Highlights & Analysis of the 2012-13 Governor's Budget

January 11, 2012
SENATE REPUBLICAN FISCAL OFFICE

Table of Contents

EXECUTIVE SUMMARY 2

EXPENDITURES 7

TAXES & REVENUES 9

GOVERNOR'S TAX INITIATIVE 12

REALIGNMENT 13

EDUCATION 16

HIGHER EDUCATION (NON-PROPOSITION 98) 20

HEALTH & HUMAN SERVICES OVERVIEW 22

HEALTH 23

HUMAN SERVICES 30

PUBLIC SAFETY & JUDICIARY 34

TRANSPORTATION 39

RESOURCES & ENVIRONMENTAL PROTECTION 41

LABOR & WORKFORCE DEVELOPMENT 45

GENERAL GOVERNMENT 48

STATEWIDE ISSUES 49

GOVERNMENT EFFICIENCY 52

GOVERNOR'S TRIGGER CUTS 58

APPENDIX A - STATE EMPLOYEE GROWTH CHART 59

SENATE REPUBLICAN FISCAL STAFF ASSIGNMENTS 60

Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

Highlights & Analysis of the 2012-13 Governor's Budget

January 11, 2012

Executive Summary

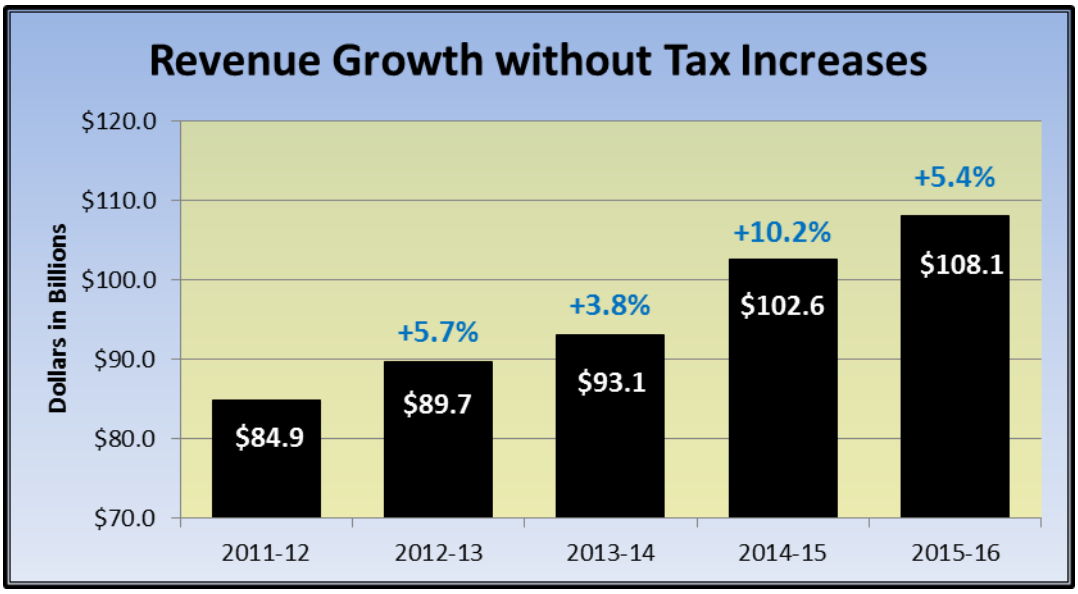
The Governor has projected a General Fund budget deficit of ***$9.2 billion*** ($4.1 billion in 2011-12 and $5.1 billion in 2012-13). This differs from the Legislative Analyst's November 2011 estimate of $12.8 billion ($3.0 billion in 2011-12 and $9.8 billion in 2012-13). The difference is largely attributable to the administration's revenue estimates being about $4.0 billion higher and expenditures being about $400 million higher than the Legislative Analyst's forecast.

Governor Brown proposes $10.3 billion in solutions ($9.2 billion problem plus $1.1 billion reserve) that include $4.2 billion of ***Expenditure Reductions***, $4.7 billion in ***Revenues***, and $1.4 billion of ***Other*** (primarily one-time special fund loans and transfers). However, it appears that about $1.7 billion of "Expenditure Reductions" are not programmatic reductions, but are achieved by continuing the suspension of local government mandates ($828 million) and achieving efficiencies through Medi-Cal managed care ($843 million). In addition, the "Revenues" are actually $7.2 billion, but cleverly offset by a negative $2.5 billion adjustment to reflect Proposition 98 interaction (i.e., the Proposition 98 share of new tax revenue). Thus, it appears **the Governor is actually proposing about $2.5 billion in real programmatic spending reductions and $7 billion of real tax increases.**

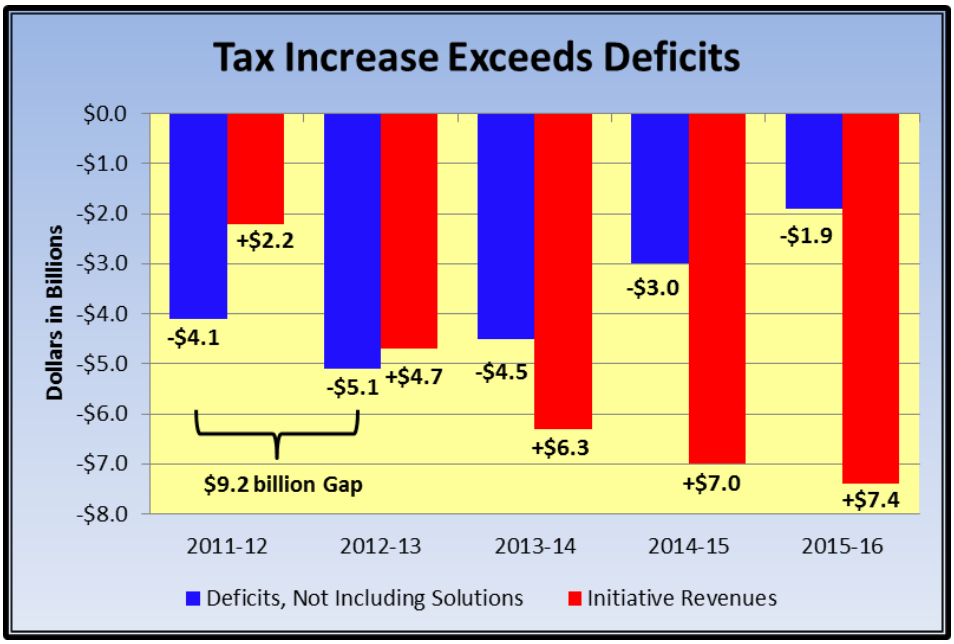
The Governor's Budget plan relies heavily on his $6.9 billion tax increase initiative despite the fact that **General Fund revenues are already growing by nearly six percent this year without increasing taxes,** and are expected to grow even more rapidly in the near future (*see Revenues Page 9*). In fact, based on the Governor's own projections, the tax increase revenue would exceed the structural budget gap by $4-5 billion in future years. It is irresponsible to push for an unnecessary tax increase, and even more reckless to use school children as hostages by making education the target for his trigger cuts (*see Trigger Reductions on Page 58)* if voters do not approve his tax increase initiative.

Key Points

Robust Revenue Growth. The chart on the following page reflects baseline revenue projections based on the Governor's "Problem Definition" without the Governor's tax increase initiative through 2015-16. The simple story told by this chart is the strength of General Fund revenue growth projected in the out years, ***even without tax increases.*** The average annual revenue growth rate of 6.3 percent over the forecast period significantly exceeds the historic average revenue growth rate over the past 30 years, which is almost 5.1 percent. **This suggests that a lack of revenue is not the cause of the budget deficit.**



Tax Increase Windfall. Absent any spending reductions or tax increases, the Administration projects structural deficits that annually decrease from $5.1 billion in 2012-13 to $1.9 billion in 2015-16 (red bars). In addition to the $5.1 billion imbalance between revenues and expenditures, the state must address a carry-in shortfall of $4.1 billion from the previous fiscal year (thus the $9.2 billion budget gap in 2012-13). The blue bars reflect new revenues anticipated by the Governor's tax increase initiative (*See Governor's Tax Initiative on Page 12*). Clearly, the tax increase revenues will exceed the deficits they are supposedly needed to solve by billions of dollars annually.

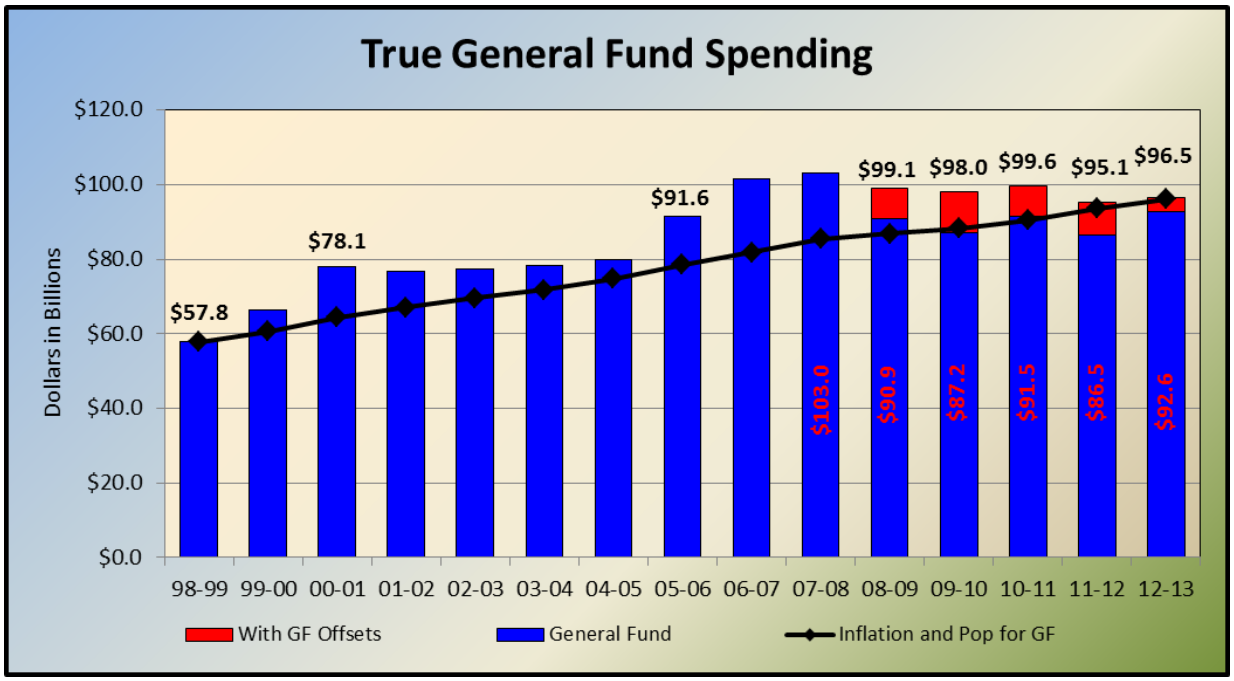


Tax Increase Does Not Benefit Education. There appears to be no net benefit to 2012-13 education funding from the Governor's proposed higher taxes, compared with what schools would have received absent the tax hikes and the 2011-12 realignment shift. Under the Governor's proposal, **only about $2.5 billion of the $6.9 billion in new tax revenue would benefit education.** However, absent realignment, which shifted about $5.1 billion in sales tax revenue from the state to local governments, Proposition 98 funding would have been roughly $2 billion higher 'on the natural' in 2012-13, and absent approval of the new taxes, the state will be obligated to repay schools for the revenue lost in 2011-12 at roughly $400 million per year beginning in 2012-13. Thus the net benefit to education in 2012-13 appears negligible.

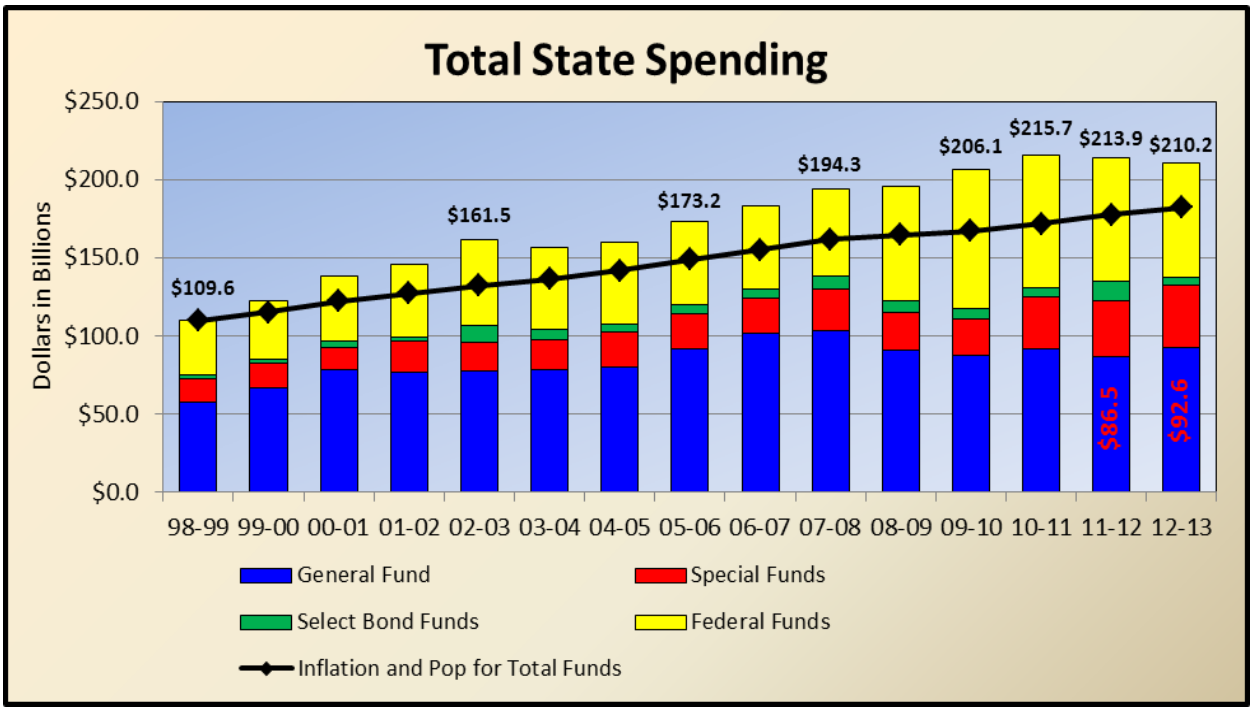
Robust Spending Growth. General Fund expenditures grow by $6 billion (from $86.5 billion to $92.6 billion) in 2012-13 (*see Expenditures Page 7*). This equates to a **seven percent growth in expenditures** at the same time the Governor believes a $6.9 billion tax increase is necessary to balance the state budget. Further, the Governor proposes to **grow state General Fund spending by nearly 30 percent over the next four-years**, from $86.5 billion in 2011-12 to $112.1 billion by 2015-16. This average annual growth rate for expenditures (7.4 percent) exceeds the 6.3 percent average annual growth rate of baseline revenues; thus, the Governor needs the new tax increases to fund major state government growth rather than simply balancing the budget.

True General Fund Spending. Legislative Democrats frequently claim that state spending has been slashed by $40 billion. This claim is based upon a projection from the 2008-09 Governor's Budget that suggested spending, unchecked, would grow to about $124.5 billion by 2011-12. Since current year General Fund spending is now $86.5 billion, they calculate that spending is almost $40 billion lower than it should have been if it had continued growing at a record pace. However, their logic is faulty at best. The reality is that state General Fund spending peaked in 2007-08 at $103 billion and various accounting gimmicks, borrowing and fund shifts (e.g., federal funds offsets, fund shifts from redevelopment agencies, Proposition 63 and 10 accounts, the state-local realignment, Proposition 98 deferrals, Medi-Cal deferrals, and provider fees) have effectively allowed the state to maintain General Fund program spending at just below the $100 billion level.

As noted in the chart below, the "true" underlying General Fund expenditure level (red bar), which recognizes the "offsets" discussed above, shows that actual General Fund-like spending is still hovering near the $100 billion mark and is in line with population and inflation growth.



Total State Spending. General Fund spending is always the focus of state budget conversations, but it is just one component of total state spending. As the chart below demonstrates, total state spending from all fund sources continues to far outpace population and inflation growth. Even with this recent recession, the proposed 2012-13 spending level still exceeds population and inflation growth by $28.1 billion ($182.1 billion vs. $210.2 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.



Cap and Trade and Spend. The Governor's Budget will impose a Cap and Trade Program "fee" in 2012-13 estimated to generate $1 billion in revenues through the auctioning of Greenhouse Gas emission allowances by the Air Resources Board as a market-based compliance mechanism. The Department of Finance advises that ***$500 million would be used to offset unspecified General Fund programs.*** These tax proceeds are expected to grow significantly in future years to as much as $10 billion annually. At present, there is no clear nexus between who will pay the fee and who will benefit from the programs. The AB 32 Implementation Group, a coalition of employers and taxpayer groups are "…*greatly concerned that the Governor's budget would allow use of $1 billion raised in the AB 32 cap and trade program in a manner that is beyond the scope of authority under AB 32 and the California constitution. The purpose of cap and trade is to reduce greenhouse gas emissions from regulated sources – including manufacturers, electric generators, universities, and public agencies. AB 32 and cap and trade is not intended to be a revenue source for the state of California…"*

Conclusion

The Governor's Budget plan does include some real programmatic spending reductions, reduces the number of state employees (by about one percent), embraces several interesting government efficiency proposals, and continues to make an effort for real pension reform. However, it relies on an **unnecessary $6.9 billion tax increase to grow state government** spending by $6.0 billion (seven percent) in 2012-13, and will **provide for a 30 percent state spending increase over the next four years.** It does not include any significant government reforms to limit state spending, fix the outdated and inefficient civil service system, or address the state's hostile business climate in order to create jobs.

The Governor's own projections suggest that his five-year $35 billion tax increase will provide **new tax revenues that exceed the structural budget gap by several billion dollars in future years**, which will result in the same type of overspending that caused the current budget crises. The Governor proposes to use the additional revenues to pay down the "wall of debt", but history has proven that legislative Democrats are incapable of such fiscal responsibility. **If the Governor is serious about using surplus revenues of any kind in the future to pay down debt he should support a new Constitutional State Spending Limit.**

Additionally, the Governor's tax plan does not really provide additional funding for K-14 education programs, but he does use school kids as hostages by making education the target for 97 percent his trigger cuts. Voters will see through this **"hostage taking"** approach because the money is really being used to fund future government growth.

The real question is whether the Governor can get his fellow legislative Democrats to make meaningful spending reductions and adopt the reforms that Republicans and the Governor appear to agree upon. Senate President Pro Tem Darrell Steinberg told the press that there would be no cuts before July, and Democratic legislators on the Conference Committee on Pension Reform say they are only interested in a few minor tweaks to the existing pension system. It seems the benefit of the new majority vote budget statute is that the people will finally see that is the legislative Democrats who are the real **"obstructionist/party of no".**

Expenditures

The 2011 Budget Act included total General Fund expenditures of $85.9 billion for 2011-12. As a result of current year reductions ($980.8 million), triggered in December 2011 due to lower-than-anticipated revenues, the Administration has been able to limit current year program growth to about $575 million (0.7 percent). Then, General Fund expenditures are budgeted to grow by an additional $6 billion (from $86.5 billion to $92.6 billion) in 2012-13. **This equates to a seven percent growth in expenditures, while at the same time revenues are growing by almost six percent on the natural (without tax increases).** The following table compares the Governor's newly proposed budget to the budgets of the previous two fiscal years.

General Fund Expenditures By Agency

(dollars in millions)

Agency	Actual 2010-11	2011-12 Budget Act	Revised 2011-12	Proposed 2012-13
Legislative, Judicial, Executive	$3,054	$3,151	$2,540	$2,600
State and Consumer Services	$548	$624	$619	$689
Bus, Trans, and Housing	$424	$603	$679	$558
Resources	$1,913	$1,946	$1,935	$1,896
Environmental Protection	$70	$51	$51	$47
Health and Human Services	$26,825	$23,043	$26,668	$26,414
Corrections and Rehabilitation	$9,649	$9,821	$7,849	$8,744
K-12 Education	$35,236	$34,302	$34,162	$38,179
Higher Education	$11,569	$10,248	$9,821	$9,377
Labor and Workforce Development	$48	$371	$354	$448
General Government	$2,213	$1,777	$1,834	$3,601
Total, General Fund Expenditures	**$91,549**	**$85,937**	**$86,512**	**$92,553**
Year-Over-Year Change		-$5,612	$575	$6,041
- As a Percentage		-6.1%	0.7%	**7.0%**

Legislative Democrats frequently claim that state spending has been slashed by $40 billion. This claim is based upon a projection from the 2008-09 Governor's Budget that suggested spending, unchecked, would grow to about $124.5 billion by 2011-12. Since current year General Fund spending is now $86.5 billion, they calculate that spending is almost $40 billion lower than it should have been if it had continued growing at record pace. However, their logic is faulty at best. The reality is that state General Fund spending peaked in 2007-08 at $103 billion and various accounting gimmicks, borrowing and fund shifts have effectively allowed the state to maintain General Fund program spending at around the $100 billion level.

