CALIFORNIA BUDGET PROJECT

Updated July 8, 2011

Governor Signs 2011-12 Spending Plan

On June 30, the Governor signed the 2011-12 Budget Bill and the remaining bills needed to implement the budget agreement. This budget is the first passed under the authority provided by Proposition 25 of 2010, which allows the Legislature to approve the Budget Bill and implementing legislation, other than tax increases, by majority vote. The budget assumes that revenues will be $4 billion above previously forecast levels and includes a set of "trigger reductions" that will cut spending if revenues are not expected to reach anticipated levels. The Governor has signed some of the measures implementing the budget into law and is anticipated to quickly sign the Budget Bill into law. The spending plan largely adopts the spending reductions assumed in the March agreement and changes proposed as part of the vetoed June 15 budget.

The final package includes several significant changes from the vetoed June 15 spending plan. The new spending plan does not include the proposed sale of state office buildings; a complicated proposal to "unwind the triple flip" resulting in a ¼ cent sales tax rate increase; the proposed extension of a 0.15 percent Vehicle License Fee (VLF) rate dedicated to public safety programs; an assumption that the state will receive additional federal Medicaid dollars; or savings from a $1 billion "sweep" of Proposition 10 (First 5) commission funds. The budget gap was closed with $15.0 billion in spending reductions, including cuts enacted in March; the higher revenue forecast mentioned above; additional cuts to courts and other programs; and additional savings in the proposed realignment of public safety programs. More than half (53.7 percent) of the gap will be closed with spending reductions, including deep reductions to health and human services programs and higher education. The budget agreement assumes $1.73 billion in state savings from limits on local redevelopment activities and $200 million from requiring certain out-of-state retailers to collect use taxes that are legally owed by California's consumers.

The following update provides a "quick and dirty" summary of key provisions of the June 28 budget agreement based on the best information available as of June 30. The California Budget Project (CBP) will update this document as additional details become available. This summary does not reflect the spending reductions and policy changes approved by the Legislature in March. The CBP's side-by-side summary of the March budget agreement is available at http://cbp.org/pdfs/2011/110225_Budget_Plans_Compare.pdf.

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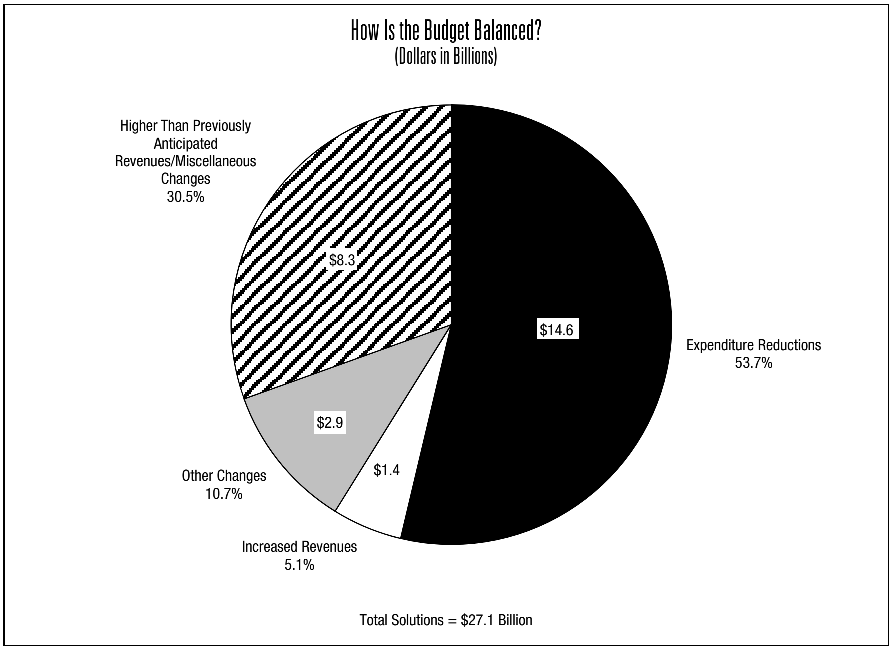

