unallocated Reductions. Recognizing that many of the recent unallocated reductions to the Department of Corrections and Rehabilitation's (CDCR) budget have been unattainable, and in some cases counterproductive, the budget includes $762.8 million in increased baseline support for corrections. This change restores a $200 million unallocated reduction for "population changes" and much of the $820 million reduction to the Receiver's budget for inmate medical care that were included in the Budget Act of 2010.

Structural Shortfall. The budget includes a baseline augmentation of $379.6 million General Fund to permanently correct structural and operational funding shortfalls related to the costs of custodial salaries ($266.5 million), medical guarding and transportation ($39.6 million), correctional officer overtime ($35.7 million), litigation ($20.5 million), and unfunded swing space ($17.3 million). These areas have been chronically underfunded. In the past, the Department has been able to redirect funding from other areas of its budget to address these costs. However, as a result of recent budget reductions, its ability to continue this practice has essentially been eliminated.

Population Changes. Relative to January projections, the adult institutional average daily population (ADP) is not projected to change much, though adult parolee ADP is projected to increase slightly. Juvenile institutional and parolee ADPs are both projected to decrease significantly. The net result of these changes is a General Fund decrease of $6.5 million in 2010-11 and an increase of $342,000 in 2011-12.

Projected institutional and parole populations are as follows:

- *Adult Institutions.* Institutional ADP is projected to be 163,634 for 2010-11 (decrease of 165 compared to January projections), and to decrease to 163,152 in 2011-12 (no change compared to January).
- *Adult Parole.* Parole ADP is projected to be 114,168 for 2010-11 (increase of 478 compared to January projections) and to decrease to 107,354 in 2011-12 (increase of 352 compared to January).
- *Juvenile Institutions.* ADP is projected to be 1,270 in 2010-11 (decrease of 34 relative to January projections) and to decrease to 1,165 in 2011-12 (decrease of 104 compared to January).
- *Juvenile Parole.* ADP is projected to be 1,520 in 2010-11 (decrease of 34 compared to January projections) and to decrease to 1,178 in 2011-12 (decrease of 286 compared to January).

Population funding projections reflect changes that are expected to occur on the natural (due to fluctuations in the rate of new commitments, implementation of court mandates, recent changes in the law, etc.) and do not consider population changes related to realignment.

Changes Related to Realignment. The enacted budget includes the following changes to CDCR's budget related to realignment:

- Technical adjustment, reflected as a $240.6 million General Fund augmentation, to restore realignment savings scored in January and instead reflect them in the statewide realignment budget item.
- Technical adjustment separating $275.9 million of baseline funding for in-state and out-of-state contract beds from the rest of CDCR's budget with provisional language limiting the

amount of funding that can be used for contract bed space. This adjustment would facilitate any reduction or elimination of contract beds that might come as a part of realignment. CDCR's bed contracts generally require a long-term commitment by the state. However, they contain clauses allowing for the reduction or termination of contracts in the event the budget fails to appropriate funds for contract beds. **To the extent these provisions are exercised in connection with realignment, it will make it more difficult for CDCR to contract for bed space in the future.**

- One-time General Fund reduction of $101 million for rehabilitative program funding. The Administration indicates this funding will not be needed due to the logistical impact on programming that inmate movement to implement realignment will have. The Governor vetoed language added by legislative Democrats that would have restricted CDCR's ability to further reduce spending on rehabilitative programming.
- Net General Fund decrease of $9.1 million for the Board of Parole Hearings to reflect realignment of the parole revocation process to the courts. *(see related item under Realignment-Related Parole Revocation Workload on page 31).*
- Increase of $97 million General Fund to reflect a recalculation of the Department's workforce cap reduction target. The recalculation accounts for changes to CDCR's operations that will result from realignment.

Community Corrections Performance Incentive Grant Program. The Governor's Budget included $59.2 million General Fund for the Community Corrections Performance Incentive Grant Program that was established by Chapter 608, Statutes of 2009 (SB 678, Leno and Benoit). SB 678 established a system of performance-based funding that shares state General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers sent to state prison for committing new crimes or violating their terms of probation. The enacted budget includes an additional $30 million for payment to counties, based on final calculations of the state's cost avoidances.

Abandoning Construction of the San Quentin Condemned Inmate Complex. The Governor recently announced his decision to abandon the ongoing project to construct a new condemned inmate housing unit and related facilities at San Quentin State Prison. The project is necessary to modernize the state's condemned inmate housing capacity and to correct existing deficiencies that threaten the health and safety of San Quentin correctional officers, the inmates, and the nearby public. Funding was first authorized for this purpose in the Budget Act of 2003, and the project has finally reached the construction phase. As a result of the Governor's decision to abandon the project, the health and safety of inmates, correctional officers, and the public will continue to be at risk. The budget includes a one-time General Fund augmentation of $19.2 million in 2011-12 to repay a project loan made from the Pooled Money Investment Account and language to forgive a $1.3 million General Fund project loan.

Office of the Inspector General

Narrowing of the Mission. The budget reflects savings for the Office of the Inspector General (OIG) of approximately $4.6 million General Fund. These savings are achieved by (1) down-scoping the OIG's mission by eliminating units that conduct special reviews, audits, and investigations (savings of $1.2 million), and (2) eliminating peace officer status for all personnel classifications employed by the OIG and authorizing the Inspector General and certain other employees to exercise the powers of arrest and serving warrants (savings of $3.4 million).

According to the Administration, CDCR already conducts internal audits and investigations to ensure compliance with state and federal guidelines and will continue to do so; therefore, this function is redundant. While CDCR may audit and investigate itself, its reputation for poor internal controls and chronic mismanagement suggests that oversight by an independent agency may be beneficial. Furthermore, it is not clear that some OIG classifications, especially those that investigate allegations of criminal activity by correctional officers, should not in fact be peace officers. Eviscerating the OIG's peace officer contingent could render the Inspector General incapable of adequately investigating allegations of correctional officer misconduct. These two changes may ultimately prove to be shortsighted and costly.

Department of Justice

Elimination of General Fund Support for Law Enforcement. A unilateral decision by legislative Democrats and the Governor eliminates virtually all General Fund support for the Department of Justice's (DOJ) Division of Law Enforcement, for total General Fund savings of $37 million in 2011-12, growing to approximately $72 million in 2012-13. When fully implemented, this reduction will eliminate roughly 30 percent of the Division's total state operations funding. It includes reductions of approximately $39 million for narcotics enforcement, $17 million for investigations and intelligence, and $16 million for administration. Supposedly, this adjustment will not affect General Fund support for forensic laboratories, the armed prohibited persons program, or special investigations. However, it provides one more example of Democrats' prioritization of social programs over public safety.

