



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

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MAY REVISION HIGHLIGHTS

May 31, 2009

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision which includes a summary of the General Fund.

Please note that this is not a comprehensive analysis of the May Revision, the administration has yet to provide detail on most of their major proposals. Staff is currently working on detailed analyses for legislative budget conference committee hearings that are scheduled to conclude the week of June 15.

OVERVIEW OF GOVERNOR'S MAY REVISION

On May 14, the Governor released two iterations of the May Revision for budget year 2009-10. One version assumed passage of various propositions on the May 19th ballot, another version displayed additional changes necessary in order to solve for a total General Fund shortfall of approximately \$21.3 billion – given the outcome of the May 19th election this latter version became the default approach. However, on May 21st, the Governor modified his \$21.3 billion proposal to include \$5.5 billion in additional GF reductions, rather than rely on the use of a RAW (registered anticipation warrant) of a like amount. On May 29th, the Governor again modified his proposal to include an additional \$3 billion in GF cuts in order to increase the GF reserve, to \$4.5 billion, for the year ending 2009-10.

Although the 2009 Budget Act has been enacted, the State's overall economy continues to worsen, eroding revenue assumptions made when the Budget was passed in February 2009, and requiring action on the part of the Legislature to insure a positive year ending balance. In addition, the State's overall cash flow position requires immediate action in order to assure investors of the State's solvency and allow the State access to credit markets to keep the State's monthly payment schedules. Generally, cash flow borrowing is used as a method of dealing with temporary cash shortfalls that occur as a result of timing differences between receipts and disbursements during a fiscal year.

On May 21st, the Legislature began deliberations on the May Revision. In order to provide greater transparency, public input, legislative dialogue and swifter action, a 10-member budget conference committee was created. The Legislature's goal is to address both the budget and cash flow issues by June 15.

May Revision proposals from May 14th

The following list details proposals made by the Governor on May 14th:

1. **K-14 Education.** \$5.3 billion in cuts to education in both K-12 and community colleges including:
 - \$2.7 billion reduction to K-12 Revenue Limits, with authority to districts to shorten the school year;
 - \$700 million reduction to Community Colleges; and
 - \$1.8 billion in K-12 and Community College Deferrals.

2. **Higher Education.** \$1.2 billion in reductions to UC, CSU and the Student Aid Commission.
3. **Proposition 1A Suspension** for a \$2 billion savings.
4. **State Compensation Insurance Fund,** sale to a private entity of a portion of SCIF for \$1 billion in one-time savings.
5. **Health and Human Services.** Major reductions totaling approximately \$2.7 billion in health and human services including:
 - \$750 million in Medi-Cal reductions. These reductions are achieved through rate reductions, benefit changes and a change to the long-term care program that would be negotiated with the federal government;
 - Reduction of Developmental Services by an additional \$234 million;
 - Cuts to IHSS services and IHSS provider pay;
 - Elimination of "SSI-like" benefits to elderly and disabled legal immigrants and limiting access to medical care to needy legal immigrants – all of whom have played by the immigration rules;
 - Reduction of the SSI-SSP grant level to the minimum level allowed by the federal government;
 - Adoption of various CalWORKS reductions;
 - Eliminating funding for Proposition 36;
 - Reducing foster care rates;
 - \$100 million in reductions to various public health programs;
 - \$108 million in reductions to Healthy Family program by reducing eligibility to 200 percent of the federal poverty level; and
 - \$178 million in other additional reductions and fund shifts that will impact health and human services programs.
6. **Corrections.** \$282 million from corrections by reducing some crimes from felonies to misdemeanors and commuting the sentences of certain undocumented immigrants.
7. **Personal Income Tax.** \$1.7 billion from the adoption of a 10 percent Personal Income Tax withholding increase.
8. **Resources.** \$100 million from the lease on oil or gas extraction at the Tranquillion Ridge area off the Santa Barbara coast.

9. **Tax Accelerations** of \$610 million.

10. **Emergency Response Initiative Fee.** Adds a fee to insurance policies statewide for CalFIRE costs for a savings of \$76 million.

11. **Other Solutions.** \$1 billion (approximately) in other solutions.

May 21st Additional GF Cuts Replace the RAW.

