



HIGHLIGHTS OF GOVERNOR'S PROPOSED MAY REVISION 2008-09 STATE BUDGET

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OVERVIEW

Today, the Governor released his May Revision to his proposed 2008-09 state budget. In total, the updated proposed budget includes \$104.7 billion in available General Fund revenues, \$101.8 billion in expenditures, and a reserve of \$2 billion

Key aspects of the May Revision are as follows:

- ◆ Closes a projected shortfall of \$17.2 billion. The components of this number are as follows:
 - \$7.5 billion shortfall remaining from the January projection.
 - \$7.7 billion increase to the shortfall, consisting of revenue projections being revised downward by \$6 billion and various workload increases to expenditures totaling about \$1.7 billion.
 - \$2 billion proposed reserve.
- ◆ The \$17.2 billion shortfall is closed with the following rough estimate of solutions:
 - \$4.3 billion in cuts to education, similar to what was proposed in the January budget.
 - \$3.7 billion (approximately) in other cuts contained in the January proposed budget. The Governor has, however withdrawn his proposals to close state parks and to release 22,000 prisoners early.
 - \$828 million diversion of sales tax on gasoline and other public transit funds to General Fund purposes.
 - \$627 million in major new cuts to health and human services including:
 - ◆ Cutting IHSS services and IHSS provider pay;
 - ◆ Intercepting federal SSI funds sent from Washington intended for the benefit of aged and disabled Californians;
 - ◆ Eliminating "SSI-like" benefits elderly and disabled legal immigrants and limiting access to medical care to needy

legal immigrants – all of whom have played by the immigration rules; and

- ◆ Making various CalWORKS cuts, including a 5 percent grant reduction.
- \$5.1 billion in borrowing by securitizing state lottery payments.
- \$2 billion in accounting changes.
- \$1 billion (approximately) in various other one-time revenues, including special funds loans and transfers and the acceleration of the LLC fee.
- ◆ Does not propose suspending Proposition 98. As a result of declining revenues projections in the budget year, the constitutional guarantee has fallen to the level funded in the Governor's May Revision. It is important to note that the while meeting the constitutional requirements, the Governor still proposes an historic cut to K-12 and Community Colleges totaling \$4.3 billion.
- ◆ Proposes securitizing the lottery to generate approximately \$15 billion over three years.
 - The lottery proposal is connected to the Governor's spending cap/robo-cut proposal and would require voter approval.
 - The spending cap/robo-cut proposal would also create third reserve fund (in addition to the existing Special Fund for Economic Uncertainties and the Budget Stabilization Account) that in theory the lottery revenues would be deposited. However, even before the reserve fund has been established, the Governor already is proposing to deplete it and transfer all its revenues to the General Fund.
 - The Governor projects that the \$15 billion can be achieved while maintaining the lottery's current \$1.2 billion support for schools. However, the annual payment to schools would only occur once the bond holders have been paid. This puts what has been a very reliable funding source for schools into jeopardy.
 - In the event the voters reject the Governor's proposal to securitize the lottery, the Governor proposes that such a rejection would trigger a one cent sales tax increase to replace the funds that otherwise would come from the lottery securitization.

Some key questions facing the Assembly as it crafts its version of the budget over the next couple of weeks are as follows:

- ◆ Just because it is constitutionally permissible, does it make sense to cut schools over \$4 billion – the single greatest cut in the entire proposed budget?
- ◆ Since the Governor's own solutions clearly show that the budget can not be balanced on cuts alone, should there be actual increases to revenues and not just temporary risky borrowing and accrual proposals?
- ◆ During tough economic times does it make sense to take money out of the pockets of those that can least afford it with such proposals as cutting SSI payments, increasing student fees, increasing costs for IHSS recipients, and cutting the pay for IHSS workers to minimum wage while there is no similar sacrifice from those that can afford it in a way that will not impact the economy?
- ◆ With skyrocketing gas prices and an increasing number of middleclass working families turning to public transit to get to work, does it make sense to cut support for public transit by over \$800 million?
- ◆ Is it conscionable to eliminate critical benefits for needy aging and disabled legal immigrants that have been played by the immigration rules?

This report is intended to provide an immediate understanding of the Governor's proposed May Revision in the limited timeframe available. More information will come to light through the course of the budget subcommittee hearings that will begin the week of May 19th.

SUMMARY OF CHARTS

**2008-09 May Revision
General Fund Summary
(in millions)**

	2007-08	2008-09
Prior Year Balance	\$4,096	\$1,743
Revenues and Transfers	\$101,190	\$102,987
Total Resources Available	\$105,286	\$104,730
Non-Proposition 98 Expenditures	\$61,716	\$60,436
Proposition 98 Expenditures	\$41,827	\$41,400
Total Expenditures	\$103,543	\$101,836
Fund Balance	\$1,743	\$2,894
Reserve for Liquidation of Encumbrances	\$885	\$885
Regular Reserve (SFEU)	\$858	\$2,009
Budget Stabilization Account	\$0	\$0
Final Reserve	\$858	\$2,009

**2008-09 May Revision General Fund Revenue Sources
(in millions)**

Source	Jan. 10 Amount	May Revision Amount
Personal Income Tax	\$56,458	\$53,733
Sales Tax	\$29,215	\$27,361
Corporation Tax	\$11,937	\$11,039
Insurance Tax	\$2,276	\$2,029
Tobacco Taxes	\$119	\$114
Liquor Tax	\$341	\$341
Other	\$2,558	\$8,342
<i>Total</i>	\$102,904	\$102,987

**2008-09 May Revision General Fund Expenditures
(in millions)**

Category	Jan. 10 Amount	May Revision Amount
Education (K-12)	\$39,411	\$41,145
Health and Human Services	\$29,298	\$29,800
Higher Education	\$11,699	\$11,758
Business, Transportation and Housing	\$1,680	\$1,635
Legislative, Judicial, Executive	\$3,787	\$3,792
General Government	\$2,407	\$1,192
Corrections and Rehabilitation	\$10,268	\$10,139
Resources	\$1,656	\$1,624
Environmental Protection	\$86	\$88
State and Consumer Services	\$608	\$566
Labor and Workforce Development	\$98	\$97
<i>Total</i>	\$100,998	\$101,836

K-12 EDUCATION

- ◆ Withdraws proposal to suspend the Proposition 98 Minimum Guarantee in 2008-09 and instead provides \$1.1 billion more in Proposition 98 spending in the budget year than was proposed in January for a total of \$56.8 million. This results in a \$4.3 billion cut but would fully fund the updated estimate for the budget-year minimum guarantee.
- ◆ Holds ongoing Proposition 98 spending essentially flat from year to year (increase of \$194 million).
- ◆ Continues to not provide a cost-of-living adjustment (COLA) to any K-12 program and continues the proposal to amend statute regarding how the COLA index is calculated.
- ◆ Continues the same level of across-the-board cuts for most K-12 programs that were proposed in January, however, restores base funding cuts for revenue limits (\$841 million) and special education (\$238 million). Neither program receives a COLA in 2008-09, but both are held essentially flat compared to current-year levels. The Administration believes this funding level meets the federal maintenance-of-effort requirement for special education.
- ◆ Proposes to reauthorize the flexibility provisions that were adopted in 2003-04 to provide "flexibility for school districts to cope with a constrained budget environment". Specifically, the Administration proposes to allow districts to lower various reserve requirements; increase current percentage caps on district transfer authority for AB 825 categorical block grants from 15/20 percent to 20/25 percent; eliminate the local match requirement under the Deferred Maintenance Program; and allow school districts to use certain restricted fund accounts for general purposes.
- ◆ Proposes to use \$592 million of Public Transportation Account (PTA) funds to reimburse the General Fund for school transportation expenses (home-to-school transportation and state special schools transportation).
- ◆ Proposes to reduce funding for deferred maintenance by \$223 million leaving program funding at roughly \$40 million. The Administration states this remaining amount would be used for districts displaying hardship/emergency facility conditions.
- ◆ Proposes \$3 million in Proposition 98 General Fund be re-appropriated to continue funding for the Personnel Management Assistance Teams authorized by Chapter 517, Statutes of 2006. These teams assist school districts establish and maintain effective personnel management, recruitment and hiring processes.

- ◆ Proposes separate legislation that will appropriate \$45 million in federal Title I Set Aside funds to assist local educational agencies in their efforts to improve the academic performance of their students and to meet their federal accountability measures.

HIGHER EDUCATION

University of California (UC)

- ◆ Augments the General Fund support in the budget year by \$98.5 million (above the level the Governor proposed in January) to maintain funding for UC level from year to year (\$3.26 billion).
- ◆ Continues to include a \$124.8 million increase in fee revenue associated with the Regent's planned 7.4 percent mandatory fee increase for undergraduates, graduates, and professional school students. Fees for certain professional programs will increase between 7 percent and 19 percent. One-third of the revenue generated by the fee increases for undergraduate and professional programs and 45 percent of the revenue generated by the graduate fee increase would be set aside for financial aid.
- ◆ Provides resources for implementation of the Teaching Performance Assessment standards for teacher preparation programs required to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006 that would otherwise have to be absorbed.
- ◆ Reduces the unallocated portion of the reduction to the workload budget level for UC to \$201.1 million for the revised total reduction of \$233.4 million.