Conversion of General Fund Clients to Billable Status. The budget also reflects the conversion of DOJ's General Fund clients (with the exception of the Coastal Commission, the State Lands Commission, and a handful of small departments) to a billable status. Up to now, DOJ has billed client departments that are supported by special funds for the costs of legal and investigatory services provided to them. In contrast, it has not generally billed its General Fund clients for services rendered. Instead, DOJ has had a direct General Fund appropriation to pay these costs. The budget reflects the deletion of all General Fund support from DOJ's litigation services budget, except for $3.1 million for the Coastal Commission and State Lands Commission and $1.5 million for the assortment of small departments. This funding is replaced with a corresponding amount of reimbursement authority (Legal Services Revolving Fund). Each newly-billable client department has been allocated the rough equivalent of a pro-rated share of the General Fund that was deleted from DOJ's budget.

This revised billing arrangement provides additional budgetary transparency by reflecting each department's legal costs within its respective budget. It also forces each department that overspends its legal services budget to come forward with a deficiency request on its own. For the past several years, CDCR has been guilty of consuming virtually the entire pot of "community funding," leaving smaller departments without funding for legal services. From this point forward, the possibility of that scenario repeating itself will be limited to the handful of exempted departments mentioned above. Over time, the increased accountability and transparency will likely drive costs down.

It is not clear why the Coastal Commission and the State Lands Commission should be exempted from this arrangement. Some might suggest that these entities want to preserve their anonymity and ability to sue landowners for various "public rights" purposes without public awareness of the associated costs. That said, should a future request to augment DOJ's remaining General Fund legal services budget come forward, the source of that request would be relatively unambiguous.

Forensic Laboratory Funding Shortfall. As part of a comprehensive package of budget solutions, the 2010 budget increased the state's DNA Penalty Assessment, which is imposed on criminal and traffic-related convictions, from $1 to $3 and shifted roughly $30 million in support for DOJ's forensic laboratories from the General Fund to the DNA Identification Fund (DNA ID Fund). Revenues from the increased penalty assessment have come in significantly below initial projections, resulting in a structural shortfall in the DNA ID Fund. The budget includes several measures to address the problem, as follows:

- A $10.0 million General Fund transfer to the DNA ID Fund (according to the Department of Finance, this transfer is not affected by the elimination of General Fund support for law enforcement described above).
- A shift of $4.1 million in annual forensic laboratory lease-revenue bond debt service payments from the DNA ID Fund to the General Fund.
- A proposal to exempt the recent penalty assessment increase from a provision of law that places these revenues in a lower payment priority.

Absent these measures, it is likely that DOJ would have to scale back its forensic laboratory work significantly, which would negatively impact local law enforcement agencies statewide.

California Emergency Management Agency

Fire Engine Replacement. The California Emergency Management Agency (Cal EMA) operates a program that provides fire engines for used by local fire departments throughout the state. The local departments maintain the engines and man them during emergency response and mutual aid calls. As part of this program, Cal EMA maintains a replacement cycle designed to rotate engines out of service when they have exceeded their useful life. The budget includes a General Fund reduction to support for the replacement of fire engines of $1.8 million, and instead uses federal funds that are available for this purpose on a one-time basis. This use of an alternative funding source will provide temporary General Fund relief that helps to close the budget gap, if only for the budget year.

Golden Guardian and State Agency Training. The budget includes an ongoing General Fund reduction of $779,000, reflecting a proposal to eliminate General Fund support for the annual Golden Guardian Exercise ($200,000) and for state agency training ($579,000). The Golden Guardian Exercise is a federally-sponsored annual disaster response exercise involving multiple state and local agencies. Cal EMA also has a State Agency Direct Support Unit that provides disaster response training for state agency personnel. This unit is supported by federal funds that require a 100 percent state match. Cal EMA will continue to conduct the Golden Guardian Exercise using only federal funds and will offer state agency training on a reimbursement basis, which would theoretically allow the Agency to meet its state matching funds requirement.

California Disaster Assistance Act Baseline Reduction. The budget reduces baseline funding that supports local governments' disaster recovery efforts by $20 million. According to the Department of Finance, Cal EMA reviewed outstanding California Disaster Assistance Act claims and indicated that it can achieve the savings without impeding the payment of existing claims. However, just one wildfire in a Southern California wildland-urban interface area or a large-scale flood resulting from the melting snowpack from the extraordinarily wet winter could easily wipe out any savings attributed to this reduction. These savings will likely not be achieved.

Local Public Safety Funding

The budget uses realignment funds to provide continued support for local public safety programs that have historically been funded by the state. As a result, funding for various local public safety subventions is restored to 2008-09 levels, as detailed in the table below.

Local Public Safety Funding (Dollars in Thousands)			
Progs. within Local Gov't. Funding	Gov.'s Budget	May Revise	Enacted
COPS	$107,100	$107,100	$107,100
JJCPA	$107,100	$107,100	$107,100
Booking Fees	$35,000	$35,000	$35,000
Small and Rural Sheriffs	$18,500	$18,500	$18,500
Total Local Gov't. Funding	**$267,700**	**$267,700**	**$267,700**
Programs within CDCR			
Juvenile Probation Funding	$151,842	$151,842	$151,842
Juvenile Camps Funding	$29,430	$29,430	$29,430
Total CDCR Programs	**$181,272**	**$181,272**	**$181,272**
Programs within Cal EMA*			
Cal-MMET	$19,500	$19,445	$19,445
Vertical Prosecution Block Grants†	$14,558	$14,517	$0
Evidentiary Medical Training	$583	$0	$0
Public Prosecutors and Public Defenders	$7	$0	$0
California Gang Violence Suppression Program	$1,607	$1,603	$1,603
CALGANG	$270	$0	$0
Multi-Agency Gang Enforcement Consortium	$84	$84	$84
Rural Crime Prevention	$3,729	$3,719	$3,719
Sexual Assault Felony Enforcement	$5,130	$5,116	$5,116
High Technology Theft Apprehension and Prosecution Program	$11,970	$10,978	$10,978
Total Cal EMA Programs	**$57,438**	**$55,462**	**$40,945**
Total	**$506,410**	**$504,434**	**$489,917**

*The budget does not allocate realignment revenues to fund state operations, grants that go to entities other than local public safety agencies, or Vertical Prosecution Block Grants. This change is reflected in the table above by the difference in program funding between points in time (Governor's Budget, May Revise, and Enacted). The General Fund will provide support for these programs, with the exception of the Public Prosecutors and Public Defenders Training Program, which will be supported by the Local Public Prosecutors and Public Defenders Training Fund.

†The budget provides General Fund support for the Vertical Prosecution Block Grant Program, but it is included in the first round of trigger cuts.