As previously mentioned, on May 21st, the Governor updated the May Revision proposal to remove \$5.5 billion in RAW borrowing and replace that amount with expenditure reductions. As a result, the following additional reductions are now included in the Governor's May Revision proposal:

1. **Health and Human Services**, an additional \$2.1 billion in GF reductions, including:

- Elimination of the CalWORKs program;
- Elimination of the Healthy Families Program;
- Eliminating certain Medi-Cal state-only programs;
- Elimination of community-based services programs at the Department of Aging;
- Eliminate State funding for Community Care Licensing;
- Elimination of remaining General Fund for Maternal, Child, and Adolescent Health;
- Elimination of funding for community clinic programs, such as Rural Health Services and the Seasonal and Agricultural and Migratory work programs;
- Reduce funding for AIDS Drug Assistance Program (ADAP);
- Reduce funding for Mental Health Managed Care and Early Periodic Screening, Diagnosis, and Treatment;
- Reflect \$250 million additional Medi-Cal savings from additional federal flexibility granted to California; and
- Suspend a five percent COLA for Skilled Nursing Facilities.

2. **Corrections.** \$909 million from Corrections due to early release of nonviolent, non-serious, non-sexual offenders and major reductions to rehabilitation programs and services.

3. **Cal Grants**, \$201 million from eliminating Cal Grants.
4. **Higher Education**, \$345 million in additional reductions to the UC and CSU, including elimination of all GF for Hastings College of Law.
5. **State Parks**, \$70 million from eliminating all GF for State Parks.
6. **Judiciary**, \$181.6 million from a 10 percent reduction to courts and requiring electronic court reporting.
7. **Employee Compensation**, \$475 million of other solutions, including additional savings from assuming the non-concurrence of a labor agreement by the Legislature and the elimination of the Rural Health Care Equity program for state employees.

May 29th Additional Cuts in Order to Increase GF Reserve. The administration proposed additional reductions in order to have a GF reserve of approximately \$4.5 billion (by cutting an additional \$3 billion in GF).

1. **Health and Human Services reductions** include:
 - Elimination of Adult Day Health Care for a GF savings of \$117 million;
 - Elimination of the Healthy Families Program, \$64 million;
 - Eliminate funding for Caregiver Resources Centers, \$10.5 million;
 - Defer funding for AB 3632 for \$52 million;
 - Begin a Health and Human Services Realignment by redirecting savings from IHSS, CalWORKs, and other areas to fund an increased county share in Department of Social Services children's programs - \$550 million;
 - Provide IHSS services to only the neediest consumers with functional index scores of 4.0 and above, \$230 million in GF savings;
2. **Education.** Lower Proposition 98 funding by \$680 million in anticipation of lower overall revenue growth. Authorize the Superintendent of Public Instruction to make an adjustment to the deficit factor to restore some or all of the reduction if revenues come in at a higher level.
3. **Suspend Specified Non-Prop 98 Mandates.** Suspend specified mandates for a GF savings of \$100 million GF.

4. **Transportation** changes include:
 - Redirect PTA resources to pay additional debt services on transit bonds;
 - Include weight fees in the calculation of transportation funds pursuant to Article XIX to be shifted for payment of transportation debt service in 2009-10 only.

5. **Employee Compensation.** Reduce all state employee salaries by five percent for a GF savings of \$470 million.

This report is intended to provide an immediate understanding of the Governor's most recent change to the proposed May Revision in the limited timeframe available. More information will follow as the process moves forward.

SUMMARY OF CHARTS

2009-10 May Revision as of May 29, 2009 General Fund Summary (in millions)

	2008-09	2009-10
Prior Year Balance	\$2,308	\$-3,100
Revenues and Transfers	\$85,946	\$92,218
Total Resources Available	\$88,254	\$89,119
Non-Proposition 98 Expenditures	\$57,662	\$47,553
Proposition 98 Expenditures	\$33,691	\$35,971
Total Expenditures	\$91,353	\$83,524
Fund Balance	\$-3,100	\$5,595
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Final Reserve	-\$4,179	\$4,516

**2009-10 May Revision General Fund Revenue Sources
(in millions)**

Source	Enacted 2009 Budget Act (Feb '09) Amount	May Revision 2009 Amount
Personal Income Tax	\$51,237	\$48,836
Sales Tax	\$30,221	\$27,583
Corporation Tax	\$10,445	\$8,799
Insurance Tax	\$1,798	\$1,913
Tobacco Taxes	\$111	\$102
Liquor Tax	\$370	\$332
Other	\$3,546	\$4,653
<i>Total</i>	\$97,728	\$92,218

K-14 EDUCATION – PROPOSITION 98

- Reduces Proposition 98 funding by \$1.6 billion in 2008-09 and \$3.8 billion in 2009-10 for a total reduction of \$5.4 billion over two years. These cuts reduce total Proposition 98 funding from \$50.7 billion to \$49.1 billion in 2008-09. For 2009-10, the proposed cuts reduce funding from \$54.9 billion to \$51.1 billion.
- Note that reductions are offset by the \$3.3 billion in federal State Fiscal Stabilization Funds and \$2.8 billion in other federal funding increases being provided to schools through the American Recovery and Reinvestment Act (ARRA).
- Includes a variety of flexibility proposals, in addition to those already created through the 2009-10 Budget Act; including allowing districts to reduce up to one week of instructional time, limited to no more than three years.