Underlying General Fund Program Spending

(dollars in billions)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Schedule 9 Expenditures	**$103.0**	**$90.9**	**$86.6**	**$91.5**	**$86.5**	**$92.6**
"Offsets" to Maintain General Fund Program Levels*	--	$8.2	$11.4	$8.1	$8.6	$3.9
Total, General Fund Program Expenditures	**$103.0**	**$99.1**	**$98.0**	**$99.6**	**$95.1**	**$96.5**

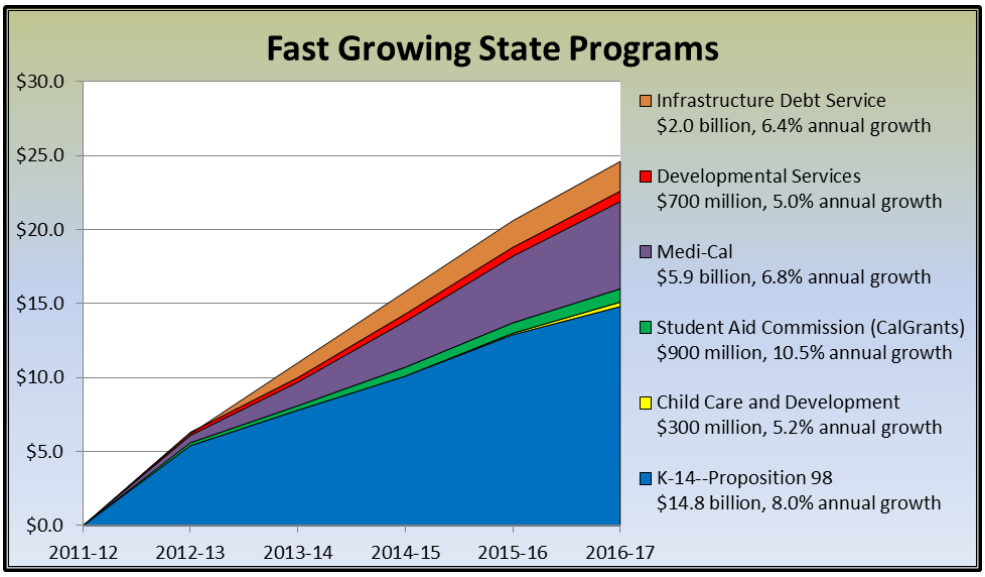
* Offsets in this table include additional federal funds for various health and human services programs, UC and CSU and Judicial and Criminal Justice services, Proposition 1A borrowing from local governments, fund shifts from redevelopment agencies to schools, payment deferrals for Proposition 98, Medi-Cal and state worker pay, using Propositions 10 and 63 funds to support existing programs, provider fees, and the realignment of various public safety program to the local level.

The fact is that California has relied on "short-term" solutions to solve the annual budget gaps, which does little to address the state's structural budget gap. In the 2011-12 Governor's Budget summary, Governor Brown noted that the structural deficit continued largely "because of an overreliance on temporary remedies and savings proposals that did not materialize." According to the Department of Finance, **about 85 percent of the solutions included in the 2009-10 and 2010-11 state budgets did not materialize or were short term** in nature, thus allowing state spending and budget deficits to continually re-emerge.

Bottom line is that despite claims of severe spending reductions, it is clear that total state spending has actually grown and funding for General Fund programs has remained nearly flat as a result of fund shifts and other gimmicks as well as savings proposals that never materialize.

Future Expenditure Projections

In November, the LAO forecast projected that the ***state General Fund budget would grow by $28 billion*** (from $85.3 billion to $113.3 billion) over the next five years (from 2011-12 to 2016-17). Of that amount, $24.6 billion or nearly 88 percent would come from six distinct program areas (reflected in the chart below).



The Governor's Budget now proposes to grow state General Fund spending by nearly 30 percent over a four-year forecast, from $86.5 billion in 2011-12 to $112.1 billion by 2015-16. This average annual growth rate for expenditures (7.4 percent) exceeds the 6.3 percent average annual growth rate of baseline revenues; thus, the Governor is seeking new tax increases to fund excessive state government growth.

Taxes & Revenues

The 2012-13 Governor's budget projects General Fund revenues of $88.6 billion for 2011-12 and $95.4 billion for 2012-13, including approximately $8.4 billion of new revenues from tax increases, tax administration proposals, and transfers to the General Fund. These amounts do not include tax revenues (1.0625 percent of the state sales and use tax (SUT)) that were redirected to local governments as a part of the 2011 Public Safety Realignment proposal ($5.1 billion in 2011-12 and $5.3 billion in 2012-13). The following table identifies where revenues are projected to increase and decrease, and compares them to estimates prepared for the 2011 Budget Act.

General Fund Revenue Projections

(dollars in millions)

2010-11 Revenue Source	At Budget Act	Revised Baseline Revenues	Forecast Change	%△	Governor's Budget Revenues		
Personal Income Tax	$50,027	$49,491	-$536	-1.1%	$49,491		
Sales & Use Tax	$27,140	$26,983	-$157	-0.6%	$26,983		
Corporation Tax	$9,963	$9,614	-$349	-3.5%	$9,614		
Insurance Tax	$2,016	$2,077	$61	3.0%	$2,077		
Other Revenues	$3,738	$3,836	$98	2.6%	$3,836		
Transfers	$1,897	$1,488	-$409	-21.6%	$1,488		
Total Revenue	**$94,781**	**$93,489**	**-$1,292**	**-1.4%**	**$93,489**		
2011-12 Revenue Source	**At Budget Act**	**Revised Baseline Revenues**	**Forecast Change**	**%△**	**Governor's Budget Revenues**	**Change**	**%△ to base**
Personal Income Tax	$50,408	$51,937	$1,529	3.0%	$54,186	$2,249	4.3%
Sales & Use Tax	$19,009	$18,777	-$232	-1.2%	$18,777	$0	0.0%
Corporation Tax	$9,012	$9,479	$467	5.2%	$9,479	$0	0.0%
Insurance Tax	$1,893	$2,042	$149	7.9%	$2,042	$0	0.0%
Other Revenues	$2,669	$2,688	$19	0.7%	$2,709	$21	0.8%
Transfers	$1,465	$1,386	-$79	-5.4%	$1,413	$27	1.9%
Speculative Revenue	$4,000	$0	-$4,000	-100.0%	$0		
Total Revenue	**$88,456**	**$86,309**	**-$2,147**	**-2.4%**	**$88,606**	**$2,297**	**2.7%**
2012-13 Revenue Source	**At Budget Act**	**Revised Baseline Revenues**	**Forecast Change**	**%△**	**Governor's Budget Revenues**	**Change**	**%△ to base**
Personal Income Tax	$55,030	$56,025	$995	1.8%	$59,552	$3,527	6.3%
Sales & Use Tax	$20,887	$19,595	-$1,292	-6.2%	$20,769	$1,174	6.0%
Corporation Tax	$9,426	$9,342	-$84	-0.9%	$9,342	$0	0.0%
Insurance Tax	$2,040	$2,179	$139	6.8%	$2,179	$0	0.0%
Other Revenues	$3,376	$2,709	-$667	-19.8%	$2,706	-$3	-0.1%
Transfers	-$1,036	-$529	$507	-48.9%	$841	$1,370	--
Total Revenue	**$89,723**	**$89,321**	**-$402**	**-0.4%**	**$95,389**	**$6,068**	**6.8%**
Three-Year Total			**-$3,841**			**$8,365**	

This table provides a significant amount of information. Note the following main points (next page):

- The $4 billion of additional, speculative General Fund revenues added by the Democrats and Governor in the 2011 Budget Act is projected to fall short of that estimate by about $2.1 billion in 2011-12. This amount is consistent with the Administration's December 2011 estimate that this revenue would be $2.2 billion lower than anticipated, "triggering" $980.8 million of mid-year reductions.
- Governor's Budget revenues include ***$6.95 billion of tax increases*** over 2011-12 and 2012-13 based on speculation that the voters will approve personal income tax increases on high-income earners and a half cent increase in the state sales and use tax. It would be much wiser to make reductions first, and then restore spending levels **IF** voters approve tax increases.
- ***As noted above, state revenue projections for 2011-12 and 2012-13 no longer include sales and use taxes that were redirected to local governments to fund the 2011 Public Safety Realignment ($5.1 billion in 2011-12 and $5.3 billion in 2012-13).***

Governor's Tax Increase Proposals

The Governor's Budget plan relies heavily on the passage of a voter initiative in November 2012 to increase personal income taxes and sales and use taxes. More detail on the pending initiative can be found in the Governor's Tax Initiative on Page 12. In addition, the Governor's Budget proposes other revenue-related solutions. A summary of all revenue-related proposals is included below.

1) Tax Increase Initiative: <u>Subject to Voter Approval on the November 2012 ballot</u>

- **Personal Income Tax (PIT) Rate Increase:** Effective for tax years beginning on or after January 1, 2012 but before January 1, 2017, adds three new tax rates for taxpayers earning more than $250,000 (single)/$500,000 (joint)/$340,000 (head-of-household). The Administration estimates that this proposal would generate revenues of $2.2 billion in 2011-12 and $3.5 billion in 2012-13. Additional detail on the new tax brackets can be found on Page 12.
- **Sales and Use Tax Increase:** Effective January 1, 2013 through January 1, 2017, imposes and additional half cent tax on the sale of all tangible personal property sold or used in California. The Administration estimates that this proposal would generate first year (half-year) revenues of $1.2 billion 2012-13 (annual revenues of approximately $2.3 billion).

2) Additional Revenue Proposals:

- **Financial Institutions Record Match (FIRM):** The Budget proposes to expand FIRM to the Employment Development Department (primarily to collect unpaid wage withholding debts) and the Board of Equalization (primarily to collect unpaid sales and use tax debts). The Administration estimates that this proposal would generate additional General Fund revenues of $4 million in 2011-12 and $11 million in 2012-13, as well as additional local and special fund revenues.
- **Additional "Weight Fee" Transfer:** The Budget proposes to transfer an additional $349.5 million in weight fee revenues to the General Fund to offset future debt service costs on transportation bonds (*See Transportation on Page 39 for additional information on this proposal*).
- **Disability Insurance Fund Loan:** The Budget proposes a $417 million loan from the Unemployment Insurance Disability to fund the state's General Fund obligation to pay interest on money loaned from the federal government for unemployment insurance benefit payments. This loan would be in addition to the $303.5 million loan that was used to pay last year's interest cost. Additional information on this loan, as well as the "surcharge" on employers to repay the loan can be found in Labor & Workforce on Page 45.
- **Unclaimed Property Program Transfers:** The Budget proposes to "improve the State Controller's Office management of the unclaimed property program" to increase transfers to the

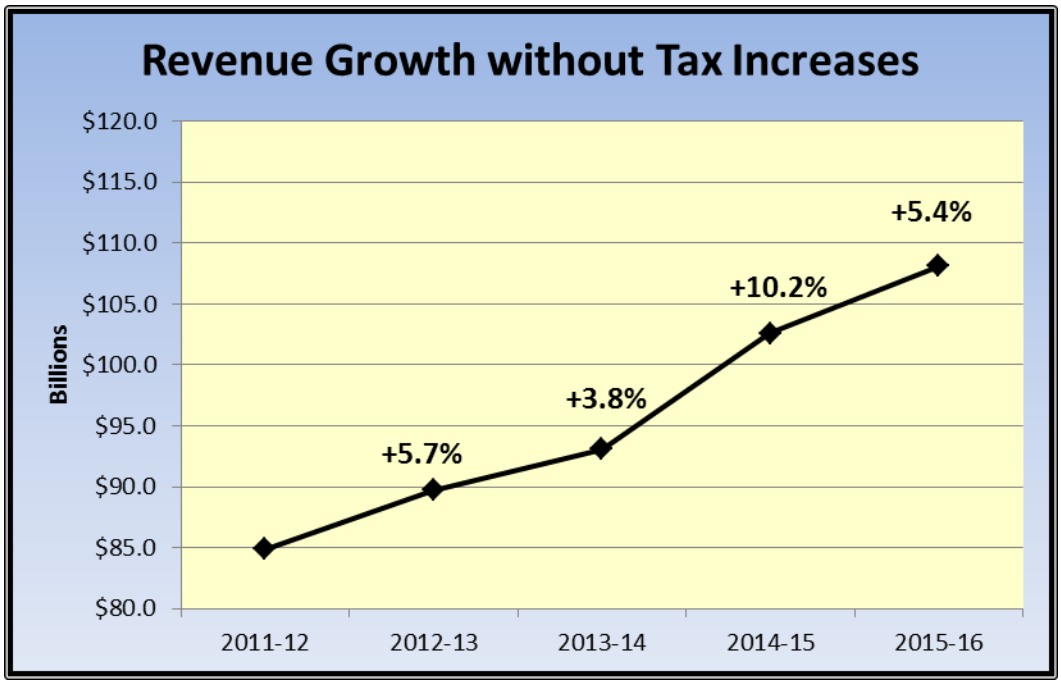
General Fund by $21 million in 2011-12 and $57 million in 2012-13. Details regarding this proposal are not yet available; however, Republicans should be concerned about the state's motivation to escheat personal property for the benefit of the General Fund.

3) Other Tax Policy:

Under the façade of "Job Creation," the Administration indicates that it will propose legislation to reform the enterprise zone program and move to a mandatory single sales factor for apportioning multistate business income in California. No additional information on these proposals is available at this time, as they are not actually included in the Governor's Budget plan.

No "Need" for Tax Increases

As we evaluate whether the state really needs to increase taxes, a clear trend is emerging that would argue otherwise. The following chart reflects baseline revenue projections based on the Governor's "Problem Definition" without the Governor's tax increase initiative through 2015-16. The simple story told by this chart is the strength of General Fund revenue growth projected in the out years, ***even without tax increases.***



Revenues May Be Stronger Than They Appear:

Economists never agree with each other. Evidence of that fact comes from the State Controller's Office economist who believes tax revenue in the upcoming fiscal year could exceed the Governor's projections by $4 billion.

The case for tax increases has not been made. The chart above shows that General Fund revenues will grow on average by about 6.3 percent annually through 2015-16. Over the past 30 years, following passage of Proposition 13, the state has experienced average annual revenue growth of about 5.1 percent. Since revenue growth is projected to be almost 24 percent stronger than historical revenue growth figures, a strong case may continue to be made that the state continues to over spend resources provided by California taxpayers.

Governor's Tax Initiative

The Governor's Budget relies on the passage of $6.9 billion in tax increases that Governor Brown intends to place before the voters in November 2012, including the following components:

- ***$5.6 billion Realignment shift.*** Places much of the 2011 Realignment Legislation into the Constitution, including constitutional protection for the shift of 1.0625 percent of the state sales and use tax ($5.1 billion in 2011-12 and $5.3 billion in 2012-13) to local governments to fund local public safety programs scheduled for Realignment beginning July 1, 2011. These revenues would no longer be considered General Fund revenues for the purpose of calculating General Fund Proposition 98 obligations.
- ***$6.9 billion tax increase.*** Adds three new personal income tax brackets (effective for five years beginning January 1, 2012) for both single and joint taxpayers, and increases the state sales and use tax by 0.5 percent (effective for four years beginning January 1, 2013). Additional revenues generated by this tax increase would be considered General Fund revenues for the purpose of calculating General Fund Proposition 98 obligations. Added tax brackets and rates, beginning in 2012, can be viewed below.

  The Legislative Analyst's Office indicates that due to the high level of volatility associated with high-income taxpayers, revenue estimates will vary greatly and could come in significantly lower than the Governor's estimate.

Taxable Income - Single			Taxable Income - Joint			Taxable Income - Head of House		
Min	Max	Rate	Min	Max	Rate	Min	Max	Rate
$0	$7,316	1.0%	$0	$7,316	1.0%	$0	$14,632	1.0%
$7,316	$17,346	2.0%	$7,316	$17,346	2.0%	$14,632	$34,692	2.0%
$17,346	$27,377	4.0%	$17,346	$27,377	4.0%	$34,692	$54,754	4.0%
$27,377	$38,004	6.0%	$27,377	$38,004	6.0%	$54,754	$76,008	6.0%
$38,004	$48,029	8.0%	$38,004	$48,029	8.0%	$76,008	$96,058	8.0%
$48,029	$250,000	9.3%	$48,029	$250,000	9.3%	$96,058	$340,000	9.3%
$250,000	$300,000	10.3%	$500,000	$600,000	10.3%	$340,000	$408,000	10.3%
$300,000	$500,000	10.8%	$600,000	$1,000,000	10.8%	$408,000	$680,000	10.8%
$500,000	$1,000,000	11.3%	>	$1,000,000	12.3%	$680,000	$1,000,000	11.3%
>	$1,000,000	12.3%				>	$1,000,000	12.3%

- ***Establishes Education Protection Account.*** Tax increase revenues would be deposited in this account with 89 percent allocated to the Superintendent of Public Instruction for K-12 education and 11 percent allocated to the Board of Governors of the California Community Colleges.
- ***Audits and Investigations.*** Authorizes the Controller to audit expenditures from the Local Revenue Fund of 2011 and any County Local Revenue Fund 2011, requires the Controller to audit the Education Protection Account, and requires the Attorney General or local district attorney to investigate and seek civil or criminal penalties for any misuse of funds in these accounts.

Impact on Schools: It is unclear that this initiative would provide any more money to education than would have been provided in the absence of the 2011 Realignment and this tax increase. For a more detailed explanation, see the Education section on Page 16.

Realignment

Background. The 2011-12 budget included the first phase of a two-phase realignment of many core functions of government from the state level to the local level. The primary goal of realignment should be to improve the efficiency of government and the quality of services by providing services at the level of government best suited for the job. However, the primary focus of the 2011 realignment was balancing the state's budget by shifting costs and public safety risk to local governments. Among the realigned functions were (1) fiscal and operational responsibility for the incarceration and post-release supervision of certain low-level felons, and (2) fiscal responsibility for various local public safety grant programs, mental health services, substance abuse treatment programs, and other social services.

Public Safety Risk. Republicans have opposed the realignment because it is a dangerous public safety experiment. Many local officials have raised concerns, including Sacramento County Sheriff, Scott Jones. In his September 18, 2011 editorial in the Sacramento Bee, Sheriff Jones said, "Nobody can sincerely argue that crime will go down under realignment. Sentences will be reduced 16 percent, from one-third time credit to one-half; more offenders will have less or no supervision with a greatly diminished ability to arrest those who violate their probation or parole; and there is a likelihood that I will have to release inmates en masse to comply with a federal consent decree to reduce inmate population." He went on to say, "Sacramento County will receive more than 400 offenders through the realignment process in the first six months. More offenders on the streets, with little or no supervision, coupled with a statistical certainty of a recidivism rate of about 70 percent leads to a logical conclusion of more crime. Add to this the unprecedented poor economy and diminishing law enforcement resources for the region, and an unpalatable recipe emerges."

Los Angeles County Supervisor Mike Antonovich recently expressed frustration over a court ruling that resulted in the release of a state prisoner that he characterized as "violent" and "severely mentally ill" from state custody to a Los Angeles County residential facility, and then to a voluntary outpatient treatment program. In a press release, Supervisor Antonovich said, "Gov. Brown's reckless realignment policy has resulted in this stupid ruling releasing a violent career criminal whose arrests include rape in concert with force and violence to a local neighborhood – posing a significant risk to public safety." Similar concerns about realignment's threat to public safety are being raised by law enforcement and other public officials throughout the state.

2011-12 Funding. Phase 1 of realignment began with Chapter 15, Statutes of 2011 (AB 109), which shifted responsibility for low-level felons to local jurisdictions. To compensate local agencies for their expanded roles, Chapter 40, Statutes of 2011 (AB 118) permanently repurposed an estimated $5.1 billion of the state sales and use tax for realignment implementation, created the account structure for distributing the funding, and shifted fiscal responsibility for various social service programs to counties. Chapter 35, Statutes of 2011 (SB 89) provided an additional $450 million by redirecting Vehicle License Fee revenues, some of which previously supported the Department of Motor Vehicles ($300 million) and some of which belonged to cities and counties ($150 million), to realignment, backfilling the loss of state revenues by increasing vehicle registration fees. The Governor does identify $200 million in program growth in Phase 1, and specifies that the state's child welfare services programs would be "first in line" once base program levels are identified and additional funding is available for growth. (*See table on the following page for funding allocations*.)

2011 Realignment Funding (Dollars in Millions)				
Program	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Court Security	$496.4	$496.4	$496.4	$496.4
Local Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction of Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	957.0	0.0	0.0	0.0
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	0.0	0.0	0.0
Mental Health Services				
EPSDT	0.0	544.0	544.0	544.0
Mental Health Managed Care	0.0	188.8	188.8	188.8
Existing Community Mental Health Programs	1,104.8	1,164.4	1,164.4	1,164.4
Substance Abuse Treatment	179.7	179.7	179.7	179.7
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,562.1	1,562.1
Adult Protective Services	54.6	54.6	54.6	54.6
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Program Cost Growth	0.0	180.1	443.6	988.8
Total	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**
Vehicle License Fee Funds	$462.1	$496.3	$491.9	$491.9
1.0625% Sales Tax	$5,107.0	$5,320.0	$5,748.0	$6,228.0
Total Revenues	**$5,569.1**	**$5,816.3**	**$6,239.9**	**$6,719.9**

Plan for 2012-13 and Beyond Lacks Details. The Governor's Budget proposes to continue funding realigned programs in 2012-13 at roughly the same levels as 2011-12 using the same revenue streams (*see table above*). The proposal describes in broad terms how the realignment funding framework should provide support for local programs by providing a guaranteed baseline level of funding, allocating program growth funding proportionally, providing local flexibility in the prioritization of program spending, and providing a reserve to alleviate the impact of future revenue fluctuations. However, much like the original January 2011 plan, the broad goals discussed in the 2012-13 proposal are accompanied by very few details on how those goals would be accomplished.

The January 2011 proposal did not include a process to determine local governments' funding needs resulting from their assumption of jurisdiction for low-level felons, nor did it include a methodology for allocating resources amongst the affected entities. A hastily-developed, one-time funding allocation plan was eventually incorporated into AB 118 six months after the original realignment plan was unveiled, but it only dealt with the 2011-12 fiscal year. Similarly, the Governor's Budget fails to identify methodologies for needs determination or the allocation of funding for 2012-13.

