California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

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Agenda
February 18, 2011
Room 4203
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Page

OTHER ISSUES

OTHER ISSUES (continued)

REDEVELOPMENT

EDUCATION (K-14)

REALIGNMENT

REVENUES

Governor's Proposal	2011-12 ($ in thousands)	Comments

4260-101-0001 Medi-Cal Program

Elimination of Adult Day Health Care Services. -$176,600
(Page 1 of 2)

Budget assumes elimination of Adult Day Health Care Services (ADHC) effective June 1, 2011. Trailer bill language is for enactment.

DHCS states that other Medi-Cal services would still be available if ADHC services were eliminated. Specifically, the following Medi-Cal services, which are similar to ADHC services, would still be available to individuals:

- Home Health Services.
- In-Home Supportive Services.
- Physical and Occupational Therapy.
- Clinic services that would include dietitian, physician, social worker, and nursing services.
- Physician Services through the individual's Medical health care provider.

DHCS states that several cost-containment actions have been enjoined by the Courts and that expenditures continue to escalate.

(Continued on next page.)

ADHC services are considered an Optional Benefit under Medicaid (Medi-Cal). California is one of few States that currently offers this service. Total funding for ADHC is $369.8 million ($176.6 million General Fund).

There are about 325 active ADHC providers in Medi-Cal who serve about 27,000 average monthly users.

The estimated cost per ADHC beneficiary is $1,128 per month, or $13,538 annually.

ADHC services are a community-based day program providing health, therapeutic, and social services designed to serve those at risk of being placed in a nursing home.

The Medi-Cal error report has periodically raised issues regarding eligibility for services based on medical acuity, as well as billing errors. Additional audit staff has been provided to the DHCS in past years to address some of these concerns.

(Continued on next page.)

Governor's Proposal	2011-12 ($ in thousands)	Comments
Elimination of Adult Day Health Care Services. (Page 2 of 2) Previous cost-containment efforts have included the following: <u>Moratorium.</u> In 2004, a statutory moratorium was placed on the expansion of ADHC providers. This remains today. <u>Treatment Authorization Reviews.</u> In 2009, on-site treatment authorization reviews were implemented and are anticipated to reduce expenditures by $824,000 General Fund in 2011-12. <u>Medical Acuity Eligibility Criteria—Enjoined by Court.</u> In 2009, the Legislature enacted medical acuity eligibility criteria to focus ADHC services on most medically acute individuals. This was to reduce program costs by 20 percent but was enjoined by the courts. Limit ADHC Benefit to Three Days. In 2009, the Legislature enacted statute to limit services for an individual to three days per week and this was enjoined.	-$176,600	Questions have been raised regarding the availability of medical services if ADHC is eliminated, as well as the social interactions for people with dementia. As noted by the DHCS, some medical services would still be available to this population if the ADHC benefit were eliminated. Some of these services would likely be provided in a Clinic setting, Physician Office, or related profession (e.g., social worker, nursing) as noted by the DHCS. Social interactions would need to be provided through non-profit organizations, community-based services or other means, if the ADHC benefit were eliminated. Further, social benefits are not eligible for a federal Medi-Cal match.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Budget Bill Language for Reappropriation Authority The Governor's budget includes proposed budget bill language to allow for reappropriation of unspent funds in the Title IV-E Child Welfare Services Waiver Program (Items 5180-153-0001 and 5180-153-0890) in subsequent fiscal years. When the proposed language was drafted, the Administration erroneously removed authority specifically tied to the 2009 Budget Act. The Administration now proposes to reinsert that language.	N/A	Due to the lag in counties reporting their final claims, the 2009-10 reappropriation amounts will not be determined until March 2012; therefore, the Administration indicates that reappropriation authority for the 2009 Budget Act is still needed. The Administration's proposal is a technical fix to add the deleted reappropriation authority back in to the Budget Bill. **Recommendation: Approve the proposed budget bill language.**

Governor's Proposal	2011-12 ($ in thousands)	Comments
CalWORKs – Governor's Proposal to Reduce Funding for Child Care, Welfare-to-Work Services & County Administration ("Single Allocation") The 2009-10 Budget Act (Chapter 4, Statutes of 2009, Fourth Extraordinary Session, AB X4 4) included similar sized reductions for 2009-10 and 2010-11, but also included corresponding short-term reforms to the CalWORKs program. The Governor's current proposal does not include the main policy changes in effect during those years, and is instead an unallocated reduction. According to DSS, counties would therefore need to re-prioritize the use of single allocation funds to serve clients. The Governor's budget does, however, propose to continue flexibility that counties have had in 2009-10 and 2010-11 to redirect funding for Substance Abuse and Mental Health Services to and from CalWORKs Employment Services funding.	-376,900	**Background on Policies Under Prior Reductions:** Under AB X4 4, counties may provide time-limit exemptions to adults who have been granted good cause due to lack of supportive services, and may exempt families with young children (i.e., a 12-23 month old or two or more children are under the age of six) from welfare-to-work requirements. Toward the end of 2010, approximately 46,000 families were granted exemptions that may have resulted from these policies. **Anticipated Impacts:** Because the Governor's budget does not offer any direction as to how counties should implement this reduction to funding for CalWORKs administration and services, it is difficult to predict which families and children would be affected by the proposal and in what ways. In general, there would be significantly less funding available for supports that assist families in obtaining and keeping employment.

Governor's Proposal	2011-12 ($ in thousands)	Comments
CalWORKs – Governor's Proposal to Establish 48-Month Time Limit on Aid to Adults & Children The Governor's budget proposes to establish, effective July 1, 2011, a 48-month time-limit on the receipt of CalWORKs cash assistance and supportive services. This new time limit would apply retroactively and would apply to both adults and children, with some narrow exceptions for children whose parents continue to meet federal work participation requirements. Previous months of cash aid would count toward the time limit, even if the adult participant had been exempted from welfare-to-work requirements or was temporarily disabled at the time.	-832,900	**Current Law:** Currently, able-bodied adults who are eligible to receive CalWORKs assistance are limited to 60 months of cash aid. Under reforms passed in the 2009-10 budget (which the Governor proposes to repeal), these time limits for adults are scheduled to change, as of July 1, 2011, to 48 months, and then a "sit out" period of one year before eligibility for an additional 12 months begins. If an adult recipient reaches the existing 60-month time-limit, the family's aid is reduced by the portion of the grant that was attributed to the adult and the family's child or children may continue to receive cash assistance until the age of eighteen in the "CalWORKs safety net". Children of adults who are not eligible to receive CalWORKs assistance (e.g., parents who are undocumented or who have been convicted of certain felonies) receive a reduced amount of cash aid in "child-only" cases, and there is no time limit while they are under the age of eighteen. **Anticipated Impacts:** The Governor's budget assumes that 115,000 low-income families with 234,000 children would lose all CalWORKs assistance as of July 1, 2011 as a result of this proposal.