- ***Specific 2008-09 K-12 Education Proposals:***
 - ✓ Provides a base reduction of \$1.3 billion to school district revenue limits.
 - ✓ Eliminates the High Priority Schools Program for a total savings of \$114 million.
 - ✓ Increases Charter School Economic Impact Aid funding by \$8.3 million to reflect a base adjustment.

- ***Specific 2009-10 K-12 Education Proposals:***
 - ✓ Reduces school district base revenue limit funding by an additional \$381 million.
 - ✓ Defers \$1.7 billion in school district apportionment payments from 2009-10 to 2010-11.
 - ✓ Reduces child care by \$36 million by "reducing the high incidence of overpayments to providers in voucher-based programs."
 - ✓ Proposes to possibly move certain K-12 payments from, for example, the beginning of July to the end of the month and some portion from the July and August payments may be shifted to October 2009.
 - ✓ Provides flexibility to reduce an additional two days beyond the initial five days of reduction to instructional time, for a period of no more than three years.

- ***Specific California Community Colleges Proposals:***
 - ✓ Reduces Community Colleges categorical funding by \$85 million in 2008-09.
 - ✓ Defers \$155 million of the Community Colleges apportionments in the 2008-09 fiscal year to the 2009-10 fiscal year.
 - ✓ Reduces, by \$221.6 million in 2009-10, Community Colleges categorical programs, which will be accompanied by flexibility reforms similar to those included in the February budget package for K-12 categorical programs.
 - ✓ Reduces, by \$58.4 million in 2009-10, enrollment growth for Community Colleges appointments.
 - ✓ Reduces, by \$120 million in 2009-10, Community Colleges apportionments by reducing the funding rate for for-credit physical education and recreational courses to the regular non-credit rate.
 - ✓ Expects that Community Colleges absorb the projected \$42.1 million in 2008-09 property tax shortfall and another \$116.7 million in 2009-10.

- ✓ Reduces, by an additional \$112.4 million in 2009-10, Community College categorical programs.
- ✓ Reduces, by an additional \$68.7 million in 2009-10, enrollment growth for Community College apportionments and categorical programs.

HIGHER EDUCATION

California Student Aid Commission

- Eliminates new awards for the Competitive Cal Grant program for a savings of \$52.9 million.
- Freezes the Cal Grant income eligibility for a savings of \$7 million.
- Reduces maximum Cal Grant awards for students attending private institutions from \$9,708 to \$8,322, for a savings of \$11 million.
- Partially decouples award levels from UC and CSU fee increases, for a savings of \$16.6 million.
- Consolidates the California Student Aid Commission and the California Postsecondary Education Commission.
- Phases out the Cal Grant programs by eliminating new awards for the High School Entitlement and Community College Transfer Entitlement programs and Cal Grant C program, for a savings of \$173 million in the budget year. This proposal includes the elimination of new awards for the Cal Grant Competitive programs and lower costs of other new awards for UC, CSU, and private colleges.
- Completely decouples award levels from UC and CSU fee increases, for a savings of \$28 million.

University of California

- Proposes to reduce UC's support budget by \$510 million in the current year, without violating the Federal Stimulus MOE Requirement. This amount is anticipated to be fully offset with State Fiscal Stabilization Fund allocations based on the formulas prescribed in federal law, of which \$268.5 million was allocated in April 2009.
- Proposes to eliminate \$31.3 million for academic preparation and education programs at UC.
- Proposes to reduce funding, by \$50 million, to UC's support budget.
- Proposes an additional reduction of \$207.5 million in the current year and \$167.5 million in the budget year, which "further reduces the segments to the Federal State Fiscal Stabilization Fund maintenance of effort level."

Hasting College of the Law

- Proposes to eliminate all state funding, for a savings of \$10.3 million "without having to pay back to the heirs of S.C. Hastings, with accumulated interest, the original \$100,000 bequest."

California State University

- Proposes to reduce CSU's support budget by \$510 million in the current year, without violating the Federal Stimulus MOE Requirement. This amount is anticipated to be fully offset with State Fiscal Stabilization Fund allocations based on the formulas prescribed in federal law, of which \$268.5 million was allocated in April 2009.
- Proposes to eliminate \$18.6 million for academic preparation and education programs at CSU.
- Proposes to reduce funding, by \$100 million, to CSU's support budget.
- Proposes an additional reduction of \$207.5 million in the current year and \$167.5 million in the budget year, which "further reduces the segments to the Federal State Fiscal Stabilization Fund maintenance of effort level."

