



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2012-13 BUDGET

JANUARY 5, 2012

Bob Blumenfield

CHAIR, ASSEMBLY BUDGET COMMITTEE

TABLE OF CONTENTS

Overview	2
Public Safety Realignment.....	4
K-12 Education	6
Child Care.....	8
Higher Education	11
Transportation.....	14
Human Services.....	15
Health Care Services	19
Natural Resources and Environmental Protection	23
Public Safety.....	25
General Government	26
Local Government.....	30
Summary of Revenue Solutions.....	31
Summary of Charts	33

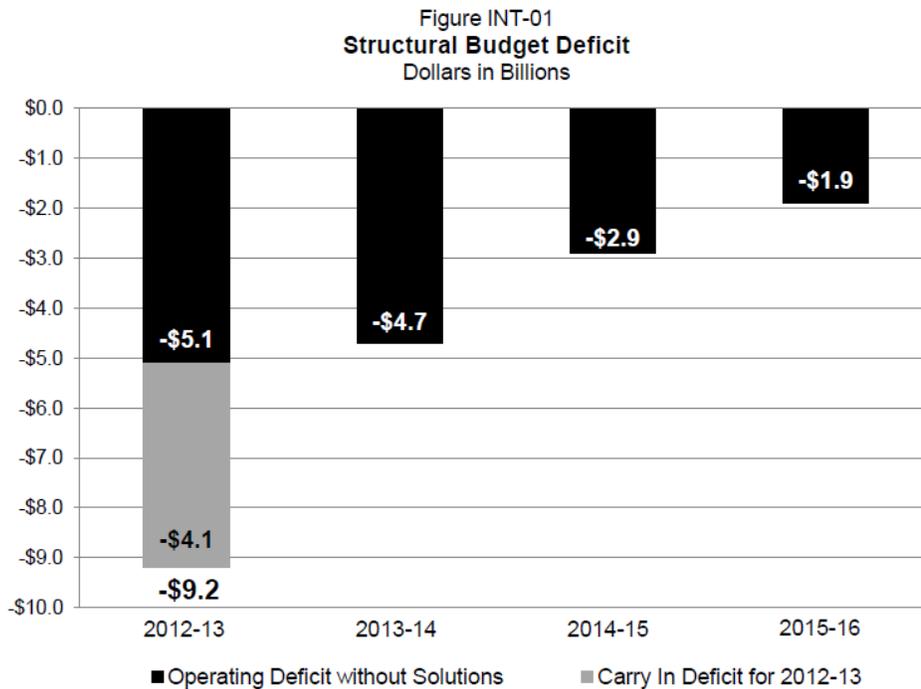
OVERVIEW

Today the Governor unexpectedly issued the 2012-13 budget ahead of the traditional January 10 release date. The budget includes \$10.3 billion in solutions to address a \$9.2 billion budget shortfall, resulting in a \$1.1 billion reserve.

Overall the solutions fall into the following categories:

Starting Problem	\$9,167
Solutions	
Expenditure Reductions	\$4,216
Revenues	\$4,651
Other	\$1,432
Total Solutions	\$10,299
Reserve	\$1,132

As the Governor's budget document points out, the 2011-12 budget process eliminated 75 percent of the \$20 billion budget structural problem that had persisted up until that time. The chart below illustrates how this structural problem looks for this and future years:



The above chart also shows that \$4.1 billion of the \$9.2 billion problem are the result of one-time costs and revenue losses that will not continue into future years.

According to the Department of Finance, if fully adopted the Governor's budget would not only fully address California's budget structural deficit, it would provide sufficient funds to repay the "wall of debt" budget borrowing by 2015-16.

As expected, the budget assumes that voters approve the Governor's tax initiative, which would provide \$4.4 billion in General Fund savings. If that initiative is not successful, \$5.4 billion of reductions would be triggered to keep the budget balanced. The reductions would include:

Figure INT-03
Ballot Trigger Reductions
Effective January 1, 2013
(Dollars in Millions)

	2012-13
Expenditure Reductions	
Proposition 98	\$4,836.9
University of California ^{1/}	200.0
California State University ^{1/}	200.0
Courts	125.0
Department of Forestry and Fire Protection	15.0
Flood Control	6.6
Fish and Game: Non-Warden Programs	2.5
Fish and Game: Wardens	1.0
Park Rangers	1.0
Park Lifeguards	1.0
Department of Justice	1.0
Total Ballot Trigger Reductions	<u><u>\$5,390.0</u></u>