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Governor's Proposal	2011-12 ($ in thousands)	Comments
CalWORKs- Governor's Proposal to Reduce Maximum Grants by 13 percent, effective June 1, 2011. The proposed grant reduction would impact all families receiving cash assistance through CalWORKs. The Department estimates that by the 2011-12 budget year, 5,300 families would lose all CalWORKs assistance as a result. For a family of three that continues to be aided, the proposal would reduce maximum monthly grants for basic necessities from $694 to $604 in high-cost counties and from $661 to $575 in low-cost counties.	**-405,000**	For families with no other income who receive the maximum CalWORKs grant and also receive CalFresh (food stamp) benefits (which may increase slightly as a result of the reduced grant under this proposal), this proposal would place their household incomes at approximately $1,090 or 71 percent of the Federal Poverty Level (FPL). This represents a drop from the current $1,155 or 76 percent of the FPL. The maximum monthly grant was also $694 (in real dollars, before adjusting for inflation) twenty years ago in 1989. The Legislature has never reduced CalWORKs grants by more than 6 percent at any one time.

Governor's Proposal	2011-12 ($ in thousands)	Comments
CalWORKs- LAO Alternative Proposals to: **1) Simplify Earned Income Disregard, and** **2) Expand Subsidized Employment** The LAO recommends that the legislature consider simplifying the "earned income disregard" for CalWORKs families to a flat 50 percent of all income earned. The resulting savings could be $200 million GF annually. The LAO also recommends that the Legislature consider expanding the state's subsidized employment program for CalWORKs recipients (established by AB 98, Chapter 589, Statutes of 2007, Niello). The proposed changes would be budget-neutral in the short run, with potential savings in the long run if recipients successfully transition into nonsubsidized jobs.	**-200,000**	**Earned Income Disregard:** Currently, California does not count the first $225 of earned income or unearned disability-based income and 50 percent of each dollar earned beyond $225 when calculating a family's monthly grant. As a result of the proposed change, about 16,500 families who currently earn below $225 would have their grants reduced by 50 percent of their earnings, and around 125,500 who earn above $225 would have their grants reduced by $112. Approximately 5,600 families with incomes above $1,200 per month would lose all cash assistance. **Subsidized Employment:** During parts of 2009 and 2010, AB 98 was suspended while federal stimulus funds were available to cover 80 percent of the costs of approximately 20,000 subsidized jobs for CalWORKs recipients. When these recipients then received subsidized wages, their grants were reduced. The LAO's proposal would build on increased program capacity statewide by capping the state participation under AB 98 at the maximum grant or subsidized wage (whichever is less). Without the proposed change, the state would continue to cap its match at 50 percent of maximum grant costs. To keep this change cost-neutral to the state, counties would have to prioritize among available child care resources.

Governor's Proposal	2011-12 ($ in thousands)	Comments
LAO Alternative Proposal to Temporarily Suspend CalLearn Program. The LAO recommends that the Legislature consider suspending the CalLearn program. Such a suspension would save $50 million GF annually for each year it is in effect.	**-50,000**	**CalLearn** provides intensive case management to about 12,000 teen parents who remain in school. Under the LAO proposal, these teens would instead be eligible for any regular welfare-to-work services that are available in their counties.

Governor's Proposal	2011-12 ($ in thousands)	Comments
In-Home Supportive Services (IHSS) – Governor's Proposal to Eliminate Domestic & Related Services to Recipients in Shared Living Arrangements The Governor's budget proposes $235 million GF savings from eliminating domestic and related IHSS services for recipients who live in shared living arrangements, and another $1.6 million GF savings for eliminating those services in cases where the recipient is a child under the age of 18 living with an able and available parent who is his or her IHSS provider. Domestic and related services include housework, meal preparation and clean-up, laundry, shopping, and errands. The savings estimates account for administration costs of $10.3 million ($3.6 million GF) associated with the policy changes, but do not include related automation costs. There would be corresponding losses of $351.7 million and $2.4 million in federal funds, respectively.	**-236,600**	This proposal would impact around 300,000 individuals who live in shared environments and 7,000 children whose parents are also their IHSS providers. Currently, if these recipients have some of these needs met in common by their households, the social worker who determines eligibility can pro-rate or reduce related hours of authorized IHSS services. The Department anticipates that individuals whose services are already pro-rated would lose an average of 14 hours of services per month under this proposal. Those who live with others and have non-pro-rated hours would lose an average of 17 hours per month. They also estimate that 145,000 impacted recipients would appeal the reduction and 20 percent would have their services fully restored. According to the Department, at least 72 percent of recipients' shared living relationships are with family members; and 48 percent of recipients live with their IHSS providers. The LAO reports that Washington recently enacted a restriction on domestic and related services for individuals who lived with their home care providers; but the state's Supreme Court determined that the policy violated federal Medicaid requirements.

Governor's Proposal	2011-12 ($ in thousands)	Comments
IHSS – Governor's Proposal to Reduce Hours of Service Across the Board The Governor's budget proposes savings of $127.5 million GF in 2011-12 from reducing, effective July 1, 2011, the hours of IHSS services that recipients receive by an additional 8.4 percent. There would be a corresponding loss of $192 million in federal funds. Coupled with a 3.6 percent reduction already in effect for the budget year (which is made permanent as part of this proposal), the total ongoing reduction to recipients' hours would equal 12 percent. These savings estimates account for related administrative, systems change, and other state operations costs.	**-127,500**	**Background on Prior Reductions:** As a part of the 2010-11 budget agreement, the Legislature and Governor reduced, effective until July 1, 2012, the hours of service available to each recipient by 3.6 percent. There were no specified exceptions, although recipients retained any appeal rights that pre-existed the reduction. Recipients are able to direct how the reduction is applied to their authorized hours and types of services. A 12 percent reduction to hours of service provided to IHSS recipients also took place earlier-- in 1992-93. **Anticipated Impacts:** Building on policies underlying the 1992-93 reduction, the Governor's proposal includes a process for individuals to be granted exceptions from the policy--in whole or in part--if they apply for and are approved for supplemental care. Applications would be given to each recipient when they are informed of the reduction policy. Recipients who apply within a specified time would receive aid pending a determination of the outcome of their request. Based in part on precedent from 1992-93, the Department estimates that 435,600 of the estimated 456,000 IHSS recipients would experience reductions to their services. On average, recipients would lose 6.7 hours of IHSS services per month. The Department anticipates that 5 percent of recipients would have hours fully restored, while another 13 percent would have hours partially restored.