TRANSPORTATION

- Proposes to use \$336 million in projected "spillover" revenues to fund transit bond debt service costs that would otherwise have been paid for with General Funds.
- Spillover revenues occur when revenue derived from sales taxes on gasoline is proportionately higher in relationship to revenue derived from all taxable sales (generally reflecting higher gas prices).
- Proposes to offset General Fund payments for highway bond debt service by reducing the local share of the gas tax from \$1.05 billion to \$300 million and redirect \$750 million to pay prior year and current year debt service.
- This amount is consistent with the limit on bond debt payments of 25 percent of total fuel tax revenues outlined in Article XIX, Sect. 5 of the California Constitution.

HUMAN SERVICES

Department of Social Services

- Includes reduction proposals for CalWORKs, the program serving families whose incomes are not adequate to meet their basic needs, for a General Fund savings of \$156.7 million. The proposal, anticipated to become effective October 1, 2009, would: (1) modify the Safety Net program by continuing benefits for families beyond their 60-month time limit only if they meet federal work participation requirements, (2) provide cash aid for families receiving child-only benefits in a manner consistent with other CalWORKs families, (3) institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements, and (4) reduce the CalWORKs maximum aid payment standard by an additional six percent. In the February 2009 Special Session, the CalWORKs grants were reduced by four percent, effective July 1, 2009, under the assumption that federal funds would not be received at a \$10 billion level. In a high cost county, starting July 1, the monthly grant for a family of three would be reduced from \$723 to \$694. An additional six percent grant cut would take the grant down by \$42 to \$652. The monthly grant level was \$694 twenty years ago in 1989.
- Reduces Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants to the minimum federally allowed levels for individuals and couples, for a General Fund savings of \$248.5 million. In the February 2009 Special Session, the SSI/SSP grant was reduced by 2.3 percent, or \$20 for individuals and \$35 for couples per month, effective July 1, 2009, under the assumption that federal funds would not be received at a \$10 billion level. This proposal would further reduce grants to the minimum allowed effective September 1, 2009, reducing the maximum grant for an aged/disabled individual from \$850 to \$830 per month and the maximum grant for aged/disabled couples from \$1,489 to \$1,407 per month.
- Proposes to limit In-Home Supportive Services (IHSS) Domestic and Related Services to those most functionally impaired for a General Fund savings of \$40.8 million. This proposal has been rejected in past budget iterations to preserve these services for aged, blind, and disabled persons who are unable to remain safely in their homes without such assistance.

- Further limits the IHSS Share-of-Cost Buyout to the most functionally impaired for a General Fund savings of \$38.2 million. In the February 2009 Special Session, this proposal was adopted to take effect July 1, 2009, on prospective cases only. This proposal, which would become effective October 1, 2009, targets the state buyout program, which reduces the costs IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost must incur before receiving subsidized services to persons with the most severe needs.
- Further limits state participation in IHSS wages for a General Fund savings of \$114.1 million. In the February 2009 Special Session, state participation in wages was reduced from \$12.10 to \$10.10 (combined wages and benefits) per hour effective July 1, 2009. This proposal, which would become effective October 1, 2009, further reduces state participation in the wages to the state minimum wage of \$8.00 per hour, plus \$0.60 per hour for health benefits, or \$8.60.
- Proposes to increase the prevention and detection of fraud within the IHSS program, resulting in General Fund savings of \$15.8 million.
- Eliminates the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program (CFAP) effective October 1, 2009, for a combined General Fund savings of \$120.2 million. The CAPI program allows approximately 12,000 aged, blind, and disabled legal immigrants, who would be eligible for the SSI/SSP program but for their immigration status, to receive cash assistance. The CFAP provides benefits to more than 22,000 low-income legal non-citizens between the ages of 18 and 65, who meet all the eligibility requirements for the federal Food Stamp program but have resided in the United States for less than five years.
- Assumes savings of \$31 million for the federally-subsidized Kinship Guardianship Assistance Payment Program if all cases are ultimately eligible for federal support. The recently enacted federal Fostering Connections to Success and Increasing Adoptions Act makes federal funding available for certain guardianship agreements that provide children who would otherwise be in the foster care system with a permanent and stable living arrangement with a relative family member.

The Administration wrote to the federal Secretary for Health and Human Services requesting that federal guidance on this legislation be amended to allow California's 16,000 existing guardianship agreements in the Kinship-Guardianship Agreement Payment (KinGAP) program to also be eligible for federal funding.