California State University (CSU)

- ◆ Augments the General Fund support in the budget year by \$97.6 million (above the level the Governor proposed in January) to maintain funding for CSU level from year to year (\$2.97 billion).
- ◆ Continues to include \$109.8 million increase in fee revenue associated with the Trustees planned 10 percent mandatory fee increase for undergraduate, graduate, and teacher credential candidates.
- ◆ Provides resources for implementation of the Teaching Performance Assessment standards for teacher preparation programs required to be implemented in 2008-09 pursuant to Chapter 517, Statutes of 2006 that would otherwise have to be absorbed.
- ◆ Reduces the unallocated portion of the reduction to the workload budget level for CSU to \$172.1 million for a revised total reduction of \$215.3 million.

California Community Colleges (CCC)

Current Year

- ◆ Reflects reductions in estimated property tax revenue of \$74.9 million that are offset by increases of \$5.9 million in fee revenue compared to the 2007 Budget Act estimates. Re-appropriations totaling \$69 million, including estimated savings of \$47.3 million from 2006-07 community college apportionments, are provided to backfill the resulting deficit to ensure colleges are not adversely affected by the current year shortfall. This amount will become available in the budget year.

Budget Year

- ◆ Proposes significant ongoing budget adjustments for the CCC that will increase total General Fund and Proposition 98-related sources by a net \$236.2 million compared to the Governor's budget, including an increase of \$167.2 in ongoing Proposition 98 General Fund and \$69 million in one time sources. The following ongoing Proposition 98 workload adjustments are proposed to conform to revised estimates of local revenues and other workload changes:
 - Provides an increase of \$35.5 million for growth in apportionments, bringing the total growth funding in the budget year to \$95.5 million (1.67 percent), sufficient to serve approximately 20,000 additional students.
 - Provides an increase of \$572,000 to restore the reduction proposed in the Governor's Budget to the Foster Care Training program which will preserve approximately \$700,000 of federal matching funds for training foster parents in meeting the needs of this vulnerable population.
 - Provides an increase of \$138.7 million to offset the reduction in estimated property tax revenues for 2008-09.
 - Reduces \$6.4 million to reflect an increase in estimated offsetting student fee revenues based on more recent current year data.
 - Reduces \$1.8 million to reflect an increase in offsetting oil and mineral revenues to an identical amount.
 - Provides an increase of \$717,000 for the Board of Governor's Fee Waiver program administrative costs to reflect updated estimates of student fee waivers.
- ◆ Proposes \$69 million to be re-appropriated to backfill the current year deficit caused by the anticipated property tax shortfall. \$47.3 million is carryover savings from 2006-07 and \$21.7 million is appropriated from the reversion account.

- ◆ Proposes provisional language to provide colleges flexibility to transfer between categorical programs in two programmatic areas. Specifically, this would allow up to 20 percent of funds to be transferred out of a particular program in order to increase other programs by up to 25 percent within each program area. This flexibility would encompass three part-time faculty staff incentive programs in one and five student services programs in another. Given the necessity to reduce programs costs, this additional flexibility will allow local priority needs to be better addressed.
- ◆ Provides \$2.7 million in reimbursements to reflect an interagency agreement that is being developed between the California Department of Corrections and Rehabilitation and the Chancellor's Office that would provide training for prison staff that play key roles in the rehabilitation process, consistent with strategies authorized by Chapter 7, Statutes of 2007 and the Expert Panel on Adult Offender Reentry and Recidivism Reductions' report to the Legislature in June, 2007. Of this amount, it is anticipated that \$140,000 would be available to support one position for state operations workload and up to \$2.6 million would support local assistance allocations for colleges to provide the training and development services.

California Student Aid Commission (CSAC)

- ◆ Proposes a net General Fund decrease of \$303 million over the level proposed in the Governor's Budget, as noted below:
 - \$223 million of Cal Grant costs are proposed to be shifted from General Fund to reimbursements from TANF federal funds available to the Department of Social Services through an interagency agreement. This proposal is necessary to address a significant shortfall in TANF MOE expenditures. (Refer to the Health and Human Services section for more detail on the overall approach to resolving the TANF MOE shortfall)
 - \$80 million savings associated with the elimination of the \$80 million Cal Grant workload cost placeholder from the Governor's Budget that was included in the event UC and CSU increased fees beyond the level anticipated for the workload budget. As discussed, further increases by the UC and CSU governing boards are not anticipated.
 - Redirects \$1.8 million in one-time augmentation proposed in January for restoring shared services from the EdFund. Although the Transition is delayed, CSAC will have to relocate to a new building due to termination of their current leased space. Funding needed to address necessary costs including ongoing additional leased space and telephone system costs, and one-time cost for

moving and office furnishings. These costs total approximately \$1.8 million and thus offset the costs anticipated for adding 11 new staff, equipment, software and other technology related costs that would have been necessary to replace shared services from EdFund.

- Re-appropriation of state operations savings is proposed to be reserved for unanticipated costs related to CSAC's relocation or other unforeseen costs in 2008-09.

- ◆ Proposes the following Student Loan Operating Fund increases to conform to the delay in the EdFund Transaction:
 - Proposes \$1 million from the Student Loan Operating Fund (SLOP) for restoration of the six CSAC positions reduced in January that are dedicated to the oversight of EdFund operations. These positions are proposed on a limited-term basis.
 - Restores position authority for the remaining 24 EdFund civil service employees on a limited-term basis and restores over \$779 million to reflect continuously appropriated SLOP expenditures (\$96.4 million) and Federal Student Loan Reserve Fund expenditures (\$682.8 million) for EdFund operations in 2008-09.
 - Proposes Trailer Bill Language to remove a potential statutory conflict that may impact the Commission's ability to act as a Lender of Last Resort for the Federal Family Education Loan program to address a potential crisis in the student lending markets resulting from changes in federal law and concurrent general difficulties in the credit market.

TRANSPORTATION

CALTRANS

- ◆ Reduces Proposition 42 projections by of \$600 million, from \$1.49 billion to \$1.43 billion as a result of lower gasoline consumption and the increased share of sales tax on gas going to the Spillover (which is then sent to the General Fund).
- ◆ Loans over \$200 million in transportation funds to the General Fund.
- ◆ Reduces funding for transportation work due to reduced gas tax revenues (instead of backfilling these reduced funds with existing gas tax revenues, those funds are loaned to the General Fund – see bullet above). The reduced work results in the Governor proposing to reduce 247 state staff positions and 22 contract positions for capital outlay support. This is contrary to the annual claim that contract positions are desirable to state staff positions because they can more easily be adjusted with fluctuating revenues.

State Transit Assistance (Local Public Transit)

- ◆ Reduces support for local public transit from the January proposal of \$743 million to \$306 million. This reduction allows for additional sales tax on gasoline revenues to be diverted to General Fund purposes.

High Speed Rail Authority

- ◆ Increases funding for the High Speed Rail Authority by \$41.2 million, with \$10 million from the Public Transportation Account, \$8.2 million from Proposition 116, and \$23 million from bond funds that would be available if the voters pass a bond in November.

HUMAN SERVICES

Department of Social Services

Modifies proposals in the CalWORKs program as follows:

- ◆ Adds a proposal to reduce grants for CalWORKs recipients by 5 percent, with a savings of \$108.2 million General Fund resulting. The effects of this proposal on grant amounts in conjunction with the elimination of the COLA, described below, are included on the table that follows.
- ◆ Withdraws the proposal to provide the CalWORKs 5.27 percent COLA, thus suspending it for budget year. This COLA would have increased the grant amount for approximately 460,000 CalWORKs recipients, increasing maximum aid payments for a family of three from \$723 to \$761 monthly, lowering the average monthly grant in high-cost counties by \$38.

	<i>High-Cost County</i>	<i>Low-Cost County</i>
Current Monthly Grant Level	\$723	\$689
Monthly Statutory COLA of 5.27%	\$38	\$36
5% Portion of Monthly Grant Level	\$36	\$34
Total Lost Per Family Per Month as Result of Governor's Revised Proposal	\$74	\$70

- ◆ Retains proposal to implement graduated full family sanctions, reducing a grant by 50 percent when adults have been sanctioned for not participating and remain in sanction status for an accumulated total of six months and eliminating the grant entirely after a 12-month sanction period. Adds a face-to-face "self-sufficiency" review for CalWORKs clients at this six-month interval (for savings of \$59.7 million) and includes the LAO's Pre-Assistance Employment Readiness System (PAERS), where approved families entering aid would be assisted in becoming employed or sign a welfare-to-work plan for up to 120 days.
- ◆ Retains proposal to eliminate CalWORKs safety net or child-only grants for families beyond the 60-month time limit unless the family meets the federal work participation requirements. The administration states that this proposal would remove approximately 33,500 families from aid.

