COMMITTEE ON BUDGET & FISCAL REVIEW
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Quick Summary

The Governor's Special Session Proposals for the 1st Extraordinary Special Session

December 7, 2010

The purpose of this Quick Summary is to provide members and staff of the Legislature with a review of the Governor's budget proposals for the 1st Extraordinary Special Session. On December 6, the Governor declared a fiscal emergency and called a Special Session of the Legislature, consistent with Proposition 58 passed by the voters in March of 2004. The majority of the Governor's Special Session proposals have been previously proposed in the 2010 May Revision, but rejected by the Legislature. If you have further questions about these proposals or the 1st Extraordinary Special Session, please contact the committee at (916) 651-4103.

Definition of the Overall Problem

In declaring a fiscal emergency, the Department of Finance has assumed the same budget shortfall for 2010-11 that the Legislative Analyst projected last month, which is approximately $6 billion.

The Legislature adopted and the Governor signed the 2010-11 budget over three months past the start of the fiscal year this past October. The final budget enacted included $86 billion in General Fund expenditures, which is considerably less than General Fund expenditures in 2007-08 ($103 billion). The 2010-11 budget expenditure level was reached by adopting $19 billion in General Fund solutions that included $7.8 billion in expenditure reductions, $3.3 billion in one-time revenues, and $2.7 billion in loans and transfers mainly from special funds. The budget solutions also included the estimated receipt of $5.4 billion in federal funds.

The budget shortfall in the current year is a result of a variety of factors. However, the single largest factor is that approximately $3.5 billion in federal funding is not likely to materialize in the current year. Erosions in other budget solutions are also contributing to the current year deficit, along with the passage of Proposition 22 and 26 that limited the State's ability to use transportation funding for debt service payments.

In addition to the current year deficiency of $6.1 billion, the Legislative Analyst has also projected an approximately $19 billion shortfall in the budget year. Therefore, the total budget problem that the State must address between now and the passage of the 2011-12 budget is over $25 billion according to the Legislative Analyst. There are several factors that may make the problem as much as $30 billion in the next few months, including an impending Congressional action on the Estate Tax.

The overall size of the budget deficit is daunting especially in the wake of a budget that adopted over $19 billion in solutions. However, the shortfall persists because many of the solutions adopted in the 2010-11 budget and prior budgets were one-time in nature and did not provide ongoing solutions. In addition, approximately $8 billion in temporary tax increases are set to expire in the budget year and $4.5 billion in one-time federal stimulus funds used to reduce General Fund expenses will also be exhausted.

Governor's Special Session Proposals

The Governor has proposed Special Session Proposals that total approximately $9.9 billion over the two-year period ending with June 30, 2012. This is a little over one-third of the solutions that will be needed to balance the budget shortfall over the next 18 months. Three-fourths of the solutions are proposed as expenditure reductions, mainly to health and human services programs. Just over 15 percent of the solutions are related to a new transportation swap proposal that would allow the State to use alternative transportation funds to maintain General Fund solutions in the 2010 Budget Act. The remaining 10 percent of the solutions are from shifting General Fund expenditures to new alternative funding sources, such as the Governor's proposal to implement a fee on home insurance policies to help defray the state costs for fire protection.

The Special Session solutions proposed by the Governor for the two-year period are outlined in the following table:

Proposed Budget Solutions
By Category
2010-11 and 2011-12
(Dollars in Millions)

Category	**2010-11**	**2011-12**	**Totals**
Expenditure Reductions	$886.3	$6,464.9	$7,351.2
Alternative Funding	$166.6	$770.1	$936.7
Fund Shifts and Other Revenues	$855.8	$726.7	$1,582.5
Total	**$1,908.7**	**$7,961.7**	**$9,870.4**

The vast majority of the Special Session expenditure reductions are consistent with the Governor's 2010 May Revision proposals that were ultimately rejected by the Legislature in the final Budget Act signed in October 2010. There are numerous reasons that these budget proposals were not adopted at that time. The vast majority of the proposed expenditures reductions would eliminate or greatly reduce health and human services programs that serve the poorest Californians.