Additional Cuts Will Be Made if Estimated 2011-12 Revenues Do Not Meet Specified Targets

The June 28 budget agreement specifies up to $2.5 billion in additional cuts that would be triggered on January 1, 2012 if the Director of the Department of Finance (DOF) determines that 2011-12 revenues will not meet certain targets. Specifically, the cuts would be triggered if – based on the higher of the Legislative Analyst's Office (LAO) November 2011 forecast or the December 2011 forecast by the DOF – revenues will not total at least $87,452,500,000 by the end of 2011-12. The Director of Finance is required to determine, on or before December 15, 2011, whether the cuts will be triggered.

If the Director of Finance estimates that revenues for the year will be less than $87,452,500,000, but at least $86,452,500,000, the following reductions totaling $600 million will be made:

- $100 million from the University of California;
- $100 million from the California State University;
- $100 million from the Department of Developmental Services;
- $100 million by reducing hours in the In-Home Supportive Services (IHSS) Program;
- $72 million from the Division of Juvenile Justice (DJJ) by collecting additional "sliding scale" fees paid by counties that commit youths to DJJ facilities;
- $30 million from California Community Colleges (CCC) and increasing student fees by $10 per unit, from $36 per unit to $46 per unit, beginning in the winter term of the 2011-12 academic year;
- $23 million from child care programs administered by the California Department of Education;
- $20 million from the Department of Corrections and Rehabilitation;
- $16 million from the California State Library for library grants;
- $15 million by extending various Medi-Cal managed care reductions approved in March to the Program of All-Inclusive Care of the Elderly (PACE), the Senior Care Action Network, and the AIDS HealthCare Foundation;
- $15 million by reducing "vertical prosecution grants" administered by the California Emergency Management Agency, which provide local prosecutors with funding for specialized prosecution teams; and
- $10 million by reducing funding for IHSS anti-fraud grants.

If the Director of Finance estimates that revenues will be less than $86,452,500,000, the following reductions totaling approximately $1.9 billion will be made in addition to the reductions described above:

- $1.5 billion from K-12 education. Legislation included in the June 28 budget agreement would allow school districts to reduce the 2011-12 school year by up to seven days in order to achieve this mid-year reduction.
- $248 million by eliminating funding for home-to-school transportation.
- $72 million by reducing CCC apportionments.

Proposition 98

The June 28 budget agreement reflects a 2011-12 base funding level of $48.7 billion for K-14 programs covered by the Proposition 98 guarantee. The budget agreement adjusts the Proposition 98 funding level downward by removing child care funding from Proposition 98 calculations starting in 2011-12. The budget agreement maintains funding for state preschool programs and the After School Education and Safety Program under the Proposition 98 guarantee. The budget agreement also adjusts Proposition 98 funding downward by shifting a portion of the sales tax from the state to counties beginning in 2011-12 to pay for the realignment of public safety and related services. The downward adjustment that results from the sales tax shift – "rebenching" – would continue after 2011-12 if – prior to November 17, 2012 – California voters approve the rebenching and provide Proposition 98 funding equal to that which would have been provided without the rebenching. Absent voter approval, rebenching of the Proposition 98 guarantee due to the sales tax shift would be reversed and the state would be required to repay schools and community colleges the funds that would have been provided in 2011-12 absent the downward adjustment. This repayment would occur between 2012-13 and 2016-17, with 20 percent of the funds provided each year.