- ◆ Retains proposal to eliminate, similarly, CalWORKs safety net or child-only grants for families that include parents or caretakers who are undocumented non-citizens, drug felons, or fleeing felons that have exceeded the 60-month limit. The Governor states that this proposal would remove this benefit from approximately 36,700 families.
- ◆ Retains proposal to add a Work Incentive Nutritional Supplement, also known as the Food Stamp Move-In proposal in the budget year for non-CalWORKs families receiving food stamps if the adult works sufficient hours to meet federal TANF work participation requirements.
- ◆ Adds elimination of \$40 million General Fund in Pay for Performance incentive funds in budget year and proposes to capture unspent county incentive dollars.
- ◆ Incorporates additional program reductions and transfers to maintain the CalWORKs program within the limits of federal TANF funding and General Fund Maintenance-of-Effort (MOE) requirements, including the following:
 - CalGrants (\$223 million)
 - Probation (\$151.8 million)
 - Emergency Assistance Foster Care (\$50.4 million)
 - Increased Title XX transfer to Department of Developmental Services (\$22.2 million).

Includes the following proposals in the In-Home Supportive Services (IHSS) Program area:

- ◆ Adds a proposal to restrict state participation in funding in the IHSS program to the state minimum wage level plus \$0.60 per hour for benefits for workers, for a savings of \$187 million General Fund.
- ◆ Withdraws the proposal to reduce domestic and related services hours across the board by 18 percent and substitutes this with proposals to require a share-of-cost for recipients with average functional index scores of 1 through 3 for a savings of \$27.7 million General Fund and to restrict domestic and related services exclusively for clients with average functional index scores of 4 and 5 for an additional savings of \$52 million General Fund.
- ◆ Retains proposal to reduce county administrative funds for provision of the IHSS program by ten percent or approximately \$24.4 million (\$10.2 million General Fund) in the budget year. In order for counties to accommodate this reduction in funding, the Governor continues to propose an extension to 18 months for variable reassessment for all non IHSS Plus Waiver, Personal Care Services Program (PCSP), and Residual recipient assessments.

Includes the following proposals in the Child Welfare Services (CWS) area:

- ◆ Retains proposal to reduce the basic care rate, specialized care rate, and clothing allowance rates for children in foster care, including those who are seriously emotionally disturbed, in the Kin-Gap program, and the Adoptions Assistance Program by ten percent, resulting in \$81.5 million General Fund savings in the budget year.
- ◆ Retains proposal to reduce the CWS local assistance allocation by 11.4 percent, or \$83.7 million General Fund.
- ◆ Retains proposal to reduce the budget for the Independent Adoptions Program (IAP) by \$839,000 General Fund in the budget year by privatizing the program in the counties of Alameda, Los Angeles, and San Diego. Additionally reduces state operations for the IAP by \$422,000 General Fund in the budget year.

Additional significant cuts in the Department of Social Services include:

- ◆ Adds a proposal for the state to not pass through the annual federal COLA for Supplemental Security Income/State Supplementary Payment (SSI/SSP) program for a savings of \$109 million General Fund, depriving this population of aged, blind, and disabled of the January pass-through they would normally receive. SSI/SSP provides for basic living expenses for food, clothing, and shelter for needy aged, blind, and disabled people. For couples, this COLA would provide an additional \$23 per month and for individuals, an additional \$15 per month.
- ◆ With regard to the state-portion of the SSI/SSP COLA, despite legislative action in the Special Session to delay the state-portion of the COLA from June 2008 to October 2008, the May Revision retains the Governor's proposal to eliminate the nine remaining months of state-funded COLA.
- ◆ Eliminates the Cash Assistance Program for Immigrants, which provides benefits to aged, blind, and disabled legal immigrants for a savings of \$111.2 million General Fund.
- ◆ Retains proposal to reduce funding by 10 percent for the Deaf Access Program, created in 1980 to ensure that public programs and services are adapted to meet the needs of the deaf and hard of hearing individuals and their families.
- ◆ Retains proposal to reduce funding in the Adult Protective Services (APS) program by 10 percent across the board.

- ◆ Retains proposal to reduce from 30 percent to 14 percent the random inspection protocol for the Community Care Licensing Division in order to realize a 10 percent reduction in licensing costs and a reduction of 33 positions.
- ◆ Retains proposals to reduce the county allocation for administration of the federal Food Stamp Program (FSP) and to reduce the average monthly benefit for a recipient in the California Food Assistance Program (CFAP) from approximately \$91 to \$82, affecting 23,400 people.

Child Care and Development

- ◆ Adds a proposal to change regional child care funding methodology to reduce the Regional Market Rate (RMR) from the 85th percentile to the 75th percentile for a savings of \$19.4 million and to offer the RMR adjustment once every two years instead of on an annual basis.
- ◆ Retains proposal to reduce funding for child development programs by ten percent. Programs exempted from the reduction include CalWORKs Stages 2 and 3. The budget additionally retains the proposal to freeze SMI for the budget year.

Department of Aging

Retains proposals to reduce the department's General Fund budget by 10 percent General Fund in the budget year. Programs subject to this reduction include the following:

- ◆ Home-Delivered Meals program, likely resulting in 240 older adults not receiving meals.
- ◆ Congregate Nutrition program, likely resulting in 380 older adults not receiving meals.
- ◆ Senior Community Employment program, which the administration argues is freed up due to the recent increase in the federal minimum wage.
- ◆ Elimination of the Senior Farmers Market program, resulting in approximately 30,000 seniors not receiving \$20 worth of produce annually from farmers markets.
- ◆ Reduction of local staffing and operating expenses in the Long-Term Care Ombudsman program.
- ◆ Alzheimer's Day Care Resource Centers.

- ◆ Linkages case management program.
- ◆ Multipurpose Senior Services Program (MSSP), which assists in retaining nursing-home eligible Medi-Cal recipients in community settings.

Department of Alcohol and Drug Programs

Retains proposals to reduce the department's General fund budget by 10 percent in the budget year. Programs subject to this reduction include the following:

- ◆ Drug Medi-Cal (DMC) Program, which represents an across-the-board 10 percent decrease to the developed rates by DMC modality beginning in the budget year.
- ◆ Substance Abuse and Crime Prevention Act (SACPA) program, also known as Proposition 36.
- ◆ Comprehensive Drug Court Implementation, Drug Court Partnership, and Dependency Drug Court programs.
- ◆ Non-Drug Medi-Cal Perinatal services.
- ◆ California Methamphetamine Initiative's campaign.
- ◆ Substance Abuse Offender Treatment Program (OTP).

Department of Child Support Services

- ◆ Retains proposals to reduce General Fund in the budget year for the department, including cuts to the following areas: direct customer service, support to counties for quality assurance and performance improvement, the number of staff available for various information technology related activities such as interfaces and application support, and administrative overhead.

Department of Rehabilitation

- ◆ Retains proposal to reduce funding and close 10-15 district offices that provide direct services to consumers, reduce the rates of 1,600 Supported Employment (SEP), Community Rehabilitation and Individual Service Providers by 10 percent, and realizes case services reductions in the base program and in statewide contracts.

Department of Community Services and Development

- ◆ Retains proposal to reduce by \$300,000 General Fund in both the current and budget years funding for the Naturalization Services Program as a 10 percent cut.

HEALTH SERVICES

Department of Health Care Services

Cuts General Fund (GF) spending, primarily in the Medi-Cal Program, by a total of about \$1 billion in 2008-09. Total spending reductions will be double those amounts because of the loss of federal matching funds. Overall, the May Revision increases General Fund spending for Medi-Cal by \$315.7 million versus the January budget. Savings shown for retained January budget proposals are the amounts estimated in January unless otherwise noted.

- ◆ Adds \$173.1 million of GF cost in 2008-09 and \$47.6 million in the current year due to the erosion of savings from various January budget proposals due to timing and other changes.
- ◆ Includes the effect of the Special Session action in AB 5 X3 to reduce most Medi-Cal provider rates and Family Health provider rates by 10 percent effective July 1, 2008, including savings from equivalent reductions in Medi-Cal managed care rates. The estimated savings from the Special Session action was \$568 million. These reductions would not affect inpatient services at most hospitals, rates paid to Federally-Qualified Health Centers and rural health clinics. In addition to providers such as doctors, pharmacists, dentists, and others, the 10-percent reductions also reduce the following:
 - Rates for certain types of long-term care facilities—Nursing Facility Level A, Distinct Part (hospital-based) Nursing Facilities level B, Distinct Part Subacute facilities, Pediatric Subacute facilities, Rural Swing Bed facilities, and Adult Day Health Care programs. There would not be any reduction to rates for Level B Nursing Facilities or Intermediate Care Facilities for the Developmentally Disabled--these facilities pay quality assurance fees that are used to obtain federal matching funds to partially finance their rates and reduce state costs. The May Revision includes \$22.4 million for a 4.9 percent increase for those facilities.
 - Rates paid to California Children's Services (CCS) providers and to providers in the Genetically Handicapped Persons Program.
 - Payments to non-contract hospitals for Medi-Cal inpatient care. The May Revision proposes to further limit payments to non-contract hospitals to the *lower* of either 90-percent of the hospital cost-based rate or 5 percent less than the regional average of the hospital contract rates negotiated on behalf of Medi-Cal by the California Medical Assistance Commission (CMAC). This revision is intended to provide more incentive for hospitals to negotiate contracts with CMAC.