This proposal indicates, as did the January 2011 proposal, that the Administration is committed to reducing state operations by 25 percent for program areas that have been realigned. However, in the case of at least one of the affected agencies, the Department of Social Services (DSS), a plan for attaining that goal has yet to be developed. In fact, the Administration indicates that DSS is waiting for county workload decisions and federal input before developing its state operations reduction plan. If the Governor were truly committed to reducing state operations in all realigned program areas, perhaps he should have included an unallocated reduction to DSS operations in his budget plan instead of

simply paying lip service to the idea. This would have provided motivation for DSS to develop its reduction plan expeditiously.

Phase 2 Even Less Certain. Phase 2, as proposed in 2011 with Phase 1, assumed that the state would become responsible for costs associated with health care programs (except public health programs which will remain at the local level), including California Children's Services and In-Home Supportive Services, while the counties would assume responsibility for CalWORKs, food stamp administration, child support, and child care programs. The Governor's 2012-13 budget does not specify when Phase 2 would happen or even if these programs would still be included with Phase 2 of realignment. Although there is a proposal to begin to move IHSS into the state's health care programs beginning in 2013-14, there is no information or proposal to move CalWORKs, child support, or food stamps administration at any time in the future. It is unclear if the Administration would seek additional taxes or a General Fund backfill to provide funding for these programs. The information provided thus far only indicates that Phase 2 will require discussion between the state and counties regarding the funding and delivery of health care for about two million people that are expected to shift from county indigent health programs to the state Medi-Cal program in January 2014 under federal health care reform.

Education

2011-12 Proposition 98. Under the Governor's proposed budget, the 2011-12 Proposition 98 minimum guarantee of funding for K-14 education would fall by about $360 million from the level assumed when the current-year budget was enacted, to about $48.3 billion. However, Proposition 98 *spending* would fall by over $1 billion from the enacted level to about $47.6 billion, due mostly to the December 2011 "trigger cuts" and a lower estimate of growth in average daily attendance. As a result, the guarantee would be underfunded by about $660 million and a "settle-up" obligation of the same amount would be created, to be paid at an unspecified future date. 2011-12 is still expected to be a "test 1" year.[1]

2012-13 Proposition 98. The Governor's Budget-assumes a minimum guarantee of about $52.5 billion[2], up about $4.9 billion from the 2011-12 funded level, $2.5 billion of which would result from his $6.9 billion tax increase initiative proposed for the November 2012 ballot. About $2.4 billion of the new funds would be used to begin paying down the state's 'wall of debt' by unwinding some of the existing $10.4 billion in inter-year funding deferrals, thus reducing school and community college districts' need to take bridge loans until the funds are received. Like 2011-12, 2012-13 is expected to be a 'test 1' year. The chart below displays Proposition 98 funding over time:

Proposition 98 Funding

Source: Legislative Analyst's Office

($ in millions)

					June 2011	Jan 2012	
	2007-08	2008-09	2009-10	2010-11	2011-12	2011-12	2012-13
K-12 education							
General Fund	$37,752	$30,075	$31,472	$31,291	$29,328	$29,329	$33,755
Local property tax revenue	$12,592	$12,969	$12,631	$12,084	$13,823	$12,891	$12,908
K-12 subtotal 1/	$50,344	$43,044	$44,103	$43,376	$43,151	$42,220	$46,663
California Community Colleges							
General Fund	$4,142	$3,918	$3,721	$3,885	$3,466	$3,217	$3,683
Local property tax revenue	$1,971	$2,029	$1,993	$1,959	$1,949	$2,107	$2,101
CCC subtotal	$6,112	$5,947	$5,714	$5,844	$5,415	$5,324	$5,784
Other Agencies	$121	$105	$93	$87	$85	$83	$80
Total Proposition 98 1/	$56,577	$49,096	$49,910	$49,306	$48,651	$47,627	$52,527
General Fund	$42,015	$34,098	$35,286	$35,263	$32,879	$32,629	$37,518
Local property tax revenue	$14,563	$14,997	$14,624	$14,044	$15,772	$14,998	$15,009
Prop 98 per-pupil funding (K-12) 1/	$8,464	$7,226	$7,478	$7,337	$7,232	$7,096	$7,815

1/ Absent the shift of $1.055 billion in child care funding out of Prop 98, Prop 98 spending as of the 11-12 Final Budget Act would have been about $49.705 billion and per-pupil funding would have been about $7409.

No real benefit from tax hikes. There appears to be no net benefit to 2012-13 education funding from the Governor's proposed higher taxes, compared with what schools would have received absent the tax hikes and the 2011-12 realignment shift. Under the Governor's proposal, only about $2.5 billion of the $6.9 billion in new tax revenue would benefit education. However, absent realignment, which shifted about $5.1 billion in sales tax revenue from the state to local governments, Proposition 98 funding

[1] In "test 1" years, schools get about 40% of state General Fund revenues, plus whatever amount of local property tax revenue that naturally flows to them.

[2] The $52.5 billion total reflects several 'rebenching' adjustments, including 1) reversal of a previous policy action to hold the guarantee harmless for the loss of sales tax revenue associated with the 2011 gas tax swap, and 2) adjustments to reflect the shift of responsibility for mental health services to special education students from counties to school districts and the shift of most child care programs out of the guarantee. Together, these adjustments would lower the guarantee by about $370 million.

would have been roughly $2 billion higher 'on the natural' in 2012-13, and absent approval of the new taxes, the state will be obligated to repay schools for the revenue lost in 2011-12 at between $350 million and $400 million per year beginning in 2012-13. Thus the net benefit to education in 2012-13 appears negligible.

Schools targeted if tax initiative fails. Should the tax initiative fail, the 2012-13 Proposition 98 guarantee would fall to about $50.3 billion and over $4.8 billion in Proposition 98 funding reductions would be "triggered." Roughly half of the reductions would be achieved by abandoning the proposal to reduce school payment deferrals – ***this would not require program reductions***. To achieve the remainder of the reductions and avoid suspending the guarantee, the Governor's proposal implements a legally questionable shift of education bond debt service payments into Proposition 98, thereby displacing existing education program spending. The shift would allow the state to make as-yet-undefined programmatic reductions and still fund the Proposition 98 minimum guarantee, thus avoiding the two-thirds vote requirement otherwise necessary to suspend the guarantee. Proposition 98 would take a disproportionately high trigger reduction relative to other programs: it would get $2.5 billion if the tax hikes are approved, but would lose $4.8 billion if they fail, under the Governor's proposal. About 90 percent of the 2012-13 trigger reductions would fall on Proposition 98.

Per-pupil spending from all sources. Assuming approval of the tax initiative, the Department of Finance estimates that total per-pupil spending from all sources (state, local, federal, etc.), will be $11,224 in 2010-11, $10,610 in 2011-12, and $11,246 in 2012-13 (see the chart above for the Proposition 98 share of total per-pupil funding).

Revenue limits, COLAs, and deficit factors. The Governor's proposal provides an increase of $158 million for school district and county office of education revenue limits as a result of projected growth in student attendance in 2012-13. County office of education and school district "deficit factors" would be 22.497 percent and 21.666 percent, respectively, reflecting previous reductions and foregone COLAs as well as the unfunded 2012-13 COLA of 3.17 percent, which would have been worth about $1.8 billion. Enacting these factors in statute creates a symbolic liability in that it signals the Legislature's and Governor's intention to eventually restore revenue limit funding to 100 percent of what it would have been absent the reductions and foregone COLAs.

Home-to-school transportation funding eliminated. The December 2011 "trigger" reductions eliminated funding for home-to-school transportation, for half-year savings of about $250 million. The Governor's proposal would permanently eliminate program funding in 2012-13. This elimination would have an inequitable impact, as some districts rely more heavily on these funds than others. Rural and large urban districts (e.g., Los Angeles Unified) would likely be hardest hit by this elimination.

Education funding reform requires careful analysis. The Governor's Budget would increase funding flexibility and local control by consolidating most categorical program funding (excluding federally required programs such as child nutrition and special education) into revenue limits (per-pupil general purpose funding). A "weighted student formula" providing enhanced funding for low-income students and English learners would be phased in over five years, beginning in 2012-13[3]. This proposal is *not* contingent on voter approval of new taxes. The Governor plans to develop accountability measures that would make a portion of this funding contingent on student success. This proposal is worthy of consideration, but **concerns include its potential to allow for the elimination of student services to make room for higher teacher salaries and to disproportionately benefit large urban districts at the expense of other districts.**

[3] Department of Finance staff indicate that the formula would likely be some variation of the one discussed in a 2008 study published by the Public Policy Institute of California, which can be found here: http://www.ppic.org/main/publication.asp?i=796

K-14 education mandate reform. The Governor's proposal creates a new block grant program for education mandates. He would eliminate roughly half of the existing mandates, make the others optional, and increase funding to $200 million in 2012-13 (compared with mandate funding of about $90 million in 2011-12). Local educational agencies that choose to comply with all of the optional mandates would get an equitable share of the $200 million; the others would get nothing.

Charter school support enhanced. The proposed budget would provide $56.5 million in charter school growth funding and would improve charters' access to school facilities funding, working capital, and tax-and-revenue anticipation notes (TRANs). These proposals are highly supportable, as they will reduce some of the current inequities between charter schools and non-charter schools.

Transitional kindergarten on hold. The budget proposes no funding for the new Transitional Kindergarten (TK) program created pursuant to Chapter 705, Statutes of 2010 (SB 1381, Simitian), thereby avoiding new costs of $223.7 million. This funding suspension is supportable, as the TK program is a back-door effort to expand K-12 education by an additional grade (requiring fully credentialed teachers for four-year-old pre-kindergarten students), which was opposed by Senate Republicans.

Non-Proposition 98 funding reductions. In addition to the adjustments listed above, the Governor's Budget makes a variety of non-Proposition 98 General Fund reductions, as follows:

- Eliminate state supplemental reimbursements for free and reduced-price meals served at *private* schools and child care centers, for savings of $10.4 million (this would have no effect on federal meal reimbursements to these entities.)
- Eliminate funding for the Advancement Via Individual Determination (AVID) program, for savings of $8.1 million.
- Apply an unallocated reduction to the State Special Schools for blind and deaf students, for savings of $1.8 million.
- Eliminate General Fund support for the Vocational Education Supplemental Leadership program, for savings of $514,000.
- Eliminate non-98 General Fund support of Indian Education Centers, for savings of $376,000. The centers would continue to receive over $4.5 million in Proposition 98 General Fund support.
- Consolidate funding for the California State Summer School for the Arts within the California Arts Council. This is an 'efficiency' proposal -- no savings are scored.

Child care funding reduced, administration shifted to counties. The Governor's proposal would reduce 2012-13 state child care funding by about $450 million in non-98 General Fund and about $70 million in Proposition 98 General Fund (eliminating a total of about 60,000 'slots') by tightening related work and family income ceiling requirements and lowering provider reimbursement rates. In 2013-14, administration of alternative payment (voucher) programs and Title 5 child care centers would be shifted from the California Department of Education to the counties (the Governor does not characterize this shift as a realignment action). Counties could, if they choose, contract with non-profit agencies to continue to do this work. This proposal has the potential to increase the operational integrity of publicly-funded child care programs (e.g., recapture of state overpayments), which has been an ongoing concern.

Federal fund adjustments. The Governor's Budget includes the following augmentations to federal fund expenditure authority:

- $37.2 million for growth of nutrition programs at schools and other participating agencies
- $2 million for the Fresh Fruit and Vegetable Program, which provides students with a free fresh fruit or vegetable snack during the school day

State school facilities bond fund shift. The Governor proposes to shift existing state school bond authority from the Overcrowding Relief Grant Program (which replaces portable classrooms with permanent ones) to the New Construction program, and to regulate the allocation of new construction and modernization funds to ensure continued construction of new classrooms and modernization of existing ones. These actions would delay the imposition of "level 3" developer fees, which apply when the state is no longer funding new construction of school facilities.

Teacher credentialing fees increased. The Commission on Teacher Credentialing is experiencing a $5 million operating deficit in the current year. The Governor proposes to extinguish the deficit by providing a $2.3 million current-year loan from the Test Development and Administration Account to the Teacher Credentials Fund, and in 2012-13, increasing the teacher credentialing fee from $55 to $70, increasing teacher testing fees by five percent, and reducing state operations funding by $1.5 million.

Local library funding reduction extended. The Governor's Budget continues the December 2011 "trigger cuts" to local library funding into 2012-13, thereby eliminating funding for the California Library Literacy and English Acquisition Program; Public Library Foundation; California Library Services Act; California Newspaper Project; and California Civil Liberties Public Education Program. In addition, it reduces General Fund support of the State Library's operating budget by $1.1 million to reflect reduced workload associated with the elimination of the local assistance programs.

California Community Colleges (CCC). As the chart on page 16 shows, the Governor's Budget would increase CCC Proposition 98 funding to almost $5.8 billion in 2012-13. As a result of the December 2011 "trigger" reductions, student fees will rise to $46 per credit unit effective summer 2012 (still the **lowest in the nation**). Roughly 70 percent of CCC students are expected to be eligible for fee waivers in 2012-13. The most notable of the Governor's proposed changes to Community College funding are:

- $411.6 million shift of existing categorical funds into a single block grant with enhanced local flexibility.
- $218.3 million reversal of existing state funding deferrals, contingent on enactment of the Governor's proposed tax increase (if the tax initiative fails, the CCCs would lose this funding and would take their 11 percent proportionate share of the proposed $4.8 billion in trigger cuts to education funding described in the K-12 education discussion above).
- $146.9 million reduction in General Fund support of apportionments, offset by an identical increase in local property tax revenue resulting from the elimination of redevelopment agencies.
- $97.4 million increase to offset a decline in student fee revenue.
- $14.3 million increase to fund administration of growth in fee waivers and financial aid.
- $12.5 million increase for a new mandate block grant program similar to the one described in the K-12 education discussion above.
- A freeze of the General Fund backfill of lost revenue resulting from fee waivers. If the CCCs in the future opt to grant fee waivers to more than 70 percent of their students, they would have to absorb that loss of fee revenue.
- If the Governor's tax increase ballot initiative passes in November 2012, provide four percent annual base funding augmentations beginning in 2013-14, contingent on achievement of accountability measures such as graduation rates, enrollment of transfer students, faculty teaching workload, etc.

Higher Education (non-Proposition 98)

University of California (UC) and California State University (CSU). In the current year, UC and CSU are each taking mid-year "trigger cuts" of $100 million, which will be ongoing in 2012-13. The Governor's Budget for 2012-13 includes the following additional proposals:

- Augment the UC budget by $90 million, which could be used (or not) to reduce its retirement fund shortfall (its retirement plan is not a legal obligation of the state, and the Administration expects UC to resolve the balance of its shortfall on its own).
- Fold funding for UC's and CSU's general obligation bond debt service obligations into their base budgets, and turn responsibility for of their all future bond debt service, including that associated with that, with revenue bonds, over to them.
- Eliminate most existing UC earmarks (e.g., Charles R. Drew University, UC Merced), in an effort to enhance funding flexibility. The funding for these former earmarks would be folded into UC's base budget.
- Authorize both segments (rather than Sacramento) to set their own enrollment targets.
- Apply trigger cuts of $200 million to each segment, if the Governor's proposed tax increases are not approved by the voters. This $400 million represents about 7.4 percent of the total proposed trigger reductions.
- Consistent with the proposal for Community Colleges, if the tax hikes *are* approved, provide four percent base funding augmentations annually beginning in 2013-14, contingent on meeting negotiated accountability measures.

Core funding sources for both segments is displayed in the chart below.

UC & CSU Funding

(Selected core funds, in millions)

	Fund	2007-08	2008-09	2009-10	2010-11	June 2011-12	Jan 2011-12	2012-13
UC	General Fund [1/]	$3,257	$2,418	$2,591	$2,911	$2,374	$2,274	$2,571
	Fees [2/]	$1,842	$1,948	$2,356	$2,537	$3,336	$3,320	$3,366
	ARRA [3/]		$717		$107			
	Lottery	$26	$25	$26	$27	$30	$33	$33
	Total UC	$5,124	$5,107	$4,973	$5,582	$5,740	$5,626	$5,970
CSU	General Fund [1/]	$2,971	$2,155	$2,346	$2,578	$2,141	$2,003	$2,200
	Fees [2/]	$1,306	$1,541	$1,772	$1,819	$2,076	$2,244	$2,244
	ARRA [3/]		$717		$107			
	Lottery	$58	$42	$42	$42	$46	$48	$48
	Total CSU	$4,334	$4,455	$4,160	$4,546	$4,263	$4,295	$4,493
	Total	$9,459	$9,562	$9,133	$10,128	$10,003	$9,921	$10,462

[1/] January column reflects 2011-12 'trigger cuts' of $100 million at each segment. 2012-13 amounts include GO bond debt service of $197 million at UC and $190 million at CSU.

[2/] Includes systemwide fees and nonresident tuition, and amounts diverted to financial aid controlled by UC & CSU.

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

Source: Legislative Analyst's Office

Student Financial Aid. The Governor's Budget proposes several adjustments to state-funded student financial aid, most notably:

- A $766 million shift in CalGrant funding, using $736 million in federal TANF dollars and $30 million in Student Loan Operating Fund in place of General Fund, for savings of the same amount.
- A $302 million reduction to be achieved through a variety of actions such as reducing maximum awards at non-public colleges and universities and increasing the grade point averages currently required to qualify for CalGrants (the CalGrant A GPA requirement would rise from 3.0 to 3.25, the CalGrant B from 2.0 to 2.75, and the CCC transfer entitlement CalGrant from 2.4 to 2.75).
- A $181 million augmentation to fully fund CalGrant costs, which are rising in part due to UC and CSU fee increases.[4] The Governor's Budget proposal assumes no further fee increase for 2012-13 at either segment.
- A $6.6 million reduction through elimination of APLE and SNAPLE awards (student loan assumption programs for teaching and nursing students), effective for those who otherwise would have received their first payment in 2012-13.
- Codification of a longstanding practice that CalGrant Transfer Entitlement Awards be limited to students who maintain continuous enrollment. This will prevent a $70 million increase in General Fund costs that would otherwise result from a recent California Student Aid Commission (CSAC) decision to begin awarding CalGrants to students who have taken prolonged enrollment breaks.
- Restriction of CalGrant program participation to institutions whose maximum student loan default rate (the percentage of students who default on their federal loans within a three-year window) is 25 percent. Under current law, the default rate would have risen to 30 percent in 2012-13.

Costs resulting from the 2011 "California Dream Act," which entitles illegal immigrant students to state-funded CalGrants, will not be incurred until 2013-14 (the LAO recently pegged these annual costs at $65 million). However, the Governor's Budget includes $746,000 in state operations funding for related CSAC workload in 2012-13. In addition, these students will become eligible for "institutional aid" (funded directly by UC and CSU) effective January 1, 2013.

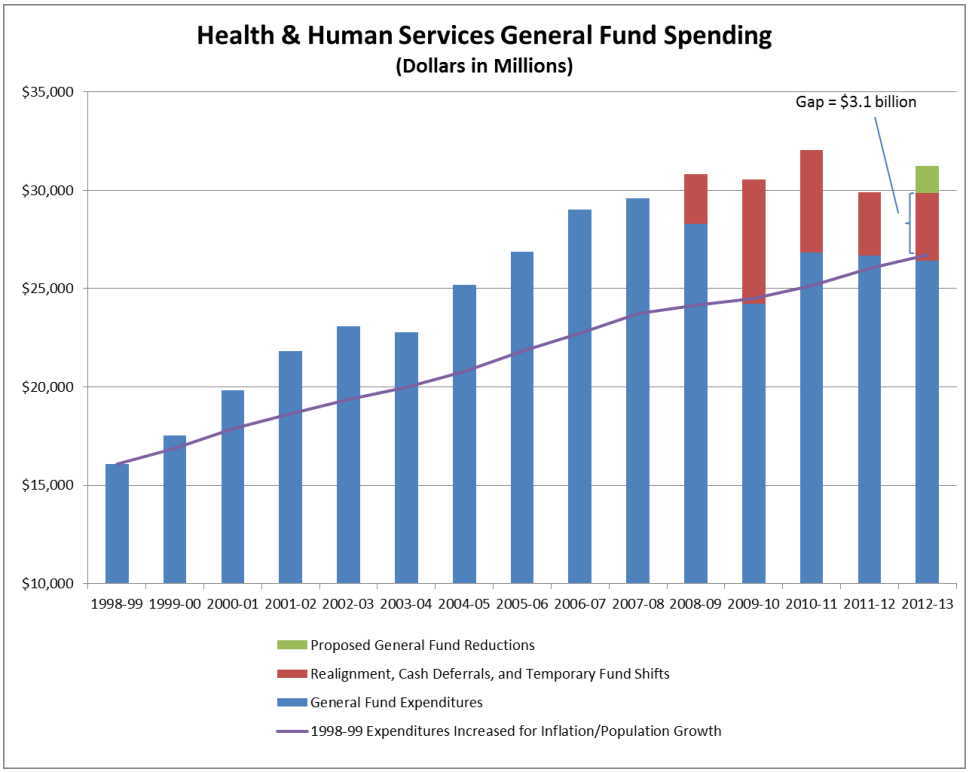
California Postsecondary Education Commission (CPEC). CPEC was eliminated in 2011 when the Governor vetoed its 2011-12 funding. His 2012-13 budget proposal provides $850,000 to cover various 'close-out' costs, and shifts CPEC's one federally-funded program ("Improving Teacher Quality Grants") to the Department of Education.

[4] For 2011-12, UC's annual undergraduate system-wide fees are $11,124, and CSU's are $5,472. The UC Regents and the CSU Trustees control student fee levels for their respective segments.