K-12 Education

The June 28 budget agreement:

- Defers approximately $2.1 billion of payments to schools from 2011-12 to 2012-13.
- Reduces revenue limit payments and establishes a 19.754 percent deficit factor for school districts and a 20.041 percent deficit factor for county offices of education in 2011-12. A deficit factor is the difference between revenue limit payments, which provide general-purpose funding for school districts and county offices of education, and the revenue limit funding level specified by state law.
- Adopts the Governor's May Revision proposal to increase funding for mental health services by $221.8 million and adjust the Proposition 98 guarantee upward to reflect the additional responsibility assigned to schools. The budget agreement transfers responsibility for "AB 3632" state-mandated mental health services for special education students – including out-of-home residential services – to school districts. In January, the Governor proposed to use realignment revenues to fund AB 3632 services, which have historically been provided by counties. In contrast, the June budget agreement removes mental health services for special education students from the proposed realignment of program responsibilities to counties. The budget agreement also increases 2010-11 funding by $80 million to partially backfill a 2010-11 shortfall due to former Governor Schwarzenegger's veto of AB 3632 funding.
- Shifts excess property tax revenue from certain county offices of education to reimburse the state for trial court costs for state General Fund savings of $50.0 million.
- Provides $6.6 million in federal funding for the California Longitudinal Pupil Achievement Data System (CALPADS). The May Revision proposed to suspend CALPADS funding in 2011-12 pending a review of data collection requirements.
- Provides $3.2 million for "Clean" Technology Partnership Academies. This program provides occupational training for at-risk high school students.

The Governor vetoed $2.1 million in federal funds that the Legislature had provided for the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2011-12. The Governor stated that "these reductions are necessary to avoid the development of a costly technology program that is not critical."

California Community Colleges

The June 28 budget agreement:

- Reduces community college apportionment funding by $400 million in 2011-12.
- Reflects actions taken in March that defer $129.0 million in community college apportionment payments from 2011-12 to 2012-13, bringing the ongoing deferral of apportionment payments to $961.0 million.

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

The June 28 budget agreement:

- Reduces 2011-12 funding by $650 million each for the UC and the CSU.
- Adopts Budget Bill language that allows the UC and the CSU to keep all of their state funding even if they do not meet enrollment targets. This change reverses the policy adopted in March that have required the UC and the CSU to return a portion of their state funding if 2011-12 student enrollment failed to meet projected levels.
- Reduces 2011-12 funding for the Hastings College of Law by $1.5 million.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The June 28 budget agreement:

- Rescinds the cut to CalWORKs "child-only" grants that was enacted in March. The March budget agreement reduced child-only grants – those provided on behalf of children in a household, not adults – by up to 15 percent for children who have received cash assistance for more than five years. This cut was projected to affect more than 325,000 children in 2011-12.
- Restores $43.2 million in funding for CalWORKs employment services and Stage 1 child care, reducing the 2011-12 cut from $412.6 million to $369.4 million.

Child Care and Development Programs

The June 28 budget agreement:

- Reduces funding for preschool and child care programs, except CalWORKs Stages 1 and 2 child care, by 11 percent instead of 15 percent effective July 1, 2011. The 15 percent cut enacted in March was projected to cause more than 35,000 children to lose access to child care and preschool in 2011-12. The 11 percent cut will cause a smaller number of children – roughly 25,500 – to lose access to child care and preschool in 2011-12.
- Restores child care for 11- and 12-year-olds during traditional work hours. The March budget agreement restricted care to children age 10 and younger during traditional work hours – Monday through Friday, 6 a.m. to 6 p.m. – effective July 1, 2011. This change would have caused 5,500 11- and 12-year-olds to lose child care in 2011-12.
- Rescinds the 10 percent family fee increase enacted in March that was scheduled to take effect July 1, 2011.

- Does not include the 10 percent cut to the "standard reimbursement rate" (SRR), which the Legislature adopted as part of the March budget agreement. The SRR, which supports the operations of Title 5 preschool and child care providers, is a statewide fixed rate per child that has been set at $34.38 per day for child care programs and $21.22 per day for part-day preschool programs since 2007-08.