- ◆ Maintains proposed cut of \$34.4 million to Federal Safety-Net Care Pool funds provided to the Designated Public Hospitals and Los Angeles County in 2008-09. The state would realize an equivalent GF savings by shifting these federal funds to replace state funding for California Children's Services, the Genetically Handicapped Persons Program, the Medically Indigent Adult—Long-Term Care Program, and the Breast and Cervical Cancer Treatment Programs. The affected public hospitals would have less money to treat Medi-Cal and uninsured patients and this may affect access to services according to the administration. In 2009-10, the fully annualized amount of the shift would grow to \$54.2 million.
- ◆ Maintains proposed 10-percent reduction to DSH (disproportionate share hospital) payments to non-designated public hospitals (generally district hospitals) and DSH "replacement" payments to private hospitals for a GF savings of \$24 million in 2008-09. The administration notes that these hospitals may approach the California Medical Assistance Commission to request a Medi-Cal rate increase to backfill this reduction. To the extent any such requests are granted, they would offset these savings.
- ◆ Adds a General Fund cost of \$169.8 million for Medi-Cal managed care rate increases needed to provide actuarially sound rates.
- ◆ Maintains the proposed elimination of 10 Medi-Cal optional benefits for total GF savings of \$134 million in 2008-09 (January estimate). The following services would be eliminated for adults not in long-term care to the extent they are not required by federal law: chiropractors, incontinence creams and washes, acupuncture, adult dental, audiology, optometrists, opticians/optical labs, podiatry, psychology, speech therapy. The bulk of the savings (\$115 million in 2008-09) results from the elimination of adult dental benefits.
- ◆ Maintains the elimination of payment of Medicare Part B premiums on behalf of Medi-Cal enrollees with an unmet share of cost for GF savings of \$66.5 million in 2008-09. The administration assumes that these low-income seniors and disabled persons will pay the Part B premiums (almost \$100 per month) themselves. If not, then these persons will have to pay out of pocket for outpatient services up to their share of cost.
- ◆ Maintains the proposed elimination of continuous eligibility for children and reinstatement of quarterly status reports for children and parents to maintain their Medi-Cal eligibility for GF savings totaling \$92.2 million in 2008-09. The assumed savings result from disenrolling children and parents who are found no longer eligible or who do not return their completed reports. However, based on past experience, the anticipated caseload savings will be offset by higher Medi-Cal fee-for-service costs as parents and children who are disenrolled from managed care obtain more costly services in emergency rooms and other settings when they become sick or injured.

- ◆ Adds a proposal to roll back the income eligibility for "1931(b)" Medi-Cal—the eligibility category for low-income families. The income ceiling for applicants would be reduced from the current level of 100 percent of the federal poverty level to 61 percent of the federal poverty level and the "100-hour rule" would be reinstated. The applicant limit would significantly reduce eligibility for working parents (but not for persons on CalWORKS). The reinstatement of the 100-hour rule would also affect families after initial enrollment, when income limits are somewhat higher due to income disregards so that even if they are below the income limit, they would be disenrolled if the primary breadwinner works more than 100 hours. The administration estimates a GF savings of \$31.2 million in 2008-09 from this roll-back growing to \$342.5 million by 2011-12.
- ◆ Adds proposal to restrict Medi-Cal for legal immigrants who have been in the country less than five years to only those services also available to undocumented immigrants--emergency, long-term care, family planning, pregnancy, and breast and cervical cancer treatment. Currently Medi-Cal provides full-scope coverage for these immigrants (if they meet all other eligibility requirements. The administration estimates a GF savings of \$86.7 million for this proposal in 2008-09.
- ◆ Adds a requirement for a monthly eligibility renewal for undocumented immigrants for a GF savings of \$42 million.
- ◆ Maintains the elimination of the 2008-09 COLA for county Medi-Cal administrative costs for a GF savings of \$22.4 million.
- ◆ Maintains the eliminates the caseload growth adjustment to county administrative costs in 2008-09 for a GF savings of \$33.4 million. The budget reduction proposals are expected to eliminate caseload growth.
- ◆ Maintains the reduces base funding for county administration by 2.5% for a GF savings of \$15.3 million in 2008-09.
- ◆ Maintains the shift of an additional June Medi-Cal check write to fee-for-service providers to July on a permanent basis for a one-time GF savings of \$165 million in 2007-08.
- ◆ Adds a proposal to implement the Public Assistance Reporting Information System (PARIS) pilot project. The purpose of the project is to improve the identification of the subset of Medi-Cal beneficiaries who are also veterans and who may be eligible for duplicative services. The DHCS will implement this project with existing resources beginning in 2008
- ◆ Delays for an additional year the implementation of SB 437 eligibility streamlining for a savings of \$13 million.

Department of Public Health

- ◆ Continues to reduce funding for Chronic Disease Programs by \$3.5 million in 2008-09.
- ◆ Maintains the reduction of funding for HIV/AIDS programs by \$21.6 million (\$7.3 million GF), including a reduction of \$7 million in AIDS Drug Assistance Program by eliminating some ancillary drugs from the formulary.
- ◆ Maintains reduction in funding for Family Health programs of \$5.4 million in 2008-09.
- ◆ Reduces funding for Communicable Disease programs, including laboratory and surveillance activities and immunizations by \$6.6 million in 2008-09.
- ◆ Continues to include \$8.9 million (licensing fees) for 68 positions in the Licensing and Certification Division to conduct licensing surveys of long-term care facilities to ensure compliance with state standards.
- ◆ Increases the reduction in Proposition 99 funding for selected health programs from the January amount of \$23 million by an additional \$15 million in, including a reduction of \$22.6 million for the California Healthcare for Indigents Program and Rural Health Services Program, due to limited Proposition 99 funds and the allocation of Proposition 99 funding to cover anticipated growth in certain programs.

Managed Risk Medical Insurance Board

- ◆ Continues reduction in GF funding for the Healthy Families Program by \$41.9 million by a 5 percent cut in plan rates, dental limitations, and premium and co-pay increases. The total reduction is \$118 million, including federal funds. The May Revision adjusts the savings estimate downward by \$4.8 million due to timing issues.

Department of Developmental Services

- ◆ Adds Budget Bill Language to re-appropriate 2007-08 General Fund savings in the Regional Center and Developmental Center budgets to 2008-09 to fund the cost of consumers who will remain at Agnews Developmental Center past the June 30, 2008 closure date. The actual amount required for re-appropriation will be based on the number of consumers residing at Agnews Developmental Center after June 30, 2008 and their individual service needs and costs; however, the May Revision includes a \$22 million re-appropriation

to reflect the best estimate at this time. The number of consumers residing at Agnews Developmental Center on May 1, 2008 was 157.

- ◆ Includes a decrease of 70.6 positions attributable to the Governor's Budget BBRs, which reflected a reduction in positions. The May Revision reconciles the position authority, primarily at the Porterville DC, to reflect a decrease of 57 positions due to a capped resident population at the Porterville DC's STP, a decrease of 13 positions at the Porterville DC Office of Protective Services, and a decrease of 0.6 positions in Regional Resource Development Projects.
- ◆ Includes a decrease of \$21,000 in federal funds for the Foster Grandparent Program, which receives funds from Senior Corps. For federal fiscal year 2008, the funding allocated by the federal government included a 1.747-percent across-the-board rescission to this grant. California's share of this reduction is \$21,000.
- ◆ Adds \$124.5 million (increase of \$8.2 million General Fund) to fund projected Regional Center expenditures for residential and other services. These services include Community Care Facilities, Health Care, Health Facilities, In-Home Respite, and Day Programs. Utilization and costs for services are estimated to increase by 3.8 percent over the Governor's budget. This is due to funding adjustments and factors such as an increase in the number of consumers dually diagnosed with mental health conditions, an increase in persons diagnosed with autism spectrum disorders, and increased need for support services.
- ◆ Adds \$4.8 million (\$22.8 million General Fund) due to funding adjustments and increased Early Start staffing resulting from projected increased eligibility assessments of approximately 823 cases since the Governor's Budget.
- ◆ Adds \$13.9 million federal funds in 2008-09 and a corresponding decrease in General Fund by accelerating the draw down of Early Start federal grant funds.
- ◆ Adds \$21.1 million (\$14.9 million General Fund) to reflect the impacts of reductions in the Department of Social Services and the Department of Health Care Services.
- ◆ Retains proposal to reduce the 24 percent rate increase received by providers of Supported Employment Services in 2006-07 by 10 percent.
- ◆ Retains proposal to reduce the contract for the statewide provision of clients' rights advocacy to consumers served by the 21 regional centers.