Consolidation of State Criminal Justice Entities

The budget reflects the elimination of the Corrections Standards Authority, which is currently a part of CDCR, the Office of Gang and Youth Violence Policy, which is currently part of Cal EMA, and the California Council on Criminal Justice (CCCJ), which is an independent entity of state government. The duties of these entities are consolidated within the Board of State and Community Corrections, which is established as a new, independent entity of state government. This consolidation results in a significant change to the membership of the body that currently decides how federal funds dedicated to improving criminal justice and public safety are spent (the CCCJ). Some law enforcement and local government representation and most private citizen representation is eliminated, and representation for community-based organizations that provide rehabilitative and treatment services to offenders is added. The likely result is that future allocations of federal criminal justice funding will shift in favor of treatment and programming to the detriment of enforcement.

Judicial Branch

Suspension of Court Construction Projects. The budget suspends a host of court construction projects that are still in pre-construction stages, resulting in an estimated $310 million of one-time savings for the Immediate and Critical Needs Account (ICNA) in the State Court Facilities Construction Fund. These savings are transferred to the General Fund. This is in addition to a $90 million interest-bearing loan from the ICNA to the General Fund.

Baseline Reduction to Court Operations. The budget includes a $200 million General Fund reduction to the Judicial Branch, comprised of $178.6 million to trial court operations, $10.4 million to the Courts of Appeal, $8 million to the Judicial Council and Administrative Office of the Courts, $2.1 million to the Supreme Court, and $941,000 to the Habeas Corpus Resource Center. The trial court reduction is largely offset in the budget year by a $170 million one-time augmentation from the Trial Court Trust Fund (TCTF). This augmentation allows the trial courts to continue operations at close to the 2010-11 funding level by using TCTF reserves and about $50 million of available balances from other special funds that are transferred to the TCTF on a one-time basis.

Additional Unallocated Reduction. On top of the $200 million baseline reduction above, the budget also includes a $150 million unallocated reduction to trial court operations, with language authorizing the Department of Finance to restore the funding if sufficient General Fund revenues are available. Given the budget's optimistic revenue assumptions and the fact that trigger cuts are in place (see *Trigger Cuts Summary* on Page 41) that would significantly reduce spending in other areas of the budget that are Democrat priorities, it is not likely that any trial court funding will be restored. Should any unanticipated revenue be available, it is likely that it would be prioritized to prevent trigger reductions to social programs.

Indefinite Suspension of Omnibus Conservatorship and Guardianship Reform Act of 2006. The budget reflects the indefinite suspension of the Omnibus Conservatorship and Guardianship Reform Act of 2006. This legislation established standards for the education, certification, and oversight of court-appointed conservators and guardians. However, funding for full implementation of the Act has been deferred several years in a row and the program has never been rolled out statewide. While the budget relieves courts of the duty to implement the Act until funding is provided, those courts that have successfully implemented the Act within available resources can continue their efforts.

Court Security. The budget includes a $10.7 million General Fund augmentation to provide inflation growth for the court security budget and to correctly align programmatic costs in anticipation of realignment implementation. This adjustment ensures that the appropriate level of funding for court security is allocated to local sheriffs under realignment.

Realignment-Related Parole Revocation Workload. To address parole revocation hearing workload that the courts will be assuming as a result of Chapter 15, Statutes of 2011 (AB 109), the criminal justice realignment bill, the Budget includes an augmentation to the trial courts' budget of $19 million General Fund (includes the Governor's veto of $22.9 million due to a delay in the courts' assumption of this role).

Transportation

Fuel Tax Swap Reenactment. The Budget reenacted the fuel tax swap by a two-thirds vote trailer bill (AB 105, Committee on Budget, of 2011) in response to the passage of Proposition 26. This protected revenue sources for highways and transit while continuing the ongoing General Fund relief as proposed in the prior fuel tax swaps (AB X8 6 and ABX8 9 of 2009). Although Republicans did not support the initial measures which was generally due to the fact that Republicans believed it was a violation of Proposition 13 because the measures were approved by a majority instead of a two-thirds vote, Republicans were largely supportive of AB 105 because of the funding levels given to local streets and roads and the State Transportation Improvement Program while providing General Fund relief for transportation debt service payments.

General Fund Relief and Loan Flexibility. The Governor's budget provides $770 million in 2011-12 in weight fee revenues from the State Highway Account to the General Fund for the payment of transportation-related debt service. In addition, $77.5 million in revenues not restricted by the California Constitution are used to reimburse the General Fund for debt service payments made on Proposition 116 transit bonds.

The budget (AB 115, Transportation Trailer Bill, of 2011) also provides approximately $1 billion in additional General Fund relief by characterizing prior State Highway Account loans as weight fees which can be used to pay transportation related debt service payments in future years.

Weight Fee Loans. The budget proposes loans of $210 million in 2011-12 in weight fee revenue to the General Fund without violating Proposition 22 requirements. These loans will not be repaid until 2015-16 or later.

Capital Outlay Support Staffing. This Budget lost an opportunity to increase contract staffing levels at a time when the state needs the flexibility to down size its workforce when project workload declines. This budget includes 61 new state positions and overtime funding at a cost of $43 million in special funds, bond funds, and federal funds.

The Governor's May Revision proposed to temporarily increase contract staff for the California Department of Transportation (Caltrans) Capital Outlay Support Program by 122 positions to address a one year shortfall in the number of projects for which design work has been completed for projects ready to be funded from ARRA and bid savings from completed projects. Although this did not go far enough, it was a step in the right direction. ***The Democrats in the Legislature would not accept any new contract staffing positions. Even a study that was recommended by the Bureau of State Audits to compare current costs of contract staff vs. state staff was rejected by the Democrats for fear that it would indicate that contract staff should be used more often.***

Proposition 35, passed by the voters in 2000, allows for the state to contract out for Architectural and Engineering (A&E) services in all situations for public works projects rather than only under certain conditions. Since the passage of Prop 35, only ten percent of A&E services have been contracted out in the department. By using contract staff, the state could prevent the build-up of staffing that can take time to reduce once workload declines and could result in projects being completed quicker to the benefit of all Californian motorists.

Public Private Partnerships. The Budget increases Caltrans' reimbursement authority by $1.6 million from project sponsors to contract with financial advisors to review, analyze, and evaluate three projects for Public Private Partnership (P3) procurement.

Proposition 1B. Includes a total of $3.4 billion in Prop 1B bond funds including, $1.2 billion for corridor mobility, $1.2 billion for trade corridors, $527 million for State Route 99, $165 million for state-local partnerships, $123 million for public transit modernization, $117 million for intercity rail, $48 million for major highway rehabilitation, $37 million for local street and road projects, and $14 million for local bridge seismic safety. This request for 2011-12 bond funds is for additional projects that Caltrans indicates are ready to move forward.