- Proposes a General Fund reduction of \$301.5 million for IHSS Cost Containment. Specifically, effective October 1, 2009, individuals who require minimal physical assistance from another person to perform an activity would no longer receive domestic and related services, and individuals needing only supervision from another person to perform an activity would no longer be eligible for IHSS services.
- Proposes a General Fund reduction of \$13.9 million to reduce Group Home, Foster Family Agency, and Specialized Care and Clothing Allowance Rates by ten percent.
- Proposes a General Fund reduction of ten percent, or \$70 million, to the allocation to counties for Child Welfare Services. Under this proposal, counties would be forced to prioritize remaining funds to protect the health and safety of children and their families, and appropriately address federal outcome requirements.
- Proposes to eliminate the CalWORKs program for a net General Fund savings of \$1.3 billion.
- Proposes to eliminate all state funding for Community Care Licensing for a General Fund savings of \$19.5 million. The administration states that this reduction is partially offset by a fee increase to maintain critical health and safety standards.

Department of Alcohol and Drug Programs

- Proposes to reduce rates by 10 percent for all Drug Medi-Cal treatment modalities for a General Fund savings of \$8.8 million. This program funds substance abuse treatment services for Medi-Cal eligible individuals.

- Eliminates all funding, \$108 million General Fund, for Substance Abuse Treatment and Crime Prevention. As enacted, the Substance Abuse and Crime Prevention Act (SACPA), also known as Prop. 36, guaranteed state funding for only the first 5 years, 2001 through 2006. This proposal eliminates \$108 million General Fund for SACPA (\$90 million) and the Substance Abuse Offender Treatment Program (\$18 million).

Department of Aging

- Proposes to eliminate the Multipurpose Senior Services Program and Community-Based Service programs for a combined General Fund savings of \$24.2 million. The administration states that funding for Adult Day Health Care will continue in support of the Department of Aging's responsibility for Medi-Cal certification of program providers.

Department of Developmental Disabilities

- Proposes a \$224 million General Fund unallocated reduction in the Developmental Services budget. Pursuant to the early 2009 Budget Act, the Regional Centers (RC) are already required to identify program changes to achieve \$100 million in General Fund savings. The Department of Developmental Services has worked with stakeholders to develop proposed changes to RC services to achieve required savings. The Administration states that this collaborative process should continue to achieve the new savings target.

Department of Mental Health

- Proposes to reduce the Mental Health Managed Care Services and Early and Periodic Screening, Diagnosis, and Treatment (EPDST) Program for a combined General Fund savings of \$92 million. The administration states that Mental Health Managed Care Services retained include acute inpatient services and prescription drugs for Medi-Cal enrollees only. EPSDT savings result from eliminating General Fund support for county programs identified as new programs in 2007-08 and 2008-09.

HEALTH

Department of Health Care Services

- Proposes a new federal waiver to provide flexibility to allow the state to find savings of \$750 million (General Fund) in the Medi-Cal program. Assumes increased savings from the proposed Medi-Cal waiver which is

aimed at increasing the state's flexibility in order to slow the rate of program growth and manage costs. Additional General Fund savings are assumed to be \$250 million in 2009-10 and \$500 million in 2010-11.

- Limits Medi-Cal benefits to newly-qualified immigrants and PRUCOL to emergency services only, exempting minors up to age 20 and pregnant women, for a savings of \$125 million.
- Implements new federal and state drug pricing policies, for a savings of \$75 million.
- Increases anti-fraud efforts in adult day health care, pharmacy, physicians, durable medical equipment and transportation, for a savings of \$47.9 million in 2009-10, and \$87 million in out years. Start-up costs of \$3.4 million.
- Reduces payments to private hospitals by ten percent, for a savings of \$20 million.
- Rolls back rate increases for family planning services to 2007 levels, for a savings of \$36.8 million.
- Reduces Adult Day Health Care coverage to three days per week, for a savings of \$25.5 million.
- Increases fees paid by skilled nursing facilities by expanding the amount of revenue upon which the AB 1629 fee is based, to include Medicare revenue, for increased revenue to the State of \$18.3 million.
- Eliminates certain state-only Medi-Cal programs including: non-emergency services for undocumented individuals (excluding prenatal and long-term care), Institutions for Mental Disease ancillary services payments, dialysis, non-digestive nutrition, and breast and cervical cancer treatment for women over 65 and for men. General Fund savings are estimated to be \$34.4 million in 2009-10 and \$57.8 million in 2010-11.

- Suspends a five percent cost-of-living increase effective August 1, 2009, for skilled nursing facilities, that is attributable in part to AB 1629, for a General Fund savings of \$67.1 million in 2009-10 and \$109.8 million in 2010-11.