Department of Mental Health

- ◆ Decreases by \$13.3 million General Fund to reflect a lower projected caseload for the SVP population.
- ◆ Decreases by \$24.7 million General Fund to reflect full-year impact of the current year reduction in the state hospital population by 225 patients.
- ◆ Decrease of \$328,000 General Fund associated with Phase IX of the Coalinga State Hospital (CSH) Activation, which was requested in the fall State Hospital Population Estimate. The DMH revised the estimated population at CSH for 2008-09 to 825 patients and subsequently reduced the number of non-level-of-care staff to reflect this change.
- ◆ Adds \$6.7 million General Fund to support a 64-bed expansion at the Salinas Valley Psychiatric Program (SVPP). The expansion includes both the level-of-care and non-level-of-care positions necessary to meet the *Coleman* court's expectation that the facility be fully staffed within four months of the first admission, which will take place on November 30, 2008.
- ◆ Adds \$31.1 million (\$3.5 million General Fund decrease and \$34.6 million reimbursements increase) for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, including a decrease of \$57.2 million (\$27.8 million General Fund and \$29.4 in reimbursements) due to lower-than-projected EPSDT claims; an increase of \$13.4 million in reimbursements due to the change from cash-based accounting to accrual-based accounting; an increase of \$17.2 million (\$8.6 million General Fund and \$8.6 million in reimbursements) due to delays in implementing proposed budget balancing reductions (BBR) and adjustments to the BBRs based on the new EPSDT claims information; an increase of \$57.7 million (\$15.7 million General Fund and \$42 million in reimbursements) due to the 2005-06 cost settlement.

Retains proposals to reduce the department's community services budget, including the following program cuts:

- ◆ 10 percent reduction to the Mental Health Managed Care Program.
- ◆ Elimination of the Community Treatment Facility (CTF) Supplemental Rate.
- ◆ 10 percent decrease for the Caregiver Resource Centers.
- ◆ 10.9 percent cut to the Early Mental Health Initiative, which will result in fewer grants awarded to approximately 387 school sites currently receiving these grants.

Office of Statewide Health Planning and Development

- ◆ Retains proposal to reduce combined funding for the Song-Brown Healthcare Workforce Training Program and the Health Professions Education Foundation by \$509,000 General Fund in the budget year.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Secretary for Resources

- ◆ Retains proposal to reduce \$625,000 (General Fund) from the Agency's CALFED and SB 97 Implementation budget.
- ◆ Retains proposal to augment \$28.3 million in Proposition 84 funds for local assistance grants and \$210,000 for programmatic support for the California River Parkways Program.
- ◆ Retains proposal to augment \$15.9 million in Proposition 84 funds to continue San Joaquin River restoration programs, in cooperation with the Departments of Fish and Game and Water Resources.
- ◆ Retains proposal to augment \$30 million (Propositions 84 and 50, reimbursements, and reversions) to support the CALFED Science Program.
- ◆ Adds proposal to augment \$9.6 million (Coastal Impact Assistance Fund) to fund various coastal benefiting programs at the Resources Agency, Fish and Game, SBDC, Boating and Waterways, Coastal Commission, Coastal Conservancy, State Lands Commission, and the Parks.

California Conservation Corps

- ◆ Retains proposal to reduce \$1.2 million (General Fund) from the Corps in 2007-08 and \$3.7 million in 2008-09 by: shortening corps members' workweeks; increasing housing fees charged to corps members; cutting \$337,000 in support; eliminating satellite sites in Sacramento, Los Angeles and Arcata; and reducing general headquarters expenses.
- ◆ Retains proposal to augment \$33.3 million (Proposition 84) for the California Conservation Corps and local conservation corps for public safety and watershed restoration projects, as well as grants to local corps for acquisition and development facilities to support local corps programs.

Department of Conservation

- ◆ Retains proposal to increase \$5.2 million (Proposition 84) for the Farmland Conservancy program to preserve agricultural lands.
- ◆ Retains proposal to include \$2.1 million (Proposition 84) for the Watershed Coordinator program.

Department of Forestry and Fire Protection

- ◆ Adds new proposal in the Office of Emergency Services that will enact a two tiered surcharge, paid by those who hold insurance on all residential and commercial property statewide, that will be set based on differing risk: 1.40 percent on those structures in areas designated as high-hazard zones in terms of earthquake, fire, or flood, as determined by OES and CAL FIRE risk maps, and 0.75 percent on those structures in low-hazard zones. These zones will be designated by zip code. Funds generated from this proposal will be used to offset an otherwise \$49.1 million reduction in General Fund support for fire protection programs and fund \$28.9 million for 4 member crews on all state fire engines during peak and transition fire seasons.
- ◆ Withdraws proposal to fund fire fighting helicopter replacement programs and GPS tracking technology for fire response equipment in the budget year.
- ◆ Retains proposal to reduce \$2.9 million (General Fund) in 2008-09 from resource management programs and will reduce the Department's capacity to review timber harvest plans, enforce environmental protection standards, and conduct nursery operations and vegetation management programs. Some of the functions affected by these reductions will be funded through new bond fund appropriations.
- ◆ Retains proposal to reduce \$4.8 million (General Fund) and 46 positions from department administration in 2008-09.
- ◆ Withdraws proposal to augment \$4.4 million (Proposition 84) and 12.1 positions for the Department to evaluate climate change's impacts on forests and the begin implementation of strategies such as tree planting, stand management, biofuel energy generation, and fuels reductions projects.

Department of Fish and Game

- ◆ Adds proposal to loan a total of \$19.5 million from various special funds to the General Fund. These loans are as follows: \$13.0 million from the Oil Spill Prevention and Administration Fund; \$4.0 million from the hatchery and Inland Fisheries Fund; and \$2.5 million from the California Waterfowl Habitat Preservation Account.
- ◆ Adds proposal to transfer \$4.7 million from the Coastal Wetlands Account to the General Fund.
- ◆ Adds proposal to augment \$754,000 (Oil Spill Response Fund) to fund local grants for oil response equipment.

- ◆ Withdraws proposal to eliminate 38 game warden positions and \$2.6 million (General Fund). These positions and funding will be provided by various special funds in the department
- ◆ Retains proposal to reduce \$1.4 million (General Fund) in 2007-08 and \$3.6 million in 2008-09 from the Biodiversity Conservation Program. This reduction will impact central Sierra timber harvest plan review, California Environmental Quality Act review, Endangered Species Act review, coho salmon recovery projects, and conservation plan development.
- ◆ Retains proposal to reduce \$152,000 (General Fund) in 2007-08 and \$964,000 (General Fund) in 2008-09 for department administration.
- ◆ Retains proposal to augment \$21 million (Proposition 84) for the CALFED Ecosystem Restoration Program.
- ◆ Retains proposal to augment \$10.8 million (Proposition 84) for continued Salton Sea Restoration Projects.
- ◆ Retains proposal to augment \$10.9 million (Proposition 84) for anadromous fish management and habitat restoration programs.
- ◆ Retains proposal to augment \$6 million (Proposition 84) for continued restoration of the San Joaquin River. This proposal is in coordination with the Resources Agency and the Department of Water Resources.
- ◆ Retains proposal to augment \$1 million (General Fund) to conduct an environmental impact review of the Suction Dredge Program, consistent with recent rulings by the courts.

Wildlife Conservation Board

- ◆ Adds new proposal to use Proposition 1E funding designated for flood protection corridors instead of General funds for the state's required contribution of \$20.4 million to the Habitat Conservation Fund.

Coastal Commission

- ◆ Adds proposal to augment \$300,000 (reimbursements) to provide authority to accept funds from non-state entities and provide funding for additional temporary help positions.
- ◆ Retains proposal to reduce \$1.2 million (General Fund) from the commission, affecting Commission staff review and response for energy, industrial and other projects within the coastal zone.

Department of Parks and Recreation

- ◆ Withdraws proposal to reduce \$13.3 million (General Fund) and 136 positions from the state park system, potentially closing 43 State Parks (17 percent of the system) and reducing seasonal lifeguards on state beaches. This reduction will be divided between field units - \$8.9 million and 124 positions – and managerial support - \$4.4 million and 12 positions. The Administration proposes to fund the majority of this proposal with General Fund and increase Park entrance fee revenues by \$1.5 million.
- ◆ Retains proposal to reduce \$1 million (General Fund) from the Department's state operations budget.
- ◆ Retains proposal to reduce \$30 million (General Fund) from the Department's deferred maintenance program and replaces that funding with \$30 million from Proposition 84 funds.
- ◆ Retains proposal to augment \$12.2 million (Proposition 84) to fund deferred maintenance projects. State Parks has an approximate deferred maintenance need of \$1.2 billion, this augmentation will backfill prior year reductions in general fund and will be allocated over six years.
- ◆ Retains proposal to augment \$6.7 million (Proposition 84) over five years to preserve and restore historical resources in the existing state park system.
- ◆ Retains proposal to augment \$8.7 million (Proposition 84) over five years for the development, restoration, rehabilitation, and interpretation of state park visitor resources.

Department of Water Resources

- ◆ Adds proposal to shift funding for the final year of All American Canal lining from General fund to Proposition 84 funds for a total savings of \$13.5 million (General Fund).
- ◆ Retains proposal to reduce \$7.1 million (General Fund) from various programs and will have impacts on flood protection, water management, and may increase fees for watermaster services.
- ◆ Retains proposal to appropriate \$13.5 million (General Fund) to continue lining of the All American Canal.
- ◆ Retains proposal to augment \$459.6 million (Propositions 85 and 1E) to support various flood prevention and response activities that include: making

repairs to the federal and state flood control systems; flood control planning; and provide emergency response preparedness for floods.

