CALIFORNIA BUDGET PROJECT

January 10, 2011

Governor's Proposed Budget Balances Spending Reductions With Additional Revenues, Includes Deep Cuts to Health and Human Services Programs

On Monday, January 10, Governor Jerry Brown released his first proposed budget, addressing a $25.4 billion projected shortfall for the remainder of the 2010-11 and the upcoming 2011-12 fiscal years. The Governor proposes $26.4 billion in "solutions" to close the identified gap and provide a $1.0 billion budget reserve. The gap stems from an $8.2 billion shortfall in 2010-11 and a $17.2 billion projected shortfall in 2011-12. The Governor's proposal would balance spending reductions with additional revenues and relies less heavily on borrowing, fund shifts, and similar provisions than recent years' proposed and enacted spending plans. Specifically, the Governor proposes:

- $12.497 billion in spending reductions, including a more than 25 percent ($1.5 billion) reduction to the CalWORKs Program and $1.7 billion in cuts to the Medi-Cal Program;
- $12.027 billion in additional revenues, primarily from a five-year extension of temporary tax increases originally enacted in 2009; and
- $1.885 billion in borrowing from special funds and other one-time measures.

The Governor's proposals include deep cuts to health and human services programs, as well as higher education. They also include a significant shift of program responsibility from the state to counties, along with a dedicated revenue source; phasing out of redevelopment; and elimination of the enterprise zone program. Several of the Governor's proposals, including extension of temporary tax increases and shift of funds raised by Proposition 10 of 1998, would be submitted to the voters for approval in June 2011.

Governor's Proposals Would Extend Temporary Tax Increases, Scale Back Business Tax Breaks

The Governor's revenue proposals include extending the temporary increases in the personal income and sales taxes and vehicle license fees enacted in 2009, scaling back one of the corporate tax breaks also enacted in 2009, and ending tax breaks provided by the state's enterprise zone program. The temporary tax increases would be submitted to the voters for approval at a special election in June 2011. Specifically, the Governor would extend the:

- 0.25 percentage point personal income tax rate surcharge through 2015. The prior surcharge sunset at the end of 2010. Extension of the surcharge would generate $1.187 billion in 2010-11 and $2.077 billion in 2011-12.

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- Reduction in the dependent credit to the amount of the personal tax credit through 2015. Reducing the tax credit for allowable dependents would increase taxes paid by $725 million in 2010-11 and $1.248 billion in 2011-12. Prior to the 2009 law change, the dependent credit was approximately triple the amount of the personal credit. The prior reduction in the credit sunset at the end of 2010.
- 1 percentage point increase in the state sales and use tax rate for five years. The current increase sunsets on June 30, 2011. Under the Governor's proposal, the higher rate would continue through June 30, 2016 and be transferred to counties as part of the "realignment" of program responsibilities described below. The proposed extension would raise an estimated $4.549 billion in 2011-12.
- 0.5 percentage point increase in the Vehicle License Fee (VLF) rate for five years. The current increase sunsets June 30, 2011. Under the Governor's proposal, the higher rate would continue through June 30, 2016 and be transferred to counties as part of the "realignment" of program responsibilities described below. The proposed extension would generate an estimated $1.382 billion in 2011-12.

The Governor also proposes to modify legislation approved in February 2009 that allowed multi-state and multinational corporations to choose between two methods for determining the share of their profits that would be taxed in California beginning in 2011. The Governor's proposal would require nearly all corporations to use a single formula based solely on the percentage of their sales that occur within California. The shift to so-called "mandatory single sales factor apportionment" would generate an estimated $468 million in 2010-11 and $942 million in 2011-12. Corporations, as a whole, would still pay lower taxes than under the pre-2009 law. California and Missouri are the only states in the nation that currently allow corporations to choose among apportionment formulas on an annual basis. The Governor would also require all corporations to use a "market approach" to determine the location of sales of intangibles and services. A provision included in the October 2010 budget agreement allowed some corporations to use a "cost of performance" approach for determining the location of sales of intangibles and services for tax purposes.

The Governor would also eliminate tax breaks linked to the state's enterprise zone and other geographically targeted programs. The enterprise zone program has been criticized by a number of researchers, including a 2006 California Budget Project report, *California's Enterprise Zones Miss the Mark* (http://cbp.org/publications/documents/0604_ezreport.pdf). More recently, Public Policy Institute of California researchers David Neumark and Jed Kolko wrote that, "on average, enterprise zones have no effect on business creation or job growth." Elimination of the program would raise an estimated $343 million in 2010-11 and $582 million in 2011-12.