For example, the Governor's proposal to eliminate CalWORKs, the State's cash assistance program, would make California the only State in the nation without a TANF (Temporary Assistance for Needy Families) cash assistance program. Elimination of this program would effectively shift the fiscal responsibility for this population to the counties without any funding to support additional services.

Furthermore, there is question whether many of the Governor's expenditure reduction proposals are legal. For example, many of the hard caps and co-pays on services proposed in the Medi-Cal program are limited under the new terms and conditions of federal healthcare reform without State Plan Amendments and waivers from the federal government. There is also considerable concern regarding the legal ability to shift county mental health realignment funding to social services programs without a ballot proposition that would significantly change the way community mental health services are currently funded.

The Governor's Special Session proposals (as summarized in additional detail below) should be considered as budget deliberations restart, but many more solutions will need to be considered to bridge the State's budget gap over the next six months. The Legislative Analyst has suggested taking a multi-year approach to addressing the shortfall and to consider all possible solutions, including revenues and expenditure reductions and both permanent and temporary budget solutions to bridge the gap.

The Governor with his Special Session proposals and his prior budget proposals has chosen to start to balance the State's budget gap with cuts that impact the most vulnerable Californians without regard for the significant negative consequences this disinvestment may have for the future of California. The biggest challenge for the Legislature and the Governor in the coming months as they work together to balance the budget is deciding on a key set of spending priorities and then making the difficult decisions about how to finance these priorities.

Education

Child Development

Eliminates State Subsidized Child Care. Effective April 1, 2011, the Governor's special session budget proposal eliminates subsidized child care services for general child care, migrant child care, handicapped child care, and a portion of the Alternative Payment (AP) program, but retains preschool and after-school programs. The elimination of the child care programs provides savings of $200.2 million from Proposition 98 funds in 2010-11. The Governor's special session budget proposal also includes the elimination of CalWORKs Stage 2 child care effective July 1, 2011, with savings growing to $1.1 billion in Proposition 98 funds in 2011-12. These amounts account for the fact that the Governor already vetoed General Fund support for the CalWORKs Stage 3 child care program in October 2010. The Governor's proposed elimination of child care programs would lead 55,000 children to lose child care services in 2010-11 and an additional 61,000 children losing services when Stage 2 would be eliminated on July 1, 2011. (This number does not include children from CalWORKs Stage 3 because funding for that program has been vetoed). The Governor's proposal assumes that the state will continue to receive $594 million in federal funds for child care during 2010-11, which would be used to continue the AP program on a reduced scale until July 1, 2011.

- Effective March 1, 2011, the Governor's special session budget proposal reduces the statutory income eligibility limit for all child care programs from 75 percent of median family income to 60 percent. This income limit reduction does not apply to preschool or after-school programs.

- Effective March 1, 2011, the Governor's special session budget proposal reduces the reimbursement rate to licensed providers from 85th percentile to the 75th percentile of the 2005 Regional Market Rate (RMR) survey.

- Effective March 1, 2011, the Governor's special session budget proposal reduces the license-exempt provider reimbursement from 80 percent to 70 percent of the licensed provider reimbursement limit. The *2010-11 Budget Act* had already reduced the license-exempt provider rate from 90 percent to 80 percent of the licensed provider reimbursement limit.

- The Governor's special session budget proposal includes legislation to reduce administrative error rates and establish penalties for those agencies that do not meet federal error rate guidelines, as well as deter fraud in child care programs by benefit recipients. The Administration does not assume any state savings associated with this proposal.

K-14 District Flexibility

Modifies Contracting Out Rules. The Governor proposes changes in state statute that would give K-12 and community college districts additional flexibility in contracting out for personal services currently or customarily provided by classified employees. The Governor's proposal would affect personal service contracts entered into after July 1, 2011. The Administration does not assume any state savings associated with this proposal; instead, the Administration views this proposal as providing more flexibility and potential local savings to K-12 and community college districts. The Governor's special session proposal is similar to the Governor's January 2010 proposal on local contracting out flexibility.

Resources and the Environment

Department of Forestry and Fire Protection

Fire Protection Fund Shift. Deletes $350 million GF from the Department of Forestry and Fire Protection (DFFP) fire protection budgets with an equal amount to be backfilled by the Emergency Response Initiative (ERI). This includes a 4.8 percent statewide surcharge on all residential and commercial property insurance that would also fund enhanced statewide emergency response capabilities beginning in 2012-13. The Legislature rejected similar proposals in the previous budgets including the 2010-11 budget session.