Governor's Proposal	2011-12 ($ in thousands)	Comments
IHSS – Governor's Proposal to Require Physician's Certification to Qualify for Services The Governor's budget proposes $120.4 million GF savings from eliminating all services, effective July 1, 2011, for IHSS recipients who do not obtain a certificate from a physician (or other medical professional, as the Department determines appropriate) verifying their need for IHSS services. These savings figures account for the Department's estimate of the time it will take for social workers to process the receipt of the certificates, but do not include any associated automation costs or Medi-Cal costs. There would be a corresponding loss of $180.4 million in federal funds.	**-120,400**	The Department estimates that around 10 percent or 42,000 current and new IHSS recipients would not obtain a physician's certification and would therefore lose all IHSS services (an average of 65 hours per month after the impacts of the Governor's other proposals are taken into account) in 2011-12. According to the LAO, a number of counties already choose to include information from physicians in their assessments of eligibility for the IHSS program. In those cases, however, the physician's assessment of need is not a condition of eligibility, but rather one piece of information that is taken into consideration. The Department also indicates that a doctor's prescription is already required within the IHSS program if individuals receive what are known as "paramedical" services, and that a form of medical certification is currently required for the category of services called "protective supervision" as well.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Community First Choice Medicaid Option (CFCO). This is a new state plan option to provide home- and community-based services under Medicaid Section 1915(k), and it becomes available October 1, 2011. States currently have an option to provide personal care services through their Medicaid plans, and 35 states currently do [including California, through its In-Home Supportive Services (IHSS) Program]. This option expands on those programs. The Governor's budget does not include any funding from this option. States that take up this option receive a 6 percentage point increase in federal matching payments (FMAP) for costs associated with the covered home and community-based services programs.	**-121,100**	The state-option programs under CFCO must serve individuals who need nursing facility care, but for the provision of home- and community-based services. Recipients must also meet specified income eligibility requirements. Services for each participant are required to be based on an individual care plan developed through an assessment of the individual's functional need, to be provided in the most integrated setting appropriate, and to include assistance with activities and instrumental activities of daily living and health-related tasks, as well as back-up services, such as beepers. Providers are to be selected and services controlled by the individual, to the maximum extent possible. The services must be available statewide.

Governor's Proposal	2011-12 ($ in thousands)	Comments
IHSS - Program Caseload Revised caseload estimates for 2010-11 and 2011-12 could result in savings of $29.5 million GF and $53.7 million GF, respectively, for a total of **$83.2 million GF savings**.	**-53,700**	The average monthly IHSS caseload for 2009-10 was 428,962 recipients. The Governor's budget assumes that this average monthly caseload will grow by 2.9 percent in 2010-11, to 441,549, and then by 3.4 percent in 2011-12, to 456,380. More current data to estimate caseload for 2010-11 is now available. The average monthly caseload between July, 2010 and January, 2011 includes 429,028 recipients. Using an updated growth factor of 1.4 percent for 2010-11, a new average monthly caseload projection for 2010-11 would be closer to 434,752. Further applying this updated caseload to a rebenching of the estimates for 2011-12, with an assumed 1.6 percent growth factor, would result in an average monthly caseload in the budget year of 441,549 individuals.

Governor's Proposal	2011-12 ($ in thousands)	Comments
IHSS - Advisory Committees The Governor's budget proposes to eliminate, effective July 1, 2011, $1.6 million GF (all GF in the program) for local IHSS Advisory Committees. As a result, the Department indicates that the Advisory Committees would change from being mandated by the state to being discretionary at the local level. The Department also indicates that counties would be able to draw down federal matching funds if they are able and willing to fund the Advisory Committees at the local level. The total 2010-11 funding for the Advisory Committees includes $3.1 million ($1.6 million GF and $1.4 million federal funds).	**-1,600**	Among other provisions, AB 1682 (Chapter 90, Statutes of 1999) requires counties to establish advisory committees that submit recommendations to their respective county boards of supervisors regarding the delivery of IHSS in their counties. SB 288 (Chapter 445, Statutes of 2000) also created specific requirements regarding the composition of the advisory committees (e.g., that a current or former IHSS consumer must be included). In addition, state law requires counties that opt to operate Public Authorities to assist in the administration of IHSS programs (56 counties currently) to have a governing body that meets specified requirements.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Fund Transfers

Gas Consumption Surcharge Fund ($262 million) This is not a Governor's Proposal. Transfer 2011-12 funds from the Gas Consumption Surcharge Fund, less any funding for the Energy Low Income Program (CARE). About $238 million of a $500 million fund balance is directed to provide a 20 percent discount to low-income natural gas customers of IOUs under the "CARE" program. By transferring this amount, we are reducing the budgeted level of expenditures from this fund to programs that provide energy efficiency upgrade assistance (such as discounts on energy efficient appliances) for IOU gas customers. The cuts related to energy efficiency programs supported by the fund are modest in comparison to the energy efficiency programs (both gas and electricity) that will continue to be supported through the CPUC's ratemaking process (over $1 billion annually).	$262,000 (transfer)	With the transfer, certain energy efficiency programs for gas ratepayers (which are relatively modest on a per-ratepayer basis) would be largely suspended for the budget year. The fund receives its revenues from a public goods charge on IOU gas ratepayer bills and is used to support various programs.

Governor's Proposal	2011-12 ($ in thousands)	Comments

8885-295-0001 Commission on State Mandates

Election-Related Mandates. The Governor proposes suspension of six elections-related mandates for the 2011-12 fiscal year. The Administration estimates this action would result in General Fund savings of about $33 million, although this amount may change after February claims are received. Most of the costs associated with these mandates involve postage and administration costs for absentee ballots. The six mandates and their costs are as follows: Absentee Ballots: $28.6 million Absentee Ballots – tabulation by precinct: $46,000 Brendon Maguire Act: $3,000 Fifteen-Day Close of Voter Registration: $0 Permanent Absent Voters: $1.9 million Voter Registration Procedures: $2.1million	-$32,675 spending cut	These mandates have not been suspended in the past due to concern over uniformity of elections. If they are suspended, counties could either adopted varied practices or work together to adopt similar practices.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Brown Act – Open Meeting Mandate. The Governor proposes suspension of the Brown Act mandates for the 2011-12 fiscal year. The Administration estimates this action would result in General Fund savings of about $63 million, although this amount may change after February claims are received. These mandates require local government to post agendas three-days prior to public hearings and to disclose actions taken in closed sessions.	-$63,301 spending cut	One might think this mandate would be inexpensive – with costs such as the cost of paper, but the state is billed for the time local employees spend drafting such agendas, legal review of the documents, etc. Proposed Senate Constitutional Amendment 7, as introduced (Yee), would add this sentence to the Constitution: *Each public body shall provide public notice of its meetings and shall publicly disclose any action taken.* Amending the constitution would be a longer-run approach to maintain these open-meeting practices, but without a state-reimbursement cost. This is because voter-approved mandates do not require state reimbursement.