Medi-Cal

The June 28 budget agreement includes an unallocated reduction of $345.0 million to the Medi-Cal Program, which is in addition to the $1.4 billion in reductions enacted in March. It does not include the Governor's proposals to increase funding for Medi-Cal by extending certain health-care related revenues. Specifically, the June 28 budget agreement:

- Allows the managed care tax to expire on June 30, 2011. The Governor's January budget proposal sought to make this tax permanent. In recent years, proceeds of the tax have been used to draw down federal matching funds to pay for Medi-Cal rate increases to health plans and fund the Healthy Families Program.
- Allows a fee on hospitals to expire on June 30, 2011. The Governor's May Revision proposed a one-year extension of the fee on hospitals through June 30, 2012. In recent years, proceeds from the fee were used to draw down federal matching funds and provide additional dollars for health coverage for children in Medi-Cal and Healthy Families. The fee originally expired on December 31, 2010, but the March budget agreement extended the fee for six months.

The Governor vetoed a provision that earmarked $85 million to fund alternative services for individuals who will lose Adult Day Health Care (ADHC) services in 2011-12. However, the Governor sustained $60 million in state funding to transition current ADHC recipients to "other appropriate services." This is in addition to the $25 million the Governor provided for such a transition in his May Revision. The Governor indicated that the Administration will work with the Legislature "to assess the needs of the population to determine to what extent additional services are needed during and after the transition. This may include seeking federal waiver services and developing alternative funding arrangements to preserve services at existing centers." The Governor's reference to "federal waiver services" appears to refer to the proposed Keeping Adults Free From Institutions (KAFI) Program that would be created by AB 96 and would provide an alternative for Californians who lose ADHC services. The Legislature has not yet sent AB 96 to the Governor. The Governor stated that the Legislature's $85 million set-aside would have required "a specified spending level … that does not consider other services available to these individuals that preserve their ability to remain in the community."

Healthy Families

The June 28 budget agreement includes an unallocated reduction of $103.3 million to Healthy Families. In addition, the budget agreement does not assume the Governor's May Revision proposal to eliminate Healthy Families and shift all children enrolled in the program to Medi-Cal beginning in January 2012.

Shift of Proposition 10 Funds

The June 28 budget agreement adopts the Governor's "conservative budget approach" from the May Revision and does not assume the shift of $1 billion in revenues generated by the tobacco tax imposed by Proposition 10 of 1998 to pay for Medi-Cal services for children up to age 5 in 2011-12. In March, the Legislature adopted the Governor's January proposal to use these revenues, which are currently allocated to the state and 58 county First 5 commissions. Several local First 5 commissions challenged the state's authority to shift these revenues, which represent about half of the reserves held by local commissions. The state will continue to defend the fund shift in court. First 5 funds 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.

Redevelopment

The June 28 budget agreement eliminates Redevelopment Agencies (RDAs) effective October 1, 2011 unless cities or counties elect to participate in an Alternative Voluntary Redevelopment Program (AVRP). AVRP participants would have to make "community remittances" – payments to help fund schools, fire protection, and transit services. In 2011-12, community remittances would total $1.7 billion, the vast majority of which ($1.696 billion) would be directed to school districts within redevelopment areas and would count toward the state's Proposition 98 funding guarantee. The remaining $4 million would be directed to fire and transit districts within redevelopment areas in 2011-12. In 2012-13 and subsequent years, community remittances would total $400 million per year, of which $340 million would be directed to schools. However, these funds would augment existing school funding and not count toward the Proposition 98 guarantee.