Health & Human Services Overview

The 2012-13 Governor's Budget includes total expenditures of $89.6 billion from all fund sources for all Health and Human Services (HHS) Agency budgets. General Fund expenditures for HHS are projected to be $26.4 billion, which represents a slight decrease of $255 million (1.0 percent) from the revised 2011-12 budget. The Governor's Budget proposes $2.2 billion in General Fund solutions for HHS through the end of 2012-13, which accounts for 21 percent of the $10.3 billion total solution package.

As the chart below demonstrates, General Fund expenditures had increased far faster than inflation and population until 2009-10, when temporary fund shifts (primarily federal stimulus funds) reduced General Fund spending below the trend line. The Governor's Budget for 2012-13 proposes solutions that would bring HHS General Fund spending below the trend line by $284 million. However, absent the Governor's funding shift and realignment proposals, which do not reduce program activities, underlying program spending for HHS in 2012-13 would remain $3.1 billion above the trend line. As discussed further in the following sections, though, spending trends differ substantially by department. Spending for numerous Health programs such as Medi-Cal and In-Home Supportive Services has grown rapidly, offset somewhat by flat overall spending for Human Services programs such as CalWORKs.



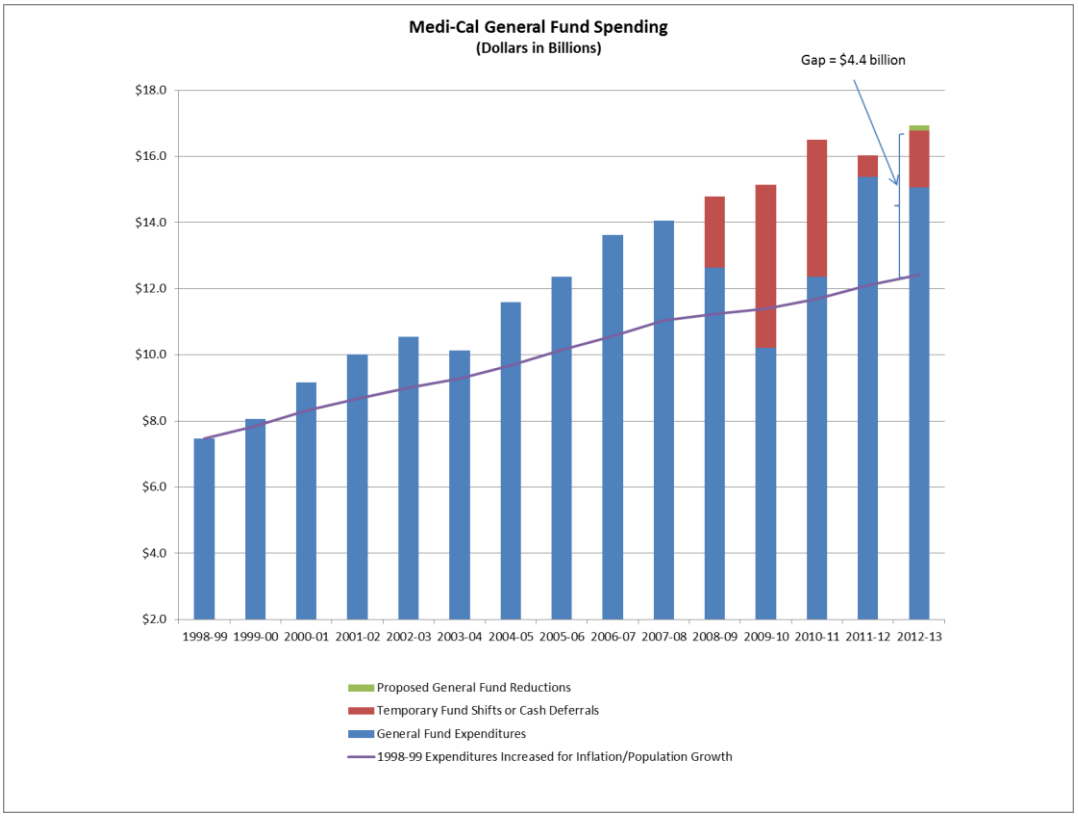
Noticeably absent from the Governor's proposals is any redirection of Proposition 10 funds. Proposition 10 enacted the First 5 Program along with a 50 cent cigarette tax to fund it, and voter approval would be necessary to implement any changes to the measure. In January 2010, the Governor proposed to shift $1 billion in a one-time transfer from First 5 Program reserves, subject to voter approval. Legislative Democrats approved the transfer but without the requirement that voters approve the change. Multiple counties filed lawsuits against this attempt to redirect funds without voter approval, and the Governor dropped the issue. However, given that the Governor is now proposing to *raise* taxes through a statewide ballot, the voters should certainly have the opportunity to consider whether they wish to *redirect* existing taxes like Prop 10 to higher priority purposes.

Health

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

Overview. The Governor's Budget proposes $15.1 billion General Fund ($56.7 billion total funds) for the Medi-Cal Program in 2012-13, a net decrease of $323 million General Fund (2.1 percent) from the revised 2011-12 budget estimate. This net decrease is the result of several factors, including (1) cost increases of $879 million General Fund in the current year due to the erosion of savings authorized by the 2011 Budget Act, (2) new Medi-Cal budget savings proposals totaling $842 million General Fund for 2012-13, and (3) increased savings of $222 million in 2012-13 resulting from the hospital fee extension authorized by SB 335 (Hernandez and Steinberg, 2011). The most significant budget components are discussed in more detail below.

Despite the proposed budget solutions, Medi-Cal General Fund expenditures are projected to once again exceed what a growth rate equal to inflation and population combined would indicate (see chart below). Underlying program costs (which add back temporary fund shifts and one-time cash deferrals) would result in an excess of $4.4 billion above the trend line. Most of the Governor's proposed cost savings for Medi-Cal in 2012-13 rely on temporary cash deferrals, although some initiatives may yield actual savings in the longer term. However, substantial additional programmatic changes remain necessary in order to establish a program that the state can afford.



Current Year Savings Erosions and Deficiency. The Governor's Budget projects that a net $879 million in General Fund savings enacted by the 2011 Budget Act will not be realized in 2011-12, which is consistent with concerns that Senate Republicans raised at the time the proposals were made. These lost savings include the following key items:

- *Copayments for Medi-Cal services*--$511 million in lost savings because the federal government has not yet approved Medi-Cal's proposal to implement the copayments. The Administration

now expects to receive federal approval in March 2012 and to implement the copayments in October 2012. We doubt this approval will ever materialize.

- *10 Percent Provider Rate Reductions*--$188 million lost due to court injunctions blocking reductions for some providers. Courts have already enjoined rate reductions for distinct-part nursing facilities and pharmacists, despite the federal government's approval of Medi-Cal's rate reduction proposal. Legal challenges for numerous other provider groups are still pending, and more savings are likely to erode once those cases are adjudicated.
- *Adult Day Health Center Program*--$60 million in lost savings because the Administration did not eliminate optional benefit as scheduled in the Budget Act, but instead delayed elimination of the program to December 1, 2011, and then settled a court challenge with advocates by further delaying the elimination until March 1, 2012.
- *Physician Visit Soft Cap*--$40 million in lost savings (out of $41 million originally projected) due to the inability to achieve managed care savings from this proposal and to the lack of federal approval for this policy to date. Although the Department of Finance believes that over half the original savings will be achieved in 2012-13, Senate Republicans continue to question whether even that amount will materialize.

These erosions result in a projected deficiency of $596 million General Fund for Medi-Cal this year. The Department of Finance indicates that it will pursue a supplemental appropriations bill this spring to address the shortfall.

Savings Proposals for 2012-13. The Governors' budget proposes $842 million in reductions for Medi-Cal in 2012-13, including the following significant items:

- *Improved Care Coordination for Seniors and Persons with Disabilities (SPDs)*--$622 million in General Fund savings associated with consolidating all Medicare and Medicaid-related benefits for SPDs into managed care plans, including long-term care (such as nursing homes) and community benefits (such as In-Home Support Services). The budget proposes a complex arrangement in which the state would combine current funds provided by counties, the state, and the federal government to pay Medi-Cal managed care plans to coordinate all care for SPDs, including 1.2 million "dual eligibles" who participate in both Medicare and Medi-Cal. The Administration anticipates that this arrangement, which would phase in over three years, will better align financial incentives and responsibility to care for SPDs in the community and will avoid the costly use of hospital inpatient care and nursing homes. While the concept of consolidating responsibility for delivering these services into one entity (a managed care plan) makes sense, some details presented to date raise doubts regarding whether the Governor's proposal would allow managed care plans enough flexibility to manage the benefits they would be financially at risk to deliver. In addition, this proposal would achieve savings in the budget year only by deferring a payment to providers by one or two weeks into the following fiscal year. This is simply a budget gimmick that places the burden on providers, with little certainty that real savings can actually be achieved.
- *Flexibility for Value-Based Purchasing*--$75 million in General Fund savings by establishing a process to allow DHCS to implement yet-to-be-determined changes in Medi-Cal benefit design or payment methods. The Administration rightly argues that burdensome state requirements for issuing regulations make it difficult for Medi-Cal to implement the sort of innovations that private insurers can implement quickly. **It is ironic that DHCS essentially is asking for regulatory relief from the state.** Republicans have argued for years that state regulations are a burden and an obstacle to efficiency, so it is refreshing that DHCS now recognizes this as well. This proposal includes no specifics for savings actions, and leaves any innovations subject to a stakeholder process that could kill off any real changes, calling into question whether the $75 million savings can actually be achieved.
- *Retroactive Costs for Managed Care Plans*--$57 million in one-time cash savings would result by removing the requirement for County-Operated Health Systems (COHS), one type of Medi-Cal

managed care plan, to cover health care services for new Medi-Cal enrollees provided up to 90 days before their enrollment. The two other types of Medi-Cal managed care plans are currently not responsible for such costs. These retroactive costs for COHS would now be covered by Medi-Cal fee-for-service, which produces short-term cash savings by delaying payment for the services into the next fiscal year. Although these "savings" do not result from any actual program reduction, it is unfair to hold a managed care plan responsible for services used before the beneficiary enrolls in that plan. In addition, the overall policy of providing retroactive coverage for 90 days creates a moral hazard in which individuals have no incentive to obtain coverage until they become so sick they incur health care costs. The state should reconsider this overall policy as well.

- *Hospital Stabilization Funding*--$43 million in one-time savings by capturing funds that are now set aside for supplemental payments to certain private and smaller public hospitals. The California Medical Assistance Commission has typically allocated this money to hospitals who apply for the supplemental payments. In essence, this proposal reduces reimbursement for those hospitals that would otherwise receive it.
- *Payment Reform for Certain Clinics*--$28 million in General Fund savings by seeking a federal waiver to reform the payment method for federally qualified health centers (FQHCs) and rural health clinics (RHCs). The federal government mandates higher reimbursement for these clinics but also imposes strict operating requirements that in some cases prevent more efficient delivery of care. Under this proposal, Medi-Cal would pay fixed, capitated rates to FQHCs and RHCs instead of the current cost and volume-based payment, while the clinics would gain greater flexibility in service delivery. The need for federal waiver approval places the savings at some risk, but the goal of removing federal operating restrictions makes sense.
- *Medical Therapy Program (MTP) Means Testing*--$9.1 million in ongoing General Fund savings by establishing an eligibility ceiling for MTP of $40,000 per family, which would be consistent with the related California Children's Services (CCS) Program. Those families with CCS-related expenses exceeding 20 percent of their annual income would also continue to be eligible, regardless of income. The MTP, which provides physical or occupational therapy to children with certain neurological or musculoskeletal disorders, now has no test for financial eligibility. This proposal would make roughly 4,800 children, or 20 percent of the current MTP enrollment, ineligible for the program. Counties now have a share of cost for MTP and so would also realize savings from the proposal.

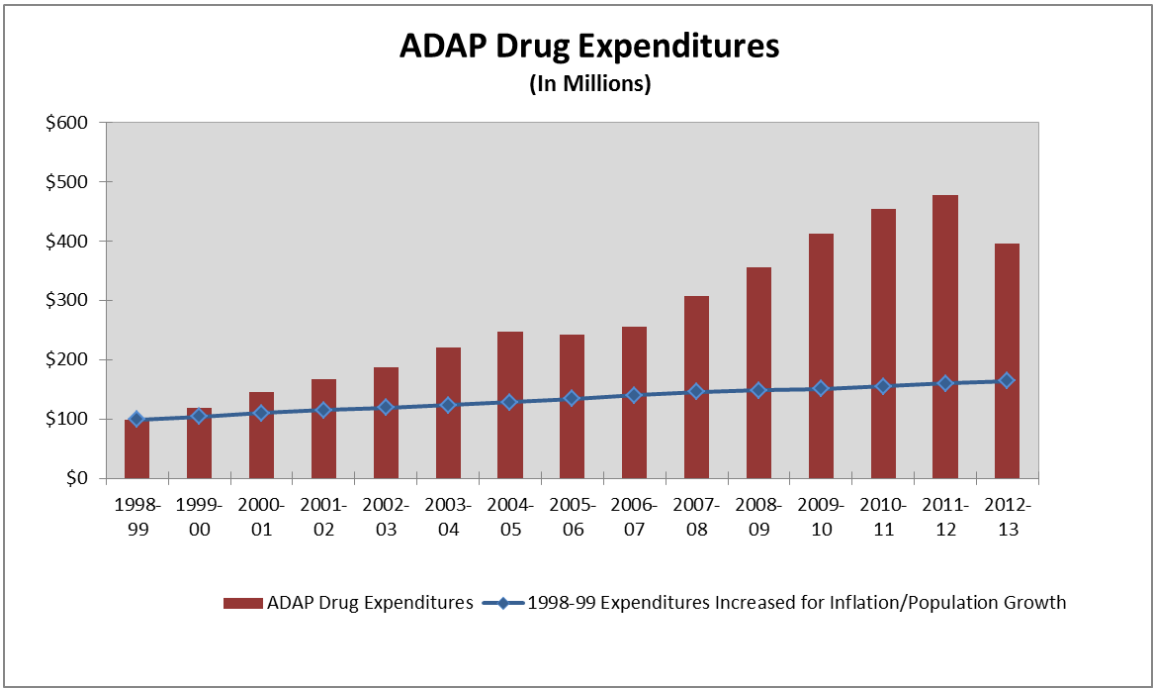
More Cost Containment Proposals Should Be Considered. Although the Governor has proposed some significant program streamlining, more options to reduce structural program spending should be considered in light of major questions that remain over whether Medi-Cal can achieve savings budgeted from provider rate reductions and copayments. For example, Medi-Cal's current eligibility levels were largely frozen in place by federal health reform, but the state can roll back eligibility for groups funded only by the state, such as immigrants that do not qualify for federal funding. Additionally, the state could press for the federal health reform eligibility restrictions to be repealed, allowing states greater flexibility to live within their means.

Department of Public Health (DPH)

Overview. The Governor's Budget proposes $125 million General Fund ($3.4 billion total funds) in 2012-13 for DPH, a decrease of $101 million General Fund or 45 percent from the enacted 2011-12 General Fund budget. This significant decrease results primarily from transitioning enrollees from the AIDS Drug Assistance Program (ADAP) to county-administered Low-Income Health Plans (LIHPs), which were authorized in November 2010 through the comprehensive Medi-Cal federal waiver.

AIDS Drug Assistance Program (ADAP). The ADAP provides medication and related health services to persons with HIV/AIDS who have incomes of less than $50,000 annually. The program is funded through a mix of General Fund, federal funds, and rebates the state receives from drug manufacturers.

Enrollees Shift to County Programs. The expected shift of ADAP enrollees to county LIHPs is finally stemming the rapid growth in ADAP spending seen throughout the past decade, as shown in the chart on the next page. As a result of the enrollee shift, the ADAP caseload is projected to decline from 41,887 in 2011-12 to 39,146 in 2012-13. The Governor's Budget projects that cost shifts from ADAP to LIHPs will reach $20 million in the current year and $107 million in the budget year. The federal government recently clarified that federal Ryan White programs such as ADAP must be payers of last resort, meaning that anyone eligible for a LIHP must obtain coverage there before seeking coverage through ADAP. Beginning January 1, 2012, counties will gradually implement LIHPs to provide coverage for legal U.S. residents between the ages of 19 and 64 who meet county-determined income eligibility levels reaching as high as 200 percent of the federal poverty level (FPL), or $21,660 annually for a single individual.



ADAP Cost-Sharing Reprise. The Governor's Budget proposes net General Fund savings of $14.5 million by increasing ADAP cost-sharing requirements to the maximum permitted under federal law. Specific cost-sharing requirements are proposed as follows:

- Income equal to or less than 100 percent of FPL ($10,830): No cost.
- Income up to 200 percent FPL ($21,660): 5 percent of gross income.
- Income up to 300 percent FPL ($32,490): 7 percent of gross income.
- Income above 300 percent FPL ($32,490): 10 percent of gross income.

Legislative Democrats rejected a similar proposal the Governor made for the 2011-12 budget, but this proposal once again makes sense. Cost-sharing in ADAP is now limited to individuals with incomes between 400 percent of FPL (about $43,300) and $50,000 per year, which is the income ceiling for the program. In contrast, 31 other states maintain ADAP eligibility ceilings of 337 percent FPL or less.

Although the specific cost-sharing amounts might strike some as expensive for low-income individuals, data from the U.S. Bureau of Labor Statistics indicate that families with earnings below the 20th percentile spend on average over $1,500 per year on entertainment, alcohol, and tobacco. This suggests that the cost-sharing amounts should be manageable even for lower-income individuals. In addition, the Healthy Families Program charges copayments and monthly premiums for enrollees down

to 100 percent of FPL. It would promote greater fairness among health programs to implement cost-sharing in ADAP as well down to the same income level.

Managed Risk Medical Insurance Board (MRMIB)

Overview. The Governor's Budget proposes $136 million General Fund ($956 million total funds) for the Healthy Families Program (HFP) in 2012-13, which reflects a decrease of $152 million General Fund (53 percent) from the revised 2011-12 spending level of $289 million. Total funding for HFP is estimated to decline by $717 million (57 percent) from the revised 2011-12 level of $1.7 billion. This net decrease results from the Governor's proposals to shift HFP enrollees into Med-Cal, reduce rates paid to HFP managed care plans, and make the managed care organization tax permanent.

Eliminate MRMIB and Transfer its Programs to the Department of Health Care Services. This proposal would eliminate the Board by July 1, 2013, and transfer its programs to the DHCS in preparation for California's implementation of federal health care reform. Specifically, kids enrolled in the Healthy Families Program would transition to Medi-Cal over nine months beginning in October 2012. Remaining MRMIB programs, including the County Children's Health Initiative Program, Access for Infants and Mothers, Major Risk Medical Insurance Program (MRMIP), and Pre-Existing Conditions Insurance Plan (PCIP) would transfer to DHCS effective July 1, 2013. MRMIP and PCIP would then be eliminated in January 2014 because individuals with pre-existing conditions would be able to purchase health insurance through the California Health Benefits Exchange as part of federal health care reform.

This proposal is largely a reprise of the Governor's 2011-12 budget proposal, which Republicans opposed and defeated. Healthy Families is an efficient program that incorporates privately contracted administration and shared responsibility for enrollees. These features would be compromised by eliminating MRMIB and shifting Healthy Families kids into Medi-Cal. Additionally, it makes little sense to undertake the administrative burden of transferring programs to a different department when those programs could soon cease to exist once the Health Benefit Exchange begins offering insurance in January 2014.

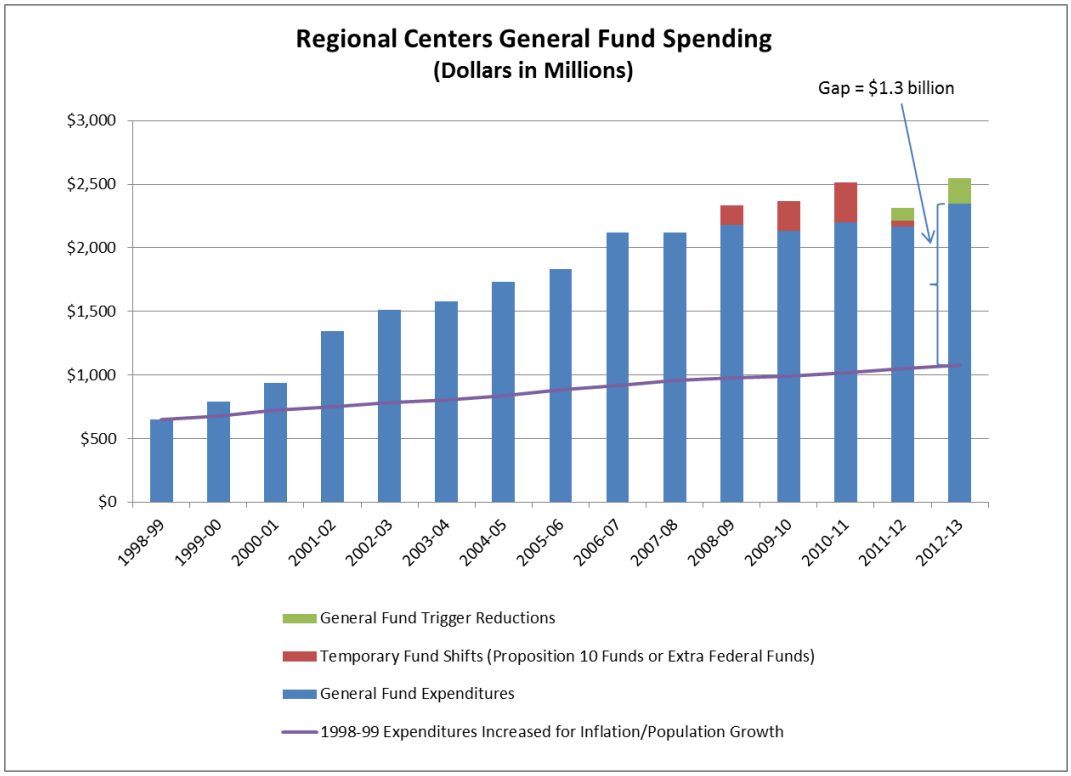
Substantial Managed Care Rate Reduction. The Governor's Budget proposes to reduce rates for HFP managed care plans by nearly 26 percent for savings of $64 million General Fund in 2012-13, growing to $92 million in 2013-14. The intent is to reduce HFP managed care payments to the levels paid in Medi-Cal. The practical effect of this proposal would be for the state to get Healthy Families services at Medi-Cal prices during the nine months that the Administration would gradually shift all HFP children to Medi-Cal, as described above.