Vehicle Replacement and Retrofits. The budget includes $63 million in State Highway Account funds to retrofit and replace the department's vehicles to meet the California Air Resources Board air quality mandates. At a time when the state has limited resources for highway improvement projects, investing in infrastructure seems more prudent than meeting the unreasonable requirements of another state agency.

Tribal Gaming Funds. This budget redirects $100.8 million in Tribal Gaming revenues to the General Fund instead of going to transportation special funds in repayment of transportation loans from 2001-02 and 2002-03.

High Speed Rail Authority (HSRA). The Governor's budget includes funding for state operations of $16.5 million and capital outlay funding of $133.1 million. The capital outlay work on Phase 1 is estimated at $180.5 million in 2011-12 and the additional $47.4 million will be funded from savings carried over from the current year. Additional funding of $5.4 million Prop 1A bond was added for Phase II development on the Sacramento/Merced and the Altamont Corridor by the Democrats in the Legislature even though no funding is currently available for the construction of these routes. ***The Governor vetoed $1.1 million which would have provided funding for the HSRA's Memorandum of Understanding with the Penisula Corridors Joint Powers Board (Caltrain).***

The Legislative Analyst's Office (LAO) has identified concerns with HSR project in their report, High-Speed Rail Is at a Critical Juncture. In this report, the LAO makes recommends that Legislature direct the HSRA to renegotiate the terms of the federal funding awarded to the state by the Federal Rail Administration to allow for more flexibility, provide only $7 million in funding for state administration, reconsider where construction of the line should start, and for the Legislature to pass legislation that shifts the responsibility for the day-to-day and strategic development of the project from HSRA to Caltrans.

Although Republicans may not support all of these recommendations, there are valid concerns with the direction of the HSR project. To date, the HSRA has not provided an investment grade business plan, financing plan, or ridership model, yet it continues to ask for and receive millions in Prop 1A bond funding.

Transfer from Motor Vehicle Account to General Fund. The budget includes a transfer of $71.6 million from the Motor Vehicle Account (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 the operation or registration of 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 $71.6 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. Fund shift maneuvers like this do not help solve the structural budget problem. In fact, they likely perpetuate it.

Resources & Environmental Protection

Department of Parks and Recreation

The Governor's Budget includes reductions in General Fund for state parks of $11 million in 2011-12 and $22 million ongoing. Furthermore, the budget includes language, SB 95 (Committee on Budget) of 2011 that requires the department to achieve the General Fund reductions through full or partially park closures, and service reductions. The Department of Parks and Recreation did a press release indicating that 70 parks would be closed by July 1, 2012. In releasing this information, the department stated that it would still retain 92 percent of today's attendance, 94 percent of existing revenues, and keep 208 parks open. Since the department has not released all of the details specifying how it achieved the savings, the reduction plan remains unclear. The department is now indicating that it will seek additional partnership agreements to keep as many parks open as possible. These partnerships should have been created prior to deciding to close state parks. It's been very clear since voters rejected Proposition 21 (VLF park fee) last year that the department would need a new operating plan. Republicans have offered alternatives to park closures over the past several years, but the department has ignored them. It seems the department is more interested in continuing its existing management practices rather than keeping parks open.

Language limiting the liability of the state relating to closed or partially closed state parks was included in AB 95 (Resources Trailer Bill) of 2011. The Democrat's in the Legislature decided to replace this language with new language in AB 120 (Resources Trailer Bill) on 2011 that would make it easier for people to sue the state if they get hurt in closed or partially closed parks. ***Since the Administration indicated that it has concerns with this language, and the bill is still sitting in the Assembly, a veto of the bill would seem appropriate and consistent.***

Transfer of Off-Highway Vehicle (OHV) Funds to the General Fund. The Governor's budget includes trailer bill language (AB 95, Resources Trailer Bill, 2011) specifying a reduction of $10 million from the Department of Parks and Recreation Off-Highway Vehicle Trust fund program and transfers those monies to the General Fund (on-going). Although this program is self-supportive from OHV gas tax revenues, OHV park entrance fees, and OHV registration fees***, the legislative Democrats*** have decided that this program should take an equal reduction just like the state parks that are General Funded. This action punishes OHV parks for being self-supporting and provides a disincentive for government programs to be cost-effective since doing so means that the program will be pilfered.

Department of Forestry and Fire Protection (CalFire)

State Responsibility Area (SRA) Fees. The Governor's budget includes trailer bill language (AB X1 29, Blumenfield, of 2011) that requires the Board of Forestry to establish a "fee" of up to $150 on inhabited structures within the SRA. This would generate up to $150 million annually in new fees to backfill General Fund costs within CDF's baseline firefighting budget. The 2011-12 Budget only includes $50 million in expenditure authority so the entire $150 fee will not be collected in that fiscal year. ***This bill establishes a significant new "fee" which under Proposition 26 should be deemed a tax requiring a 2/3 vote because it supports general purpose programs such as public education, fuels management on public land, and the open-ended "other prevention projects."***

The Governor's budget eliminates funding for CAL FIRE's fourth firefighter for a decrease of $3.6 million in 2010-11 and $30.7 million in 2011-12 which would restore CalFire's staffing to pre-2003 levels. According to the Administration, in 2003 staffing was increased from three to four firefighters per engine during peak fire season in the summer and early fall. However, these additional staffing levels did not significantly change the department's initial attack effectiveness. The wildfire containment rate of 92.2 percent (wildfires contained to less than ten acres) remained similar to CalFire's historic trends.

General Fund Reduction to CalFire's Fire Protection Program. The Budget reduces funding by $12.8 million in 2011-12 within CalFire's fire protection program and will require the department to identify these savings based on the lowest public safety risk. Areas identified that may receive these reductions include reducing winter-time staffing in Southern California, switching the Very Large Air Tanker to a call-when-needed basis, and reducing funding for defensible space inspections.