2011-12 ($ in thousands)

8955 California Department of Veterans Affairs

Veterans Services: State Operations and Local Assistance.		Established in 1946, CVSOs are local agencies that assist veterans in receiving federal benefits for which they are eligible. Since 2004, the state budget has provided $2.6 million GF for CVSOs; $838,000 of the $2.6 million serves as a match for Medi-Cal for the CVSO's Medi-Cal Cost Avoidance activities which move veterans off of Medi-Cal and onto federal veterans' benefits thereby saving state GF.
The Governor's January budget proposes to eliminate $9.9 million ($7.6 million local assistance and $2.3 million state operations) for County Veterans Service Offices (CVSOs). Included in the $7.6 million local assistance for CVSOs is $5 million for Operation Welcome Home (OWH), which was funded for the first time in 2010-11.	$9,900 GF	OWH began in February 2010 to assist veterans in receiving federal, state, and local veterans' benefits. OWH was initially funded with one-time federal grant funding which expired in December 2010. The $5 million in the 2010-11 budget was new GF spending for OWH. These funds have not yet been allocated for expenditure; the Administration's February proposal would effectively cancel their expenditure.
In a February Finance Letter, the Administration proposes to: (1) eliminate the $5 million GF local assistance in 2010-11 for OWH; (2) make further 2011-12 state operations reductions totaling $5.5 million GF; and (3) restore $2.6 million GF local assistance for CVSOs in 2011-12. In sum, these actions represent an additional $2.9 million GF reduction in 2011-12 over the January budget.	$2,900 GF	The additional 2011-12 savings in the February proposal are a result of: (1) efficiencies from implementation of the Enterprise-Wide Veterans Homes Information System; and (2) cancellation of federal sharing agreements at the Greater Los Angeles Ventura County Veterans Home, allowing the CDVA to enter into lower-cost contracts with vendors.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Program 30: Veterans Homes of California. The Governor's January budget requests a net GF increase of $39.8 million for the Veterans Homes of California (VHCs), including: (1) an augmentation of $32.1 million for full-year and one-time adjustments to phase-in staffing and residents at the existing and new VHCs in Greater Los Angeles Ventura County, Redding, and Fresno; (2) $4.7 million for furlough and personal leave program reductions which are only reflected in the 2010-11 fiscal year; and (3) $9.3 million for increased lease-revenue bond payments for VHC-Greater Los Angeles Ventura County. The expenditures are offset by an increase of $3.8 million in GF revenue. The January budget proposes total expenditures of $251.4 million ($251.2 million GF) on Program 30: Veterans Homes of California, which includes VHCs in Yountville, Barstow, Chula Vista, and Greater Los Angeles Ventura County (with homes in West Los Angeles, Ventura, and Lancaster).	$39,800 GF	The Governor's 2011-12 Budget proposes to continue to ramp-up admissions (and staffing) at the VHC Greater Los Angeles Ventura County facilities, all of which opened in calendar year 2010 (Lancaster-January 2010; Ventura-February 2010; and West Los Angeles-October 2010). The Governor's 2011-12 Budget also proposes to provide continued resources and staffing related to the construction completion and activation of two new VHCs, in Redding and Fresno. Redding is scheduled to finish construction and begin admissions in January and February 2012, respectively. Fresno is scheduled to finish construction and begin admissions in March and April 2012, respectively. The construction cost of the VHCs was/is funded with $50 million in general obligation bonds available through Proposition 16 (2000), an estimated $212 million in lease-revenue bonds, and federal funds.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Non-Budget Act Item		
Refundable Child and Dependent Care Expense Credit A taxpayer who qualified for the federal child and dependent care credit and whose federal adjusted gross income is not over $100,000 can claim a percentage of the federal child and dependent care credit on his or her California income tax return. California also allows an individual who did not file a federal return or claim the federal credit to claim the credit for California. This is referred to as the "refundable" portion of the child and dependent care expense credit. California allows this refundable credit only for care provided in California.	$100,000	The refundable child and dependent care expense credit is provided to individuals that do not file tax returns. Therefore, it is assumed that these individuals do not earn enough income to require the payment of taxes. Requiring an individual to apply for a reimbursement for child care expenses through the tax code is less efficient than providing a direct subsidy. We also have a direct subsidy program for child care called Stage 3 child care.

Governor's Proposal	2011-12 ($ in thousands)	Comments
9100 Tax Relief		
Williamson Act Open Space Subventions. The Governor proposes to eliminate the Williamson Act open-space subvention payment for both 2010-11 and 2011-12 and scores a General Fund (GF) budget savings of $10 million in each year. In addition to the direct cost of Williamson Act subventions, the State incurs additional costs of about $40 million annually from backfilling K-14 schools for their reduced property tax receipts. The Governor proposes to repeal the alternative Williamson Act program created in AB 2530 and modified in SB 863 – both statutes of 2010. The alternative program provides for shorter contract periods and reduced property tax loss for counties.	-$10,000 spending cut (also $10,000 cut in 2010-11)	The Williamson Act allows cities and counties to enter into contracts with landowners to restrict certain property to only open space and agricultural uses. The land is restricted in use for 10 or 20 years depending on the type of contract. Suspension of funding does not prohibit land owners and counties from continuing to renew Williamson Act contracts. However, some counties have indicated they will not renew contracts if the state does not provide the subvention.

Governor's Proposal	2011-12 ($ in thousands)	Comments
9620-002-0001 Cash Management and Budgetary Loans Various		
Solutions to Replace Sale Leaseback of State Buildings. On February 9, 2011, the Governor canceled the sale of 11 state office buildings. This action results in a short-term budget hit of $1.2 billion, but results in savings over 35 years of $6.0 billion. Various solutions – mostly special fund borrowing – are proposed to backfill for the lost revenue. Of the solutions, $905 million is from special fund loans and transfers: $830 million is from new loans; $70 million is from deferred payment of existing loans; and $5 million is from transfers. The remaining solutions of $266.8 million are expenditure cuts, among these are: $100 million in reduced prison construction costs; $90 million in Medi-Cal revenues to off-set GF; and $60 million in office lease costs.	$1,172,300 GF solutions By type: $905,500 loans & transfers $266,800 Various spending cuts	The LAO had estimated that the sale leaseback would result in an implied interest rate on borrowing of 10 percent. So substituting special fund loans with much lower interest rates – probably in the range of 1 or 2 percent - reduces state costs. Some of the actions proposed in this February 15 Administration letter, were previously adopted by budget subcommittees.

9210 Local Government Finance

Governor's Proposal	2011-12 ($ in thousands)	Comments
Eliminate Redevelopment Agencies. The Governor proposes to eliminate redevelopment agencies (RDAs). This elimination would provide a State General Fund solution of $1.7 billion in 2011-12 by shifting a portion of RDA tax increment to offset General Fund costs for trial courts and Medi-Cal. In 2012-13 and thereafter, the non-obligated portion of RDA tax increment – that revenue not needed for outstanding debt and contractual obligations – would flow instead to K-14 schools, cities, counties, and non-enterprise special districts. To facilitate replacement revenue for local economic development, the Governor proposes to lower the vote threshold to 55 percent for specified local tax increases if the revenue is directed to infrastructure.	$1,700,000 GF solution	Proposition 22, approved by voters in November 2010, prohibits the Legislature from enacting statute that would redirect RDA funds to benefit the State. The Governor's plan would eliminate RDAs, and in doing so, the Administration believes the proposal is not in conflict with Proposition 22 or other constitutional provisions.