Budget Agreement "Realigns" a Number of Services to Counties

The June 28 budget agreement establishes a framework to shift primary responsibility for a number of public safety and related services, along with a dedicated source of funding, to counties beginning in 2011-12. Counties would assume responsibility for $5.6 billion in program costs in 2011-12, rising to a projected $6.8 billion in 2014-15. These costs would be funded primarily by transferring revenues from an existing 1.0625 percent state sales tax rate to counties, which is estimated to provide $5.1 billion in 2011-12. In addition, the budget agreement redirects $453 million in existing VLF revenues to fund local costs in 2011-12. Under the portion of the realignment plan enacted in April in AB 109, counties would assume responsibility for certain low-level felons, adult parolees, and juvenile offenders effective October 1, 2011. This transfer is expected to allow the state to comply with a federal court order, recently affirmed by the US Supreme Court, to reduce the state's prison population by more than 30,000 inmates over the next two years. Realignment revenues will also support a number of local public safety programs that have been funded with a temporary 0.15 percent VLF rate since 2009, including the Citizens Option for Public Safety (COPS) and Juvenile Justice Crime Prevention programs. The budget agreement shifts responsibility for a number of additional programs to counties in 2011-12, including child welfare services, mental health services, substance abuse treatment, and adult protective services. However, those programs "will continue with minimal changes until additional 2011 realignment legislation can be enacted later this legislative session," according to the Senate Budget and Fiscal Review Committee.

Corrections

The June 28 budget agreement reflects both assumed savings from the transfer of responsibility for low-level offenders from the state to counties in 2011-12, as well as offsetting expenditures to address ongoing "structural shortfalls" in the Department of Corrections and Rehabilitation (CDCR). Specifically, the budget agreement:

- Assumes a significant reduction in state corrections spending in 2011-12, primarily due to the public safety realignment. Legislative Budget Committee analyses report $1.0 billion in state savings.
- Increases funding by $414.9 million in 2010-11 and by $379.6 million in 2011-12 to make up for "various structural and operational shortfalls" in the CDCR's budget.

In addition, the June 28 budget agreement:

- Includes $89.2 million for the California Community Corrections Performance Incentive Act of 2009, and also clarifies funding methods for counties. This grant program provides funding to counties that demonstrate success in reducing the number of felony probationers who return to state prison.
- Authorizes CDCR and California Prison Health Care Services to enroll eligible state prison inmates in the Medi-Cal Program, which would allow the state to receive federal matching funds for certain inmate health care costs.
- Cuts funding for the Receiver's Medical Services Program by $82.6 million (5 percent) in 2010-11 and by $163.2 million (10 percent) in 2011-12. A federal court appointed the Receiver in 2006 to take over the management and operation of the state's prison health care delivery system from the CDCR.
- Eliminates the California Emergency Council, the California Council on Criminal Justice (CCCJ), and the Governor's Office of Gang and Youth Violence Policy (OGYVP) and redirects many of the responsibilities of the CCCJ and the OGYVP to the Board of State and Community Corrections.

The Governor vetoed a provision in the Budget Bill that would have prevented the CDCR from implementing reductions to rehabilitation programs for state prison inmates in addition to the $101.0 million one-time cut approved by the Legislature. Specifically, the Legislature restricted the CDCR from reducing rehabilitation program staff, including teachers and substance abuse personnel. The Governor stated that this provision "could restrict CDCR's efforts to achieve sufficient savings related to the realignment of lower level adult offenders to local jurisdictions."

Legislative, Executive, and Judicial

The June 28 budget agreement:

- Reduces trial court funding by an additional $150 million, bringing the total 2011-12 reduction in state support for trial courts to $350 million.
- Delays court construction projects for one year for savings of $310 million in 2011-12.
- Eliminates $35.6 million in General Fund support for the Department of Justice's Division of Law Enforcement, which includes the Bureau of Firearms, the Bureau of Forensic Services, and the Bureau of Narcotic Enforcement.

The Governor vetoed $22.9 million in General Fund support for trial courts in 2011-12. Those funds were intended to support the courts' additional responsibilities under the public safety realignment required by AB 109; however, the June 28 budget agreement delayed implementation of the courts' expanded role until July 1, 2013.

State Operations/State Employee Compensation

The June 28 budget agreement:

- Reduces support for state operations – funds spent directly by state departments and agencies – by $269.0 million in 2011-12 through departmental reorganizations, consolidations, eliminations, and "operational efficiencies."
- Includes the Governor's January proposals to adopt a new lower-cost health plan option for state workers for savings of $80 million in 2011-12 and to reduce state employee compensation. Legislative Budget Committee analyses report state savings from reducing employee compensation will total $308 million in 2011-12.
- Eliminates a supplemental retirement plan for certain peace officer/firefighter supervisors and managers for savings of $9.7 million in 2011-12.