State Water Resources Control Board

Water Board Program Fee Increase. Deletes $6.1 million GF ongoing for federally required basin planning activities and backfills with an equal amount of revenue from an increase in waste discharge permit fees. The legislature rejected this proposal in the 2010-11 budget. The proposal requires a statutory change in the use of the waste discharge permit fee.

Department of Fish and Game

Reduce Biodiversity Program Funding. Deletes $1.5 million General Fund (unallocated) to Department of Fish and Game protection and enhancement of fish and wildlife habitat programs. This reduction is similar to a previous proposal to reduce funding for the biodiversity program, specifically for the Marine Life Protection Act (MLPA) program, which the Legislature restored in the 2010-11 budget. The department has not released which specific programs will be impacted by this reduction.

Transportation

Department of Transportation

Truck Weight Fees. The Governor proposes to direct a portion of existing truck weight fees to transportation-related general obligation bond debt payments and loans to the General Fund. Specifically, $850 million would be shifted in 2010-11 and $727 million would be shifted in 2011-12. This funding replaces similar payments from fuel excise taxes and other sources, which may be prohibited under the provisions of the recently adopted Proposition 22. The excise tax revenue not directed to General Fund relief due to the recently passed Proposition 22, would instead backfill the State Highway Account for the truck weight fee shift. With this proposed adjustment, transportation expenditures and General Fund solutions would remain at similar levels to what was approved with the 2010 Budget Act.

Advertising on State-owned Freeway Safety Signs. The Governor proposes legislation to authorize advertising on freeway safety signs. These signs are the changeable message displays that indicate road conditions or Amber Alerts. The Administration does not assume any budget solution with this proposal.

Health and Human Services

Department of Health Care Services: Medi-Cal Program

Eliminates Full-Scope Medi-Cal Services for Certain Legal Immigrants. The Governor proposes legislation to eliminate full-scope Medi-Cal benefits for: (1) newly-qualified legal immigrant adults in the U.S. for less than five years for a reduction of $7.7 million (General Fund) in 2010-11 and $54.8 million in 2011-12; and (2) individuals designated as Permanently Residing Under Color of Law (PRUCOL) for a reduction of $7.1 million (General Fund) in 2010-11 and $65.3 million (General Fund) in 2011-12. This proposal has been rejected several times by the Legislature.

California has always provided full-scope services to legal immigrant adults and PRUCOL individuals if they otherwise meet all other eligibility requirements.

Enactment of this proposal would most likely (1) impair people's health, particularly those with chronic conditions; (2) result in increased use of hospital emergency rooms; and (3) shift some costs to County indigent health care programs.

Hard Cap on Services: 10 Visits for Outpatient Primary and Specialty Care. The Governor proposes legislation to institute a "hard cap" of 10 office visits per year for Medi-Cal enrollees in both the Fee-for-Service and Medi-Cal Managed Care programs. A reduction of $238.9 million (General Fund) in 2011-12 is assumed.

This cap would apply to adults *not* residing in Long-Term Care facilities. Children (under 21 years) and pregnant women are exempt. This proposal also requires federal approval and a State Plan Amendment. Since federal law mandates the provision of Physician Services, approval of "hard caps" is very unlikely.

This affects outpatient primary care and specialty care provided under the direction of a physician in the following settings: (1) Hospital Outpatient Department; (2) Outpatient Clinic; (3) Federally Qualified Health Centers; (4) Rural Health Centers; and (5) Physician offices.

According to recent DHCS data, a total of 3.3 million office visits were provided and 40 percent, or 1.3 million visits, would be *above* this proposed cap. Clearly, this proposal would negatively impact people with the greatest need for health care services. Further, this proposal does not take into consideration any cost shifts to other services—such as emergency rooms and inpatient hospitalizations—that would likely occur due to the lack of primary and specialty care services.