Department of Fish and Game

Prohibits Suction Dredging and Requires a Fee Increase on Permits. The Governor's budget would continue the moratorium on issuance of suction dredge permits for an additional five years, or until new regulations that fully mitigate all identified significant environmental impacts, and a proposed fee structure that will fully cover all program costs (AB 120, Resources Trailer Bill, of 2011 which is still sitting in the Assembly). SB 670 (Wiggins) of 2009, which received mixed votes from Senate Republicans, required DFG to complete the court required EIR and update its regulations. The DFG's draft EIR for suction dredging mining and new proposed revised regulations were released for public comment in February 2011. The legislative Democrats don't like the new regulations because they believe that the EIR identifies a number of significant and unmitigated environmental impacts and wants DFG to address them. DFG was preparing to issue up to 4,000 permits based on the draft EIR. ***It seems this is really an attempt to stop all mining of this type since the ability of DFG to full mitigate all the environmental impacts is unlikely.***

Governor Vetoed Redirection of Hatcheries and Inland Fisheries Fund (HIFF) from AB 7 (Cogdill) of 2005. AB 7 directed 1/3 of all fishing license revenue to the management and maintenance of fish hatcheries and Wild and Heritage Trout Programs. This is appropriate given that anglers who buy fishing licenses should have a service provided to them and not have the funds diverted to other uses previously financed by the General Fund. The bill re-established the nexus between the license fee and the service. ***Democrats* in the Legislature** redirected $2.5 million from AB 7 activities to Timber Harvest Plan review, State Forestry Nurseries programs, and to the prioritization of specific fish species under AB 7. ***The Governor noted in his veto message that federal law prohibits hunting and fishing license revenue from being diverted for other purposes and could put $30 million in federal funds at risk.***

Various Issues

Renewable Portfolio Standards. The Budget includes funding of $646,000 for the California Energy Commission and $2.1 million for the California Public Utilities Commission (CPUC) from special funds to implement the 33 percent Renewable Portfolio Standards (RPS), SBX1 2 (Simitian) of 2011. Most Senate Republicans did not support this measure because a 33 percent RPS mandate is likely to drive up electricity prices during the deepest economic downturn since the Great Depression. Higher electricity rates will hurt the household budgets of millions of Californians, who already are heavily taxed and either unemployed or underemployed. Furthermore, the CPUC will be working on activities to reach a 40 percent RPS although this work is beyond existing law.

Transfer of Ratepayer Funds to the General Fund. This budget would transfer $155 million (one-time) in ratepayer gas surcharge funds to the General Fund to offset cuts to other programs. Consumers who are anticipating a rebate for home improvements or appliances will have to wait until next year and may not receive that rebate at all. There are $91 million in grants and rebates outstanding that will not be available this year. ***These funds were never meant to support programs unrelated to energy efficiency and consumers should be outraged at the Democrats in the Legislature for raiding these funds.***

Department of Water Resources. This budget shifts $16 million General Fund to Proposition 1E to support flood management activities. These funds are currently dedicated to levee maintenance, floodplain mapping, and Delta levees.

Environmental Fee Increases. The Governor's budget proposes the following fee increases that Republicans have opposed in the past and fought to eliminate in recent state budgets.

National Pollutant Discharge Elimination System Program. Replace $1.4 million General Fund with Waste Discharge Permit Fund (WDPF). This would require NPDES permit costs to be raised.

Irrigated Land Regulatory Program. Replace $1.8 million General Fund with WDPF. This would increase fees on irrigated land owners for waste discharge requirements, conditional waivers, and NPDES permits.

Water Rights Program. Shift $3.6 million General Fund to the Water Rights Fund. This would require water rights holders to pay higher fees per acre foot of diverted water.

Basin Planning Program. Increase waste discharge permit fees by $18.3 million for basin planning which will include total maximum daily load activities. The WDPF would be used to backfill $17.6 million of General Fund currently available for basin planning workload. In addition, $746,000 in reimbursement authority would be replaced with new fees.

Watermaster Program. The budget shifts $1.2 million from General Fund to Watermaster fees for the Department of Water Resources' Watermaster program. This action will eliminate all General Fund and make the program fully fee funded. The primary purpose of the program is to ensure that water is allocated among the water rights holders consistent with various agreements and court orders. This includes the water rights for instream flows for fish and habitat purposes which is a public benefit that should be paid for with General Fund.

Employee Compensation

State Employees Protected and Rewarded. The Budget does not include any significant reductions in employee compensation expenditures (reduction of $110.8 million in 2011-12 out of total General Fund compensation costs of approximately $7 billion). Currently, all bargaining units have approved contracts, including a one-day a month personal leave program, minimal increases in retirement contributions, and additional personal holidays. The agreements will result in increased state expenditures in the hundreds of millions of dollars, beginning in 2013-14 as a result of additional pay increases and higher state contribution levels for health care.

Since 2006-07, salary increases have added $1.9 billion ($694.8 million General Fund) in base employee compensation costs. Cumulatively since 2006-07, costs are $9.9 billion higher ($3.7 billion General Fund). And these numbers are just the salary increases. Merit salary adjustments, those increases in step pay that all employees not at the top step of their classification are eligible for, have resulted in additional base employee compensation expenditures of $602.3 million (approximately $300 million General Fund) in the past six years, cumulatively costing the state $2 billion (about $1 billion General Fund). Without civil service reform, the state will continue to give automatic salary increases regardless of job performance or fiscal circumstances. The state can no longer afford to do business this way, salary increases must be tied to performance, giving the state the flexibility to reward those that deserve it and send a message to those that believe an annual pay increase is an entitlement.

Core Health Plan Option. The Budget includes savings of $80 million General Fund from the addition of a core health plan to the current benefit plan options or through reductions in health care premiums. The core health plan would consist of basic coverage at a lower premium. The introduction of a core health plan would reduce the escalating cost of state employee and retiree health care, attempting to add another option to go along with the state's current "Cadillac" health plan.

Labor & Workforce Development

California suffered its worst job losses on record during the latter half of 2008 and the first six months of 2009 — losing nearly a million nonfarm jobs. These losses moderated during the second half of 2009 and switched to very modest gains in 2010. As with the nation, it will likely take a long time for employment to reach pre-recession levels. The national unemployment rate peaked at ten percent in the last quarter of 2009 and declined sporadically through July 2010. The state's rate, in contrast, continued to trend up to 12.6 percent in March 2010, and then improved slightly thereafter (currently estimated at 11.7 percent). This continued unemployment rate has had a significantly negative impact on the state's unemployment system, resulting in insolvency for the Unemployment Insurance Fund (see below).

Employment Development Department (EDD)

Unemployment Insurance (UI) Fund Solvency. The budget includes $18.4 billion for unemployment benefit payments (as opposed to estimated receipts of only $5.2 billion for 2011), financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first $7,000 in wages paid to each employee in a calendar year.

Beginning in January 2009, the state exhausted its UI Fund as a result of the imbalance between benefit payments and annual employer contributions (noted above). To make UI benefit payments without interruption, EDD began borrowing funds from the Federal Unemployment Account to pay benefits to an increasing number of unemployed claimants. At the end of 2009, the UI Fund had a projected deficit of $6.2 billion. Based on EDD's June 2011 UI benefit estimate, this deficit is expected to increase to $9.8 billion by the end of 2010 and $11.1 billion by the end of 2011. ***This budget does not include a solution to resolve the structural imbalance in the UI Fund.*** However, interest on this debt continues to accrue.