- ◆ Retains proposal to augment \$1.4 million (State Water Project Funds) and eight permanent full time positions to collect, review and update all available information on and begin the environmental impact report and statement for an alternative delta conveyance facility.
- ◆ Retains proposal to augment \$3 million (reimbursement authority) to implement the Salton Sea Restoration and Management Program.
- ◆ Retains proposal to augment \$61.7 million (Proposition 84) over five years and 25.4 new positions for the following activities: climate change evaluation and adaptation; urban/agricultural water conservation; surface storage studies; flood management and water supply integration; CA water plan implementation; development of the delta vision and plan.
- ◆ Retains proposal to augment \$9.6 million (reimbursements) to continue restoration activities on the San Joaquin River.
- ◆ Retains proposal to appropriate \$126.5 million (Proposition 1E) to continue statewide evaluation and repair of system levees.

Secretary for Environmental Protection

- ◆ Retains proposal to reduce \$209,000 (General Fund) from the Secretary's budget.

Air Resources Board

- ◆ Adds proposal to expend \$48.7 million (Air Quality Improvement Fund) to fund financing programs such as grants, loans and loan guarantees in order to assist heavy duty mobile source fleets with early compliance with recent air quality emissions rulings by the Air Board.
- ◆ Retains proposal to reduce \$100,000 in 2007-08 and \$243,000 in 2008-09 from the Boards air pollution research contracting budget.
- ◆ Retains proposal to augment \$8.5 million (Motor Vehicle Account) and 44.1 positions to implement and enforce efforts to control toxic diesel particulate pollution.
- ◆ Augments \$5.6 million (Air Pollution Control Fund) and 25.8 positions for additional staff and resources to continue implementation of strategies to reduce greenhouse gas emissions in California.

- ◆ Retains proposal to include \$6 million (Motor Vehicle Account) on a one time basis for the state's Zero Emission Vehicle program. These funds will be used to further development of the state's Hydrogen Highways plan.
- ◆ Retains proposal to augment \$1.6 million (Air Quality Improvement Fund) and 9.6 positions to develop and implement the Air Quality Improvement Program and Enhanced Fleet Modernization program.

Integrated Waste Management Board

- ◆ Retains proposal to augment \$1.2 million (California Beverage Container Recycling Fund) to fund implementation of the California Education and the Environment Initiative.

Department of Pesticide Regulation

- ◆ Retains proposal to augment \$2.3 million (Pesticide Regulation Fund) and 10.4 positions to implement regulations to implement recent volatile organic compound reduction regulations.

State Water Resources Control Board

- ◆ Retains proposal to reduce \$4.3 million (General Fund) from various programs in the board including TMDL assessment, non-point source program, NPDES Program, Delta water quality and general Water board's administration costs.
- ◆ Retains proposal to augment \$1.3 million (\$790,000 Waste Discharge Permit Fund, \$524,000 Water Rights Fund) and 8.5 positions to fund investigators and enforcement personnel for the State Water Resources Control Board.
- ◆ Retains proposal to augment \$1 million and 8.5 positions implement plastic debris reduction programs.

Department of Toxic Substances

- ◆ Retains proposal to reduce \$3.8 million (General Fund) from the Department's various programs in the department. This reduction will impact the department's response to illegal drug lab removal, emergency removal of off highway spills, implement the biomonitoring program and reduce travel and facility costs.
- ◆ Retains proposal to augment \$772,000 and 5.7 positions to expand the existing Pollution Prevention program in the area of green chemistry. These resources will focus on product design and industrial innovation that reduces

the use of harmful chemicals in products and generates fewer emissions and less waste, thereby moving California towards safe and sustainable industrial chemistry

Energy Commission

- ◆ Adds proposal to loan \$10.9 million from the Renewable Resources Trust Fund to the General Fund
- ◆ Retains proposal to augment \$100.9 million from the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF) to begin implementation of the Alternative and Renewable Fuel and Vehicle Technology program to develop and deploy new alternative fuel and vehicle technologies.
- ◆ Retains proposal to augment \$4.411 million (ERPA funds) and 17.5 positions to accelerate the development of energy efficiency standards for buildings and appliances.

Electricity Oversight Board

- ◆ Retains proposal to eliminate all funding, \$3.2 million, for the Board.

Department of Food and Agriculture

- ◆ Retains proposal to reduce \$9.5 million (General Fund) from the department's budget, eliminating Diaprepes Root Weevil detection and Eradications, reduce Pierce Disease and Fire Ant controls, reduce livestock health inspections, and reduce funding for county agricultural commissioners' measurement standards programs.
- ◆ Retains proposal to increase \$7.5 million (Motor Vehicle Account/General Fund) and 117.5 positions to operate all statewide border inspection stations full time to inspect all commercial and private vehicles.

PUBLIC SAFETY

Local Law Enforcement

- ◆ Retains proposal to cut \$23.8 million from the COPS/JJCPA local assistance grant which provide resources to police, sheriff and county district attorney departments based on population.
- ◆ Retains proposal to cut \$3.5 million in local assistance for booking fee reimbursements. Booking fees are assessments county sheriff departments charge to local police department for detaining an arrested person.
- ◆ Retains proposal to cut \$1.9 million from the Small/Rural Sheriffs Grant program which provide resources for discretionary law enforcement purposes.

Department of Justice

- ◆ Retains proposal to reduce the Department's General Fund appropriation by \$41.6 million, for a 10 percent unallocated cut in the 2008-09 budget year. However, reduces this amount by approximately \$300,000.
- ◆ Retains proposal to provide \$5.3 million and 31.0 positions to fund the four existing Gang Suppression Enforcement Teams, which perform investigation of gang activity across-jurisdiction, on a permanent basis.
- ◆ Adds proposal that the following Items be added to reflect loans to the General Fund; 1) Item 0820-011-0142, to reflect a \$1.0 million loan from the Department of Justice Sexual Habitual Offender Fund. 2) Item 0820-011-0378, to reflect a \$6.0 million loan from the False Claims Act Fund. The loans would be repaid in a manner that would ensure that the programs supported by the funds are not adversely affected by the loan.

Department of Corrections

- ◆ Withdraws proposal to reduce the General Fund appropriation by \$4.3 million in the current year and \$265.4 million in the budget year by releasing non-violent, non-sex registrant offenders by to parole 20 months before their calculated release date.
- ◆ Modifies proposal to create a summary parole status by an additional General Fund reduction of \$75.7 million, which is comprised of an increase of \$34.3 million to account for delays in implementation and a decrease of \$110 million to reflect corresponding programmatic and operational savings. This reduction is in addition to the General Fund reduction of \$97.9 million

contained in the Governor's Budget. Offenders with summary parole status would be subject to search and seizure by any peace officer. However, a summary parolee would only return to prison for a new commitment offense.

- ◆ Modifies proposal to reduce local assistance grants to law enforcement by an additional General Fund reduction of \$151.8 million and an increase in Reimbursement authority of \$151.8 million and transferring the same amount in General Fund that currently supports the Juvenile Probation Program to the Department of Social Services. The Juvenile Probation Program would now be supported by Temporary Assistance for Needy Families Block Grant funds. This is in addition to the \$24.6 million reduction contained in the Governor's Budget, which included a reduction of \$20.1 million for the Juvenile Probation and Camps Program and a \$4.5 million reduction in funding for mentally ill offenders.
- ◆ Retains proposal to provide \$58.5 million for various costs related to changes in adult institution and parolee populations. However, the Governor's budget reduces funding for juvenile institutions and parole by \$56.8 million to reflect to declining population.
- ◆ Adds proposal to reduce General Fund by \$67.9 million to reflect revisions in the projected decrease of inmate and adult parole populations. In addition, reduces General Fund by \$4.3 million to account for contract savings since the Division of Juvenile Justice does not anticipate placing female offenders in contract services until January 2009.
- ◆ Retains proposal to provide \$34.5 million to implement programs and assessments tools in order to comply with the goals of AB 900 (Chapter 7, Statutes of 2007).
- ◆ Maintains proposal to provide \$3.6 million to establish Re-entry facilities and programs in two counties: San Francisco and San Joaquin. Re-entry programs are aimed at increase the success rate of offenders returning to their communities by connecting them to community programs and resources prior to paroling.
- ◆ Adds proposal to increase General Fund expenditures by \$11.7 million to activate the state's first secure re-entry facility beginning July 1, 2009. Chapter 228, Statutes of 2007 authorized the conversion of the former Northern California Women's Facility (NCWF) to a secure reentry facility that will house male offenders for up to 12 months prior to parole. Construction to convert the NCWF is projected to begin in September 2008 and is estimated to be completed in June 2009.
- ◆ Adds proposal for a net General Fund reduction of \$19.7 million to remove healthcare infrastructure costs from the Consolidated Information Technology

Infrastructure Project and to reflect a lower project cost estimate based on the results of the design and engineering phase.