Hard Cap on Services: Prescription Drugs, Hearing Aids, Durable Medical Equipment, Medical Supplies, and Enteral Nutrition. The Governor also proposes legislation to institute a "hard cap" on the following Medi-Cal services provided to Adults (*not* residing in Long-Term Care facilities):

- ***Prescription Drugs.*** Limits prescription drugs, except for life-saving, to six per month for a reduction of $13.6 million (General Fund) in 2011-12.
- ***Hearing Aids.*** Establishes a maximum annual benefit dollar cap on hearing aids at $1,510 for a reduction of $600,000 (General Fund) in 2011-12. Patients with expenditures above this maximum cap would have to pay out-of-pocket.
- ***Durable Medical Equipment.*** Establishes a maximum annual benefit dollar cap on durable medical equipment, such as wheelchairs, ambulation devices, bathroom equipment, and oxygen and respiratory equipment, for a reduction of $9.4 million (General Fund). Patients with expenditures above this maximum cap would have to pay out-of-pocket.
- ***Medical Supplies.*** Establishes a maximum annual benefit dollar cap on certain medical supplies, including incontinence supplies (at $1,659), urological supplies ($6,435), and wound care supplies (at $391), for a reduction of $2.4 million (General Fund). Patients with expenditures above this maximum cap would have to pay out-of-pocket.
- ***Enteral Nutrition.*** Limits enteral nutrition products to only those Adults who must be tube-fed for a reduction of $2.5 million (General Fund) in 2010-11 and $14.6 million (General Fund) in 2011-12. Presently Adults with wasting syndrome and metabolic disorders may obtain enteral nutrition products if medically indicated.

This proposal would require federal approval, which is unlikely, and a State Plan Amendment. Further, all of these services presently require prior treatment authorization and must meet medical necessity criteria before approval. As such, these services are already strictly monitored.

Again, this proposal does not take into consideration any cost shifts to other services—such as Physician office visits, emergency rooms and inpatient hospitalizations—that would likely occur due to the lack of these outpatient-related services.

Requires Mandatory Copayments for Low-Income Medi-Cal Enrollees to Access Certain Health Care Services. A reduction of almost $700 million (General Fund) is proposed by requiring *all* Medi-Cal enrollees, including children, pregnant women and people in Long-Term Care facilities to make copayments on specified health care services, or be denied health care services.

The mandatory copayments would apply in the Medi-Cal Fee-for-Service and Medi-Cal Managed Care programs. No exemptions to these mandatory copayments would be provided, and a provider would be able to deny care if the copayment was not paid.

Under this proposal, the mandatory copayments would be collected by providers at the time of service, and the provider would be reimbursed their Medi-Cal rate *minus* the applicable copayment.

The following mandatory copayments are proposed:

- ***Physicians, Federally Qualified Health Centers (FQHCs) and Rural Health Center's.*** A $5 mandatory copayment would be imposed. Currently Medi-Cal enrollees have a $1 voluntary copayment per office visit and service cannot be denied. A reduction of $188.8 million (General Fund) in 2011-12 is assumed from this proposal. About one-third of the proposed savings is attributable to a reduction in office visits.

  A mandatory copayment for office visits would serve more as a deterrent to obtaining preventive medical care services and would make health care access for low-income children, families and people even more problematic. Appropriate medical care in the right setting provides for a cost-beneficial program and more positive patient health outcomes.

- ***Pharmacy Services.*** A $5 mandatory copayment for non-preferred drugs (brand name) and a $3 mandatory copayment for preferred drugs (generics) would be required. Currently there is a $1 voluntary copayment per prescription and service cannot be denied. A reduction of $170.3 million (General Fund) in 2011-12 is assumed from this proposal.

The no exemption policy, particularly for children, fragile medically needy individuals, and individuals with mental illness, will likely result in people becoming more medically involved if medications are denied.

- ***Dental Office Visits.*** A $5 mandatory copayment would be required for every dental office visit. Currently there is no copayment. A reduction of $300,000 (General Fund) in 2010-11 and $900,000 (General Fund) in 2011-12 is assumed from this proposal.

  This proposal does not take into consideration any cost shifts to other services—such as emergency rooms for dental pain—that would likely occur from this action. Oral health is a significant concern in children and the elderly and can lead to considerable health care problems.