Permanent Managed Care Organization (MCO) Tax. The Governor's Budget proposes to eliminate the June 30, 2012, sunset date for the MCO tax and make it permanent. The tax extension would provide $162 million in budget year savings (technically accounted for in the Medi-Cal budget) and $259 million in 2013-14. Chapter 157, Statutes of 2009 (AB 1422, Bass), first authorized this tax as a "temporary" expansion of the existing 2.35 percent gross premiums tax on Medi-Cal managed care plans. The tax's original purpose was to maintain HFP as a viable program and to help the state benefit from a temporary increase in federal matching funds, which expired June 30, 2011. Proceeds of the tax are used to obtain new federal funds, increase Medi-Cal rates to managed care plans, and provide extra funding for children's coverage. The managed care plans subject to AB 1422 supported the original legislation and two extensions enacted thus far based on the justification of sustaining a high-quality program and payment rates. Since the Governor proposes to eliminate HFP, the tax proceeds would benefit the Medi-Cal Program after HFP ceases operations. Because extending this tax requires a two-thirds approval, Republicans were able to preserve HFP in the current year budget by making the MCO contingent on HFP's continued operation. Republicans should pursue a similar strategy for 2012-13 to maintain one of the more efficient health care programs the state operates.

Department of Developmental Services (DDS)

Overview. The Governor's Budget provides $2.7 billion General Fund ($4.7 billion total funds) for DDS, an increase of $192 million General Fund from the revised 2011-12 spending level. The 2012-13 budget includes $2.2 billion General Fund for regional centers and $284 million General Fund for developmental centers. The Governor's Budget does not propose any new reductions for DDS, but the department will need to meet savings requirements imposed by the 2011 Budget Act's trigger reductions.

The underlying growth in DDS programs resumes a trend seen over the past decade. As shown in the chart below, spending growth for regional centers has been particularly strong, and regional center costs as proposed, assuming the trigger reductions are enacted, would be nearly $1.3 billion above what a growth rate equal to population and inflation would indicate.



Trigger Reduction Targets. The 2011 Budget Act trigger reduction list included savings of $100 million for DDS in 2011-12 and $200 million for 2012-13, but did not identify specific actions to achieve those savings. Since the trigger has been pulled, the Governor's Budget reduces DDS's current year budget by $100 million to reflect the savings, but it still fails to identify the means to achieve it. With the current year more than half over, time for DDS to achieve $100 million in savings is running out. The Administration also has yet to identify how it will achieve the $200 million savings requirement for the budget year, although DDS indicates that it will consider extending the current 4.25 percent rate reduction, now set to expire June 30, 2011, through 2012-13. The Administration may also count any savings that could materialize once the new private insurance autism mandate takes effect beginning July 1, 2012, as a result of SB 946 (Steinberg, Chapter 650, Statutes of 2011). Republicans should continue to argue, as they have in recent budget deliberations, that these reductions be made first to developmental centers, department administration, and regional center administration, rather than to services provided to the developmentally disabled in the community.

Proposition 10 (First 5) Savings Eliminated. In recent years, the California First 5 Commission, the statewide coordinator of First 5 funds, has voluntarily provided $50 million to DDS to offset General Fund costs for services provided to children ages zero to five. The Governor's Budget indicates that

these First 5 funds are no longer included in the budget, thereby increasing General Fund costs by $50 million. The reason for the loss of these funds is not yet clear, but given the numerous questionable uses of First 5 funding by the state and local commissions in the past, the First 5 Commission should continue providing these funds.

Department of State Hospitals (DSH)

Following the realignment of most community mental health programs to counties, which was authorized as part of the 2011-12 budget process, the Administration has established DSH as a new department focused solely on administering the state's mental hospitals. The DSH is essentially the former hospital division of the Department of Mental Health. Other community mental health programs that were not realigned to counties are shifting to the Department of Health Care Services and a few other state departments. The Governor's Budget includes $1.3 billion General Fund ($1.4 billion total funds) for DSH in 2012-13.

Annual Deficiencies. The Administration issued a report in December 2011 identifying various issues with the state hospital system and its budget. The report includes plans to address a current year funding shortfall projected to be $180 million. The Administration has identified savings measures to address all but $63 million of that shortfall, and the Department of Finance intends to seek additional funds to address the remaining deficiency. In addition, the Administration has identified on-going savings actions of $193 million and 620 positions through staffing ratio changes and program efficiencies and restructuring. The current deficiency projection makes 2011-12 the third consecutive year in which the state mental hospital system has experienced a deficiency. While many cost factors related to mental hospitals are subject to court orders and somewhat out of departmental control, the state has demonstrated an on-going inability to manage its state hospital system effectively. A lack of transparency in the operation of individual hospitals has been apparent for some time. The state should open up administration of this system to competitive bidding from private parties. Other governments have found some success in contracting out mental health inpatient care, and it's clearly time for California to give the private sector that opportunity.

Human Services

The Governor's 2012-13 budget proposes spending of $19 billion ($6.6 billion General Fund) within the state's human services programs. As part of the proposed solutions, the budget includes $1.1 billion in General Fund reductions to human services programs (primarily CalWORKs and In-Home Supportive Services), a decrease of approximately 15 percent.

Department of Social Services

The Governor's Budget includes $17.5 billion ($6.2 billion General Fund) for the Department of Social Services. The spending level is a decrease of $3.9 billion from the Budget Act of 2011, primarily due to savings associated with the 2011 Realignment within the child welfare services programs.

CalWORKs

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program. The state receives $3.7 billion in federal TANF funding and spends $2.7 billion state General Fund in order to meet the program's maintenance-of-effort (MOE), the level of state participation required by the federal government for receipt of the TANF block grant. The state can achieve savings within the CalWORKs program by utilizing TANF within other programs, such as Cal Grants, and offsetting General Fund.

CalWORKs differs from welfare programs in other states, providing a much more generous cash grant (8th in the nation overall, 2nd among the ten largest states) as well as continuing to allow families to receive a cash grant even though the adult has maximized their allotted time in the program **(one of only eight states that provide a "safety net" program)**. The Governor's Budget proposes a number of significant policy changes that would result in General Fund savings of $946.2 million in 2012-13. The budget assumes enactment of the proposal by March 2012 for full year implementation.

In recent years, program reforms have diluted the work-first approach of the program and the state's work participation rate has suffered negatively (the state is required to have a 50 percent work participation rate, but for 2010 the state is in the low 20's). The Governor's CalWORKs proposal would restructure the program into two programs, Basic and Plus, with time limits of 24 and 48 months respectively, which is a positive step towards refocusing the program back into a work-first approach for recipients. The budget also proposes to create a new state program for children on welfare without an aided adult, the Child Maintenance program. While the Child Maintenance program would make some changes to the grant levels of child only cases (a positive step in curbing costs), it is mostly just moving current children in the program from one place to another, and would not change the time allowed on aid or revise eligibility for the program, both of which could result in savings in the hundreds of millions of dollars.

CalWORKs Basic. The CalWORKs Basic program is similar to the existing CalWORKs program, with the main difference being a reduction in the time limit from 48 months to 24 months. CalWORKs recipients would be in the CalWORKs Basic program if they are not meeting federal work participation requirements (WPR) through unsubsidized employment. Recipients who are not meeting the federal WPR but who are participating in a welfare-to-work plan or those who may be exempt from participation in welfare-to-work activities would be in the CalWORKs Basic program for a maximum 24 months. The CalWORKs Basic program would take effect October 2012.

CalWORKs Plus. CalWORKs recipients who are meeting the federal WPR fully through unsubsidized employment would be in the CalWORKs Plus program. Recipients would be rewarded with a higher earned income disregard (first $200 earned and 50 percent of subsequent income disregarded), allowing them to keep more of the money they are earning. Recipients would be eligible for no more

than 48 months of assistance. After 48 months the adult portion of the grant would be removed and the case would move to the Child Maintenance program where the grants would be reduced slightly and the family would continue to receive aid until the children turn 18 years of age.

No More Exceptions. Currently, all those exempt from participation or in sanction status do not have their assistance clock "ticking", meaning the 48-month time limit only adds up when they are participating in the welfare-to-work program. Although welfare-to-work exemptions will continue to be granted under CalWORKs Basic program, being exempt will no longer stop the time clock. In addition, recipients in sanction status for three months will no longer be eligible for CalWORKs Basic and will be moved to the Child Maintenance program. Recipients can cure their sanction status and begin receiving assistance as long as they have not received aid for more than the 24 or 48 months. This proposal would not generate any immediate savings, but would result in a recipient's time in the program ending sooner in the future than under current law.

New Child Maintenance Program. The Child Maintenance program is not a new population, but rather takes the current child only-cases (see felons below), safety net cases, and those cases with an adult in sanction status and moves them into this newly created state program, taking them out of the CalWORKs program. The Governor's proposal would reduce the cash grant for the Child Maintenance program by approximately 25 percent (less than the current child-only grant). The grant would be reduced from an average of $463 a month to an average of $392 a month. In addition, children will be required to have an annual well-child exam to remain eligible. Child Maintenance program cases can move to the CalWORKs Plus program anytime by obtaining unsubsidized employment meeting the federal WPR. The Budget includes $1.6 billion for the program in 2012-13.

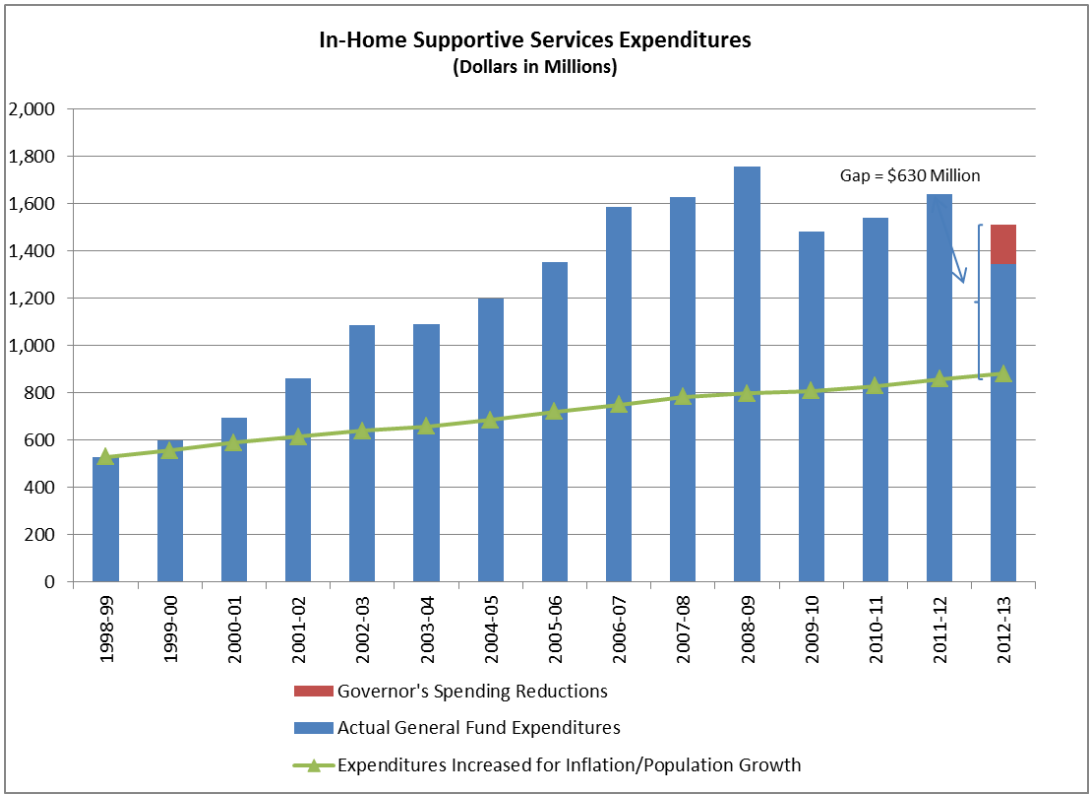
Prioritize Felons Over School Kids. The Governor's Budget, although proposing significant changes to the state's welfare program, continues to provide cash grants to undocumented immigrants, drug felons, fleeing felons, and those children whose parents have maximized their time on aid. While the budget proposes to remove these families from the CalWORKs program, the state continues to provide these same families with generous cash benefits via a new state-only program, at the same time the Governor proposes a $4.8 billion trigger cut to K-14 education. Felons before kids is not acceptable to Senate Republicans.

Takes Advantage of Federal Loophole. Beginning July 1, 2013, the Governor's Budget proposes to provide working families receiving CalFresh benefits or child care, who are meeting the federal WPR but are not in the CalWORKs program, with a $50 per month supplemental work bonus. The program is estimated to cost approximately $50 million beginning in 2013-14. Providing working families with this bonus (using TANF funds) allows the state to count these families in the state's work participation rate, increasing participation approximately one to two percent depending on the level of participation.

In-Home Supportive Services

The Governor's Budget includes $5.3 billion ($1.2 billion General Fund) for the In-Home Supportive Services (IHSS) program in 2012-13. Recent efforts to reform the program and reduce expenditures have met with resistance and immediate litigation from public employee unions and other parties.

Caseload and Cost Explosion. The Governor's Budget assumes caseload for IHSS to be approximately 459,647 recipients in 2012-13, a 3.3 percent increase over the 2011-12 projected level. The IHSS program has seen disproportionate growth over the past several years. Compared to population and inflation, the IHSS program costs are significantly higher, even with the program reductions proposed for 2012-13. See chart on next page.



Second Attempt to Contain Costs. The Governor's 2011-12 budget proposed to eliminate domestic and related IHSS services for those recipients residing in a shared living arrangement, but the proposal was rejected by the Legislative Democrats. For the 2012-13 budget, the Governor is again proposing to eliminate these services, assuming savings of $163.8 million General Fund in 2012-13. If the Governor fails to implement the proposal again, the result will be continued General Fund growth within one of the state's fastest growing programs. The state should implement a complete restructure of this optional Medi-Cal program given the current fiscal, as well as judicial, restraints.

2011 Trigger Reductions Challenged in Court. Revised state revenue projections for 2011 fell short of estimates included in the 2011-12 budget and as such, various "trigger" reductions were to be implemented January 1, 2012. One of these trigger reductions was a 20 percent across the board reduction in IHSS service hours; however, a court injunction has prevented the state from implementing this reduction. The Administration indicates that a hearing on the preliminary injunction is set for January 19, 2012, and the budget assumes the state will prevail in the case, with implementation of the reduction effective April 1, 2012. The Administration is defending this proposal in court, but the budget includes a set-aside to fully fund the IHSS program in the event of an adverse ruling.

2011 Trigger Reduction Reduces Fraud Protection. Included in the 2011 trigger reductions that were implemented after revenue estimates fell short was $10 million targeted to local governments to increase program integrity and reduce fraud within the IHSS program. For the past two years, the state budget included $10 million for IHSS fraud investigations, which was enhanced with $10 million in federal matching funds, allowing counties to combat IHSS fraud, many for the first time. According to Jan Scully, district attorney for Sacramento County, "the withdrawal of state funding may jeopardize the federal funding and the battle to catch and reduce IHSS fraud." Eliminating this funding will result in an open season for criminals to bilk taxpayers out of the same General Fund monies the state is trying to save.

Failed Savings Proposal. The 2011 Budget included trailer bill language that requires the implementation of a medication dispensing pilot project for Medi-Cal beneficiaries. Legislative

Democrats claimed the proposal would generate savings with the utilization of an automated medication dispensing machine to assist Medi-Cal beneficiaries with taking prescribed medications. Savings of $140 million General Fund were assumed in the 2011 budget, but current law also requires the Department of Social Services to implement an across the board reduction in IHSS service hours, effective October 1, 2012 if the pilot project and/or alternative savings proposals did not achieve $140 million in savings. Given the current injunction against the 20 percent across the board reduction in IHSS hours associated with the trigger cuts, the Governor's Budget no longer assumes savings from the medication dispensing pilot nor from an across the board reduction in IHSS hours, and proposes instead to repeal the statutory requirements. Senate Republicans frequently criticized this proposal as a phony cut that would not materialize.

Integration of IHSS into Managed Care. The Governor's Budget proposes to include IHSS as a managed care benefit beginning January 1, 2013. The Department of Health Care Services indicates the proposal would include IHSS services into the capitated rate paid to managed care providers. Starting January 1, 2014, managed care plans will have the option to either contract with the county or provide IHSS services themselves. Over three years, all dual-eligible beneficiaries (Medicare and Medi-Cal) will be required to enroll into a managed care plan, which would now provide the IHSS services as part of the overall Medi-Cal optional benefit program. The budget does not address several critical issues such as how managed care plans will contain costs if they are subject to collective bargaining conducted by third party Public Authorities and the impact on current wage and benefit agreements within each of the counties. This proposal would not generate any General Fund savings within the program, nor would it do anything to reduce fraud or increase program integrity.

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

The Governor's Budget proposes $2.8 billion General Fund for the SSI/SSP program in 2012-13, a 2.2 percent increase from the revised 2011-12 budget level of $2.7 billion General Fund. The budget estimates 1.3 million recipients in 2012-13, an increase of 1.7 percent over the 2011-12 level of 1.28 million recipients. The caseload consists of 70 percent disabled, 28 percent aged, and two percent blind persons.

Department of Child Support Services

The Governor's Budget includes $998.8 million ($313.2 million General Fund) for child support services in 2012-13, a decrease of $7.2 million General Fund from the revised 2011-12 budget. The budget proposes to suspend, for an additional year, the county share of child support collections, directing the entire non-federal portion of collections to the General Fund, for savings of $34.5 million in 2012-13. The 2011 budget included trailer bill that clarified the state has no statutory requirement to provide counties with any of the collection funds, but the suspension is only proposed for the 2012-13 fiscal year.

Public Safety & Judiciary

CORRECTIONS

The Governor's Budget proposes total state spending on corrections in 2012-13 of $9.9 billion ($8.7 billion General Fund, $1.2 billion special funds). This includes about $8.7 billion for state operations within the Department of Corrections and Rehabilitation (CDCR) and $1.2 billion for local assistance, most of which is for implementation of the 2011 realignment (*See Realignment Page 13).*

Department of Corrections and Rehabilitation

The budget includes $8.7 billion General Fund to support CDCR's operations in 2012-13. This represents an operational spending decrease of about $263 million compared to 2011-12 estimated spending, and nearly $768 million less than 2010-11. This decrease in state operations spending is the result of realignment. The shift of offenders to local jurisdiction that began in October 2011 was intended to reduce state General Fund spending. However, the result to taxpayers is actually a ***net cost increase of almost $200 million***. In the process of shifting felony offenders to local jurisdiction, costs at the local level appear to have outpaced savings at the state level. This net cost increase will be realized by taxpayers in the form of increased vehicle registration costs and pressure to vote for the Governor's tax increase ballot initiative in November. The 2012-13 budget fails to reflect any real efficiency improvements within CDCR. In fact, inmate per capita costs are projected to rise by almost 14 percent compared to pre-realignment levels, while parolee per capita costs increase by more than 40 percent.

Population Changes. Institutional and parole average daily populations (ADP) are projected to decrease significantly for both adult and juvenile populations, primarily due to the impact of realignment. The proposed budget includes a General Fund decrease of $453.3 million in 2011-12 and $1.1 billion in 2012-13 for population-related workload changes.

Projected institutional and parole populations are as follows:

- *Adult Institutions.* The administration projects no change in institutional ADP for 2011-12 since its May Revision estimate of 163,152. However, ADP is projected to drop to 132,167 in 2012-13.
- *Adult Parole.* Parole ADP is projected to increase from 107,354 to 108,338 in 2011-12 (increase of 984 parolees compared to May Revision projections) and to decrease to 56,440 in 2012-13.
- *Juvenile Institutions.* ADP is projected to increase from 1,165 to 1,174 in 2011-12 (increase of 9 wards compared to May Revision projections) and to decrease by 25 wards to 1,149 in 2012-13.
- *Juvenile Parole.* ADP is projected to decrease from 1,178 to 850 in 2011-12 (decrease of 328 compared to May Revision projections) and to further decrease to 656 in 2012-13.

Receiver's Budget. The budget includes two augmentations for the Receiver totaling $70.8 million General Fund. The largest ($59.9 million) is for pharmaceutical cost increases caused by rising drug prices. The other ($10.9 million) is for pre-activation and activation staffing at the new California Health Care Facility (CHCF) in Stockton. The first phase of the CHCF project is due to be completed by May 22, 2013.

Cancellation of Prison Construction Projects. The Governor plans to terminate two previously approved prison construction projects – the Estrella infill project in Paso Robles and the project to convert the DeWitt Nelson Youth Correctional Facility outside of Stockton to an adult facility – citing

downward population trends related to realignment. Cancellation of the Estrella infill project results in General Fund savings of $44.5 million related to activation and operational costs. The Governor's Budget also assumes savings of $125 million General Fund, which represents the remainder of the $300 million General Fund appropriation for infrastructure improvements that was included in the Public Safety and Offender Rehabilitation Services Act of 2007 (AB 900, Solorio). The period of availability for AB 900 funds will run out this year and those funds will revert to the General Fund on the natural.