0558 Office of the Secretary of Education
6100 Department of Education

Governor's Proposal	2011-12 ($ in thousands)	Comments

0558-001-0001 Office of the Secretary of Education

6110-001-0001 State Board of Education

Governor's Proposal	2011-12 ($ in thousands)	Comments
The Governor proposes to eliminate the Office of the Secretary of Education (OSE) and shift some of the savings to the State Board of Education. More specifically, the Governor proposes to decrease funding for OSE by **$1.9 million** in 2011-12 and shift **$274,000** to the State Board to continue some OSE activities. The Governor's proposal provides net, ongoing General Fund savings of $**1.6 million** in 2011-12. In addition, this proposal provides $**400,000** in one-time savings in 2010-11, since the Governor proposes immediate elimination of OSE.	**Net GF Savings** -$400 (2010-11) -$1,600 (2011-12) **GF Shift:** $274 (2011-12)	The Governor's proposal to eliminate OSE results in net, ongoing General Fund savings of **$1.6 million** beginning in 2011-12. This proposal is consistent with Senate actions in recent years to phase out OSE as a means of achieving both General Fund savings without eliminating education programs and greater government efficiencies by reducing duplicative services. The **$274,000** shifted from OSE by the Governor in 2011-12 would fund three positions redirected from CDE to the State Board. The State Board plans to use the three positions to cover some of the responsibilities previously handled by OSE.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Various Items – State Operations – CALPADS & CALTIDES Veto

The Governor proposes to continue the veto of **$6.5 million** in federal funds from the 2010-11 budget bill for support of two statewide education data systems -- the California Longitudinal Pupil Achievement Data System (CALPADS) and the California Teacher Integrated Data Education System (CALTIDES).	$0 Veto Restoration (2010-11)	
The 2010-11 veto included **$3.0 million** to the California Department of Education (CDE) for support and development of CALPADS and **$3.5 million** for CALTIDES.	$0 Veto Restoration (2011-12)	
The Governor proposes that any future funding decisions for vetoed funds are pending a review of the CALPADS and CALTIDES programs. Specifically, the Governor proposes to convene an interagency working group to conduct this review.		

Governor's Proposal	2011-12 ($ in thousands)	Comments

Trailer Bill Language - Governor's Flexibility and Fiscal Relief Proposals

The Governor proposes to extend current K-12 program funding flexibility options for local educational agencies (LEAs) – an additional two years. Most of these options became effective in 2008-09 and currently extend through 2012-13, or five years.	Trailer Bill Language	

The Governor's proposals would extend the timeframe for the following flexibility options through 2014-15, or seven years total:

- Categorical Flexibility (40 programs; $4.5 billion)
- Instructional Time Requirements
- Instructional Materials Purchase Requirements
- Sale of Non-State Surplus Property (through 1/1/12)
- Routine Maintenance Contributions
- Deferred Maintenance Matching Requirements

In addition, the Governor would extend penalty reductions for the K-3 Class Size Reduction program through 2013-14, or six years total, instead of 2011-12.

The Governor would continue fiscal relief by allowing LEAs to lower their "reserves for economic uncertainty" to one-third of previously required levels through 2011-12, instead of 2009-10 as currently required.

Governor's Proposal	2011-12 ($ in thousands)	Comments

6110-196-0001 California Department of Education – Child Development

Reduce Income Eligibility Ceiling. The Governor's Budget proposes to reduce the income eligibility ceiling for child care programs from 75 percent of State Median Income (SMI) to 60 percent of SMI. The Governor's proposal maintains preschool eligibility at the 75 percent of SMI level.	-$79,000 from Proposition 98 funds and TBL	The Governor's proposal would disqualify about 13,600 children. The neediest families would continue to be served if the program was reduced by lowering the income eligibility ceiling.

Governor's Proposal	2011-12 ($ in thousands)	Comments

6110-196-0001 California Department of Education – Child Development

Eliminate Services for 11- and 12-year olds. The Governor's Budget proposes trailer bill language to eliminate state subsidized child care services for children ages 11 and 12. The savings from this proposal are divided between CDE Child Development programs ($58 million) and Department of Social Services CalWORKs Stage 1 child care ($34 million). The Governor's trailer bill language to implement this policy change disqualifies 11- and 12-year olds for child care subsidies.	-$93,000 of which $58 million is Prop 98 funds and TBL	The Governor's proposal would disqualify 14,300 children, of whom 4,300 are in Stage 1. Approximately 40 percent of the 11- and 12-year olds are in non-traditional hours of care. The 11- and 12-year olds are eligible to participate in after school programs, if the school where they attend offers such programs. Federal regulations do not allow for disqualification of 11- and 12-year olds.

Governor's Proposal	2011-12 ($ in thousands)	Comments

6110-196-0001 California Department of Education – Child Development

34.6 Percent Reduction In Subsidy Levels. The Governor's Budget proposal would reduce the subsidy levels for all child care programs except preschool by 34.6 percent. The Governor's proposal would reduce the total amount per child paid to providers. The recipient family would have to provide a new copay to cover the difference between the provider rate and the state subsidy.	-$577,000 from Proposition 98 funds and TBL	The Governor's proposal would reduce the total amount per child paid to providers. Many providers cannot operate with a 35 percent loss in revenue. The Governor's proposal expects the parents to pay a copay to cover costs of child care (the current smaller family fee would no longer be paid). The copay for less-expensive counties would be about $220 per child per month. The average parent receiving a child care subsidy earns about $1,900 per month.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Various Items – K-12 Proposition 98 Funding
Various Items – Community Colleges Proposition 98 Funding

The Governor Proposes **$49.3 billion** in ongoing Proposition 98 funding for K-14 education in 2011-12. This includes $43.8 billion for K-12 education agencies, $5.4 billion for community colleges, and $78 million for other agencies.	**$49,300,066 (Ongoing Prop 98)**	The K-14 Proposition 98 Package (handout) includes both ongoing and one-time funding for K-12 education (including child care) and community colleges.
In addition, the Governor proposes **$105 million** in one-time Proposition 98 funds for K-12 education in 2011-12.	**$104,717 (One-Time Prop 98)**	
The Governor's Budget includes inter-year deferrals of **$2.1 billion** for K-12 education and **$129 million** for the California Community Colleges (CCC).		
The Governor's Budget also includes an unallocated reduction of **$400 million** to the CCC.		
In addition, the Governor's Budget also includes a programmatic reduction of **$716 million** for child care.		

Governor's Proposal	2011-12 ($ in thousands)	Comments

6870-101-0001 California Community Colleges

Student Fee Increase. The Governor's proposal increases the student fee level from $26 per unit to $36 per unit. A full-time student taking 30 units would have their fees increase from $780 to $1,080 annually. Under this proposal the California Community Colleges (CCC) total student fee revenue would increase to $475.2 million annually	$110,000 in student fee revenue	California's community college student fees are the lowest in the nation and would remain so under this proposal. The next lowest community college student fees are in New Mexico at $40 per unit. The student fees are waived for about 50 percent of all units taken at CCC through the Board of Governor's (BOG) waiver. The BOG waiver is available to low-income California residents who are citizens or have permanent residency.