Other tax proposals include creation of an "amnesty" program for taxpayers that took advantage of abusive tax shelters and requiring financial institutions to match financial records to the Franchise Tax Board's delinquent taxpayer lists in order to boost collection of amounts owed. The abusive taxpayer amnesty program is anticipated to generate $270 million in 2010-11 and $50 million in 2011-12. The financial records match program, which is patterned after a similar program used to collect outstanding child support obligations, is forecast to raise $10 million in 2010-11 and $30 million in 2011-12.

California and the Nation Face a Long, Slow Economic Recovery

Eighteen months after economists declared the Great Recession over, California's job market remains the weakest it has been in decades. Modest job gains in the first half of 2010 were diminished by job losses in the second half of the year, and the state's unemployment rate remains only slightly below the record-high rate reached in the spring. As economist Paul Krugman recently put it, "Even though we may finally have stopped digging, we're still near the bottom of a very deep hole."

The Governor's economic forecast reflects the general consensus among economists that recovery from the Great Recession will be long and slow. The Governor's outlook projects that national inflation-adjusted gross domestic product (GDP) – the value of all goods and services produced in the US – will increase by a "tepid" 2.2 percent in 2011. To put this figure in perspective, economists generally believe that national GDP must increase by about 2.5 percent per year in order to prevent the unemployment rate from rising; stronger growth is necessary for the jobless rate to fall. The Governor's forecast projects only moderate national economic growth in subsequent years, with US GDP rising by 2.9 percent 2012 and 2.7 percent in 2013.

Relatively weak national economic growth means that the job market – both in California and the nation as a whole – will rebound very gradually. The Governor's forecast projects that the US jobless rate will decline only slightly, from an estimated 9.7 percent in 2010 to 9.6 percent 2011 and 9.1 percent in 2012. In California, where the recession took a greater toll on the labor market, the unemployment rate is projected to drop by just 0.3 percentage points from an estimated 12.4 percent in 2010 to 12.1 percent in 2011, and then remain high – at 11.3 percent – in 2012. In other words, two years from now, California's jobless rate would still be considerably higher than it was during any prior recession since the mid-1970s, when official state record-keeping began. In fact, the Governor's forecast anticipates that it will take until the third quarter of 2016 for California to regain all of the nonfarm jobs it lost during the recession.

The Governor's economic outlook expects only modest growth in California's total personal income over the next two years due to continued weakness in the job market. Annual personal income is projected to increase by 3.8 percent in 2011 and 4.0 percent in 2012 – stronger growth rates than that of 2010 (2.7 percent), but still well below what economists generally consider to be a "healthy" growth rate for the state over the long run. The Governor's outlook for annual taxable sales is more optimistic. Taxable sales are projected to increase by 7.1 percent in 2011, followed by a relatively robust 8.6 percent increase in 2012. Increased growth in total personal income and taxable sales over the next couple of years will help to boost California's two largest revenue sources – the personal income tax and sales tax.

The Governor Proposes To "Realign" a Number of Programs to Local Governments

The Governor proposes to shift primary responsibility for a number of programs, along with a dedicated source of funding, to local governments – primarily counties – beginning in 2011-12. Counties would assume responsibility for $5.9 billion in program costs in 2011-12, rising to $7.3 billion in 2014-15. The Governor proposes to fund these costs with revenues raised by extending the temporary 0.5 percentage point increase in the VLF and the temporary 1 percentage point increase in the sales tax rate – both of which expire on June 30, 2011 – for an additional five years. The Administration assumes that the Legislature would place a measure on a June 2011 special election ballot asking voters to extend the current tax rates. However, budget documents do not specify how the realigned programs would be funded after the five-year extension expires, assuming voters approve the extension.

The Governor proposes to transfer the following responsibilities to local governments in 2011-12:

- Fire and emergency response activities in populated wildland areas, along with $250.0 million in annual funding.
- Court security costs, along with $530 million in annual funding.
- A number of local public safety programs currently funded by a temporary VLF increase – including the Citizens Option for Public Safety (COPS) program, the Juvenile Justice Crime Prevention program, Jail Booking Fee Subventions, county juvenile probation, and the Small/Rural Sheriffs program – along with $506.4 million in annual funding.
- Substance abuse treatment programs, along with $184.0 million in annual funding.

- 100 percent of non-federal Child Welfare, Foster Care, and Adoptions costs, along with $1,604.9 million in annual funding.
- Adult Protective Services, along with $55.0 million in annual funding.
- A number of mental health programs – including the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program, Mental Health Managed Care (MHMC), "AB 3632" state-mandated mental health services for special education students, and existing community mental health services – along with $1.9 billion in 2014-15. In 2011-12, EPSDT, MHMC, and AB 3632 services would temporarily be funded through a transfer of revenues raised by Proposition 63 of 2004, resulting in one-time state General Fund savings of $861 million. This proposed Proposition 63 shift would require a two-thirds vote of the Legislature. Beginning in 2012-13, these three programs and community mental health services would be funded through the Governor's realignment proposal.