Although institutional populations are trending downward due to realignment, it is not clear how the abandonment of these two construction projects will impact the state's ability to meet the population reduction requirements recently imposed on California's prison system by the three-judge panel and affirmed by the U.S. Supreme Court. That, coupled with the fact that many of the state's prison facilities are nearing obsolescence due to deterioration, inefficient design, and lack of programming space, calls into question the wisdom of cancelling these projects.

Shifting Remaining Juvenile Offenders to County Jurisdiction. In addition to the program areas included in the 2011 realignment, the Governor's Budget identifies another concept to expand on his plan. This proposal would shift responsibility for the custody of all remaining juvenile offenders to counties over time by halting intake into Division of Juvenile Justice (DJJ) facilities effective January 1, 2013 and letting the population dwindle into extinction through attrition. Given the small population of juvenile offenders remaining in DJJ facilities after previous realignment efforts (approximately 1,170) and the high cost of maintaining and staffing the aging facilities that house them, completing the process of divesting the state of its remaining responsibility for supervising juvenile offenders may warrant consideration. The budget includes $10 million General Fund in 2011-12 for counties to begin planning for the population shift.

The population of juvenile offenders that still remains with the state represents the "worst of the worst," as all of the lower-level offenders have already been realigned to the counties. Not only are the remaining wards individuals with a demonstrated inability to live by society's rules – many of them also require intensive treatment for sexual deviance, violent tendencies, and/or mental illness. According to DJJ, 95 percent of new commitments have a history of serious and violent crimes, 41 percent are in need of mental health services, 58 percent are in need of substance abuse treatment services, 22 percent are in need of sexual behavior treatment services, and 28 percent of wards that are enrolled in school are receiving special education services.

Counties have repeatedly asserted that they lack the resources, expertise, and facilities to deal with these offenders. In many cases, programs simply do not exist at the local level to serve this population and would have to be built up to accommodate the shift. This would be a difficult obstacle to overcome, particularly for small counties with very limited financial resources. To help lessen the blow to local agencies, the budget includes an augmentation of $21 million in 2012-13 to reflect the suspension of fees on local agencies for sending juvenile offenders to state institutions. The Administration indicates that it intends to suspend collection of these recently imposed additional fees in order to facilitate the shift of remaining juvenile offenders to county jurisdiction and "prevent the disinvestment of funds in juvenile justice at the local level".

2011-12 Unallocated Trigger Reduction. The Governor's Budget reflects a $20 million General Fund reduction in both 2011-12 and 2012-13 to implement the “trigger” reduction included in Section 3.94 of the Budget Act of 2011, as added by Chapter 41, Statutes of 2011 (AB 121).

Community Corrections Performance Incentive Grants. The California Community Corrections Performance Incentives Act of 2009 (SB 678) created a grant program to reduce the number of felony probationers being sent to state prison for violations. The program is theoretically funded by savings from reduced incarceration costs within CDCR and requires local probation departments to establish a system of evidence-based programs and alternatives to returning probationers to custody. The budget

includes an increase of $49 million General Fund for SB 678 grants, bringing total funding for the program to $138.2 million.

Alternative Custody for Women. The budget includes a proposal to expand the existing Alternative Custody for Women program to allow participation by women who have a prior serious or violent conviction. The program places female offenders in community-based treatment programs in lieu of incarceration. In the short term, the Administration plans to redirect existing funds to cover the costs of community placement. By 2014-15, they project savings of $2.5 million, which they expect to grow to $5 million annually thereafter. It is not clear whether the expanded program will be limited to offenders with a low risk of reoffending, or whether all risk levels could participate. Senate Republicans have generally argued that the safety of the public dictates that programs providing alternatives to incarceration should be reserved for low-risk offenders.

Board of State and Community Corrections

Chapter 36, Statutes of 2011 (SB 92) created the Board of State and Community Corrections (BSCC) as an independent government entity, eliminated the Corrections Standards Authority (CSA) from CDCR, and shifted the CSA's duties to the newly created BSCC. The functions of the Office of Gang and Youth Violence Policy, which was formerly part of the California Emergency Management Agency (CalEMA) and the California Council on Criminal Justice (formerly an independent council funded by grants passed through CalEMA) were also consolidated within the BSCC. The Governor's Budget shifts $8 million General Fund plus $46.3 million in other funds (mostly federal funds) from CDCR and $14.6 million General Fund plus $46 million in other funds (mostly federal funds) from CalEMA to the newly formed BSCC.

OTHER PUBLIC SAFETY

California Emergency Management Agency

2011-12 Trigger Reduction. AB 121 (2011) included a trigger reduction of up to $15 million General Fund to the Vertical Prosecution Block Grant program, which provides funding for District Attorneys to prosecute certain types of gang and domestic violence cases using specialized units of prosecutors. The Governor's Budget includes a reduction of $14.7 million pursuant to the requirements of AB 121.

Relocation of California Specialized Training Institute. CalEMA's California Specialized Training Institute (CSTI) campus in San Luis Obispo provides specialized training to federal, state, and local officials, as well as to the private sector. CSTI courses include emergency management, criminal justice, and hazardous materials instruction. Most of the training is subsidized by the federal government. The Governor's Budget includes a proposal to close the campus in San Luis Obispo, shift program administration to CalEMA headquarters in Mather, and provide training opportunities nearer to major population centers (i.e., Los Angeles and San Francisco) via Joint Powers Authority (JPA) agreements.

According to the Administration, closing the San Luis Obispo facility would save $187,000 General Fund in 2012-13 and $377,000 annually thereafter. However, no information is provided on the state's share of future JPA costs, so it is not entirely clear that the proposal would, in fact, result in any savings.

Department of Justice

Expanding the Misuse of Firearms Fee Revenues. Included in the budget is a proposal to shift $4.9 million in General Fund expenditures for the Armed Prohibited Persons System to the Dealers' Record of Sale (DROS) Account on a three-year limited-term basis to "address a backlog."

The DROS fund was created as a repository for revenue from fees charged to purchasers of firearms. The fees were intended to cover the costs of running background checks to ensure that firearms are not sold by California retailers to dangerous felons who are prohibited by law from owning them. In other words, DROS revenues were meant to provide regulation and enforcement of the *sales* of firearms. As such, firearms retailers have generally supported the DROS fees, though they have argued for years that the fees are too high, that revenues exceed the costs of regulating and enforcing laws pertaining to firearms sales, and that fees should be reduced to an appropriate level. This claim is supported by the fact that the DROS Account has accumulated a significant surplus with a year-end balance after 2011-12 of $10.3 million. This is *after* a 2011-12 loan of $11.5 million to the General Fund that has not yet been repaid. Annual expenditures from the fund prior to this proposal are approximately $12 million, while annual revenues are approximately $16 million.

Chapter 743, Statutes of 2011 (SB 819, Leno) expanded the statutorily authorized use of DROS funds to include regulating and enforcing laws related to the *possession* of firearms. Firearms retailers and gun owners vehemently opposed SB 819 because it shifted the cost of enforcing firearms possession laws from the general public to firearms purchasers. The benefit of the enforcement activity accrues to the general public in the form of enhanced public safety through removing firearms from the hands of prohibited persons. Thus, the gun lobby argued that SB 819 violated the provisions of Proposition 26. SB 819 did not receive a single Republican vote in either house.

This proposal implements SB 819 by shifting the cost of firearms possession enforcement activities from the General Fund to the DROS. Conveniently, it would spend down DROS reserves, eliminating (on paper at least) the argument that DROS fees are too high.

"Partial Restoration" of Law Enforcement Funding. The 2011-12 budget included the elimination of almost all General Fund support for DOJ's Division of Law Enforcement (DLE). Some have speculated that the $70 million reduction, which represented roughly 30 percent of the Division's budget and was incorporated into the budget bill in the final hours before enactment, was a move by the Governor's Office to punish the union representing most of the DLE's sworn peace officers for supporting Meg Whitman in the 2010 election. Whether or not that was the case, the spending reduction decimated the DLE.

The Governor's 2012-13 budget includes a proposal to partially restore the funding that was stripped from the Division. The proposal would provide $4.9 million General Fund to establish the California Bureau of Special Investigations within the DLE. According to the Administration, this would restore DOJ's ability to conduct special investigations, prosecute foreign crimes, and "address a backlog in entries in the Armed Prohibited Persons System" – the same Armed Prohibited Persons System that would see a $4.9 million General Fund reduction under the DROS proposal above. It is not clear whether any of the functions that were reduced or eliminated by the original $70 million General Fund reduction would actually be restored. Furthermore, should the Governor's tax increase ballot initiative fail, a trigger reduction would eliminate the $4.9 million "partial restoration," leaving funding for the Armed Prohibited Persons System at the same level as 2011-12 and the DLE still with no General Fund resources.

JUDICIARY

Judicial Branch

Court User Fee Increase. The Governor's Budget proposes to increase court user fees to bring in another $50 million in revenue to the Trial Court Trust Fund. These funds would be available to offset the ongoing impact of General Fund reductions to the trial courts that have occurred over the past several years. Closure days to reduce expenditures are a reality that many trial courts already face. As Trial Court Trust Fund reserves dwindle, absent this or some other solution, trial courts could be faced with additional court closure days.

This proposal builds on $60 million in permanent fee increases enacted in 2009-10 and another $102 million in temporary fee increases enacted in 2010-11 that will expire at the end of 2012-13. **This means that during 2012-13, court users will pay about $212 million more than they did just three years ago.**

While court closures are undesirable, continuously increasing fees also results in barriers to access for those seeking justice. As families and businesses continue to cut back on spending to survive desolate economic times, those seeking justice are forced to pay increasingly more to sustain the judicial system. Therefore, it is important that courts find ways to keep their doors open while reducing costs through efficiency improvements.

Ballot Trigger Reduction. On the one hand, as discussed above, the Governor proposes increasing court user fees to mitigate the impact of recent budget reductions to the trial courts. Yet on the other hand, the 2012-13 Governor's Budget includes a trigger reduction of $125 million that would take effect if the Governor's tax proposal is not approved in November. If court closures are a significant enough threat to justice to warrant increasing court user fees for the third time in four years (despite a statutory moratorium on these increases), then it does not make sense to target the trial courts for trigger reductions.

Augmentation for Court Employee Benefits. Notably, the budget also includes a proposal to provide a $19 million General Fund augmentation to the trial courts for employee benefit costs. It seems irresponsible to increase public employee benefits while raising trial court user fees by over $200 million in four years just to keep the courts open.

Transportation

Department of Transportation

Weight Fee Revenue Transfer. The Governor is proposing to transfer $349.5 million in weight fee revenues to the General Fund in 2012-13 as a loan to help balance the state budget. These funds, which are above the amount needed to pay current debt service, would ultimately be used to offset transportation debt service in future years. At this time, there is no repayment schedule available for review. For fiscal year 2012-13, weight fees will also offset $634.5 million of transportation debt service.

Amtrak Cost Increase. An increase in payments to Amtrak of $13.9 million Public Transportation Account in 2012-13 (growing to $28 million in 2013-14) for current intercity rail services provided to Southern California. The increase in funding will reduce the amount that would have been available for future capital projects or increased service levels. Federal legislation, Passenger Rail Investment and Improvement Act, requires states to cover 100 percent of the operating and capital costs not covered by fare revenue on state supported rail routes by October 2013. If the state decides not to provide the 100 percent of the gap between fares and costs, the existing intercity rail service would be reduced.

Mass Transportation Program. Due to reductions in the Public Transportation Account funding for capital projects, the Governor proposes a reduction of $3.7 million and 41.7 positions to the Mass Transportation program. This reduction will require the department to do a zero-based budget analysis of ongoing staffing needs with the emphasis on a reduction to project oversight positions and a streamlining of planning and administrative workload. This appears to be a prudent approach to identify appropriate program expenses.

Office of Traffic Safety. The Governor proposes to eliminate the Office of Traffic Safety (OTS), which distributes federal traffic safety grants to state and local entities to reduce deaths, injuries, and economic losses resulting from traffic collisions. According to the Administration, OTS' functions would be transferred to the Department of Motor Vehicles to achieve efficiencies and reduce administrative costs. At this time, it appears that no "savings" have been identified in DMV's budget resulting from this transfer of duties. The only recent concerns with OTS have arisen from Democrat Legislators concerned that **OTS suggests as part of its grant criteria that public safety officers check for a driver's license** when vehicles are stopped at sobriety checkpoints because this sometimes resulted in a person's vehicle being towed who could not show proof that they were legally authorized to drive under California law. That suggestion appears to be consistent with OTS' mission of administering these grants to reduce traffic deaths and injuries. The Administration has not outlined the specific deficiencies in the current program; therefore, the reason to eliminate OTS is unclear.

High Speed Rail Authority

The Governor's Budget proposes to provide an additional $6.8 million in Prop 1A bond funds for administrative workload and staffing, with a total budget of $15.9 million to support the High Speed Rail Authority (HSRA) in 2012-13. At this time, the Department of Finance is conducting a comprehensive review of the HSRA's Funding Plan and once the review is completed, the Administration plans to propose a complete capital outlay and support funding plan for 2012-13.

In November 2011, the HSRA approved a Funding Plan and draft Business Plan for the HSR project. The project is currently estimated to cost $98.5 billion with funding commitments of only $9.9 billion from Prop 1A and $3.9 billion in federal funding. At this time, the HSRA has not been able to secure any private sector interest in the project and additional federal funding appears very uncertain. The draft Business Plan indicates that the HSRA does not plan to operate high-speed service along the Initial Construction Section (ICS), which covers approximately 130 miles in the central valley, in the

foreseeable future, if at all. The Business Plan specifies that High-speed rail service will not begin until an Initial Operating Section (IOS) is built either to the North or South. At this time, there is no funding currently identified to build these sections, which will cost between $20 to $25 billion. The HSRA is considering whether to allow Amtrak to use the ICS until the IOS is built. This raises legal concerns pertaining to the use of Prop 1A bonds. Any Administration proposal to continue this project should include funding sources. Anything less is putting future General Fund revenues at risk to repay bonds on a project that may never be completed. This would be a great disservice to the taxpayers of California.

Department of Motor Vehicles

Vehicle Registration Fee Discount. The Governor's Budget includes a proposal to improve the efficiency of the vehicle registration process and decrease customer wait times in field offices by encouraging more vehicle owners to pay their vehicle registration fees online or through the mail. Under this plan, the Department of Motor Vehicles (DMV) would offer a $5-per-vehicle discount to vehicle owners who use one of these more efficient methods to renew their vehicle registration, rather than doing so in person in a DMV field office. The plan would save approximately $531,000 in Motor Vehicle Account (MVA) personnel costs, but would also result in an estimated loss of $101 million in MVA revenues.

Improving the DMV's efficiency and reducing customer wait times are both desirable outcomes and this proposal is generally supportable. In addition to these benefits, the lost revenues to the MVA are really savings to vehicle owners who have been hit particularly hard by increases in registration and driver's license fees over the past several years. Although this proposal would result in a net loss of revenue to the MVA, the Department of Finance projects a positive fund balance at the end of 2012-13 and indicates that MVA revenues will still exceed MVA expenditures in both 2011-12 and 2012-13 under this plan. Another benefit of this proposal is that it would reduce the balance of available funds in the MVA that could be loaned or borrowed. For this reason, look for legislative Democrats to reject this proposal and move to either sweep or loan the $100 million to the General Fund.

Process Efficiencies through Technology Improvements. The Governor's Budget proposes $4.4 million MVA to increase efficiencies in DMV field offices. Of the total $4.4 million, $250,000 would be used to modernize DMV's customer flow and appointment systems. By encouraging people to use field offices during non-peak times, the Department hopes to minimize the amount of time its customers have to wait. The other $4.2 million would be used to expand DMV's automated knowledge testing capabilities, which would reduce the amount of time it takes to administer driver's license tests. The automated knowledge testing proposal would ultimately result in a reduction in field office staff, although no savings are reflected in 2012-13. These proposals may merit consideration, though insufficient data has been provided to conduct a cost-benefit analysis.

Resources & Environmental Protection

CAL FIRE

State Responsibility Area (SRA) Fees. The Governor's Budget includes $84.4 million in new "fee" revenues authorized by AB X1 29 (Blumenfield/2011), which requires the Board of Forestry to establish a "fee" of up to $150 on inhabited structures within the SRA to pay for fire prevention activities. The Administration estimates collection of these revenues to begin in the 2011-12 fiscal year and will use them to backfill General Fund costs of $50 million in 2011-12, and about $67 million in 2012-13. Of the $67 million in 2012-13, approximately $40 million will be used to backfill the department's base General Fund costs on fire prevention activities. The additional $27 million will be used to backfill emergency fund (E-Fund) costs. E-Fund costs are for firefighting activities that the SRA fee is not supposed to fund. The "fire prevention" activity to be funded is the replanting of the damaged area after a wildfire has occurred. ***Pursuant to Proposition 26, this new "fee" 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 remaining $17.4 million in annual revenue will be spent on new staffing and activities at a cost of $9.3 million at CalFire, $6.6 million at the Board of Equalization and $1.5 million at the California Conservation Corp. The Administration is waiting for its third set of emergency regulations to be approved by the Board of Forestry on January 11, 2012. The first set did not bring in enough revenue and the second set was denied by the Office of Administrative Law due to excessive fee charges on apartment complexes within the SRA. The Administration indicates that it continues to look at the long-term structure of the fee, which includes supplementing the fee with a per-acre charge.

Fire Fighting Trigger Cuts. The Administration proposes to reduce the department's firefighting capabilities by 10 percent, or approximately $60 million, if the Governor's tax initiative is not approved by the voters in November. This reduction would require cuts to fire protection services, including the closure of fire stations and reduced emergency air response times.

Department of Water Resources

Delta Habitat Conservation and Conveyance Program. The budget includes $25.4 million from State Water Project contractors for preliminary engineering work to support the Delta Habitat Conservation and Conveyance Program. This program is intended to meet the dual goals of water supply reliability and ecosystem restoration identified by the Bay Delta Conservation Plan. The Plan is due in 2012 and will ensure water supply reliability while also promoting the recovery of endangered, threatened and sensitive fish and wildlife species in the Sacramento-San Joaquin Delta. When completed, the Plan will provide the basis for the issuance of permits for the operation of the alternative conveyance project.

Flood Control Trigger Cuts. The Administration proposes to reduce the department's budget by 20 percent, or approximately $6.6 million, if the Governor's tax initiative is not approved by the voters in November. These programs include floodplain mapping and risk awareness.

Department of Fish and Game

Renewable Energy Projects Permitting. An increase of four positions to implement AB x1 13 (V. Manuel Perez, 2011) and SB 16 (Rubio, 2011), which require the Department of Fish and Game (DFG) to approve or reject incidental take permits applications from an owner or developer of an eligible renewable energy project within 60 days and to expand project types to include wind and geothermal. ***Most Senate Republicans opposed AB X1 13****, which established a fee of up to $200,000 per project*

to provide staffing at DFG to expedite endangered species permits. ***However, most Senate Republicans supported SB 16 which*** establishes deadlines for DFG to process environmental permits on applications for renewable energy.

Oil Spill Response Program (OSPR). The Governor's Budget includes an increase of $2.9 million Oil Spill Prevention and Administration Fund to implement AB 1112 (Huffman, 2011), which requires the department to do vessel screening and risk assessment activities along with oil transfer inspections and monitoring. This measure increased the per barrel fee on oil imports from $0.05 to $0.065, generating ***approximately $7.5 million annually until January 1, 2015,*** to fund the current OSPR program and the new requirements mentioned above. Multiple audits have shown DFG mismanagement of the OSPR fund, tapping the fund for departmental administration and shifting OSPR staff to department headquarters. ***This measure was opposed by most Senate Republicans.***

Game Warden Trigger Cuts. The Administration proposes to reduce the department's game warden funding by 20 percent, or approximately $5 million, if the Governor's tax initiative is not approved by the voters in November. This would eliminate 30 positions and affect the department's ability to do field operations, detect invasive species transportation, and conduct large boat operations.

Non-Warden Trigger Cuts. The Administration would also cut non-game warden programs by approximately $15 million by reducing funding for Marine Life Protection Act (MLPA), Marine Life Management Act, and the monitoring and management of fish and wildlife species. Permitting and data collection and monitoring activities of sensitive endangered species would be retained. Most Senate Republicans have not supported the implementation of MLPA.

Department of Parks and Recreation

Reduction to State Parks Budget. The Governor's Budget continues the General Fund reduction for the Department of Parks and Recreation (DPR) from $11 million in 2011-12 to $22 million in 2012-13, which is anticipated to result in the closure of 70 state parks effective July 1, 2012. The Administration is increasing funding from the State Parks and Recreation Fund by $4.3 million and shifting another $11 million from its base budget to a continuous appropriation to provide the department additional flexibility to implement new projects and/or new programs that generate additional revenue and help keep parks open to the public. Specific information about this proposal is not available, but it's supposed to provide the department the ability to hire staff when needed, such as, seasonal aides to collect entrance fees at kiosks during high demand and develop projects like alternative camping sites to generate more revenue. It's not clear why these types of revenue alternatives haven't been implemented already since the department has been discussing park closures for several years due to budget reductions. It remains to be seen if the department is successful in attracting more concessionaires, operating agreements, and contracts with public, non-profit, and private entities to keep parks open.

Seasonal Lifeguard and Park Ranger Trigger Cuts. The Budget proposes to eliminate all seasonal lifeguards and 20 percent of park rangers if the Governor's tax initiative is not approved in November. This would result in a savings of approximately $8.7 million and a reduction in park citations, arrests, and resource protection. The actual number of seasonal lifeguards and park ranger's positions that would be eliminated is unknown at this time.