Governor's Proposal	2011-12 ($ in thousands)	Comments

6870-101-0001 California Community Colleges

Census Date Change Proposal. The Governor's Budget proposal includes trailer bill language to change the census date at the CCC from the third week of the semester to the last day of the semester. The Governor's Budget links the census date change to the $400 million unallocated reduction to the CCC system (see Proposition 98 spreadsheet handout) by only funding enrollment at course completion.	TBL	The census date measures the number of students enrolled at CCC at a point in time. The current census date is during the third week of the semester. The census number is used for the apportionment allocation that the community college districts receive. Approximately 16 percent of students drop out of courses after the current census date. It is important to note that the cost of providing courses does not decrease if a few students drop out because there is a fixed cost to providing a class. SB 1143 (Liu, 2010) taskforce is currently meeting to examine new ways of funding community colleges to encourage student success.

Governor's Proposal	2011-12 ($ in thousands)	Comments

6870-301-6049 California Community Colleges

Capital Outlay. The Governor's Budget includes Funding for three capital outlay projects. 1. Santa Clarita Community College District, College of the Canyons, Administration and Student Services Building, Construction and Equipment: $6.855 million 2. San Francisco Community College District, City College of San Francisco Performing Arts Complex, Construction and Equipment: $38.247 million 3. Coast Community College District, Orange Coast College, Music Building Modernization, Construction: $3.489 million	$48,168 in General Obligation Bond Funds	General Obligation bond funded projects can be reconsidered in the Spring as revenue estimates are revised.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Realignment Judicial Branch

Court Security. The Governor proposes to transfer $530 million in funding for court security to the counties. State General Fund support for court security costs would be reduced by an equivalent amount. Under current law, 56 of the state's 58 counties contract with the county Sheriff to provide most court security operations. In these counties, the level and costs of security are negotiated between the presiding judge and Sheriff. Each court then reimburses the Sheriff for these costs directly from the court budget.	-$530,000	Under current law, almost all court security coverage is already provided by county Sheriffs. This realignment would provide the appropriate level of funding directly to counties and require the Sheriff to provide the court security service. According to the administration, this approach would allow the courts and counties to come to reasonable local agreements regarding the costs of court security by incentivizing counties to find the most cost-efficient way to provide the services. As this proposal is developed, the Legislature may want to consider whether certain standards need to be in place to ensure appropriate and consistent security staffing levels at courts across the state.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Realignment **Public Safety Grants**		
Public Safety Grants. The Governor proposes to fully fund 16 distinct local public safety grant programs through realignment. These programs are projected to cost $506.4 million in the budget year. The programs proposed for realignment include juvenile probation and camps funding ($181 million), Citizens Option for Public Safety ($107 million), Juvenile Justice Crime Prevention Act ($107 million), booking fees ($35 million), and small and rural sheriffs ($19 million), among others. These programs are funded in various budget items, including the California Emergency Management Agency (0690), the Department of Corrections and Rehabilitation (5225), and Local Government Financing (9210).	-$506,410	These programs fund a variety of local public safety activities performed by local public safety stakeholders. These programs support, for example, juvenile prevention programs, prosecution activities, and front-line law enforcement. The public safety grant programs proposed for realignment are currently funded out of the temporary Vehicle License Fee increase that expires at the end of the current fiscal year. If realignment was not approved, these programs would either have to be terminated or funded by the state at an increase in General Fund costs.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Realignment **Department of Corrections and Rehabilitation**		
Realignment of Corrections Populations. The Governor proposes to prospectively realign responsibility for three sets of state corrections populations to counties. These are described below: • *Low-Level Offenders and Parole Violators ($537 million).* Would require all offenders with no current or prior violent, serious, or sex offense to be managed by county corrections agencies. • *Adult Parole ($239 million).* Would transfer responsibility for supervising all offenders released from state prison to counties, where probation departments currently do community supervision. • *Division of Juvenile Justice ($78 million).* Would require counties to supervise and manage all wards adjudicated in juvenile court.	-$853,500	The administration estimates that this proposal would reduce state GF costs by $2.6 billion when fully implemented in 2014-15. The cost to incarcerate an offender in state prison is $49,000 per year and in state juvenile facilities is $192,000 per year. Each year, about 100,000 adult offenders are sent to state prison for a year or less for a new crime or parole violation. Counties are positioned to manage these offenders more effectively and efficiently if provided resources and appropriate incentives. For example, counties could use the realignment funds provided to expand local substance abuse, mental health, and community supervision efforts that are demonstrated in the research to be more cost-effective ways to reduce crime than incarceration.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Realignment Department of Forestry and Fire Protection (CalFIRE)		
Shift State Responsibility Areas to Locals The Governor proposes to realign fire protection services in the most highly populated state responsibility areas to local governments. Responsibility for fire protection and medical emergency response in the relatively more populated wildland areas would be assumed by local governments. There would be a statutory change in the criteria for designating lands as a SRA, and the Board of Forestry (BOF) would redraw the SRA. The proposal estimates a shift of up to $250 million of CalFIRE's protection program to local government. The department would continue to provide fire protection services in the SRAs until the Board of Forestry's reclassification is completed. Under the proposal, the ultimate composition of the SRA would be determined by the Board of Forestry's final determination of the SRA classification based on revised criteria. The state would continue to pay *both* the state and local costs.	-$250,000	The basis for the Governor's recommendation has merit. The continued approval by local governments of housing developments in a SRA has significantly contributed both to the cost of fire protection in these areas as well as the number of and amount of personnel and staff resources required to maintain fire protection in these areas. The department's current practice is to participate in the "mutual aid" program where the closest emergency responder will respond to any emergency incident. This results in numerous structural protection, vehicle accident, and even water rescue operations by the department. The proposal to re-examine the role of the department and the responsibility of local governments is a good one. However, staff have significant concerns with the lack of details both in the substance of the proposal and in the financial shift proposed by the administration.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Realignment - Proposal to Realign State-Supported Substance Use Treatment Programs to Counties The Governor's budget proposes to realign to counties $184 million in funding and primary program responsibility for specified substance-use treatment programs. The Governor's budget identifies tax revenues for counties in lieu of this amount of GF resources. The proposal does not include realignment of responsibility for licensure or certification of treatment programs. It also does not include any funding for community-based diversion programs through the Substance Abuse and Crime Prevention Act (Proposition 36) or Offender Treatment Programs. Funding for these programs was eliminated in 2009-10 and 2010-11, respectively, and is not restored in the Governor's budget.	**-184,000**	The bulk of funding included in this proposal is for Drug Medi-Cal (DMC), which provides medically necessary treatment services for eligible Medi-Cal beneficiaries with $131 million GF and related federal funds. ADP currently contracts with 57 counties, and in some cases directly with providers, for these services. Also included are non-DMC perinatal and other state-funded treatment programs. Finally, the proposal includes $27 million GF for drug courts, which are administered by counties with state oversight. **Federal Requirements:** In 2011-12, the state will receive $256.3 million in federal substance abuse block grant funding. Correspondingly, the state must spend $207 million to meet its Maintenance of Effort (MOE) requirement. States that violate the MOE lose one dollar of federal funding for each state dollar below the requirement (unless it is waived). The federal Wellstone-Domenici Parity Act of 2008 requires specified health plans, including Medicaid managed care plans, to provide substance use-related benefits on par with physical health benefits. The Affordable Care Act (recent health care reform) will also significantly expand the number of DMC beneficiaries to whom parity and Medicaid laws will apply.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Proposal to Suspend County Share of Child Support Collections The Governor's budget proposes to suspend the county share of child support collections, estimated to be $24.4 million in 2011-12. Instead, the amount would benefit the General Fund. The Administration also proposes trailer bill language to implement the proposal.	-24,400	Collections made on behalf of families who have received public assistance are retained by the government to repay past welfare costs. These assistance collections are shared by the federal, state, and county governments. Based on a department survey of counties in 2009-10, most counties transfer their share of collections to the local welfare agency to offset the county share of welfare costs. Los Angeles and San Diego Counties reinvest the collections into their local child support programs. Other counties transfer the funds to their county general funds.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Realignment - Proposal to Realign Child Welfare Services and Adoptions Programs to Counties The Governor's budget proposes to realign to the counties $1.6 billion in funding and primary program responsibility for the Child Welfare Services (CWS) system. The proposal includes child abuse prevention and adoptions programs, as well as emergency response to allegations of abuse and neglect, supports for family maintenance and reunification, and out-of-home foster care services. The proposal does not, however, include changes related to the automation system for child welfare services case management and data collection or the licensing of residential placements for children. The total CWS budget includes $4.2 billion ($1.6 billion GF). Non-federal costs in each program are shared by the state and counties, with the highest county share of 60 percent in the foster care program and the lowest of 25 percent in the Adoptions Assistance Program (AAP). Under the Governor's proposal, all $1.6 billion of state costs (currently GF) would be replaced by $1.6 billion in tax revenues to the counties.	-1,600,000	The **CWS system** investigates allegations of abuse and neglect and provides services to children and families. When children cannot safely remain at home, the **foster care** component of the system provides out-of-home placement. **Adoption** programs include one that facilitates the adoption of children in foster care and another that serves birth and adoptive parents when the birth parents provide consent. The **Adoptions Assistance Program** provides monthly grants to families with children whose circumstances may have otherwise presented barriers to adoption. The federal government provides significant funding for CWS and AAP. Federal law and regulations establish programmatic requirements, and the federal government reviews program outcomes. Among the state's federally supported programs, the CWS system is generally considered one of the more highly regulated by the federal government. The federal government also requires that each state have a single agency responsible for CWS programs and funding. In California, DSS is that agency. At the same time, the counties currently administer the programs and interact with children and families more directly. The Administration has indicated that it intends for realignment to include greater flexibility for counties in implementing these programs.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Proposal to Realign Adult Protective Services Program to Counties The Governor proposes, beginning in 2011-12 and continuing through full implementation of realignment in 2014-15, to realign to the counties the entire $55.1 million in state funding and the primary program responsibility for APS. The total 2010-11 budget for APS programs statewide is $130.7 million (including $64.7 million federal funds and $10.9 million county funds).	**-55,100**	APS programs, which are currently mandated statewide, respond to reports of elder and dependent abuse on an emergency response basis. The programs also provide needs assessment, case management, and other critical services (e.g. emergency shelter care) to persons aged 65 and older who are functionally impaired, unable to meet their own needs, and victims of abuse, neglect, or exploitation. Currently, APS programs are administered by 58 local APS agencies with oversight provided by DSS. The Governor states that the transfer of this entire program will give counties full flexibility to determine the appropriate level of services and priorities for their communities.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Realignment Proposition 63 Fund Shift & Realignment of Community-Based Mental Health