- ***Hospital Inpatient Day.*** A $100 per day mandatory copayment with a $200 maximum for hospital stays is proposed. Currently there is no copayment. A reduction of $196.5 million (General Fund) in 2011-12 is assumed from this proposal.

  It should be noted that about 80 percent of Medi-Cal Hospital Inpatient days are for two or more days. This reflects a more medically needy population. Further, Medi-Cal's treatment authorization system and reimbursement method for Hospital Inpatient days serves to already dissuade frequent use by Medi-Cal enrollees or Hospitals.

  The DHCS notes that Hospitals must still comply with the Emergency Medical Treatment and Active Labor Act. As such, most care would still need to be provided by Hospitals.

- ***Emergency Room Visits.*** A $50 mandatory copayment for emergency use of emergency room visits would be imposed. Currently there is no copayment. A reduction of $48.8 million (General Fund) in 2011-12 is assumed from this proposal.

  This mandatory copayment is for medically necessary emergency room visits. Clearly, significant medical treatment is required for individuals needing emergency services and to mandate a $50 copayment at the point of service seems extreme, particularly coupled with no exemptions and the low-income level of Medi-Cal enrollees.

- ***Non-Emergency Room Visits.*** A $50 mandatory copayment for non-emergency use of emergency rooms would be required. Currently there is no copayment. A reduction of $93.3 million (General Fund) in 2011-12 is assumed from this proposal.

This mandatory copayment proposal requires trailer bill legislation and a complex federal Waiver to implement. The DHCS would need to obtain a Waiver of federal laws and regulations for the types of populations affected, their federal poverty levels, the types of services provided, and the maximum amount of copayments that can be charged.

Under federal law, States can charge only nominal copayments on Medicaid (Medi-Cal in California) enrollees unless a federal Waiver is obtained. For people with incomes between 100 percent and 150 percent of poverty, only a limited copayment can be charged (i.e., 10 percent of the cost of service up to a maximum of 5 percent of monthly family income). Further, federal law provides exemptions for children, pregnant women and people living in Long-Term Care facilities.

Eliminates Adult Day Health Care. The Governor proposes legislation to eliminate Adult Day Health Care (ADHCs) as a Medi-Cal Optional Benefit for a reduction of $20.5 million (General Fund) in 2010-11 and $188.9 million (General Fund) in 2011-12. There are 320 active ADHC providers in Medi-Cal who serve about 37,000 average monthly Medi-Cal enrollees.

Eliminates Over-the-Counter Drugs. The Governor proposes legislation to eliminate cough and cold products as a benefit within Medi-Cal for a reduction of $400,000 (General Fund) in 2010-11 and $2.2 million (General Fund) in 2011-12. Most of these products are used by children. This proposal does not account for any cost-shifts to other services—such as physician visits, clinic visits or emergency rooms—which may occur as people seek medical treatment for flu and colds.

Reduces Reimbursement Paid for Eight Family Planning Services. The Governor proposes legislation to reduce Medi-Cal rates for eight specified office codes billed for family planning services as contained in SB 94, Statutes of 2007. A reduction of $2.3 million (General Fund) in 2010-11 and $16.1 million (General Fund) in 2011-12 is assumed. The reduction would include Fee-for-Service providers, such as physicians and clinics, and managed care health plans.

It should be noted that California receives a 90 percent federal match for these eight specified codes. As such, this reduction would *return* over $164 million in federal funds back to the federal government.

Extend Hospital Quality Assurance Fee for Six Months. The Governor proposes legislation to extend the existing Hospital Quality Assurance Fee for six months (to June 2011) for an increase in revenues of $160 million (General Fund). This issue was raised in the May Revision but was temporarily tabled due to pending federal changes and the need to complete California's 1115 Medicaid Waiver. It is very likely that legislation will be introduced shortly regarding this extension once further discussions with stakeholders have occurred.

Managed Risk Medical Insurance Board

Eliminates Vision Benefits from Healthy Families. The Governor proposes legislation to eliminate vision coverage from the Healthy Families Program for a reduction of $2.3 million (General Fund) in 2010-11 and $11.3 million (General Fund) in 2011-12. Children would no longer have access to eye exams and glasses. Only medically necessary services, such as treatment for eye injuries would be covered.