Department of Boating and Waterways to be consumed by Parks. The Governor proposes to eliminate the Department of Boating and Waterways (DBW) and transfer its functions to DPR. The department will become a division of DPR similar to Off-Highway Vehicle Recreation Division, but will no longer have the California Boating and Waterway Commission as this will be eliminated also. DPR will take over the tasks now performed by the Commission, such as, consenting to boating facility loans and grants as well as the functions of DBW. Currently, DPR receives approximately $28.8 million

annually from the Harbors and Watercraft Revolving Fund (HWRF) that is believed to fund activities at DPR's reservoirs; however, the exact expenditure of these funds has always been murky. The majority of funding comes from the Motor Vehicle Fuel Account (boat gas tax) and is supposed to be transferred to the HWRF, but instead is sent to DPR. This funding is derived from fuel purchased by boaters. Although less than 3 percent of boat launching facilities are located on state park property, DPR currently receives more of the boat gas tax than DBW. This transfer of funds has had a negative effect on DBW's ability to fund their local assistance and capital outlay programs, which has affected boat facilities throughout the state. This proposed transfer of DBW's programmatic functions to DPR will likely weaken the state's boating program.

State Lands Commission

Royalty Recovery and Lease Compliance. The Administration proposes an increase of $1 million General Fund for the State Lands Commission (SLC) to increase financial audit activities related to the management of oil, gas, and other mineral resources owned by the state, and to ensure compliance and prompt payment of rentals from surface leasing. The audits are estimated to generate $6.6 million in additional General Fund revenues. In an August 2011 report by the California State Auditor, the SLC was criticized for not managing public lands effectively which resulted in the state losing millions in General Fund revenues. The Auditor had several recommendations to improve the SLC's performance with the need for additional staffing unknown as the SLC needed to better justify more staffing through a workload analysis. It is uncertain whether this proposal will rectify the mismanagement of leases.

Land Exchanges for Renewable Energy Projects. An increase of $686,000 School Lank Bank Fund for the SLC to execute land exchanges for renewable energy related projects as required by AB 982 (Skinner/2011). The bill requires the SLC to enter into a memorandum of agreement with the United States Secretary of the Interior to exchange state school land trust parcels with the federal government to create consolidated holdings that could be used for renewable energy-related projects. The SLC estimates that $10 to $12 million annually in lease revenues would be generated to benefit the State Teacher's Retirement Fund. Most Senate Republicans supported this measure.

Air Resources Board

Cap and Trade and Spend. AB 32 (Nunez/2006), the California Global Warming Solutions Act of 2006, created a comprehensive, multi-year program to reduce GHG emissions in the state. The overall goal is to reduce emissions to 1990 levels by the year 2020. The legislation gave the California Air Resources Board (ARB) the responsibility of implementing regulation based upon a Scoping Plan adopted in 2008. One of the key provisions required that the ARB adopt regulations on GHG emissions limits and reduction measures, through a cap and trade program, by January 1, 2011 to become effective on January 1, 2012. This cap and trade program will cover approximately 600 of the state's largest greenhouse gas emission emitting stationary sources, including: public universities, local government facilities, and municipal utilities

.

The Governor's Budget will impose a Cap and Trade Program "fee" (more appropriately a tax) in 2012-13 that is estimated to generate $1 billion in revenues through the auctioning of Greenhouse Gas emission allowances by the Air Resources Board as a market-based compliance mechanism. ***The Department of Finance advises that of the $1 billion, $500,000 million would be used to offset unspecified statewide General Fund programs.*** These tax proceeds are expected to grow significantly in future years, to as much as $10 billion annually, as more Californians are impacted. Some of the programs that this new tax may be spent on include Clean and Efficient Energy, Low-Carbon Transportation, Natural Resource Protection, and Sustainable Infrastructure Development. The specifics of these programs are vague and the nexus between who will pay the costs and who will benefit from the programs is unclear. Interestingly, specific expenditures are not included in the budget but instead will be provided through a future expenditure plan that will be submitted 30 days prior to allocating funds.

It's uncertain whether this "fee" is even allowable under AB 32. SB 31 (Pavley/2009) was introduced to allow for the auctioning of emission allowances as a compliance mechanism for AB 32 implementation. It granted the Legislature authority to appropriate revenues generated from compliance and emission allowance fees from an auction to fund climate change related expenditures beyond ARB's administrative costs. It's clear that this was an attempt to legally authorize this "fee." The bill failed passage on the Senate Floor.

With the passage of Proposition 26 in November 2010, taxes disguised as "fees" would no longer be able to be passed by a simple majority vote. Though AB 32 was passed in 2006, there are significant legal problems that remain with cap and trade program, especially if any portion of these monies is used for anything other than administering the plan. Unfortunately, the Democrat-controlled Legislature has approved other "fees" that under Propositions 26 are truly taxes – such as the SRA fee. Therefore, it is not surprising that a significant amount of the Cap and Trade "fee" will be used for unrelated purposes, thus making it an illegal tax.

State Water Resources Control Board

Water Quality Grants. The Governor's Budget proposes an increase of $11 million special fund for grants to small and severely disadvantaged communities to address wastewater system needs. ***This appears to be a fee increase on waste discharge permits, but the specific information about the source of the $11 million is not available at this time.***

Department of Toxic Substance Control

Stringfellow Pre-Treatment Plant. The Governor's Budget proposes an increase of $40.1 million in lease revenue bonds for the construction of the New Stringfellow Pre-treatment Plant to continue the treatment of contaminated groundwater caused by the site's use for hazardous waste disposal from 1956 to 1972. The federal court has mandated that the state restore the contaminated groundwater at the site.

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. California has been one of the hardest hit states in the country in terms of statewide unemployment rates. The nation's unemployment rate (currently hovering around 8.6 percent) is dwarfed by California's 11.3 percent unemployment rate. In some areas of the state, that rate is much higher. It is anticipated that the state's unemployment rate will eventually decrease to 9.3 percent by 2016. This continued high unemployment rate has had a negative impact on the state's unemployment system, resulting in insolvency for the Unemployment Insurance Fund (see below).

Employment Development Department (EDD)

EDD administers the Unemployment Insurance (UI), Disability Insurance, and Paid Family Leave programs and collects payroll taxes from employers, including the personal income tax. EDD also administers job services programs and one-stop service centers and provides employment training programs through the Employment Training Panel and the Workforce Investment Act.

Unemployment Insurance (UI) Fund Solvency. The Governor's Budget includes $6.7 billion for unemployment benefit payments in 2012-13, compared to benefit payments totaling $20.1 billion in 2010-11 and $13.0 billion in 2011-12. Annual receipts (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) range between $5.2 billion and $5.5 billion.

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 October 2011 UI benefit estimate, this deficit has increased to $9.4 billion. The Governor's Budget does not propose a solution to resolve the structural imbalance in the UI Fund.

In September 2011 the state paid accrued interest on its federal loan totaling $303.5 million via a loan from the state Disability Insurance Fund, and interest will continue to accrue and be payable until the principal on the UI loan is repaid. The federal government requires that this payment come from state funds, and not the UI fund. The Governor's Budget proposes to pay $417 million of interest costs in September 2012 using an additional loan from the state's Disability Insurance Fund.

Employer Surcharge to Fund UI Interest Payments. Last year, the Administration indicated that the $303.5 million loan would be repaid by the General Fund (tax revenue). This year, to repay the Disability Insurance Fund loans mentioned above (totaling $720.5 million), the Governor's Budget proposes a new surcharge on employers effective January 1, 2013. The Administration indicates that this proposal would increase taxes on every California employer by between $40 and $61, and would fluctuate each year to fully fund the interest costs required by the federal government. This surcharge would go away once UI debt to the federal government is fully paid back and there is no longer a need to pay interest payments. In addition, this surcharge should be considered a "tax" under Proposition 26 (November 2010) because it does not meet any of the exception criteria. More specifically, this surcharge:

- **Does not** confer a specific benefit or privilege to the payor that is not provided to those not charged,
- **Does not** provide a specific government service or product directly to the payor that is not provided to those not charged,

- **Does not** fund reasonable regulatory costs incident to issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof,
- **Does not** allow for entrance to or use of state property, or the purchase, rental, or lease of state property, and
- **Is not** a fine, penalty, or other monetary charge imposed by the judicial branch of government or the State, as a result of a violation of law.

Under Proposition 26 (November 2010), this surcharge should be considered a tax and should require a 2/3 vote of the Legislature for passage.

Unemployment Insurance Eligibility Change. The Governor's Budget also proposes to increase the minimum eligibility requirements to qualify for UI benefits from $900 (minimum amount earned in highest quarter) and $1,300 (minimum total base period earnings) to $1,920 and $3,200, respectively. The Administration estimates that this would reduce the number of unemployed persons eligible for unemployment benefits, thereby reducing payments by about $30 million annually. It appears that this change would be a permanent change to eligibility.

With the debt owed to the federal government in excess of $9.4 billion, it is not likely this change will reduce that debt by any substantive amount, but it would be a small step toward slowing the payout of benefit amounts. This change represents the beginnings of what appears to be a piecemeal approach to restoring solvency to the UI Trust Fund.

Tax Increase on Employers. In addition to the new surcharge identified above, the federal government has recently increased Federal Unemployment Tax Act (FUTA) taxes on California employers. Since the state has relied on a federal loan to pay regular UI benefits for two straight years, California employers will see an increase in their FUTA taxes in January 2012 for wages paid to their workers in 2011.

Current federal law provides employers with a 5.4 percent FUTA tax credit. However, this credit will be reduced by 0.3 percent to 5.1 percent for the 2011 tax year due to the outstanding federal loan, resulting in increased payments to the federal government to pay down the federal loan. For each employer in California, that works out to be an additional $21 per employee, per year. FUTA costs for California employers are anticipated to increase by an additional 0.3 percent each year until the UI Trust Fund regains solvency.

Workforce Investment Act (WIA). The Governor’s Budget includes a decrease of $39.5 million federal funds for the Governor’s discretionary WIA programs, reflecting a reduction to discretionary funds, from 15 percent to five percent, provided by the federal government.

Department of Industrial Relations (DIR)

DIR enforces laws related to wages, hours, conditions of employment, and workers’ compensation, and adjudicates workers’ compensation claims.

Education and Outreach to Employees and Employers. The Governor’s Budget includes an increase of $2.3 million Labor and Workforce Development Fund to expand education and outreach efforts to increase the effectiveness of labor compliance field staff. This fund was created in 2003 to deposit penalties levied on employers for failure to pay wages or unlawfully withhold wages. Chapter 329, Statutes of 2003, provides that 12.5 percent of employer penalties be placed in a fund within the Labor Agency to educate employers about state labor laws. The remainder of the penalty is deposited in the General Fund.

Agricultural Labor Relations Board

Unfair Labor Practice Case Backlog. The Administration proposes an increase of $500,000 Labor and Workforce Development Fund to reduce a backlog of unfair labor practice cases. Senate Republicans generally view this Board as a non-critical government service that uses $4.9 million General Fund annually to promote the unionization of the agricultural industry in California. The decision of workers to unionize should not be a taxpayer funded program.

General Government

Department of General Services (DGS)

DGS provides centralized services and oversight activities to state agencies over a broad spectrum of areas, including: management of state−owned and leased real estate, maintenance of state−owned buildings, approval of architectural designs for local schools and other state−owned buildings, a quasi−judicial court that hears administrative disputes, publishing services, management of the state's fleet, and procurement of commodities, services, and equipment. These activities are largely funded through fees that are charged to the client departments. Significant changes included in the Governor's Budget include:

- A one-time decrease of $2.7 million General Fund in 2012-13 as a result of delaying less-critical repairs to the State Capitol's mechanical systems and other infrastructure repairs until future years. This action has been taken in prior years without delaying the completion of Capitol repair projects.
- An unallocated reduction of $59.1 million as a result of budgetary savings and rate reductions that will occur as a result of operational efficiencies. This reduction would translate into rate reductions for a variety of services provided by DGS. At this time, we have no reason to believe that the Administration will not be able to achieve this reduction.

Department of Food and Agriculture

Further Reduction to General Fund Support. The Governor proposes an additional reduction of $12 million General Fund in 2012-13 as part of a two-year General Fund reduction plan that was proposed in 2011-12 for a total of $31 million in ongoing General Fund savings. The additional reductions will primarily affect programs related to border control stations, pest prevention, and food safety activities. A portion of this reduction will be replaced by the California Beverage Container Recycling Fund (BCRF) to mitigate recycling fraud at border stations. At this time, it is unclear whether the BCRF can support a new program when it struggles to meet its current statutory obligations. Additional funding reductions will affect county activities related to pest trapping and incoming shipment inspections. The remaining reductions will be offset by increasing fees associated with the certification of nursery stock and milk and dairy food safety. At this time, it is unclear whether industry has agreed to these increased fees.

Department of Veterans Affairs (DVA)

The Governor's Budget proposes $250 million General Fund ($362 million from all fund sources) for DVA in 2012-13, an increase of $33 million General Fund (15 percent) over the revised budget estimate for the current year. This increase is due primarily to the continuing implementation of new veterans homes and related services that were previously authorized for the Greater Los Angeles/Ventura County area. The Administration proposes to continue indefinitely the delay in opening new veterans homes in Redding and Fresno. The 2011-12 budget approved a delay beyond the current year, although these homes are scheduled to be completed in January 2012 and April 2012, respectively. The Department of Finance is not counting any budget savings for this continued delay for technical reasons, but discussions with Finance indicate that the delay likely avoids General Fund expenditures of $26 million in 2012-13.

Statewide Issues

Commission on State Mandates (COSM)

COSM is a quasi-judicial agency that hears test claims to determine whether local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Constitution requires the Legislature to either fund or suspend specified mandates in the annual Budget Act. The Governor's Budget proposes $50.4 million in 2012-13 to fund most mandates related to law enforcement and property taxes.

The Governor's Budget includes the following proposals to reduce General Fund expenditures by $829.3 million in 2012-13:

- Suspend/Repeal State Mandates. The Budget proposes to suspend various mandates, and to repeal dozens of the approximately 50 mandates that have been suspended for the past two years or more. Many of the activities required by these mandates have become common practice and should not be mandated by the state. This proposal will result in a decrease of $728.8 million General Fund in 2012-13.
- Deferral of Pre-2004 Mandate Obligations. A decrease of $99.5 million in 2012-13 as a result of deferring the 2012-13 payment for mandate costs incurred prior to 2004-05. Though this reduction is labeled as "one-time," it follows similar deferrals that have been implemented over the past five years. This $99.5 million will be repaid over the next eight years to complete the total payment.

In addition to specific budget reductions, the Governor's Budget proposes two changes that would mitigate future mandate costs, including a redetermination of the Sexually Violent Predator mandate (in light of the passage of Jessica's Law in 2006 – Proposition 83) and a delay of the requirement that registered sex offenders participate in a sex offender management program. Over the next couple of months, we will be evaluating these proposals to ensure changes do not impair the integrity of these public safety laws.

Employee Compensation

State Employees Protected and Rewarded. The Budget does not include any reductions in employee compensation expenditures, which will reach $ 21.9 billion ($10.5 billion General Fund) in 2012-13. As of the 2011-12 fiscal year, all bargaining units have approved contracts that included a one-day-a-month personal leave program, minimal increases in retirement contributions, and additional personal holidays. These recent 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 automatic 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 sending a message to those that believe an annual pay increase is an entitlement.

Other Statewide Issues

Redevelopment Agencies. Chapter 5, Statutes of 2011 (ABx1 26), eliminated redevelopment agencies (RDAs) and replaced them with locally organized successor agencies tasked with retiring the

RDAs' outstanding debts and other legal obligations. Chapter 6, Statutes of 2011 (ABx1 27), created a Voluntary Alternative Redevelopment Program through which an RDA could avoid termination pursuant to ABx1 26, if the city or county that established the RDA remitted payments to K-12 schools. These payments were expected to generate $1.7 billion in Proposition 98 General Fund savings in 2011-12.

In our analysis of the final 2011 Budget Act we identified this action as a "budgetary threat," believing that RDAs would challenge the constitutionality of the state extorting them to fund state costs or face elimination. We also raised concerns regarding the wisdom of outright eliminating RDAs, as many of these entities have had successful results and generated increased economic activity in their respective locations.

The California Redevelopment Association and other entities challenged both bills before the California Supreme Court in the case *California Redevelopment Association et al. v. Matosantos et al*. In a ruling released on December 29, 2011, the Court upheld ABx1 26, but ruled that ABx1 27 was invalid. In accordance with the Court's order, RDAs will be dissolved on February 1, 2012. Effectively, this decision will result in increased property tax revenues of $1.05 billion for K-14 schools in 2011-12 (instead of $1.7 billion). Cities, counties, and special districts will also receive additional property tax revenues to fund local programs. This revenue would be net of any existing debt obligations for which property tax increment has been dedicated.

The Governor's Budget does not include any type of proposal to replace economic stimulus activities that were previously provided by RDAs, but it is likely that there will be interest from both sides of the aisle to propose legislation that would provide for some form of alternative redevelopment activities.

Williamson Act. The Governor's Budget includes no funding to partially reimburse local governments for lost property tax revenues resulting from contracts with landowners to limit the use of land to agricultural, scenic, and open-space purposes. Prior to 2009-10, the state provided $40 million General Fund annually to local governments. Since then, the state has only provided $10 million in one fiscal year (2010-11).

Reimbursement for Amador and Mono Counties. The Governor's Budget includes $4.4 million to reimburse the counties of Amador and Mono, and the cities located therein, for shortfalls in funding in 2010-11 for their Sales and Use Tax and Vehicle License Fee Adjustment Amounts. These counties have been requesting this fix to a rare problem related to implementing the "triple flip" and "VLF swap," both of which were implemented in 2004. We have been supportive of this change because the "triple flip" and "VLF swap" were intended to hold cities and counties harmless.

Debt Service. General Fund debt service expenditures will increase by a net of $24.6 million (0.46 percent), to a total of $5.4 billion, comprised of a decrease of $36.5 million for general obligation (GO) debt service ($4.6 billion total) and an increase of $61.1 million for lease revenue bonds ($745.5 million total).

The change in GO debt service reflects estimated debt service costs for bonds issued in 2012 ($188.2 million). Program costs reflect a slight decrease compared to the current year because the Treasurer's Office has structured bond redemptions to accommodate the $1.9 billion Proposition 1A financing obligation due June of 2013. General Fund offsets from the Transportation Debt Service Fund increased slightly to $703.3 million.

While General Fund debt service is estimated to increase only slightly in the budget year, General Fund debt service has been a fast-growing area of the Budget. In 2002-03 General Fund debt service was $2.1 billion, or 2.9 percent of revenues, versus $5.4 billion, or 5.6 percent of estimated revenues, in 2012-13. This trend is expected to continue through the end of this decade, with debt service projected to peak at $7.5 billion in 2019-20. In large part, the increase in debt service is due to the issuance of

new voter-approved bonds to fund the state's infrastructure needs, with over $100 billion of bonds authorized since 2000.

Extinguish Excess Bond Authority. The Governor's Budget proposes to reduce up to nine GO bond acts (by up to $44 million) that were authorized between 1976 and 1998. This remaining authority is no longer needed or cannot be legally issued for another purpose. The budget also proposes to eliminate $225 million in lease revenue bond authority associated with two state office building projects that were authorized in 1993 and 1994 that were never pursued. The two state office buildings are the Riverside/ San Bernardino Office Building ($150 million authority) and the Long Beach Office Building ($75 million authority). At this time, we are unable to comment on these proposals as additional information is forthcoming. Over the next couple of months, we will evaluate them to ensure changes do not impair the integrity the voters' wishes.

Government Efficiency

The Administration claims it will increase productivity, accountability, and efficiency within the state government by streamlining agencies, departments, boards and commissions through the restructuring, consolidation and elimination of such entities. The Governor's Budget proposes to decrease the number of State Agencies from 12 to 10, eliminate 39 state entities and eliminate nine programs; however there is no data that this will produce actual savings or reduce departmental workloads. **The Governor does not have actual numbers of positions being reduced or savings identified as a result of the new restructuring proposed.**

Through the elimination and consolidation of governmental entities, in combination with the elimination of surplus positions, zero-basing budgets and slashing of duplicative duties, the Governor hopes to achieve savings although no savings have been included in the budget.

The Governor's plan is interesting and appears to move in the right direction. A closer examination of outdated civil service rules should also be part of this discussion. When it takes the state between 9 and 12 months to lay off an unnecessary employee, something within the civil service structure needs to be changed. **It's time to reform the public employee hiring and layoff process and allow competition in the public sector.**

Agency Restructuring

The Business and Consumer Services Agency
The Governor's Budget proposes to merge consumer protection entities from the State and Consumer Services Agency and the Business Transportation and Housing Agency into a new agency that would focus on improving efficiency in shared areas such as automated licensing systems, investigation practices, regulatory and legal processes, licensing, and consumer complaints. This new agency would include the departments of Consumer Affairs, Housing and Community Development, Fair Employment and Housing, Alcoholic Beverage Control, and the newly restructured Department of Business Oversight. At this time, we don't have enough information to determine whether this change would achieve its stated goals, or if it would just reshuffle the chairs on a ship's deck.

The Government Operations Agency
The Governor's Budget proposes to merge the major components of state administration (procurement, information technology, and human resources) into a new Agency intended to make state government more manageable and efficient. This new agency would include the departments of General Services, Human Resources, Technology, the Office of Administrative Law, the Public Employees' Retirement System, the State Teachers' Retirement System, and the newly restructured Department of Revenue. It would also include the State Personnel Board and the Government Claims Board. At this time, we don't have enough information to determine whether this change would achieve its stated goals, or if it would just reshuffle the chairs on a ship's deck.