The Governor proposes to phase in the transfer of the following responsibilities between 2011-12 and 2014-15:

- Services to lower-level offenders and parole violators, with local costs assumed to rise from $298.4 million in 2011-12 to $908.1 million in 2014-15. State costs of $1.5 billion in 2011-12 would be reimbursed from the Governor's proposed realignment revenues.
- Adult parole, with local costs assumed to rise from $113.4 million in 2011-12 to $409.9 million in 2014-15. State costs of $627.7 million in 2011-12 would be reimbursed from the Governor's proposed realignment revenues.
- Remaining juvenile justice programs, with local costs assumed to rise from $78.0 million in 2011-12 to $242.0 million in 2014-15. State costs of $179.6 million in 2011-12 would be reimbursed from the Governor's proposed realignment revenues.

In addition, the Governor proposes to realign additional programs during a second phase that could begin in 2014-15. Budget documents suggest that the state could assume responsibility for health programs currently overseen by the counties, including In-Home Supportive Services, while counties could assume responsibility CalWORKs, food stamp administration, and child support.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The Governor proposes deep cuts to the CalWORKs Program, which provides cash assistance for 1.1 million low-income children, while helping parents find jobs and overcome barriers to employment. The Governor's proposals would cut state and federal funding for CalWORKs by nearly $1.5 billion in 2011-12 and would reduce the number of CalWORKs families from a projected 580,000 to 458,000, a 21.0 percent drop. Specifically, the Governor proposes to:

- Limit families to 48 months of cash assistance, down from the current 60 months, effective July 1, 2011 for savings of $698.1 million in 2011-12. Cash assistance for children would continue beyond 48 months for certain families, including those in which an adult meets state work participation requirements and those headed by a non-needy caretaker relative. Approximately 115,000 families, including 230,000 children, would lose eligibility for CalWORKs due to this change.
- Cut CalWORKs grants by 13.0 percent effective June 1, 2011 for savings of $13.9 million in 2010-11 and $405 million in 2011-12. The maximum monthly grant for a family of three in high-cost counties would drop from $694 to $604 under this proposal.
- Continue the reduction in funding that counties use to provide CalWORKs employment services and child care for savings of $376.9 million in 2011-12. The state implemented cuts of a similar magnitude as part of the 2009-10 and 2010-11 budget agreements.

The $1.5 billion reduction includes both state General Fund and federal Temporary Assistance for Needy Families (TANF) block grant dollars. Specifically, $533.1 million reflects state savings in the Department of Social Services, and the remainder – $946.8 million – reflects TANF block grant savings. The Administration proposes to transfer the TANF block grant funds to the California Student Aid Commission "to offset a like amount of General Fund costs for Cal Grants."

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

The Governor proposes to reduce the maximum monthly SSI/SSP grant for individuals from $845 to $830 – the minimum allowed by federal law – effective June 1, 2011 for savings of $14.7 million in 2010-11 and $177.3 million in 2011-12. The grant for couples is already at the minimum level permitted by federal law, and therefore the state cannot cut it further. SSI/SSP provides cash assistance to help low-income seniors and people with disabilities meet basic living expenses.

In-Home Supportive Services (IHSS) Program

The Governor proposes several cuts to the IHSS Program that would take effect July 1, 2011 and result in state savings of $486.2 million in 2011-12. IHSS helps low-income seniors and people with disabilities live safely in their own homes, preventing more costly out-of-home care. Specifically, the Governor proposes to:

- Reduce all IHSS recipients' hours of service by 8.4 percent for state savings of $127.5 million in 2011-12. This cut would come on top of the 3.6 percent reduction in hours included in the 2010-11 budget agreement. The Administration states that "qualified recipients at risk of out-of-home care placement because of the reduction could apply for supplemental hours."
- Eliminate "domestic and related services" – which include housework, shopping, and meal preparation – for more than 300,000 IHSS recipients for state savings of $236.6 million in 2011-12. The Governor's proposal would affect, with some exceptions, recipients whose need for any domestic or related service is "met in common" with other household members, including children under age 18 who live with a parent.
- Eliminate IHSS services for recipients who do not have a doctor's "written certification that personal care services are necessary to prevent out-of-home care." This change would affect approximately 43,000 recipients and result in state savings of $120.5 million in 2011-12.
- Eliminate the requirement that counties establish IHSS advisory committees for state savings of $1.6 million in 2011-12.