Proposed Proposition 63 Shift. (Page 1 of 2) The Governor's Realignment for Mental Health consists of *three* core components. *First*, it redirects $861.2 million (Mental Health Services Act Funds, Proposition 63) from Counties on a *one-time* basis to backfill for General Fund support in 2011-12 for *three specified programs*: • Mental Health Managed Care = $183.6 million; • Early Periodic Screening, Testing & Treatment Program = $579 million; and • AB 3632 Mental Health Services to Special Education Students = $98.6 million. *Second*, it realigns these programs to the Counties in 2011-12, and proposes a dedicated revenue source for this purpose (June Ballot). These revenues, coupled with matching federal Medicaid funds, would be used to support these programs in future years. (Continued on next Page.)	-$861,000 TBL	All three programs designated for Realignment are *federally mandated* programs. Mental Health Managed Care and the Early Periodic Screening, Testing & Treatment Program (EPSDT) are Medicaid Programs (Medi-Cal). California has a federal Waiver to operate these programs and the federal Centers for Medicare and Medicaid (CMS) provide direction and requirements as federal law, regulation, and direction warrant. The AB 3632 Mental Health Services to Special Education Students is a federally mandated program through Special Education (federal Individuals with Disabilities Act, 1976) which guarantees children with special needs the right to a free appropriate public education, including necessary supports. AB 3632, Statutes of 1984, directed for County Mental Health to provide mental health services for students as contained in the student's Individual Education Plan. The fiscal mechanics of the proposed Proposition 63 redirection are important. The Administration is working with constituency groups to determine a transfer approach that will least impact local services. *However*, there will be a considerable affect at the local level from this redirection. Funds for Proposition 63 local services will be less.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Proposed Proposition 63 Shift. (Page 2 of 2). *Third*, it proposes to generate additional revenues in the out-years for the 1991 Realignment of programs to assist with program expenditures. As such, the intent is to more equitably align program responsibilities with a stable funding source. The Administration states their proposal is a work in progress and they are having considerable discussions with various constituency groups to refine the proposal. The Administration is proposing trailer bill language to amend the Non-Supplantation and Maintenance-of-Effort (MOE) provisions of Proposition 63 to provide for the redirection of the $861.2 million. This legislation would be a 2/3 vote in furtherance of the intent of Proposition 63.	(See Above)	The LAO has articulated concerns as to whether AB 3632 should be realigned to the Counties. First, Counties are owed for past State Mandate claims related to AB 3632 (about $260 million). Second, State Mandate reimbursement must be from "general purpose" funds, and Proposition 63 funds must be used for mental health services. Third, they contend K-12 schools should be responsible for this federal education mandate. Some constituency groups have echoed similar concerns to those raised by the LAO. Details on the Administration's trailer bill language are still forthcoming. They note that since a dedicated revenue source would be forthcoming to support the realigned programs in 2011-12, the $861.2 million Proposition 63 Funds would be one-time and serve as a transition while the new dedicated revenue source became available. As such, the intent is not to supplant but to provide a more robust revenue source. Providing services at the local level, with local accountabilities, often results in more cost-beneficial direct services.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Extend Temporary Taxes for Local Public Safety Realignment for 5 years - $5.9 billion