The Transportation Agency
The state will benefit by focusing and consolidating transportation functions in one agency given their size, complexity, and importance. This new agency will include the Department of Transportation (Caltrans), the Department of Motor Vehicles, the High−Speed Rail Authority, the Highway Patrol, the California Transportation Commission, and the Board of Pilot Commissioners. Although consolidating all transportation functions into one agency appears appropriate, we don't have enough information at this time to determine whether this change would achieve its stated goals, or if it would just reshuffle the chairs on a ship's deck.

Eliminating and Consolidating Departments, Boards, Commissions, and Programs

Consolidate Revenue Functions. The Governor's Budget proposes to consolidate the Employment Development Department's tax collection functions (mainly personal income tax withholding and payroll tax administration) with the Franchise Tax Board in a new Department of Revenue to improve revenue collection and better enforce tax laws. This proposal has been discussed during previous legislative sessions, but there has never been enough political will to actually move forward with such a change.

Consolidate Oversight of Financial Businesses into a Single Department. The Governor's Budget proposes to consolidate the regulatory functions of the Department of Corporations and the Department of Financial Institutions into one entity to oversee brokers and dealers, mortgage lenders that are not affiliated with banks, financial planners, state-chartered banks, credit unions, and money transmitters. For the most part it is true that both departments perform the same fundamental mission of licensing and regulating financial entities, but it is not clear that this proposal would achieve intended efficiencies, other than administrative efficiencies.

Consolidate Business Programs into the Governor's Office of Business and Economic Development. The Governor's Budget would consolidate the Infrastructure Bank, the Film and Tourism Commissions, the Small Business Centers, and the Small Business Guarantee Loan Program within the newly established Governor's Office of Business and Economic Development, with the intent to better coordinate and promote business development and foster job growth and private-sector investment in California. A more effective approach to promoting business development and job growth would be to eliminate many of the onerous business regulations and reduce the cost of doing business in the state.

Transfer Housing Finance Agency into Department of Housing and Community Development. The Department of Housing and Community Development and the California Housing Finance Agency (CalHFA) both assist in the development and financing of affordable housing for Californians. While CalHFA is unique in making low-interest loans through the sale of tax−exempt bonds, both departments administer general obligation bond programs. By moving the CalHFA functions into the Department of Housing and Community Development, the state will continue to serve the housing needs of the state while achieving administrative efficiencies. This consolidation makes sense and should allow for cost-efficiencies while maintaining the appropriate level of service within the housing community.

Eliminate the Office of Traffic Safety. It is unclear why the Administration has eliminated this office and transferred its functions to the Department of Motor Vehicles (DMV) when DMV has so many other programs it is required to manage that are unrelated to federal traffic safety grant funding (*See Transportation Page 39 for more details).*

Eliminate the State 9-1-1 Advisory Board. We have not yet evaluated the circumstances and shortcomings of the normal state administrative process that led to the creation of this board, and are unable to assess the wisdom of its elimination at this time.

Eliminate the Technology Services Board. The Governor's Budget proposes to eliminate this board and its duplicative activities related to reviewing and approving the Office of Technology Services budget and rates. The Department of Finance would continue to review rate proposals. We have no concerns with this proposal at this time.

Eliminate the Electronic Funds Transfer Task Force. We have no concerns with this proposal, as it looks like the change would be an administrative exercise to clean up the state's Government Code.

Eliminate the Unemployment Insurance Appeals Board and Consolidate Functions. In order to streamline and consolidate second-level appeals, the Governor's Budget proposes to eliminate the seven full−time board members who review second-level appeal decisions. Members from both sides of the aisle have raised concerns with the outright elimination of this board's function. Evaluating the streamlined, consolidated process should follow the normal bill review process.

Consolidate Professional Licensing Functions within the Department of Consumer Affairs. The Governor's Budget proposes to consolidate the Department of Real Estate, the Office of Real Estate Appraisers, the Structural Pest Control Board, and the Board of Chiropractic Examiners within the DCA. We have no concerns with this change, but expect that any administrative savings would be minimal.

Eliminate the Fair Employment and Housing Commission and Transfer its Functions to the Department of Fair Employment and Housing. This proposal transfers the Commission's adjudicatory and regulatory functions to the Department of Fair Employment and Housing. Adjudication of employment and housing discrimination cases will be handled by a separate and distinct division within the Department of Fair Employment and Housing. While this is a step in the right direction, it would be more appropriate to eliminate this Commission's functions altogether as it is duplicative of federal functions.

Eliminate the Commission on the Status of Women. Since 2003, the Republican fiscal office has advocated for the elimination of this program, as it is duplicative of lobbying activities conducted by other private, non-profit organizations such as the National Organization for Women (NOW), Women Escaping A Violent Environment (WEAVE), and others. This is not a necessary government function.

Eliminate the Occupational Safety and Health Standards Board and Transfer its Functions into the Department of Industrial Relations. We have not yet evaluated the circumstances that led to the creation of this board, and are unable to assess the wisdom of its elimination at this time.

Eliminate the Office of Privacy Protection. This office provides an informational and advisory function to consumers that appears to be duplicative of other state, federal, and business resources that promote and protect the privacy rights of consumers. However, we have yet to confirm that is the case.

Consolidate the California Law Revision Commission and the Commission on Uniform State Laws within the Legislative Counsel Bureau. The California Law Revision Commission is responsible for reviewing California law and recommending legislative revisions. The Commission on Uniform State Laws recommends to the Legislature uniform laws recommended by the National Conference of Commissioners on Uniform State Laws. Prior to the 2010 Budget Act, these Commissions were funded from their own General Fund appropriations. Since then, these Commissions have been funded by the Legislative Counsel Bureau. Each of these commissions performs a critical function, so continuing their operations is important. Since the Legislative Counsel Bureau has membership on each of the Commissions and often provides additional support, the proposed consolidation makes sense.

Eliminate the Governor's Emergency Operations Executive Council. The Council provides coordination between state agencies during emergencies. This proposal eliminates the Council, but the Governor will retain the ability to convene this group as needed. Eliminating the Council is not likely to result in any significant savings or efficiencies. However, there is no obvious reason to oppose its elimination either.

Eliminate the Public Safety Radio Strategic Planning Committee. The Public Safety Radio Strategic Planning Committee (Committee) is tasked with developing and implementing a statewide integrated public safety radio communication system and ensuring interoperability between state

agencies. The administration proposes eliminating the Committee, suggesting that its function may be duplicative of work being done by the California Technology (Cal Tech) Agency. However, while it does participate in and provide leadership for Committee discussions, the Agency does not currently perform the other activities of the Committee, mainly providing input for other state agencies that have a stake in interoperable radio communications policy. It may make sense to elevate the Cal Tech Agency to chair the Committee given the leadership role it has assumed. However, eliminating the committee would leave the state without a coordinating body to ensure public safety radio interoperability in the future.

Eliminate Division of Labor Statistics and Research and Transfer its Functions to the Division of Occupational Safety and Health. The Governor's Budget proposes to eliminate the Division of Labor Statistics and Research, transferring the Division's functions related to maintaining job safety records, reports, and statistics to the Division of Occupational Safety and Health. This proposal would also transfer functions related to prevailing wage rate determination for public works projects to the Division of Labor Standards Enforcement. Notwithstanding the fact that the Democrats have reneged on previous agreements to conduct a residential prevailing wage survey, we have yet to evaluate the wisdom of this proposal.

Eliminate the Governor's Mentorship Program. We have no concerns with this proposal because there are other community programs that provide similar services.

Consolidate Certain Gambling Activities. The state currently maintains a bifurcated system of gambling control, which separates the policy, licensing, and compliance functions of the Gambling Control Commission (CGCC) from the investigation and enforcement functions of the Department of Justice (DOJ). The administration suggests that consolidating all of these functions within the DOJ will promote more effective and efficient regulation of legalized gambling. While there are certainly potential benefits from the proposed consolidation, such as streamlined licensing from having the background check and licensure review functions within the same agency, it may also be desirable to keep some separation between the policy function of the CGCC and the enforcement function of the DOJ. The potential benefits of this proposal must be carefully weighed against the potential threats posed to gambling establishments by having a single agency both making and enforcing the rules governing gambling.

Consolidate the California State Summer School for the Arts with the California Arts Council. Annual state support for the California Summer School for the Arts totals about $1.4 million non-98 General Fund. This proposal would consolidate the CSSSA into the California Arts Council to streamline administrative operations while continuing to provide students with access to intensive summer arts education. We have yet to evaluate the wisdom of this proposal.

Eliminate Vocational Education Supplemental Leadership Programs. This program is being eliminated because these types of activities can be funded from existing Proposition 98 resources at local discretion. It appears to be a reasonable action.

Eliminate Non−Proposition 98 General Fund for Indian Education Centers. The Governor proposes to eliminate $376,000 in annual non-Prop 98 General Fund support, but would continue providing over $4.5 million in Proposition 98 General Fund support for the centers. Thus this proposal would reduce total funding by between seven and eight percent, which is not unreasonable in this budget climate.

Eliminate the Department of Mental Health and the Department of Alcohol and Drug Programs. This proposal reorganizes behavioral health programs. With the elimination of the Department of Mental Health and the Department of Alcohol and Drug Programs, major community mental health programs and remaining non−Drug Medi-Cal programs and associated funding will shift to the Department of Health Care Services, the Department of Social Services, the Department of Public

Health, and the Office of Statewide Health Planning and Development. Additionally the Mental Health Services Oversight and Accountability Commission will be responsible for Mental Health Services Act training, technical assistance, and program evaluation. While the elimination of these departments is appropriate given the 2011 Realignment and we have no concerns with the elimination, reviewing the authorized levels of positions within each program, rather than just transferring the positions and programs over to another department, would provide a greater level of efficiency, resulting in greater savings and cost-efficiencies for the state.

Eliminate the Managed Risk Medical Insurance Board (MRMIB) and Transfer its Function to the Department of Health Care Services. This proposal would eliminate the Board and transfer its programs to the Department of Health Care Services (DHCS) in preparation for California's implementation of federal health care reform. Specifically, kids enrolled in the Healthy Families Program would transition to Medi-Cal over nine months beginning in October 2012. Remaining MRMIB programs, including the County Children's Health Initiative Program, Access for Infants and Mothers, Major Risk Medical Insurance Program (MRMIP), and Pre−Existing Conditions Insurance Plan (PCIP) would transfer to DHCS effective July 1, 2013. MRMIP and PCIP would then be eliminated in January 2014 because individuals with pre-existing conditions would be able to purchase health insurance through the California Health Benefits Exchange as part of federal health care reform. This proposal is a reprise of the Governor's 2011-12 budget proposal, which Republicans opposed and defeated. Healthy Families is an efficient program that incorporates privately contracted administration and shared responsibility for enrollees. These features would be compromised by eliminating MRMIB and shifting Healthy Families kids into Medi-Cal. Additionally, it makes little sense to undertake the administrative burden of transferring programs to a different department when those programs could soon cease to exist once the Health Benefit Exchange begins offering insurance in January 2014.

Eliminate the Rehabilitation Appeals Board. This proposal will result in a more effective and timely appeal process for consumers while streamlining state government. We have no concerns with this proposal.

Consolidate Five Specialty Health Functions into a New Office of Health Equity. This proposal consolidates the Department of Health Care Services' Office of Women's Health, the Department of Public Health's (DPH's) Office of Multicultural Health, Health in All Policies Task Force, the Health Places Team, and the Department of Mental Health's Office of Multicultural Services into the new Office of Health Equity (OHE) within DPH. The Administration argues that consolidating these functions into the OHE will enable the state to better identify and ameliorate health disparities for disadvantaged and underserved communities by examining these issues through a more integrated approach to public health, behavioral health, and health care issues. However, there is no indication that the state's various programs that actually deliver health care services are unaware or inconsiderate of health equity issues, and whether any of these five offices have added value in recent years is questionable. Simply eliminating these offices rather than consolidating them would be more prudent, and would have no ill effects on Californians' health care.

Transfer the Department of Resources, Recycling and Recovery (CalRecycle) to the California Environmental Protection Agency. SB 63 (Strickland) of 2009 eliminated the California Integrated Waste Management Board and transferred its duties and responsibilities to the Department of Resources Recycling and Recovery. The new department would be under the jurisdiction of the Natural Resources Agency which was believed to be the appropriate agency for its programs and a more objective forum for California businesses than the California Environmental Protection Agency. Most Senate Republican supported this measure.

Eliminate the Department of Boating and Waterways and Transfer the Functions into the Department of Parks and Recreation. This proposal to eliminate the Department of Boating and Waterways functions and transfer those responsibilities to the Department of Parks and Recreation (DPR)will put the entire boating program at risk and likely to negatively affect boating facilities across

the state. Furthermore, the Harbors and Watercraft Revolving Fund will be available to DPR as a slush fund to keep its parks open (*see Resources Page 41 for more details*).

Reduce Number of Regional Water Boards. This proposal realigns the regional water board boundaries to create eight regional water boards, merging two of the smaller existing regional water boards (the Colorado River Basin Water Board) into neighboring regions with the boundaries continuing to follow watersheds. The proposal brings more consistency in the size of the regions. It also reduces the number of members on the boards from nine to seven. At this time, there is not enough information to determine the actual benefits to reducing and realigning regional water boards.

Consolidate Colorado River Board within the Natural Resources Agency. The Board is responsible for developing a plan to maintain an adequate water supply from the Colorado River. The proposal eliminates the Board and transfers these responsibilities to the Natural Resources Agency. There are concerns with the elimination of the Colorado River Board (CRB) since it is responsible for the development of a plan for using Colorado River water and also represents the state on numerous multi-state working groups and is the state's point of contact for the allocation of the state's 4.4 million acre feet of water rights on the Colorado River. The elimination of the Board was proposed last year and denied because the Administration never provided convincing information about the benefit of having the Natural Resources Agency take over the Board's responsibilities.

Eliminate the State Geology and Mining Board and Transfer its Responsibilities. The Board serves as a regulatory, policy, and appeals body representing the state's interest in geology, geologic and seismologic hazards, conservation of mineral resources, and reclamation of lands following surface mining activities. This Board is supported by the mining industry and they voiced concerns over its proposed elimination in the 2011-12 budget. Industry feels the Board serves as a beneficial body to address mining industry issues.

Eliminate Various Entities within the Department of Fish and Game. The Salton Sea Restoration Council, The California Advisory Committee on Salmon and Steelhead Trout, The Commercial Salmon Review Board, The State Interagency Oil Spill Committee, The State Interagency Oil Spill Review Subcommittee, and The Abalone Advisory Committee. These advisory groups provide public input and guidance to the Department in various program areas. The information provided by these entities is either no longer useful or can be provided through other means. Eliminating these Councils and advisory committees is appropriate and supportable.

Eliminate Underutilized Programs Within the Department of Toxic Substances Control. The following programs are proposed for elimination because they have outlived their purposes, are underutilized, or have been superseded by other programs: Expedited Remedial Action Program, Private Site Management Program, California Land Environmental Restoration and Reuse Act Program, Hazardous Waste and Border Zone Property Designations, Abandoned Site Assessment Program, and the Registered Environmental Assessor Program. Eliminating these programs appears appropriate and supportable at this time; however, it is unclear if stakeholders have any reasonable concerns with the eliminations.

Eliminate the Watershed Coordinator Initiative Program. This program was created to prepare Watershed Management Initiative Plans in each region, which were completed in 2007. The Water Board now maintains the Plans, and Plan concepts have been incorporated into various Water Board programs. Eliminating this program is appropriate and supportable.

Governor's Trigger Cuts

Last year, the Governor indicated that he would not hold taxpayers hostage by asking voters to approve taxes to avoid deeper spending reductions. Now, he is more than willing to take them hostage. The Governor's Budget clearly identifies specific "trigger" reductions that would be implemented January 1, 2013 if voters do not approve his proposed ballot initiative in November 2012. Proposed reductions are identified below.

Proposition 98 - A reduction of this magnitude would result in a funding decrease equivalent to more than the cost of three weeks of instruction. It would also continue to provide 20 percent of program funds a year in arrears. The savings would be achieved through the reduction in the Proposition 98 minimum guarantee that would result from the loss of the revenues. The costs of general obligation bond debt service for K-14 facilities would be shifted into the guarantee, thereby reducing other General Fund costs.	$4,836.9
University of California - Savings may be offset by Cal Grant increases if the universities raise tuition.	$200.0
California State University - Savings may be offset by Cal Grant increases if the universities raise tuition.	$200.0
Courts - The equivalent of court closures of three days per month.	$125.0
Department of Forestry and Fire Protection - The department's firefighting capabilities would be reduced substantially. The emergency air response program would be reduced, and fire stations would be closed.	$15.0
Flood Control - Department of Water Resources would be cut, which would reduce channel and levee maintenance and floodplain mapping.	$6.6
Parks and Rec/Fish and Game - The number of the state's public safety officers in the departments of Parks and Recreation (park rangers) and Fish and Game (wardens) would be reduced, and the state would no longer staff its beaches with lifeguards.	
Fish and Game: Non-Warden Programs	$2.5
Fish and Game: Wardens	$1.0
Park Rangers	$1.0
Park Lifeguards	$1.0
Department of Justice	$1.0
Total Ballot Trigger Reductions	$5,390.0

One problem with his budget plan is that it relies on voter approval of taxes that may or may not occur ***after*** the budget is passed. It would be much wiser to make these reductions first and then restore these programs if the taxes are approved. Additionally, **the Governor targets 97 percent of these trigger reductions at education programs**, thereby making school children a lower priority than every other state expenditure, including state employee salaries, welfare programs for drug felons, Taiko drumming within the Department of Mental Health, sex change drugs for prison inmates, etc.

Appendix A - State Employee Growth Chart

Authorized Positions by Agency as of Budget Enactment

Agency	2003-04	2004-05	2010-11	2011-12	2012-13	Change in Positions 10-11 to 03-04	Change in Positions 11-12 to 03-04	Change in Positions 12-13 to 03-04	Percentage Change 10-11 to 03-04	Percentage Change 11-12 to 03-04	Percentage Change 12-13 to 03-04
Legislative, Judicial, and Executive	14,772.9	15,365.7	19455.9	19235.6	19266.3	4,683.0	3,869.9	4,493.4	32%	26%	30%
State and Consumer Services	13,470.0	14,093.6	17042.9	16990	16923.2	3,572.9	2,896.4	3,453.2	27%	22%	26%
Business, Transportation, and Housing	41,674.4	42,625.3	44843.5	44504.1	44098.8	3,169.1	1,878.8	2,424.4	8%	5%	6%
Technology, Trade, and Commerce	21.2 [1/]	0.0	0	0	0	-21.2	0.0	-21.2	-100%	0%	-100%
Resources Includes Forestry and Fire	18,470.0	18,423.1	19002.5	19550.8	19718.1	532.5	1,127.7	1,248.1	3%	6%	7%
Environmental Protection	4,260.7	4,288.5	4608.2	4451.5	4436.3	347.5	163.0	175.6	8%	4%	4%
Health and Human Services	30,089.6	30,619.1	33674.6	32891.1	32732.9	3,585.0	2,272.0	2,643.3	12%	8%	9%
Youth and Adult Correctional	50,937.4	54,818.8	67272	62514.7	59898.1	16,334.6	7,695.9	8,960.7	32%	15%	18%
Education	119,081.3	116,813.9	138,016.9	131,038.7	130,977.6	18,935.6	14,224.8	11,896.3	16%	12%	10%
Labor and Workforce Development	12,368.1	12,288.0	14963.8	13500.3	13488.4	2,595.7	1,212.3	1,120.3	21%	10%	9%
General Government	17,978.9 [2/]	18,464.8	13,078.9 [3/]	12,145.6	12,124.2	-4,900.0	-6,319.2	-5,854.7	-27%	-35%	-33%
Total	**323,124.5**	**327,800.8**	**371,959.2**	**356,822.4**	**353,663.9**	**48,834.7**	**29,021.6**	**30,539.4**	**15%**	**9%**	**9%**

*2003-04, 2004-05, and 2010-11 are actual positions filled

*2012-13 Projections as of Governor's Budget

[1/] Agency eliminated effective January 1, 2004

[2/] Various Org 9901 was carrying a lump sum unallocated cut of -16,000.0 positions.

[3/] Various Org 9901 is carrying an equivalent reduction of 8,915.7 positions to account for Governor's employee compensation changes.
Actual Gen Govt position projected for 2010-11 equals 8,682.5 in Schedule 4.

State and Consumer Services includes PERS and STRS

BT&H includes CalHFA
Gen Govt includes BSA, and SCIF

Labor and Workforce includes EDD

Education includes UC's, CSU's, and Hastings

Resources include Forestry and Fire Protection

Each year reflects the authorized positions when that year was enacted.

The number of authorized state employee positions in fiscal year 2012-13 reflects nine percent growth since 2003-04 when Governor Schwarzenegger took office. However, in 2011-12 the state began to reduce the size of state government, with a decline of more than 15,000 positions (9.6 percent) from 2010-11. Continuing the trend, authorized state employee positions will decline slightly (3,160 positions or about one percent) compared to 2011-12. This is a step in the right direction for streamlining government bureaucracy and forcing efficiencies in state government.

Senate Republican Fiscal Staff Assignments

Seren Taylor, Fiscal Director
Trish Lenkiewicz, Budget Committee Assistant

Contact Number: (916) 651-1501

Assignment Area	Consultant
Education	Cheryl Black
Public Safety, Judiciary, Corrections	Matt Osterli
Transportation, Energy & Environment	Rocel Bettencourt
Health	Kirk Feely
Human Services, Public Employees Retirement	Chantele Denny
Revenue, State & Local Government, Taxes	Joseph Shinstock

For more information, please visit our website at http://cssrc.us/publications.aspx