Child Care and Development Programs

The Governor proposes to make several reductions to programs that provide child care for low-income working families in order to achieve $750 million in state savings in 2011-12. Specifically, the Governor proposes to:

- Eliminate child care assistance for 11- and 12-year-olds, except those served through the State Preschool Program.
- Reduce the income eligibility limit for child care assistance from 75 percent of the state median income (SMI) to 60 percent of the SMI. This change would reduce the limit for a family of three from $3,769 per month to $3,015 per month.
- Implement an across-the-board reduction to child care subsidies. Budget documents do not indicate the magnitude of the proposed reduction. The Administration states that the subsidy cut would be implemented "in a way that incorporates local priorities and administrative efficiency." For example, families "would pay the difference between the subsidy and regular day care provider charges … directly to the provider," rather than having Alternative Payment agencies and Title 5 contractors assess and collect current family fees.

Governor Brown also proposes to restore the $256.0 million in state funding for CalWORKs Stage 3 child care that Governor Schwarzenegger vetoed in October. Stage 3 serves working families who have successfully transitioned off CalWORKs cash assistance.

Medi-Cal

The Governor proposes a number of reductions to the Medi-Cal Program for state savings of $11.7 million in 2010-11 and $1.7 billion in 2011-12. All of the proposed Medi-Cal reductions have been rejected by either the Legislature or courts in recent years. Some of the Governor's proposals would require federal approval. Specifically, the Governor proposes to:

- Limit doctor visits to 10 per year, effective October 1, 2011, for state savings of $196.5 million in 2011-12. This proposal would reduce the number of visits funded by Medi-Cal from approximately 3.3 million to 2 million annually.
- Limit prescriptions to six per month, except for life-saving drugs, effective October 1, 2011, for state savings of $11.1 million in 2011-12.
- Establish maximum benefit dollar caps on medical supplies and durable medical equipment, effective October 1, 2011, for state savings of $9.8 million in 2011-12.
- Impose copayments for medical services for state savings of $294.4 million in 2011-12. Medi-Cal recipients would be required to pay $5 for physician, clinic, and pharmacy services effective October 1, 2011. Copayments for dental services would begin May 1, 2011. The Governor proposes to charge a $3 copayment for lower-cost drugs.
- Impose a $50 copayment for emergency room visits for state savings of $111.5 million in 2011-12.
- Impose a $100 per day copayment – up to a maximum of $200 – for hospital stays for state savings of $151.2 million in 2011-12.
- Eliminate Medi-Cal coverage for Adult Day Health Care services, affecting 27,000 California seniors and persons with disabilities, for state savings of $1.5 million in 2010-11 and $176.6 million in 2011-12.
- Eliminate Medi-Cal coverage for over-the-counter cough and cold medications and nutritional supplements for state savings of $556,000 in 2010-11 and $16.6 million in 2011-12.
- Reduce payments to physicians, pharmacies, clinics, and other providers who deliver health care services to Medi-Cal patients for state savings of $9.5 million in 2010-11 and $709.4 million in 2011-12. Prior years' budgets have included provider reimbursement reductions ranging from 1 percent to 10 percent, most of which have been blocked by the courts. The state has appealed these court decisions. The Governor's Proposed Budget notes that "it is anticipated that the US Supreme Court will decide whether to hear the cases by mid-January 2011 and would rule by July 1, 2011. This proposal assumes the state prevails in pending rate litigation."

The Governor also proposes to increase funding for Medi-Cal by extending certain health-care-related revenues and diverting revenues raised from the tobacco tax imposed by Proposition 10 of 1998. Specifically, the Governor proposes to:

- Continue imposition of a fee on hospitals through June 2011. In recent years, proceeds from a hospital fee were used to draw down federal matching funds and provide additional dollars for children's services. That fee expired on December 31, 2010. Continuing this fee would reduce state spending by $160 million in 2010-11.
- Make permanent a tax on managed care organizations, which currently expires June 30, 2011. Proceeds of the tax would be used to draw down federal matching funds to pay for Medi-Cal rate increases to health plans and fund the Healthy Families Program. This proposal would reduce state spending by $97.2 million.

- Divert $1 billion in tobacco tax revenues generated from the tax imposed by Proposition 10 of 1998. These funds, which are currently allocated to county First 5 commissions, would be used to pay for Medi-Cal services for children up to age 5. This proposal, which requires voter approval, would take effect July 1, 2011.

Healthy Families

The Governor proposes significant reductions to the state's Children's Health Insurance Program (CHIP), California's Healthy Families Program. Specifically, the Governor proposes to increase premiums for certain children in the Healthy Families Program. The increase would result in premiums of $30 per month, up to a maximum per family of $90 per month. Currently, monthly premiums for children in families with incomes at or above 150 percent and below 200 percent of the federal poverty line are $16 per child per month, up to a maximum of $48 per family. Premiums for children in families with incomes at or above 200 percent and below 250 percent of the poverty line would increase to $42 per child per month up to a maximum of $126 per family. Currently, monthly premiums for these children are $24 per child per month up to a maximum of $72 per family. This proposal, which could affect 565,000 children, would result in state savings of $1.9 million in 2010-11 and $22.2 million 2011-12. Premiums would not be increased for children in families with incomes below 150 percent of the poverty line.