Elimination of coverage would result in children not being diagnosed for vision anomalies and would likely lead to poor school outcomes and potentially further eye damage without diagnosis and treatment.

Increases to Healthy Families Premiums. The Governor proposes legislation to increase monthly premiums paid by families with incomes from 150 to 250 percent of federal poverty for a reduction of $6.2 million (General Fund) in 2010-11 and $25 million in 2011-12. An April 2011 date is assumed for implementation.

For families with incomes from 150 to 200 percent, monthly premiums would increase by $14 per child (from $16 to $30) and the monthly family maximum amount would increase by $42 (from $48 to $90).

For families with incomes from 201 to 250 percent, monthly premiums would increase by $18 per child (from $24 to $42) and the monthly family maximum amount would increase by $54 (from $72 to $126).

It should be noted that premiums and copayments for families were increased in 2005 and twice in 2009. More increases create considerable financial hardship. Further, the federal Patient Protection & Affordable Care Act's maintenance of effort provisions prohibits States from making restrictive changes in eligibility standards, methodologies and procedures. This proposal very likely violates this law.

Proposes Copayment Increase. The Governor proposes legislation to increase copayments for emergency room visits from $15 to $50 ($5.3 million General Fund) and to add copayments on hospital in-patient services of $100 per day with a $200 maximum ($1.5 million General Fund) for a total reduction of $6.8 million in 2011-12. These proposed copayments are extremely high and would likely not meet federal cost-sharing arrangements when coupled with the proposed premium increases (must be below 5 percent).

Department of Developmental Services

Proposed Adjustments to Conform to Other Reductions. The Governor proposes increases of $1.2 million (General Fund) in 2010-11 and $60.1 million (General Fund) in 2011-12 to backfill for funding related to his proposed reductions within the Department of Social Services, including the elimination of CalWORKS ($55.1 million), and reductions to In-Home Supportive Services and SSI/SSP grants ($6.2 million across the two years). (Refer to Department of Social Services below for further description.)

These adjustments are not needed if the Governor's proposed reductions within the Department of Social Services are not enacted.

Department of Mental Health

Eliminates Community Mental Health Services. Decimates County Mental Health funding by shifting $301 million (County Realignment Funds/Mental Health Subaccount) in 2010-11 and $602 million (County Realignment Funds/Mental Health Subaccount) in 2011-12 to administer Food Stamps and Child Welfare Services which would be *shifted* from the State to counties under this proposal. This proposal assumes a General Fund savings from this reduction and the shift of State responsibilities. This concept was rejected when first proposed in the May Revision for 2010-11.

Mental Health Services provided under the Medi-Cal Program would be radically scaled back to *only* include in-patient treatment and medications for adults, and

Early and Periodic Screening, Diagnosis and Treatment Program services for seriously emotionally disturbed children.

All other Mental Health Services, such as clinic outpatient services, crisis management services, psychiatric therapies, and related *medically necessary* services would not be funded under this proposal.

This proposal is flawed for numerous reasons from a public policy perspective, legal perspective, and fiscal perspective. Specifically, it does the following:

- Likely violates federal Medicaid (Medi-Cal in California) law which requires mental health parity;
- Likely violates the federal Americans with Disabilities Act and the federal Supreme Court ruling in *Olmstead* regarding access to medically necessary services for individuals with disabilities and the need to provide services in the least restrictive environment—in outpatient arrangements, not institutions;
- Violates maintenance of effort language under the Mental Health Services Act (Proposition 63) which requires continued financial support for mental health programs as provided in 2003-04 [Section 5891 (a) of Welfare and Institutions Code];
- Likely violates existing County Realignment Statute enacted in 1991 by redirecting revenues which are County Funds for other purposes.
- Likely violates our existing Medi-Cal Mental Health Waiver in which the state obtains over $1 billion in matching federal funds.

Individuals with severe mental illness experience significant health disparities. Nearly 50 percent of the Medi-Cal population who have a chronic illness have a psychiatric condition. With this proposal, the mental health system will be in complete disarray and there would be significant consequences to our society from this action.