While annual interest payments were waived under the American Recovery and Reinvestment Act for 2010, interest totaling $319.5 million is due and payable in September 2011. According to federal law, this interest payment must come from state funds (and not the UI Fund). Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid. The final budget includes $362.3 million ***loan*** from the state's Disability Insurance Fund to cover interest costs in September 2011. The loan repayment over the next four years will be a General Fund obligation.

General Government

California Department of Insurance

Implementation of Obamacare. The budget includes an augmentation of $748,000 from the Insurance Fund for the Department of Insurance (CDI) to implement federal healthcare reforms related to the Patient Protection and Affordable Care Act (PPACA), otherwise known as Obamacare. Federal district court judge Roger Vinson ruled in January that the individual mandate contained within PPACA violates the Commerce Clause of the U.S. Constitution and that, because the individual mandate is not severable, the entire Act is void. Given that ruling and a similar one from a Judge in Virginia, plus vows from the majority leadership in the House of Representatives to defund Obamacare, this investment in its implementation may ultimately prove to be wasted.

Workers' Compensation Insurance Fraud Program. In furtherance of ongoing efforts by local district attorneys (DAs) to reduce workers' compensation insurance fraud, the budget includes an augmentation of $1.6 million from the Insurance Fund. According to the Advisory Task Force on Insurance Fraud, insurance fraud in California totals over $15 billion per year. In 2009-10, the amount of chargeable fraud prosecuted in California by local DAs increased by 51 percent over the prior year to just over $370 million. This increase in funding will help to reduce workers' compensation insurance fraud, leveling the playing field for law-abiding California businesses and driving down the cost of workers' compensation insurance.

Military Department

Military Retirement Costs. Before the California Military Department joined PERS, it had its own retirement program, which still exists for pre-PERS retirees. As the population of retirees participating in the program ages, more members decease, reducing the program's funding needs. The level of retirement funding budgeted must be realigned periodically as a result. The enacted budget includes a General Fund reduction of $1.2 million to correctly align funding for non-PERS military retirement benefits with the actual program costs.

Costs of Local Homicide Trials

Del Norte County Homicide Trials. The budget includes $700,000 General Fund to reimburse Del Norte County for extraordinary homicide trial costs. The County is in the midst of prosecuting several homicide trials, the costs of which threaten its ability to meet its budget. Existing law provides for state reimbursement of these costs when they would put an extraordinary burden on a county's fiscal resources.

Network of California Fairs

General Fund Reduction for California Fairs. The Governor’s budget eliminates $32 million in General Fund revenue that is annually allocated to the network of California fairs. This General Fund reduction could result in the permanent closure of many local fairs due to a lack of financial support.

California Department of Veterans Affairs

The budget package for Veterans Affairs provides savings of $39 million General Fund in 2011-12, to be achieved as follows:

- $13 million by reducing state services, including by achieving operational efficiencies and eliminating state staff that provide support to County Veterans Services Offices. The county offices will continue to receive the same level of assistance grants from the state that they received in recent years. In addition, Operation Welcome Home, which Governor Schwarzenegger authorized, was not implemented, resulting in additional savings of $5 million in 2010-11 and 2011-12 each.
- $20 million by delaying the opening of new veterans homes in Redding and Fresno. Construction of these facilities will continue as scheduled, but the budget does not establish a new date for these homes to open. This delay places at risk $140 million in federal funds to offset construction costs that the state is scheduled to receive.
- $7 million due to a delay in opening new veterans services at the Greater Los Angeles/Ventura County (GLAVC) facilities. These savings recognize a delay that has resulted from information technology systems issues; this is not a legislatively mandated delay.

Redevelopment Agencies (RDA). This budget assumes that all RDAs statewide will be eliminated on July 1, 2011. It also assumes that most, if not all, of these RDA's will choose to avoid that elimination by electing to participate in the Alternative Voluntary Redevelopment Program. In order to avoid elimination, RDAs would be allowed contribute $1.7 billion in 2011-12 and $400 million annually thereafter to their local communities to fund education and special districts. In 2011-12, this contribution would offset the state's General Fund share of Proposition 98 funding for schools, however, the annual $340 million annually thereafter would be directed to ERAF to fund schools on top of the Proposition 98 funding levels.

Some of the significant concerns raised on this issue include:

- RDAs are already preparing to litigate the constitutionality of this action. Article XIII of the California Constitution prohibits redevelopment agencies from (A) being <u>forced</u> to pay either <u>directly</u> or <u>indirectly</u>, taxes for the benefit of the state, any agency of the state, or any jurisdiction; or (B) to use such taxes for the benefit of the state, any agency of the state or any jurisdiction, including schools. This proposal appears to be a violation of the Constitution, as **it would strong-arm redevelopment agencies to fund state costs or face elimination ("do" or "die").**
- This proposal includes language to protect collective bargaining. This bill now classifies collective bargaining agreements as "enforceable obligations" that must be maintained through the dissolution. RDA employees would retain collectively bargained benefits, would be retained by the successor agency for a minimum of two years, and would not be required to re-qualify to perform their duties.
- Proponents of RDAs contend that a combination of existing indebtedness and obligations and prior year transfers have resulted in a situation where RDAs do not have sufficient funds available to meet the $1.7 billion funding level in 2011-12.
- This proposal includes language to ensure that schools would get additional funding in 2012-13 and beyond, above and beyond amounts guaranteed under Proposition 98. Any property tax revenue allocated to K-12 local educational agencies or community colleges should offset the state's funding obligation under Proposition 98, so as to reduce state General Fund costs. This measure will further dis-equalize school funding, as schools and community colleges in counties where no RDAs are operating will get nothing. If the funds were allowed to offset the state's General Fund obligation under Proposition 98, this dis-equalization would not occur.

Assistance to Small Business. The budget package eliminates $20 million General Fund support for small business loan guarantee program, replacing it with federal funds provided for the same purpose.

Williamson Act Subventions. The Governor's budget eliminates funding in both the current and budget years ($10 million annually) for Williamson Act subventions. The Administration indicates that funding provided from the redevelopment agencies tax shift could help counties continue this program on their own as a local program. Until 2009-10, the Budget Act annually appropriated approximately $35 million to partially offset the property tax revenues lost by local governments due to these lower assessments. Funding for these subvention payments was suspended in the 2009 Budget Act due to fiscal constraints. However, Chapter 722, Statutes of 2010 appropriated $10 million for an alternative form of Williamson Act subvention payments for 2010-11.

Mandates Deferral. The Governor's budget includes $56.7 million ($53.7 million General Fund) to reimburse local agencies for state reimbursable mandate. This amount is net of (1) a one-time reduction of $227.8 million related to suspending most mandates not related to law enforcement and property taxes (consistent with suspensions included in the 2009 Budget Act), and (2) a one-time reduction of $94 million related to deferring the 2011-12 payment of the mandates obligation for costs incurred prior to 2004-05, which are statutorily required to be completely paid by 2020-21. This $95 million will be spread over the next nine years to complete the total payment. Though this reduction is labeled as "one-time," it follows similar deferrals that have occurred over the last three years.