The 2009 budget agreements increased Healthy Families premiums, however, the Legislature rejected the Governor's proposals to increase premiums again in 2010. Premium increases may be precluded by the new federal health reform law, which requires states to maintain existing eligibility standards for both their Medicaid and CHIP programs. This limitation, as applied to the Medicaid Program under the American Recovery and Reinvestment Act of 2009 (ARRA), restricted states' ability to impose or increase premiums charged to enrollees. The US Centers for Medicare and Medicaid Services is expected to provide guidance on whether the same restriction would also apply to state CHIP-funded programs.

The Governor's Proposed Budget also:

- Increases copayments for emergency room visits from $15 to $50 for children in the Healthy Families Program. The Governor also proposes a $100 per day copayment, up to a maximum of $200, for hospital stays. These proposals, effective October 1, 2011, would result in state savings of $5.5 million in 2011-12.
- Eliminates vision benefits for children with Healthy Families coverage, effective June 1, 2011, for state savings of $0.9 million in 2010-11 and $11.3 million 2011-12. The Legislature rejected a similar proposal in 2010.

Governor Proposes To Shift Voter-Approved Tax Revenues

The Governor proposes to:

- Divert $1 billion in tobacco tax revenues generated from the tax imposed by Proposition 10 of 1998 to pay for Medi-Cal services for children up to age 5. These revenues are currently allocated to the state and 58 county First 5 commissions. The Governor's proposal would also shift approximately $200 million of First 5 revenues to offset state General Fund costs in 2012-13, 2013-14, and 2014-15. Budget documents do not clearly identify whether the shifted revenues would come from the state First 5 commission, county commissions, or both. First 5 funds support programs for children from birth to age 5, using funds provided by a 50-cent-per-pack state tax on cigarettes imposed by Proposition 10 of 1998. In May 2009, voters rejected Proposition 1D, which would have diverted First 5 funds to help balance the state's budget.
- Divert $861.2 million in Proposition 63 revenues in 2011-12 to fund various existing mental health-related services. The Governor proposes to use these funds to pay for a number of programs, including Early and Periodic Screening, Diagnosis and Treatment (EPSDT), which tests for and treats mental illness for 230,000 Medi-Cal-

eligible children and adults under age 21. The funds would also pay for county Mental Health Managed Care services and mandated mental health services for special education students, commonly known as "AB 3632 services." Governor Schwarzenegger vetoed funding for AB 3632 services from the 2010-11 Budget. Proposition 63 of 2004 imposed a 1 percent tax on the portion of individuals' taxable incomes that exceeds $1 million to provide dedicated funding for mental health services. These revenues may not be used to supplant existing funds for mental health services. In May 2009, voters rejected Proposition 1E, which would have diverted Proposition 63 funds to help balance the state's budget.

Department of Developmental Services

The Governor proposes to reduce 2011-12 funding for the Department of Developmental Services by $750 million. Budget documents state that savings would be achieved through a number of actions that include increasing auditing and disclosure requirements and establishing "statewide service standards'' that would set "parameters … in the array of services available through regional centers.'' The Governor's Proposed Budget also includes:

- Extension a 4.25 percent reduction in payments to Regional Centers and service providers that assist Californians with disabilities for state savings of $91.5 million in 2011-12.
- Diversion of $50 million in tobacco tax revenues imposed by Proposition 10 of 1998 to support services to consumers from birth to age 5.

Child Support

The Governor proposes to not provide counties with their share of child support collections in 2011-12 and instead deposit those dollars in the state's General Fund for additional state revenues of $24.4 million.

Proposition 98

The Governor's Proposed Budget assumes a total 2011-12 Proposition 98 funding level of $49.3 billion for K-14 education programs. The Governor's Proposed Budget defers $2.1 billion in K-12 education spending from 2011-12 to 2012-13 and "is predicated upon about $2 billion in additional revenues for Proposition 98 that are subject to approval by a vote of the people." Absent voter approval of the policy changes proposed by the Governor, the minimum level of funding for K-14 education programs covered by the Proposition 98 guarantee would be $47.3 billion in 2011-12, approximately $2.3 billion less than 2010-11 Proposition 98 funding. Assuming voter approval of the Governor's proposal, the Governor's Proposed Budget would translate into a K-12 Proposition 98 per pupil spending level of $7,344 in 2011-12, down from $7,358 in 2010-11.

K-12 Education

The Governor proposes to:

- Eliminate cost-of-living adjustments (COLAs) for K-14 education programs in 2011-12, for savings of $964.5 million. The Governor's Proposed Budget would establish a 1.67 percent deficit factor for revenue limit payments, which provide general-purpose funding for K-12 schools. A deficit factor is the difference between revenue limit payments to school districts and county offices of education and the revenue limit funding level specified by state law.
- Increase revenue limit funding for school districts and county offices of education by $81.4 million in 2010-11 and by $357.5 million in 2011-12 due to projected increases in average daily attendance (ADA).