Labor and Workforce Development Agency

The June 28 budget agreement adopts several of the Governor's May Revision proposals. For example, the budget package:

- Borrows $319.5 million from the Unemployment Compensation Disability Fund – commonly known as the State Disability Insurance Fund – to pay interest due on loans from the federal Unemployment Insurance (UI) trust fund.
- Extends the deadline for implementing an Alternate Base Period (ABP) that uses workers' recent earnings in calculating eligibility for UI benefits from September 2011 to April 2012.
- Appropriates $48 million in federal American Recovery and Reinvestment Act funding to implement the ABP through 2014-15.

Resources

The June 28 budget agreement:

- Maintains the March budget agreement's $11 million reduction in funding for the Department of Parks and Recreation (DPR) in 2011-12. In May, the DPR released a list of 70 state parks currently slated for closure in order to achieve budgeted savings.
- Authorizes a fee on homeowners within State Responsibility Areas – lands where CalFIRE has the primary responsibility for wildfire prevention and suppression – to fund fire suppression activities and backfill a $50 million reduction in General Fund support for CalFIRE.

The Governor vetoed a provision in the Budget Bill that would have prevented the DPR from entering into a concession agreement for ferry services to Angel Island State Park without prior Legislative approval. The Governor stated that this restriction "interferes with the existing state competitive bidding process."

Governor's Vetoes

The Governor used his line-item veto authority to reduce General Fund spending by an additional $24 million and Special and Bond Fund spending by $244 million. In addition to the changes described above, the Governor:

- Eliminated language authorizing the Franchise Tax Board to enter into a contract to develop a transfer pricing audit program, stating, "The Internal Revenue Service has undertaken a significant amount of work of this nature and separate state effort would likely be duplicative." Transfer prices are those that companies used to value intrafirm transactions, including transactions between California-based subsidiaries and those located in offshore tax havens. A transfer pricing audit program would help ensure that companies are not using improper prices to shelter income in low-tax locales.
- Deleted a provision that directed the Department of Housing and Community Development to use $123,000 for oversight of redevelopment agencies. The Governor also reduced bond funding for the Regional Housing Needs Assessment process and housing element review by $1.0 million, noting that "bond funding is not an appropriate or legal funding source" for these purposes.
- Reduced Mass Transportation and Transportation capital outlay and local assistance by a combined total of $234.6 million.
- Eliminated General Fund support for the California Postsecondary Education Commission (CPEC) for savings of $1.9 million and requested that, "The state's three public higher education segments, along with other higher education stakeholders, explore alternative ways to more effectively improve coordination and development of

higher education policy. CPEC would continue to administer a portion of the federal Improving Teacher Quality Grants Program in 2011-12."

- Deleted language prohibiting the California Public Utilities Commission (PUC) from using funds to activities related to distributed energy generation, noting that it would prevent the PUC from working on efforts related to the Governor's Clean Energy Plan.
- Cut $200,000 in support for the Commission on the Status of Women, a 43 percent reduction in funding for the Commission, stating, "This reduction reflects the need for government to focus on its core functions."

Legislation Included in the Budget Agreement

AB 102:	Health
AB 106:	Human Services
AB 112:	Federal Funds for EDD
AB 114:	Education
AB 117:	Public Safety Realignment: Technical Changes to AB 109
AB 118:	Public Safety Realignment: Sales Tax Financing and Allocations
AB 119:	General Government
AB 121:	Trigger: Expenditure Reductions
SB 73:	Trigger: Health and Human Services Provisions
SB 87:	Budget Bill
SB 89:	Public Safety Realignment: VLF Financing
SB 92:	Public Safety
ABX1 19:	Nursing Home Fee
ABX1 26:	Elimination of Redevelopment Agencies
ABX1 27:	Voluntary Alternative Redevelopment Program
ABX1 28:	Use Tax Collection