Managed Risk Medical Insurance Board

- Eliminates certified application assistance which pays individuals to help families enroll their children in health insurance coverage, for a savings of \$2.7 million.
- Rolls back eligibility in the Healthy Families Program from 250 to 200 percent of the federal poverty level, for a savings of \$54.5 million.
- Eliminates the Healthy Families Program for an estimated General Fund savings of \$247.8 million in 2010-11 and \$322.4 million in 2010-11.

Department of Public Health

- Cuts HIV Education and Prevention grants to local jurisdictions, for a savings of \$24.6 million.
- Cuts maternal, child, and adolescent health grants to local health jurisdictions, for a savings of \$10 million.
- Suspends the Children's Dental Disease Prevention Program that provides dental services to 300,000 low-income school children annually, for a savings of \$2.9 million.
- Shifts \$60 million in Prop 99 funds to Medi-Cal. These funds currently support county health programs, clinics, Breast Cancer Early Detection, Asthma, Major Risk Medical Insurance Program, and Access for Infants and Mothers programs.
- Cuts funding for domestic violence shelters, for a savings of \$20.5 million.
- Expands client cost sharing and limits the formulary in the AIDS Drug Assistance Program, and reduces or eliminates General Fund support for Office of AIDS programs including: HIV Counseling and Testing,

Epidemiologic Studies/Surveillance, Therapeutic Monitoring, and Home and Community Based Care, for an estimated savings of \$55.5 million in 2009-10 and \$58.9 million in 2010-11.

- Eliminates funding for the following community clinic programs: Indian Health; Seasonal and Agricultural and Migratory Workers; Rural Health Services Development; and Expanded Access to Primary Care, for General Fund savings of \$34.2 million in 2009-10 and 2010-11.
- Eliminates all remaining funding (after original proposed cut) for Maternal, Child and Adolescent Health, for an additional General Fund savings of \$10.2 million in 2009-10 and 2010-11.

Emergency Medical Services Authority

- Eliminates funding for the California Poison Control System, which provides immediate free treatment advice and assistance over the phone, for a savings of \$5.9 million.

NATURAL RESOURCES AND THE ENVIRONMENT

Department of Parks and Recreation

- Eliminates all General Fund support for State Parks and requires that the system operate entirely from special funds and fee revenue. This reduction will total \$70 million in 2009-10 and \$143 million in 2010-11 and will result in the closure of a significant percentage of the statewide park system.

Department of Conservation

- Eliminates "Williamson Act" payments to counties for Agricultural and Open Space Land Preserves. These subventions currently backfill a portion of revenue lost by local governments when they enter into voluntary agreements with land owners for lower property tax assessments when those land owners agree to use the land only for agricultural or open space purposes.

Department of Fish and Game

- Proposes a one time transfer of \$30 million from the Fish and Game Preservation Fund balance to support activities currently supported by the General Fund.

Department of Forestry and Fire Protection

- Proposes an interagency agreement to use \$24.9 million from the Legislature's budget to fund baseline General Fund costs at the Department of Forestry and Fire Protection.
- Increases the Emergency Response Initiative surcharge on residential and commercial property insurance policies from 2.8 percent, as proposed in the January 10 budget, to 4.8 percent. This surcharge would average approximately \$48 a year per insurance policy holder and generate \$120 million in additional revenue in 2009-10. This proposal would delay all enhancements to emergency response proposed in the January 10 budget, generating \$78 million in General Fund savings by offsetting current baseline costs for CalFIRE. Additionally, the Administration is proposing to provide an undetermined amount in grants to local emergency response entities.
- Proposes a one-time reduction of \$17.6 million in General Fund in 2009-10 for equipment and fire engine fleet replacement.

Department of Water Resources

- Shifts flood protection activities for floodplain evaluations and mapping and support for Delta levees to Proposition 1E from the General Fund. This proposal will generate \$7 million in temporary savings.

Offshore Oil Drilling

- Proposes legislation authorizing the state to enter into a lease for the extraction of oil or gas from state-owned tidal and submerged lands in the California Coastal area off the Santa Barbara coast known as Tranquillon Ridge. This proposal is anticipated to generate \$100 million in royalties in 2009-10 and \$1.8 billion in royalties over the next 14 years.