- Increase funding by $351.8 million to pay for increased unemployment insurance costs for school districts and county offices of education.
- Reduce 2010-11 revenue limit payments by $47.9 million due to higher-than-anticipated local property tax revenue and increase 2011-12 school district and county office of education revenue limit payments by $155.7 million due to a projected reduction in local property tax revenue.
- Provide $89.9 million in ongoing funding for K-14 education mandates.
- Eliminate 2011-12 funding for the Public Library Foundation, the California Library Services Act, and California Library Literacy and English Acquisition Services for savings of $30.4 million.
- Increase funding by $16.1 million for charter school categorical programs due to ADA growth.
- Increase special education funding by $7.4 million to reflect program growth.
- Eliminate the Office of the Secretary of Education, for savings of $400,000 in 2010-11 and $1.6 million in 2011-12.
- Extend from 2012-13 to 2014-15 various provisions of the February 2009 budget agreement, including the authorization of the transfer of funds from approximately 40 categorical programs to a school district's or county office of education's General Fund, the reduction of the amount a school district must deposit into a routine maintenance account from 3 percent of general fund expenditures to 1 percent, and the reduction of penalties for school districts that participate in the K-3 Class Size Reduction Program and exceed the 20 to 1 student to teacher ratio.

California Community Colleges

The Governor proposes to:

- Reduce 2011-12 apportionment payments by $400 million. The Governor's Proposed Budget argues that community colleges receive funding for more students than actually attend courses and proposes to change attendance accounting to create incentives for colleges to maximize academic course sections available for students seeking vocational certificates and transfer to four-year colleges.
- Decrease funding for apportionments in 2011-12 by $110 million to reflect increased revenues from a proposed $26 to $36 per credit unit increase in student fees.
- Increase 2011-12 funding by $110 million to support a 1.9 percent increase in apportionments. Budget documents state that the increase is sufficient to fund an additional 22,700 Full-Time Equivalent Students (FTES).
- Defer $129 million in community college apportionment payments from 2011-12 to 2012-13 in addition to the $129 million deferred from 2010-11 to 2011-12 as part of the 2010 budget agreement.
- Increase 2011-12 funding by $33.4 million due to a projected reduction in local property tax collections. The Governor's Proposed Budget does not backfill the projected $14.7 million shortfall in 2010-11 local property tax collections.
- Increase 2011-12 funding by $18.7 million to reflect revised estimates of student fee revenue primarily due to higher-than-anticipated Board of Governors fee waivers. The Governors proposal would backfill community colleges for decreased fee revenue due to Board of Governor's fee waivers.
- Decouple the formula in current law that links the amount community colleges receive for administering categorical fee waivers to the dollar value of fee waivers for 2011-12 savings of $2.9 million.
- Increase 2011-12 funding for financial aid administration by $1.7 million to reflect increased administrative costs.

California State University (CSU) and University of California (UC)

The Governor's Proposed Budget:

- Reduces 2011-12 funding by $500 million each for both the UC and the CSU.
- Assumes $404.7 million in 2011-12 funding – $221.6 million for the CSU and $183.1 million for the UC – to account for fee increases approved by the CSU Board of Trustees and the UC Regents in November 2010. The fees approved in November 2010 reflect a 10 percent increase at the CSU and an 8 percent increase at the UC in 2011-12.
- Increases 2011-12 funding by $212 million – $106 million each for the UC and the CSU – to backfill an equivalent amount of one-time American Recovery and Reinvestment Act (ARRA) funds the UC and CSU received in 2010-11.
- Increases CSU funding by $75.2 million in 2010-11 and 2011-12 to reflect increases in employer contributions to the California Public Employees' Retirement System on behalf of CSU employees.
- Allocates $8.2 million for the UC, CSU, and Hastings College of Law to cover additional health and dental payments for retirees. Of this amount, $7.1 million is for the UC.
- Reduces 2011-12 funding for the Hastings College of Law by $1.5 million.

California Student Aid Commission

The Governor proposes to:

- Increase Cal Grant funding by $147.2 million in 2010-11 and $369.5 million in 2011-12 to reflect revised California Student Aid Commission cost estimates. The higher-than-anticipated costs include $141.4 million in 2010-11 and $279 million in 2011-12 due to a significantly larger number of new Cal Grant entitlement awards than previously anticipated.
- Increase 2011-12 funding by $100 million to backfill one-time Student Loan Operating Fund (SLOF) revenues that were used for Cal Grant costs. The 2010 budget agreement transferred $100.0 million from the SLOF to the General Fund to support 2010-11 Cal Grant costs.
- Decreases 2011-12 funding by $30 million based on the expected receipt of a similar amount from the Educational Credit Management Corporation (ECMC) – the successor guarantor agency designated by the US Department of Education to take over the state's federal student loan guaranty functions. The Governor's Proposed Budget states that the US Department of Education expects to approve payments to the state for Cal Grant costs from the revenue they received from the California federal student loan guaranty portfolio.
- Increase funding for anticipated costs in the Assumption Program of Loans for Education (APLE) and other loan assumption programs by $1 million in 2010-11 and $2.3 million in 2011-12.