California Science Center. The budget includes a $1.7 million reduction beginning in 2011-12 for support of the Science Center and encourages the Science Center to consider parking and other revenue sources instead of general admission fees to offset this reduction. This is a step in the right direction, as the Science Center is the only state-subsidized science museum in the state. Comparable entities, including the Exploratorium in San Francisco, serve primarily regional clientele and exist solely on foundation funding and fee revenues. The state should look into transitioning itself out of the science museum industry.

Efficiencies in State Operations. The budget includes savings of $269 million related to generating efficiencies in state operations. Approximately $21 million of that savings have already been identified by the Governor and accepted by the Legislature through a variety of board and commission eliminations, consolidations, and reductions. The Administration will be required to identify additional opportunities to reduce state government to meet the total $269 million unallocated reduction.

Trigger Cuts Summary

The budget package includes up to $2.5 billion in "trigger" reductions that would be implemented if General Fund revenues assumed in the budget fall short. By December 15, 2011, the Department of Finance will compare budgeted revenues to the higher of (1) its own revenue forecast and (2) the November 2011 forecast prepared by the Legislative Analyst. If the higher of these forecasts falls short of the budgeted amount by between $1 billion and $2 billion, Finance would implement a first tier of reductions, totaling $601 million, that exclude K-12 education. If the forecasted revenue falls short by more than $2 billion, Finance would implement an additional tier of reductions, totaling $1.9 billion, primarily from K-12 education. The departments and programs affected by the two tiers of reductions are summarized in the table below. Even if the triggers are pulled, however, significant portions of the savings may not be achieved due to either a lack of specific proposals or adversarial procedures that are required to implement the reductions, such as the need to negotiate the K-12 reduction with teachers' unions. These risks are discussed under the individual department budgets elsewhere in this document.

Trigger Options (in Millions)	
TIER 1 (Budget revenues short by $1 billion to $2 billion)	
UC	$ 100
CSU	100
Libraries Grants	16
DDS	100
IHSS--Across-the-Board Hours	100
IHSS--Anti-Fraud Grants	10
Medi-Cal Speciality Managed Care	15
Juvenile Justice--Increase Sliding Scale	72
Corrections Reduction	20
Vertical Prosecution Grants	15
Proposition 98--Community College $10 fee increase	30
Child Care--Across-the-Board	23
Subtotal	**$ 601**
TIER 2 (Budget revenues short by more than $2 billion)	
Proposition 98--Reduce 7 Days of School	$ 1,540
Proposition 98--Community College Apportionments (98 Balancer)	72
Proposition 98--Eliminate Home-To-School Transportation	248
Subtotal	**$ 1,860**
Total Options	**$ 2,461**

Governor's Vetoes

(Dollars in Thousands)

VETO-PROGRAM/ISSUE	General Fund	Other Funds
Judicial Branch--Parole Revocation Workload Revision	$22,872	$0
Reduction to the Office of Privacy Protection	(245)	(185)
Office of the Inspector General--Workload Revisions	(1,150)	0
Department of Housing and Community Development -- Replace State Operations General Fund in Housing Policy Development with BEGIN Bond Funds	0	1,000
Department of Transportation--Project Initiation Document Program Zero-Based Workload	0	6,408
Department of Transportation--Prop 1A Funding Increase for Intercity Rail and Local Transit	0	234,561
High Speed Rail Authority--Caltrain Memorandum of Understanding	0	1,100
Department of Fish and Game--Hatchery and Inland Fisheries Fund	0	500
Corrections and Rehabilitation--Technical Error: Mental Health Treatment for Condemned Inmates	603	0
Department of Education--California Longitudinal Teacher Integrated Data Education System (CALTIDES)	0	2,124
Department of Education--Charter School Division Workload	323	0
Commission on Teacher Credentialing--California Longitudinal Teacher Integrated Data Education System (CALTIDES)	0	234
California Postsecondary Education Commission--General Fund Support	(1,927)	(1)
Reduce Funding for the Commission on the Status of Women	(200)	0
Total	**$23,798**	**$245,927**

2011-12 Budget & Trailer Bill List

March Budget Bills		
Bill Number	**Subject**	**STATUS**
AB 95	**Resources** Measure includes Waste Discharge Permit Fee increases & a shift in Off-Highway Vehicle Trust Fund revenues to the General Fund among other areas of concern.	Chaptered
AB 97	**Health** Implements the majority of health-related savings in the 2011-12 budget, including Medi-Cal rate reductions, copayments, and elimination of the Adult Day Health Care benefit.	Chaptered
AB 99	**Proposition 10** Authorizes $1 billion in savings by redirecting funds from First 5 commissions (Proposition 10) to the state. Would amend Prop 10 funding without seeking voter approval, in contrast to all previous efforts to amend Prop 10. (Note: These savings are no longer assumed in the 2011 Budget Act due to pending lawsuits filed by counties against the state.)	Chaptered
AB 100	**Prop 63** Implements $861 million in savings by redirecting funds from the Mental Health Services Act (Proposition 63) to the state, but could save more. Would make these changes without voter approval. Does not generate any ongoing savings.	Chaptered
AB 105	**Transportation** Changes the tax structure on gasoline & diesel fuels, subjects the Genereal Fun to increased Prop 98 spending levels & requires DMV to collect info on veteran status.	Chaptered
AB 109	**Public Safety Realignment (CDCR)** Prospectively redirects so called "low-level" offenders convicted of one or more crimes currently punishable as felonies w/state prison terms & parole "tails" to local jurisdictions. Expands the authority of local public safety officials to use alternative custody to manage the realigned populations.	Chaptered
AB 111	**Public Safety Realignment (AB 900)** Makes various changes to parts of the Public Safety & Offender Rehabilitation Services Act of 2007 (AB 900) relating to construction of local jail facilities. Changes are intended to expedite local jail capacity expansion through the construction of jail facilities to implement the Govs public safety realignment plan.	Chaptered
SB 69	**Conference Vehicle** The 2011-12 budget conference committee spending plan, reflects the compromise negotiated between the Administration & the Democrats & ignores Republican priorities. It relies on voter approval of $13.8 billion of tax increases & realignment of various programs from the state to local government, & provides for a $1.1 billion General Fund reserve in 2011-12.	Vetoed
SB 70	**Education** This bill is part of a budget package that assumes a $14 billion tax increase & fails to enact reforms necessary to address pension costs, strengthen the state's spending cap, & create jobs. It also authorizes unlimited funding for the K-3 class size reduction categorical program, which could result in an unfunded increase in state General Fund costs.	Chaptered
SB 72	**Human Services** Generates major savings but no program reforms within the IHSS Program to reverse growing costs. Authorizes a program that could allow the state to draw down addt'l federal funds & authorizes a medication dispensing compliance pilot program, which might reduce General Fund expenditures within the IHSS program, but do not actually change benefits or eligibility.	Chaptered
SB 74	**DDS** Implements $375 million in General Fund budget solutions for developmental services, but focuses the reductions on community services instead of overhead costs & bureaucracy.	Chaptered
SB 78	**Public Safety** Eliminates peace officer status for most employees of the OIG & delays implementation of the Omnibus Conservatorship & Guardianship Reform Act indefinitely. Changes the way in which the DOJ is funded for many of its client agencies, making almost all of them billable. Eliminates the sunset date for a recent "temporary" court security fee increase.	Chaptered
SB 80	**General Government** Makes a variety of changes including the reversion of $20 million from the Small Business Expansion Trust Fund to the General Fund, the establishment of the Consolidated Work Program Fund, the repeal of $10 million Williamson Act subventions, redirects state tribal gaming funds to the General Fund for five years, & changes to various special funds for budgetary borrowing purposes.	Chaptered
SB 82	**Cash** Implements a variety of cash management stratgies providing a minimum $2.5 billion cash cushion throught the year.	Chaptered
SB 84	**Loans** Authorizes additional loans & transfers from special funds to the General Fund, pursuant to Proposition 25.	Chaptered
SB 86	**Tax Compliance** Includes creating a narrow tax amnesty program (Volunary Compliance Initiative 2 - VCI2), repeals refundable portion of the Child & Dependent Care Credit, establishes record match with financial institution records & FTB debtor records.	Chaptered