CORRECTIONS / JUDICIARY

Department of Corrections and Rehabilitation

- Reduces \$182.1 million related to targeted reductions in the state prison population by proposing approval of, as appropriate, applications for commutation of sentences submitted by undocumented immigrants in our prison system and having them immediately deported by Federal Immigration and Customs Enforcement. Targeted commutations would provide necessary savings during this unprecedented fiscal crisis. Currently there are approximately 19,000 undocumented immigrants in our prison system.
- Reduces \$99.9 million as a result of changing sentencing options for low-level offenders by eliminating the current sentencing options for specified crimes that may be treated either as felonies or misdemeanors, making them punishable by a jail term rather than state prison. This proposal will prioritize the incarceration and rehabilitation of the most serious offenders.
- Reduces California Department of Corrections and Rehabilitation (CDCR) contract expenditures, eliminate non-court ordered rehabilitation programs and make other reductions to CDCR. Impacted programs include a range of rehabilitative services, such as substance abuse counseling, vocational training, and educational programs. In addition, funding for building maintenance is being eliminated on a one-time basis in 2009-10. In total, 2009-10 expenditures will be reduced by \$788.5 million.
- Reduces \$120.5 million by commuting sentences of certain nonviolent, non-serious, non-sex offenders one year early. This proposal targets those offenders who were convicted of a crime that could be treated as punishable by either a felony or misdemeanor.

Judicial Branch

- Reduces funding, by \$181.6 million, by reducing general fund support to the courts by 10 percent and implementing electronic court reporting in California courtrooms. The electronic court reporting will be phased in at a rate of 20 percent of the state's courtrooms per year.

GENERAL GOVERNMENT

Department of Veterans Affairs

- Increases revenue by \$2.8 million due to adjusting fees collected from the residents of the Veterans Homes. Currently, residents pay fees on a percentage of income, up to a dollar cap, based on the level of care. This proposal would increase fees by removing the dollar cap, increasing the percentage for the Residential Care for the Elderly, and revise the fee structure for non-veteran spouses to more accurately reflect their share of cost. This proposal was included in the Governor's Budget but not adopted as part of the 2009 Budget Act.

Rural Health Care Equity Program (RHCEP):

- Proposes to eliminate funding for the RHCEP which provides reimbursements for certain health care expenses for State employees who do not have access to a Health Maintenance Organization (HMO). Estimates annual savings of \$15.7 million. The 2008-09 approved budget eliminated payments through the RHCEP for retired annuitants.

Employee Compensation

- Assumes savings that will be achieved if proposed labor agreements are not ratified by the Legislature, thereby maintaining a 2-day furlough for all employees. Estimated savings of \$60 million in 2008-09 and \$150 million in 2009-10.

Public Employees' Retirement System (PERS)

- Proposes to reduce health care expenditures for state employee health coverage by an estimated \$132.2 million, beginning in January 2010, by contracting for lower cost health care coverage either through CalPERS or directly from an insurer. This change could conflict with existing collective bargaining contracts. Savings estimates are very difficult to project.
- Proposes to reduce the state's Other Post Employment Benefits (OPEB) unfunded liability by 38 percent over the next 30 years by requiring that new employees work for 25 years or more before becoming eligible for lifetime health benefits (vesting). This proposal will not provide savings for at least 25 years, as it only applies to new employees.

- Scores savings of \$100 million based on the announcement by CalPERS that they used excess reserves from their self-funded preferred maintenance organization (PPO) plans to offset premiums and contributions paid by employers for two months. This action would require code changes to allow CalPERS to provide the "premium holiday".

State Compensation Insurance Fund

- Proposes the State sell a portion of the State Compensation Insurance Fund (SCIF) to a private entity for an estimated \$1 billion. The SCIF would remain the "insurer of last resort". SCIF was established in 1914 as a self-supporting, non-profit enterprise that provides workers' compensation insurance to California employers with no financial obligation to the public.

Department of Industrial Relations

- Shifts the General Fund portion of the Department of Industrial Relations (DIR) budget to fee-support.
- Employer fees will be increased to fund the Occupational Safety and Health Program and the Labor Standards Enforcement Program. Similar fees on employers were increased in the 2008-09 budget to address funding shortfalls.
- Ongoing cost reductions beginning in 2010-11 will produce over \$60 million in GF savings.

Department of General Services

- Delays repairs to the State Capitol building and park for one year, providing \$6.6 million in savings.

California Science Center

- Proposes to transfer the operations of the California Science Center to a not-for-profit entity or an appropriate governmental entity.
- Proposes to delay the opening of the Science Center Phase II project by one year for a savings of \$2.8 million.

LOCAL GOVERNMENT

Open Space (Williamson Act) Subventions

- Eliminates state subventions to local governments (primarily counties) under the Williamson Act Program for a General Fund savings of \$34.7 million. Under this longstanding program, the state backfills a portion of the revenue lost by local governments when they enter into contracts with land owners to limit property tax assessments for lands that are maintained as open space or agriculture lands. Also discussed under the Resources heading.

Borrowing from Local Governments

- Borrow \$1.98 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension, which requires legislation, allows the state to divert to schools up to 8 percent of property tax revenues of cities, counties and special districts to counties and special districts. Repayment, with interest, must be made within three years. The May Revision also proposes legislation to authorize a joint powers authority to facilitate local government borrowing against the state's repayment promise (this proposal is also included under the Borrowing heading in this document).