Department of Social Services

Reduces CalWORKs Grants in 2010-11 and Eliminates Program in 2011-12.
The Governor has proposed reducing CalWORKS grants by 15.7 percent and eliminating the Recent Noncitizen Entrants program ($110.1 million in 2010−11 and $646.3 million in 2011−12), cutting the rate at which the state reimburses for child care ($49.4 million), and ultimately proposes a complete elimination of the

CalWORKS program effective July 1, 2011 ($1.4 billion). The proposed elimination would make California the only state in the nation without a welfare-to-work program to help families with children meet their most basic needs (i.e., shelter, food, clothing).

Supplemental Security Income(SSI)/State Supplementary Payment (SSP) Grants Reduced. The Governor has proposed reducing SSI/SSP grants for around one million aged, blind or disabled individual recipients to the federal minimum ($43.9 million in 2010-11 and $177.1 million in 2011-12).

Eliminates Cash Assistance and Food Assistance Programs for Legal Immigrants. The Governor has proposed eliminating cash assistance program to legal immigrants ($29.3 million in 2010-11 and $123.8 million in 2011-12) and the California Food Assistance program for legal immigrants ($15 million in 2010-11 and $69.4 million in 2011-12).

Department of Alcohol and Drug Programs

Eliminates Drug Medi-Cal Programs. The Governor proposes to eliminate all Drug Medi‐ Cal programs with the exception of the Perinatal; Early and Periodic Screening, Diagnosis, and Treatment; and Minor Consent Programs ($18.1 million in 2010‐ 11 and $93.1 million in 2011‐ 12).

Public Safety

California Department of Corrections and Rehabilitation

Jail for Sentences of Three Years or Less. Proposes net savings to the state of $111.5 million in 2010-11 and $650 million in 2011-12 from sentencing changes that would require that certain inmates convicted of non-serious, non-violent felonies and sentenced to incarceration terms of three years or less would be punished by imprisonment in jail instead of state prison. Fifty percent of the total state incarceration savings would be provided to counties to manage the additional offender caseloads.

Judicial Branch

Red Light Cameras. Assumes increase of $485 million in annual revenues generated beginning 2011-12 by using red light traffic cameras for speed enforcement. Proposes that 15 percent of these revenues be provided to local agencies to administer the program with the remaining $412 million in revenues being deposited in the Trial Court Trust Fund, offsetting General Fund support. Estimated that 500 cameras will be installed or retrofitted for automated speed enforcement statewide.

Electronic Court Reporting. Proposes implementation of electronic court reporting in the trial courts beginning January 1, 2011 for estimated savings of $1.5 million in 2010-11. Proposes rollout of electronic court reporting to all trial courts over a five year period with total net savings of over $100 million annually in 2015-16 and ongoing.

State Administration and General Government

Office of Administrative Law

Modify to Fee-For-Service Entity. Reduction of $500,000 GF in 2010-11 and $1.8 million GF in 2011-12 to reflect savings achieved by shifting the Office of Administrative Law (OAL) to a fee-for-service model. The Legislature rejected this proposal in the 2010-11 budget due to concerns that the proposal could create a financial disincentive for state departments and agencies to seek OAL approval of regulations therefore potentially resulting in delays in the regulation adoption process and/or an increase in underground regulations.

Department of Housing and Community Development

Emergency Housing Assistance Program. Transfer $4.2 million from the Emergency Housing Assistance Program (EHAP) to the GF and forgive repayment of a $1.6 million loan from the GF to the EHAP. In rejecting the $4.2 million transfer in 2010-11, the Legislature instead adopted budget provisional language to require the Department to issue a Notice of Funding Availability for the EHAP program and distribute the funds to local housing shelters.

Lower Cost Health Care

Lower Cost Health Care. Reduction of $143.9 million GF in state employee and retiree health care costs beginning in January 2012 achieved by contracting out for lower-cost health care coverage either directly from an insurer or through CalPERS. This year's proposal, identical to those rejected by the Legislature in 2009-10 and 2010-11, provides no meaningful detail on what changes would be implemented in health plans to achieve these savings; such large cost savings would by necessity involve large "cost-shifting," such as increased co-payments, deductibles, or other similar changes, from the state to employees and retirees.