Local Government

The Governor proposes to phase out redevelopment agencies beginning in 2011-12. Under current law, redevelopment agencies receive most of the growth in property tax revenues attributable to increases in property value ("tax increment") in redevelopment project areas. A portion of the tax increment revenues must be shared with other local agencies, including counties and school districts, and at least 20 percent must be used to preserve, improve, or expand the supply of affordable housing. The state typically backfills school districts' loss of property tax revenues through the calculation of the Proposition 98 guarantee. Under the Governor's proposal, additional property tax revenues that go to schools would augment existing funding and would not count against the Proposition 98 guarantee. Of the $5.2 billion in tax increment revenues estimated for 2011-12, the Governor proposes that:

- $2.2 billion be used to retire redevelopment agency debt and contractual obligations based on existing payment schedules;
- $1.1 billion be provided to local agencies – "an amount equal to the pass-through payments that otherwise would be received;"
- $840 million be used to offset state costs for Medi-Cal;
- $860 million be used to offset state costs for trial courts; and
- $210 million be distributed to cities, counties, and special districts based on their current share of countywide property tax revenues.

In 2012-13 and subsequent years, the Governor proposes to distribute the revenues remaining after paying pre-existing redevelopment agency debt and contractual obligations to cities, counties, non-enterprise special districts, and school districts based on their share of countywide property tax revenues. Additionally, the Governor proposes to direct amounts that would have been distributed to so-called enterprise special districts – districts with revenue-raising authority – to counties and to shift amounts reserved for affordable housing to local housing authorities. The Governor also called for a constitutional amendment that would change the voter approval requirement for "limited tax increases and bonding against local revenues for development projects similar to those current funded through redevelopment and for infrastructure" to 55 percent.

The Governor also proposes to:

- Suspend the Williamson Act Program, which backfills a portion of local property tax payments lost under contracts to maintain open space and agricultural land, resulting in a reduction of $10 million below the funding level provided in 2010-11.
- Suspend most local government mandates and defer payment for pre-2004 mandate claims for savings of $321.8 million. In addition, the Governor states that his administration will develop a process for reviewing all reimbursable mandates with the Legislature.

State Employees and State Operations

The Governor proposes to:

- Reduce the take-home pay of employees in six collective bargaining units with expired contracts by 10 percent for savings of $308.4 million, which the Administration suggests "will be achieved through collective bargaining or other administrative actions." In addition, the Governor's Proposed Budget reflects $71.6 million in savings related to state employee compensation reductions achieved through collective bargaining agreements reached with 15 bargaining units in 2010. These agreements reduced the take-home pay of covered state workers by between 8 and 10 percent.
- Reduce state employee and retiree health care costs. The Governor's Proposed Budget assumes "savings of $72 million from the projected increase in the 2012 calendar year health rates" to be achieved through legislation directing the California Public Employees' Retirement System (CalPERS) to provide a new lower-cost health plan option.
- Reduce spending on state operations – amounts spent directly by state departments and agencies – by $200 million. The Administration suggests these savings could be achieved through various actions, including the elimination of duplicative and unnecessary agencies, departments, and programs.
- Eliminate General Fund support for the County Veterans Service Offices for savings of $9.9 million.
- Reduce General Fund support for California's Department of Food and Agriculture by $15 million in 2011-12 and $30 million in subsequent years. A consortium of "key agricultural and industry individuals" convened by the

Secretary of Food and Agriculture will make recommendations by February 1, 2011 for how to achieve this funding reduction.

Corrections

The Governor's Proposed Budget includes $395.2 million to "correct" previous budget shortfalls and "more accurately reflect the operational costs within the adult institutions' budgets." The Proposed Budget also includes an increase of $98.6 million in 2010-11 and $161.3 million in 2011-12 for costs related to changes in the budgeted population of adult and juvenile inmates and parolees. The budget also includes funding restorations and increases related to "unrealistic savings targets" in the 2010 Budget Act. The net result of these changes is a $1.4 billion increase in total 2010-11 and 2011-12 corrections spending relative to previously budget levels.

The Governor also reduces 2011-12 funding to "implement a change in mission for the state's prison system," including a $150 million one-time reduction in support for rehabilitative programs. Budget documents state that funding for rehabilitative programs would be restored in 2012-13 "after CDCR has reconfigured its program delivery model" to reflect a change in the inmate population related to the proposed realignment of responsibility for low-level offenders.