REVENUE AND TAXATION

Revenue Accelerations

- Accelerates \$610 million of Personal Income Tax and Corporation Tax revenues into 2009-10 by increasing the June (second) quarterly estimated payment from the current 30 percent of annual tax liability to 40 percent, beginning June 2010. The percentage due with the first quarterly estimated tax payment (due in April) is 30 percent, so the total amount due in the first half of the year would be 70 percent. However, the proposal would eliminate the third quarterly estimated payment (now 20 percent of annual liability) and increase the final quarterly payment (due in December) from the current 20 percent to 30 percent of annual tax liability.
- Increase payroll withholding schedules by 10 percent, effective January 2010, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10.

BORROWING

Generally, cash flow borrowing is used as a method of dealing with temporary cash shortfalls that occur as a result of timing differences between receipts and disbursements during a fiscal year.

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- Reduces estimated cash flow borrowing costs by a net of \$210 million. This is the result of eliminating a \$5.5 billion Revenue Anticipation Warrant (RAW), a 2-year short-term borrowing that had been included in the May 14th proposal as both a cash flow and budget solution for 2009-10. Based on the enacted 2009-10 Budget, the administration had projected a total external cash flow borrowing need of \$13.5 billion, but now has reduced that amount to around \$6 billion accomplished through

Revenue Anticipation Notes (RANs) to be repaid within 2009-10. Savings also occur because the borrowing period is reduced to 10 months (from 12). The \$210 million additional savings is net of an increase in interest's costs necessitated by some payment delays that are expected to occur at the reduced level of external borrowing.

REORGANIZATIONS, CONSOLIDATIONS, AND CAPITALIZING ON STATE ASSETS

The Governor's May Revision proposes to reorganize, consolidate, and eliminate a number of Departments, Boards, and Commissions. Many of these proposals carry out policies first initiated in the California Performance Review conducted in Governor Schwarzenegger's second year in office. The Administration also proposes to "capitalize state assets" through the leasing, selling, and refinancing of state-owned property to maximize cash benefits.

Reorganizations and Consolidations:

- Consolidates and reorganizes functions from twelve different entities into a single Department of Energy.
- Consolidates and realigns recycling and cleanup, spill prevention and pollution prevention programs, and eliminates the Integrated Waste Management Board.
- Consolidates the Department of Corporations, Department of Financial Institutions, Department of Real Estate, and Department of Real Estate Appraisers.
- Consolidates the Franchise Tax Board (FTB), the Board of Equalization (BOE), and the Employment Development Department (EDD).
- Eliminates the Department of Boating and Waterways and transfers its functions to the Department of Parks and Recreation.
- Consolidates the Postsecondary Education Commission and the Student Aid Commission.
- Eliminates the Office of Environmental Health Hazard Assessment and transfers its duties to the Department of Public Health.

- Eliminates the Department of Community Services and Development and transfers its functions to the Department of Social Services and to the proposed new Department of Energy.
- Eliminates the San Francisco Bay Conservation and Development Commission as a state department and realign its functions to a regional entity.
- Eliminates the Bureau of Naturopathic Medicine.
- Eliminates the Telephone Medical Advice Services Bureau.
- Consolidates the Board of Geologists and Geophysicists with the State Mining and Geology Board.
- Consolidates the Professional Fiduciaries Bureau under the Board of Accountancy.
- Creates a new Board of Mental Health and consolidates the duties of the Board of Behavioral Sciences, the Board of Psychology, the Board of Vocational Nurses and Psychiatric Technicians into a new Board of Mental Health.
- Consolidates the Hearing Aid Dispensers Bureau under the Speech-Language Pathology and Audiology Bureau.
- Consolidates the nursing oversight functions of the Board of Vocational Nursing and Psychiatric Technicians with the Board of Registered Nursing.
- Eliminates the Court Reporters Board.
- Eliminates the Inspection and Maintenance Review Committee and transfers its functions to the Bureau of Automotive Repair.
- Eliminates the Landscape Architects Technical Committee and transfers its licensing duties to the Architects Board.

Many of these Boards and Bureaus are professional boards and bureaus made up of professionals in those particular fields. They are funded through special funds raised primarily through fees on the professionals, and used to regulate and maintain the integrity of their own profession.

Capitalizing State Assets:

The Administration proposes to pursue legislation and administrative action to maximize the amount of money the state raises from state-owned property. They propose to accomplish this through long-term leasing of unused properties, selling of high-value property, refinancing of state-owned buildings, and accelerated selling of surplus property.