- ◆ Adds proposal to reduce General Fund by \$59.1 million to deactivate the Correctional Training Center Annex in Stockton, reduce the operating level of the adult and juvenile cadet academies in Galt, and revise the Governor's Budget academy proposal, which added \$19.9 million General Fund.
- ◆ Retains proposals to add \$99.5 million General Fund for enhancements to adult medical services, including an additional \$26 million General Fund for the Federal Receiver's operating budget. In addition, a Finance Letter added \$214.8 General Fund million for various Federal Receiver proposals.
- ◆ Adds proposal to increase General Fund expenditures by \$12.5 million to establish additional Supervising Registered Nurse II positions to improve nursing care to meet health care initiatives implemented by the Receiver.
- ◆ Adds proposal to reduce General Fund expenditures by \$3.9 million to correct a technical error in the Receiver's Health Care Guarding and Transportation proposal submitted to the Legislature on April 4, 2008.

Judiciary and Trial Court Funding

- ◆ Retains proposal to reduce the Branch's General Fund appropriation by \$245.9 million, for a 10 percent unallocated reduction in the 2008-09 budget year.
- ◆ Retains proposal to provide \$126.2 million (General Fund) for trial courts operations in accordance with the Trial Court Funding Act.
- ◆ Adds proposal for an increase of \$1.7 million General Fund, to be transferred to the Court Facilities Trust Fund, to fund the operations and maintenance costs of 11 trial court facilities expected to transfer to state responsibility following the enactment of Chapter 9, Statutes of 2008.

GENERAL GOVERNMENT

Secretary of State and Consumer Services

- ◆ Retains proposal for \$1.9 million (General Fund) to provide full year funding for the Office of Information Security and Privacy Protection. The office will be responsible for leading state agencies in securing and protecting the State's information assets.

State Controller

- ◆ Withdraws the January 10 proposal to implement a 10 percent unallocated reduction of \$8.9 million (General Fund) and instead proposes a reduction of nearly \$25 million (General Fund).
- ◆ Retains proposal for \$38.3 million (\$21.9 million General Fund) for the Human Resources Management System (aka 21st Century Project) to continue activities associated with the replacement of the existing employment history, payroll, leave accounting, and position control systems. The revised proposal does, however increase the staffing needs by approximately 24 positions.

Department of Insurance

- ◆ Retains proposal to shift \$2.122 million in expenditures from the Insurance Fund to the General Fund for insurance premium tax collection activities.
- ◆ Maintains \$4 million (Insurance Fund) for local assistance to aid District Attorneys in the prosecution of workers' compensation fraud.

Secretary of State

- ◆ Maintains a 10 percent unallocated reduction of \$3.5 million (General Fund) to the Secretary of State's budget for 2008/09.
- ◆ Retains proposal for \$42.3 million (Federal Funds) to continue implementation of the Help America Vote Act (HAVA). Of that amount \$38.8 million is to implement the VoteCal voter database system.
- ◆ Adds approximately \$90 million to cover county reimbursement of Presidential Primary costs.

California Science Center

- ◆ Modifies the proposal to reduce the total 2008-09 Center budget by \$1.5 million (General Fund) to instead reduce General Fund spending by \$2.1 million and adds \$779,000 based on a newly negotiated lease with the LA Coliseum.

Department of Consumer Affairs

- ◆ Retains proposal to include \$11.3 million (various special funds) to reform the Bureau for Private Postsecondary and Vocational Education, which sunset on July 1, 2007, and reestablishes it as the Bureau for Private Postsecondary Education. The Governor expects legislation to be enacted before July 1, 2008 to implement the reforms.
- ◆ Retains proposal for \$1.3 million (various special funds) for a department-wide pilot program to educate the public on the risks of conducting business with unlicensed practitioners and service providers.
- ◆ Adds \$126.5 million in loans to be repaid in 2011-12 or later. Loans are proposed from 12 separate funds including \$16 million from the Accountancy Fund, \$13 million from the State Contractors' License fund, \$25 million from the Vehicle Inspection and Repair Fund, and \$40 million from the High Polluter Repair and Removal Account.

Department of Fair Employment and Housing

- ◆ Retains the proposed reduction for the total Department budget for 2008-09 by \$1.8 million (General Fund) and eliminates 18 PY. These reductions will result in lost federal funding of at least \$100,000 due to inability to meet statutory time lines for investigation of discrimination cases.

Department of General Services

- ◆ Retains proposed reduction of budget year funding by 10 percent (\$794,000), further delaying maintenance and repair projects, as well as limiting contingency funding available for non-dedicated projects.
- ◆ Adds \$60 million in loans from the Public School Planning, Design, and Construction Review Revolving Fund to be repaid after 2011-12.

State Teachers' Retirement System (STRS)

- ◆ Proposes a new plan regarding the Supplemental Benefits Maintenance Account (SBMA). The new proposed plan eliminates the Administrations proposal to vest the payments made out of the SBMA account, and instead increase the purchase power protection from 80% to 85%, while decreasing the states required annual payment from 2.5% to 2.25% for a savings of \$66 million. Additionally, this proposal proposes payment of interest owed to the SBMA account over a four year period starting in 2009-10, providing a budget year savings of approximately \$60 million beyond the Governor's Jan. 10 proposal.

Department of Housing and Community Development

- ◆ Retains proposal for budget year reductions of \$1.2 million (General Fund) through elimination of positions and funding to the State Housing Law, Employee Housing, Community Development Block Grant, Emergency Housing Assistance, Enterprise Zone, and Housing Element Law programs. These reductions in staff and funding could result in decreased and delayed services.
- ◆ Retains proposal to reduce funding to the Community Development Block Grant program, which will result in a loss of \$104,000 in federal matching funds and will reduce the department's ability to meet compliance workload demands.
- ◆ Retains proposal for a 10 percent reduction to the Office of Migrant Services (\$687,000 General Fund), which will lead to the closure of 4-6 centers which provide safe, decent, and affordable seasonal rental housing and support services for migrant farm worker families. The centers to be closed have not yet been identified.
- ◆ Maintains proposal for implementation of Proposition 1C reflecting a decrease of \$202 million, from \$973 million in 2007-08 to \$771 million in 2008-09. This includes \$30 million in planned awards for the Housing Urban-Suburban-and-Rural Parks Program, as well as 2.0 positions and \$583,000 for implementation.

Employment Development Department

- ◆ Retains proposal to reduce the total department 2008-09 budget by \$246,000, with \$190,000 accounted for by shifting the tax-sharing ratio from the General Fund to the Unemployment Insurance, Disability Insurance, and Employment Training funds. The US Department of Labor has requested that the Department update the cost sharing agreement for this ratio, and this reduction will further put the ratio out of federal compliance.

- ◆ Retains proposal to cut \$56,000 (General Fund) from the Unemployment Insurance Board who has recently been found out of compliance with Federal Standards for timeliness of deciding unemployment appeals cases.
- ◆ Retains proposal for \$2.8 million (\$2.6 million General Fund) for continuation of the EDD's Automated Collection Enhancement System (ACES), which will improve the EDD's ability to track, collect, and audit the payment of specified employer payroll taxes.
- ◆ Maintains reflection of an increase in benefit payments of \$753 million (various special funds) and a state operations increase of \$35.9 million for the various employment assistance payments that EDD administers.

Agricultural Labor Relations Board

- ◆ Retains proposal to reduce the total Board budget by \$665,000 (General Fund) between current year and budget year reductions. Reductions are achieved through staffing reductions. These reductions will leave the Board with only one part time judge to preside over evidentiary hearings in unfair labor practice and disputed election cases.

Department of Industrial Relations

- ◆ Retains the total reduction of the total Department 2008-09 budget by \$1.2 million (General Fund, primarily through cuts to the Administrative Support division (\$553,000).
- ◆ Retains proposal for cutting \$222,000 from the Appeals Board and Occupational Safety and Health Standards Board. The Appeals Board will lose one hearing officer, which could result in over 1,000 fewer appeals heard, with a backlog of 3,000 cases already existing.
- ◆ Retains proposal for an increase in the assessment on Employers Annual Workers Compensation Insurance Premiums (7 percent increase to total average annual assessments for 2008-09) to provide a stable funding source for the Department of Industrial Relations, Division of Occupational Safety and Health.

Public Employment Relations Board

- ◆ Retains proposed cut of \$510,000 (General Fund) from the Board's 2008-09 budget by eliminating the fact finding budget, closing the Oakland office, and elimination of staff positions. Elimination of the fact finding budget will place the burden on the individual parties. Closing the Oakland office will require

parties to travel to either Sacramento or Los Angeles to receive services. The Oakland office will be closed as of January 1, 2009, for a partial year savings of \$280,000.

Department of Personnel Administration

- ◆ Increases the proposed decrease in total 2008-09 funding from \$1.9 million to \$10 million (General Fund).
- ◆ Retains proposed reduced funding to the Classification and Compensation Division by \$398,000 and 3 positions. This reduction could inhibit the ability of departments such as the Department of Corrections and Rehabilitation to hire qualified staff and meet statutory requirements.
- ◆ Eliminates the Rural Health Care Equity Program funding to annuitants rather than only cut their benefits by 10%. This program provides additional money to state employees and annuitants who do not have access to a Health Maintenance Organization.

Board of Chiropractic Examiners

- ◆ Retains proposal to restore full funding to the Board at \$3.1 million (General Fund).