June Regular Session Budget Bills		
Bill Number	**Subject**	**STATUS**
AB 98	**Budget Bill Jr.** Amends the 2011-12 Budget Bill (SB 69) to reflect changes made to the budget since March 2011.	Vetoed
AB 102	**Omnibus Health** Implement various health provisions of the 2011-12 budget, including adjustments to Medi-Cal pharmacy, county administration, and reimbursements for certain managed care plans and public hospitals.	Chaptered
AB 106	**Human Services** Enacts statutory changes necessary to implement human services provisions of the 2011 Budget Act. The bill does not generate any savings but rather increases expenditures above the March budget level by reversing certain program reductions. The bill also eliminates certain boards and commissions.	Chaptered
AB 112	**Current Year Budget Bill Jr.** Appropriates $48 million of federal funds to administer the Alternative Base Period from July 1, 2012 through June 30, 2015.	Chaptered
AB 114	**Education Trailer** Makes various statutory changes to K-12, higher education, and child care programs that are necessary to implement provisions of the 2011-12 budget. Includes $1.8 billion in Prop. 98 "triggered" cuts, if revenues are below projections by $2 billion or more.	Chaptered
AB 115	**Transportation Omnibus Trailer Bill** Provides General Fund relief and loan flexibility related to transportation debt service payments, increases High Speed Rail and Department of Transportation capital outlay reporting requirements, and provides additional time for the City of Santa Rosa to meet Proposition 42 Maintenance of Effort.	Chaptered
AB 117	**Public Safety Realignment #3: AB 109 Clean-up** Makes various technical changes to provisions of AB 109 (passed in March).	Chaptered
AB 118	**Public Safety Realignment #2: Sales Tax Financing and Allocations** Converts $5 billion in state sales tax to local sales tax to pay for Public Safety Realignment program. Provides for allocations of the funding for the various public safety programs. Implements AB 109 (passed in March).	Chaptered
AB 119	**General Government** Makes various statutory changes, including eliminating the Economic Strategy Panel, extending the due dates for Alternative Base Period and the 21st Century Project, extending the sunset date for the Consumer Participation Program, and transferring the Commission on Employment of People with Disabilities to the Department of Rehabilitation.	Chaptered
AB 120	**Resources Omnibus Trailer Bill** Includes Suction Dredge prohibitions and fee increases on mining permits, decreases park liability protections for closed or partially closed parks, and makes other technical changes.	Pending
AB 121	**"Trigger" Expenditure Reductions** Provides Department of Finance with authority to make up to $2.5 billion in additional expenditure reductions, should revenue collections fall short of projections in December 2011.	Chaptered
SB 73	**"Trigger" Provisions Related to Health and Human Services** Authorizes $215 million in reductions to Medi-Cal, developmental services, and In-Home Supportive Services as part of a package of $2.5 billion in "trigger" cuts.	Chaptered
SB 87	**Budget** Enacts the 2011-12 state budget. (Successor to SB 69 and AB 98, both of which were vetoed on June 16.)	Chaptered
SB 89	**Public Safety Realignment #1: VLF Financing** Provides $453 million billion in VLF funding to pay for a portion of Public Safety Realignment: (1) VLF funds redirected from administration of Department of Motor Vehicles ($300 million, with corresponding $12 increase in motor vehicle registration fees), and (2) VLF funds that can be redirected from local governments ($153 million).	Chaptered
SB 92	**Public Safety Trailer** Makes various statutory changes to public safety and corrrectional programs that are necessary to implement provisions of the 2011-12 budget, including the creation of a Board of Community Corrections.	Chaptered

June Special Session Budget Bills		
Bill Number	**Subject**	**STATUS**
ABX1 19	**Health: AB 1629 Nursing Facilities**	Chaptered
	Implements various changes for nursing facilities, including extending the quality assurance fee by one year.	
ABX1 26	**Redevelopment Part 1**	Chaptered
	Dissolves redevelopment agencies beginning July 1, 2011 and redirects net property tax revenues back to cities, counties, schools, and special districts, as specified.	
ABX1 27	**Redevelopment Part 2**	Chaptered
	Allows for the continued existence of RDAs in the instance that a city or county elects to participate in the Alternative Voluntary Redevelopment Program, as specified.	
ABX1 28	**Sales Tax Enforcement**	Chaptered
	Establishes three new criteria for establishing "nexus" for out-of-state retailers to collect the use tax on purchases made by California residents, including "affiliate" nexus, "controlled corporation" nexus, and "long-arm" nexus.	
AB1X 29	**State Responsibility Area Fire Prevention Fee**	Signature/ Veto Pending
	Requires the Board of Forestry to establish a fee of up to $150 on inhabited structures within the State Responsibility Area.	
ABX1 34	**Property Tax Postponement**	Signature/ Veto Pending
	Re-establishes the Senior Citizens and Disabled Citizens Property Tax Postponement Program (limited to a $10 million revolving loan program).	

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