As part of the proposed realignment, the Governor proposes to eliminate the Division of Juvenile Justice by June 30, 2014 and transfer jurisdiction for juvenile offenders to local governments. This proposal is anticipated to result in savings of $78 million in savings in 2011-12 and $250 million in savings per year at full implementation.

Labor and Workforce Development

The Governor proposes to:

- Loan $362.3 million from the Unemployment Compensation Disability Fund – more commonly known as the State Disability Insurance (SDI) fund – to the General Fund to pay interest due on loans from the Federal Unemployment Account (FUA). The Employment Development Department (EDD) began borrowing from the FUA to pay Unemployment Insurance benefits in January 2009 when the state's Unemployment Insurance (UI) fund became insolvent. Interest on these federal loans cannot be paid from the state's UI Fund. Budget documents state that the loan from the SDI Fund would be repaid over the next four fiscal years.
- Provide $19.5 million to continue the EDD's Automated Collection Enhancement System (ACES) for auditing the payment of employer payroll taxes. The Governor's budget assumes that ACES will increase General Fund revenues by $27 million in 2011-12 from improved collection of delinquent accounts.

Legislative, Executive, and Judicial

The Governor proposes to:

- Reduce court funding by $200 million annually beginning in 2011-12. Budget documents state that "all areas of the Judicial Branch will be evaluated" for possible savings.
- Use $860 million in estimated savings from phasing out redevelopment agencies to fund trial court costs, resulting in an equivalent amount of General Fund savings in 2011-12.
- Repeal the trial courts conservatorship program for ongoing savings of $17.4 million beginning in 2011-12. This proposal would eliminate the statutory mandate to implement the Omnibus Court Conservatorship and Guardianship Act of 2006, which aimed to improve court oversight of conservatorship.

- Modify how the Department of Justice bills its clients for legal services. The Governor's proposal would convert clients smaller than the Department's 11 largest clients from "non-billable" status to billable status. The Governor's proposal would reduce General Fund spending by $50.2 million and increase Legal Services Revolving Fund spending by $60.1 million.
- Reduce of the Office of the Governor's budget by $3.7 million in 2011-12 by eliminating a number of staff positions in the Governor's office.

Resources

The Governor proposes to:

- Eliminate funding for CalFIRE's "fourth firefighter" for savings of $3.6 million in 2010-11 and $30.7 million in 2011-12. The Governor's proposal would reverse a 2003 increase in staffing levels that added an additional firefighter per engine during peak fire season. Budget documents state that this change has "not measurably changed CalFIRE's initial attack effectiveness."
- Allocate $42.7 million and 69.6 staff positions in 2011-12 for CalFIRE's aviation program, the Lake Tahoe fire station, and other fire protection activities.
- Reduce funding for state parks by $11.0 million in 2011-12 by partially or fully closing some state parks and reducing expenditures at the Department of Parks and Recreation's headquarters. At the same time, the Governor proposes to restore a one-time reduction of $7.0 million included in the 2010-11 Budget.
- Provide $1.7 million and nine additional staff positions to the Civil Cost Recovery Program in 2011-12 to investigate and pursue cost recoveries for wildfires caused by negligence or illegal activity. The Governor's proposal assumes net General Fund savings of approximately $5.1 million.

Business, Transportation, and Housing Agency

The Governor's Proposed Budget includes $84.4 million in federal funds from the Small Business Jobs and Credit Act of 2010 for the Small Business Loan Guarantee Program. The Governor also proposes to reduce state General Fund support for the loan program by $20 million in 2010-11 in response to the availability of additional federal funds.

The Governor proposes to use $262.4 million in truck weight fees in 2010-11 and $700 million in 2011-12 to pay transportation general obligation bond debt service costs, resulting in General Fund savings of an equivalent amount. The Governor would also loan $494 million in 2010-11 truck weight fee revenues from the State Highway Account to the General Fund and loan an additional $166.3 million in 2011-12.

The Governor's Proposed Budget:

- Requests that the Legislature reenact the fuel tax swap that was originally enacted in March 2010, but which will be reversed in November 2011 as a result of passage of Proposition 26 on the November 2010 ballot. The proposed reenactment, which would require a two-thirds vote of the Legislature, would allow the state to continue to use certain fuel tax revenues to pay debt service on transportation bonds, resulting in significant General Fund savings.
- Provides additional funds from the Public Transportation Account to local transit agencies to maintain the higher level of funding provided by the fuel tax swap enacted by the Legislature in March 2010. Proposition 22, approved by the voters in November 2010, specified a lower level of funding for transit agencies. The Governor's proposal would restore funding to the higher level provided by the fuel tax swap.