Augmentation for Employee Compensation

- ◆ Withdraws the Governor's January 10 proposal to implement the Last Best and Final offer to Bargaining Unit 6 providing a savings of \$260 million in the current year and \$230 million in the budget year.

Economic and Employment Enforcement Coalition

- ◆ Retains proposal for nearly \$7 million (various special funds and reimbursement) across the Department of Industrial Relations, Secretary of Labor and Workforce Development, Contractors and State License Board, and Employment Development Department. The Coalition is a partnership of enforcement agencies that identifies the worst offenders for targeted workplace enforcement actions throughout the state.

Other Special Fund Loans

- ◆ Adds a total of \$50.6 million in loans from other funds including \$12.2 million from the Real Estate Fund, \$16.6 million from the Real Estate Appraisers Regulation Fund, and \$12.9 million from the Housing Rehabilitation Loan Fund.

Secretary for Business Transportation and Housing

- ◆ Adds Proposal to augment \$2 million (General Fund) to fund the implementation of the San Joaquin Valley Strategic Action Proposal.
- ◆ Retains proposal to reduce \$481,000 in 2008-09 for the Small Business Loan Guarantee Program. This reduction will result in fewer loan guarantees available to small businesses in California.

California Arts Council

- ◆ Retains proposal to reduce the position of Exempt Special Assistant to the Director, for savings of \$124,000 in the budget year.

Commission on the Status of Women

- ◆ Retains proposal to reduce the budget for the Commission on the Status of Women by 10 percent, for a savings of \$59,000 General Fund in the budget year.

Office of Emergency Services

- ◆ Retains proposal to reduce General Fund appropriation for the Plans and Preparedness Program, which results in a budget year reduction of \$914,000.
- ◆ Retains proposal to reduce General Fund appropriation for Mutual Aid Response by \$2.2 million in 2008-09. The reduction will result in a decrease in coordination between law enforcement and rescues agencies, as well as increased response times during a disaster situation.
- ◆ Retains proposal to reduce assistance to local government for the repair and restoration of public property in disaster stricken areas by \$9.2 million in the budget year.
- ◆ Retains proposal to reduce \$3 million in General Fund grants for various public safety and victim services, including domestic violence shelters, gang violence suppression program, drug enforcement and rural crime prevention. In the budget year, the grants will be reduced by \$8.3 million (\$8.2 million General Fund and \$100,000 Federal Fund).
- ◆ Adds proposal to eliminate \$10.2 million (Special Fund) and 8.7 positions to establish the Wildland Fire Initiative to reflect the revised Emergency Response Initiative.

- ◆ Adds proposal for an Emergency Response Initiative that will do the following:
 - Establish a two-tier fee structure on residential and commercial insurance policies based on hazard zone designations.
 - Specify that the OES administer the fee and the newly created Emergency Response Account.
 - Clarify that the fee would be paid by insurance policyholders, not the insurance companies.
 - Provide a \$30.0 million loan from the Restitution Fund to the Emergency Response Account, to enhance emergency response capabilities beginning in 2008-09.
 - This action postpones the purchase of some emergency response enhancements for the OES until fiscal year 2009-10. The Emergency Response Initiative proposes to fund the backfill of the OES' budget-balancing reductions to its Fire and Rescue section and its Warning Center/Information Technology/Telecommunications section with Emergency Response Account instead of Insurance Fund. This funding will ensure the OES' disaster response is not compromised and will fund the administrative costs for the OES to administer the insurance collection process proposed by the initiative. Please refer to the corresponding CAL FIRE Finance Letter for additional information.

- ◆ Adds proposal utilizing \$3.7 million from the Emergency Response Initiative primarily to establish a Fee Collection Unit and backfill mutual aid budget balancing reduction.

- ◆ Adds proposal to utilize \$3.5 million federal funds for critical Office of Emergency Services (OES) communications proposals previously proposed to be funded with General Fund.

- ◆ Retains proposal for \$3.2 million (\$1.6 million General Fund) and 18 positions to increase staffing at three regional offices to improve preparedness, response and recovery.

- ◆ Retains proposal to continue \$20.1 million in General Fund resources to the Cal-MMET Program to provide resources to curtail the production and distribution of methamphetamines.

Military Department

- ◆ Retains proposal to cut \$2.4 million in maintenance for state facilities and armories.

- ◆ Retains proposal to eliminate 3 positions and \$2.1 million over two fiscal years for the Veterans Honor Funeral Program. With the reduction, the

department would no longer be able to participate in the thousands of funerals, honoring deceased veterans.

- ◆ Retains proposal to cut a total of \$400,000 in budget year for emergency response planning and training efforts.
- ◆ Retains proposal to cut a total \$1.4 million in budget year for youth leadership programs throughout the state.
- ◆ Adds proposal to eliminate \$9.2 million from the Insurance Fund and 35.8 positions to reflect that the Emergency Response Initiative proposed in the May Revision will not have sufficient resources to fund emergency response enhancements for the Military Department until fiscal year 2009-10.
- ◆ Retains proposal to provide \$1.8 million to establish an education benefit program to improve retention of Guard members.
- ◆ Retains proposal to provide \$1.3 million General Fund and 13.3 positions to provide 24 hours a day, 7 days per week staffing of the Joint Operations Center to enable the Military Department to rapidly deploy personnel and equipment with little notice from the Office of Emergency Services and conduct the coordination and notification necessary to support state agencies in the event of an emergency or disaster.

Department of Veterans' Affairs

- ◆ Retains proposal to cut 135 placements and a total of \$20.4 million budget year. Thereby, reducing the numbers of eligible veterans able to receive full time medical and nursing care. In addition, the department will delay the opening of GLAVC and staffing of the pre-activation team for the Redding and Fresno homes until July 2009.
- ◆ Retains proposal to provide \$9.4 million General Fund and 100.7 positions for the construction and activation phases of the Veterans Homes in West Los Angeles and Ventura County. The Governor's Budget also includes \$580,000 General Fund and 4.3 positions for the initial construction and pre-activation phases of the Redding and Fresno Veterans Homes projects.
- ◆ Retains proposal to provide \$3.2 million General Fund and 18.3 positions to establish a Facilities Maintenance and Management Unit which will be responsible for implementing a program for maintenance and repairs at the current three veteran's homes, the state cemetery for veterans, and the five veteran's homes under construction.

- ◆ Adds proposal to reduce \$855,000 General Fund to reflect standardized operating expenses and equipment costs for eight workload BCPs included in the 2008-09 Governor's Budget.
- ◆ Adds proposal to reduce \$1.4 million General Fund and 12.8 positions to reflect the appropriate level of nursing staff in the Chula Vista Veterans Home. The original BCP included in the 2008-09 Governor's Budget proposed a level of nursing staff that was overstated.

Victims Compensation and Government Claims Board

- ◆ Adds proposal to reflect a \$50 million transfer from the Restitution Fund to the General Fund.

Commission on State Mandates

- ◆ Continues to delay \$75 million of current mandate reimbursement payments to local governments for a one-time savings in 2008-09.
- ◆ Proposes additional \$75 million savings from delaying the 2008-09 installment of past deferred mandate claims that must be repaid to local governments by 2020-21.

State Board of Equalization

- ◆ Maintains \$7.5 million to add 112 positions to improve compliance with the Sales and Use Tax. The budget estimates additional General Fund revenues of \$38 million in 2008-09 and \$51 million in 2009-10 resulting from this additional effort.
- ◆ Maintains \$13.9 million (\$9 million General Fund) and 129 positions to enhance compliance with the Sales and Use Tax and reduce the Tax Gap. The budget estimates additional General Fund revenues of \$20 million in 2008-09 and \$38 million in 2009-10 from these efforts.

Franchise Tax Board

Special Session Fiscal Emergency Proposals:

- ◆ Maintains \$9.8 million for 139 new positions that will produce an estimated \$71 million in General Fund revenue in 2008-09, increasing to \$125 million in 2009-10.
- ◆ Maintains \$6.4 million for 68 new positions to improve tax compliance. The budget estimates that this will increase General Fund revenues by \$22 million

in 2008-09 and by \$39 million in 2009-10. This effort will concentrate on persons who fraudulently claim tax refunds or credits and increased audit workload.

Tax Modernization Commission

- ◆ The Governor proposes to establish a commission by executive order make recommendations to modernize and stabilize the state's tax system.

Senior Citizens' Tax Relief Programs

- ◆ Continues to reduce assistance by 10 percent in (\$21.7 million) for Senior Citizens' property tax and renters' assistance and for the property tax deferral program.

Tax Relief—Williamson Act Open Space Subventions

- ◆ Continues to reduce subventions by 10 percent for a savings of \$3.9 million in 2008-09.

Revenue Proposals

- ◆ Continues to propose to reinstate the 12-month test for vehicles, vessels and aircraft use-tax exemption for a General Fund revenue gain of \$5 million in 2007-08 and \$21 million in 2009-10.

Cash Management

- ◆ Proposes actions to smooth out General Fund disbursements during the fiscal year in order to reduce the needed amount of cash-flow borrowing by several billion dollars.