1. Extend 1% State Sales and Use Tax The Governor has proposed placing a constitutional amendment before the voters to extend the existing State Sales and Use Tax rate. The State Sales and Use Tax rate benefiting the General Fund was increased from 5% to 6% on April 1, 2009. The increase is set to sunset on June 30, 2011if this tax is not extended. The Governor proposes to dedicate the revenues from the 1% tax extension to local governments to fund a set of public safety programs that would be realigned from the state instead of the General Fund. This tax extension would be in effect for five years.	$4,500,000	The State Sales and Use Tax is currently approximately 8.25% and can be up to 2 percent higher depending on the local jurisdiction. Currently the Sales and Use Tax is made up of the following components: • 6.0% to the General Fund; • 0.5% to local governments; • 0.5% to local public safety services; • 1.0% is Bradley-Burns Local Sales and Use Tax (with 0.25% dedicated to county transportation and 0.75% dedicated to city and county operations); and • 0.25% to pay costs associated with the Economic Recovery Bond Act. The LAO has suggested that maintaining the current sales and use tax level merits consideration given the magnitude of the State's budget deficit.

Governor's Proposal	2011-12 ($ in thousands)	Comments
2. Extend 0.5% Vehicle License Fee The Governor has proposed placing a constitutional amendment before the voters to extend the existing Vehicle License Fee (VLF) rate. The VLF was increased from 0.65% to 1.15% of a vehicle's value on May 19, 2009. The increase is set to sunset on June 30, 2011 if this tax is not extended. The Governor proposes to dedicate these revenues to local governments to fund a set of public safety programs that would be realigned from the state. This tax extension would be in effect for five years.	$1,400,000	The VLF has historically been at 2 percent of the market price of the vehicle. It was 2 percent from its inception in 1948 to 2004. It was reduced to 0.65% in 2005. In 2009 the VLF was increased to 1.15% and 0.35% was dedicated to the General Fund and 0.15% was dedicated to the Local Safety and Protection Account to fund local law enforcement programs. The LAO thinks there is a policy rationale for a VLF that is around 1% because it is consistent with the State's tax rate for other property. The VLF adjusts annually based on the depreciated value of the vehicle and is deductible on federal income tax returns. The Constitution currently dedicates the first 0.65% of the VLF to local government. The Governor's proposal would dedicate the remaining 0.5% for local public safety programs.

Governor's Proposal	2011-12 ($ in thousands)	Comments

Re-enact Temporary Taxes for Education for 5 years - $5.1 billion

1. Maintain 0.25% Personal Income Tax Surcharge The Governor has proposed placing a constitutional amendment before the voters to maintain the 2010 personal income tax rates for the next five years. A 0.25% surcharge on each bracket was enacted in 2009 and expired after the 2010 tax year. The Governor proposes to dedicate these revenues to K-12 education in the constitutional amendment.	$3,300,000	The Personal Income Tax Rates for 2010 are as follows for a household that is married and filing jointly: • 1.25% on income below $14,248 • 2.25% on income above $14,248, but below $33,780 • 4.25% on income above $33,780, but below $53,314 • 6.25% on income above $53,314, but below $74,010 • 8.25% on income above $74,010, but below $93,532 • 9.55% on income above $93,532, but below $1 million • 10.55% on income above $1 million The LAO has indicated that the Governor's proposal merits serious consideration given the State's current fiscal situation.

Governor's Proposal	2011-12 ($ in thousands)	Comments
2. Maintain Reduced Dependent Exemption Credit The Governor has proposed placing a constitutional amendment before the voters to maintain the 2010 level of the dependent exemption credit. The dependent exemption credit was reduced from $309 to $99 in 2009. The Governor proposes to dedicate these revenues to K-12 education in the constitutional amendment.	$2,000,000	The personal exemption credit is $99. The LAO has recommended as a matter of policy reducing the dependent exemption credit to make it consistent with the personal exemption credit.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Corporate Tax Changes: Mandatory Single Sales Factor, including a Mandatory Market Rule for Sourcing Intangibles A multistate corporation generates profits based on its operations in many states and has a right to divide income between these states for tax purposes, a process known as apportionment. The Governor has proposed modifying current law to make the single-sales factor multistate corporate income apportionment method mandatory instead of elective. This law would apply to all corporations, except those corporations engaged in qualified agricultural, extractive, or banking activities. The Governor has proposes to return to a mandatory market-based rule for sourcing intangibles. This law would replace the current law that allows corporations that do not elect single sales factor to use the "cost of performance" rule to source intangibles.	$1,400,000	In 1993, California adopted a "double-weighted" apportionment formula. Under the double weighted formula income is apportioned 50% on sales in the state, 25% on payroll in the state, and 25% on property in the state. In 2009 the Legislature enacted a new policy that allowed firms, starting in 2011, to choose or "elect" to apportion income either by the "double-weighted" formula described above or by sales alone. The LAO has recommended as a matter of policy that enacting a mandatory single sales factor policy is better for firms operated wholly inside California. Furthermore, an elective single sales factor policy disadvantages California firms and in some cases encourages investment outside of the state by some multistate firms. The "cost of performance" rule allows firms to apportion no revenue from the sales of intangibles in California if a firm incurs a plurality of costs associated with developing intangibles in another state. This rule disadvantages California firms.

Governor's Proposal	2011-12 ($ in thousands)	Comments
Eliminate Enterprise Zone Tax Expenditures The Governor has proposed eliminating the tax expenditures allowed in the following four kinds of geographically targeted economic development areas recognized by the State: • Enterprise Zones (42) • Local Agency Military Base Recovery Areas (LAMBRAs) (8) • Manufacturing Enhancement Areas (MEAs) • Targeted Tax Areas (TTAs) The Governor proposes to eliminate all the state tax incentives enjoyed by businesses located in these areas which include, accelerated depreciations, 100% net operating loss carryover, wage credits, and credits for sales tax on equipment purchased for use in the zone. Any local incentives would remain under this proposal.	$924,000	Enterprise Zones were originally formed to help draw economic investment in to depressed rural and urban areas. While this is an important public policy goal, the State's fiscal situation requires evaluation of whether it is a core responsibility of State government to move business investment from one part of the state to another. Specifically, the LAO and others have found that the enterprise zone tax benefits have little, if any impact on the creation of economic activity or employment in California overall. Furthermore, many policies such as retro-vouchering and allowing hiring credits for *any* hires made from within a Targeted Employment Area (census tracts with a plurality of persons considered low or moderate income) have watered down the original intent of the program, which was to encourage employment of underemployed populations in depressed areas of the state.