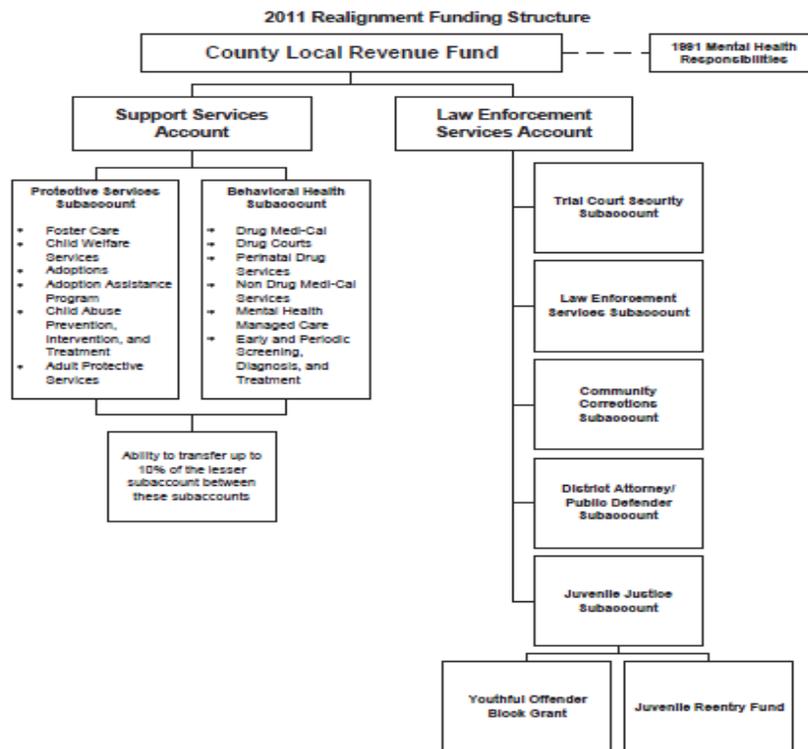
^{1/} This level of savings may be offset by Cal Grant increases if the universities raise tuition.

The Assembly will begin comprehensive hearings starting later this month in order to begin vetting and considering the various details of the budget. This report is intended to provide an immediate understanding of the Governor's proposed budget in the limited timeframe available. More information will follow as the process moves forward.

PUBLIC SAFETY REALIGNMENT

Realignment Funding Structure

- Proposes a permanent funding structure and revenue allocation mechanism for realignment. The proposed funding structure is intended to provide local entities with a stable funding source for realigned programs. Within each Subaccount, counties will have the flexibility to meet their highest priorities. Counties will also be able to use their funds to draw down the maximum amount of federal funding for these programs.



Constitutional Protection

- The Governor is sponsoring an initiative to provide Constitutional protection for the revenue dedicated to Realignment. This initiative would shield local governments from some future costs, as well as provide mandate protection for the state.

Funding Levels

- Proposes realignment funding levels through 2014-15, based on anticipated revenues.

2011 Realignment Funding

(Dollars in Millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	\$496.4	\$496.4	\$496.4	\$496.4
Local Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	957.0	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Mental Health Services				
Early and Periodic Screening Diagnosis and Treatment	-	544.0	544.0	544.0
Mental Health Managed Care	-	188.8	188.8	188.8
Existing Community Mental Health Programs	1,104.8	1,164.4	1,164.4	1,164.4
Substance Abuse Treatment	179.7	179.7	179.7	179.7
Foster Care and Child Welfare Services	1,562.1	1,562.1	1,562.1	1,562.1
Adult Protective Services	54.6	54.6	54.6	54.6
Existing Juvenile Justice Realignment	95.0	98.8	100.4	101.3
Program Cost Growth	-	180.1	443.6	988.8
Total	\$5,569.1	\$5,816.3	\$6,239.9	\$6,719.9
Vehicle License Fee Funds	462.1	496.3	491.9	491.9
1.0625% Sales Tax	5,107.0	5,320.0	5,748.0	6,228.0
Total Revenues	\$5,569.1	\$5,816.3	\$6,239.9	\$6,719.9

Growth Funding

- Proposes and distributes program growth on a roughly proportional basis, first among accounts, and then by subaccounts. Within each subaccount, federally required programs should receive priority for funding if warranted by caseload and costs. Growth funding for the Child Welfare Services (CWS) program would be a priority once base programs have been established. Over time, CWS should receive an additional \$200 million.

K-12 EDUCATION

K-14 Education (Proposition 98)

- Provides a total Proposition 98 funding level of \$52.5 billion for the 2012-13 Fiscal Year, an increase of \$4.9 billion compared to 2011-12. This funding level assumes passage of the Governor's proposed tax initiative. The tax initiative would also increase the 2011-12 minimum guarantee by \$661 million, which the Governor proposes to provide in future "settle-up" payments.
- Triggers reductions of \$4.8 billion to Proposition 98 if the Governor's proposed tax initiative does not pass. These reductions would be achieved by not paying down \$2.2 billion in inter-year deferrals. The remaining \$2.6 billion would be reduced from programs under Proposition 98. The Governor equates the reduction to more than three weeks of instruction.
- Includes a series of adjustments or "rebenching" to the Proposition 98 minimum guarantee which provide \$373.2 million in General Fund savings.
- Forgoes providing a cost-of-living increase to K-14 programs, projected to be 3.17 percent or \$1.8 billion. The budget does however establish a deficit factor for this foregone COLA.

Specific K-12 Education adjustments:

- Consolidates the majority of categorical programs with revenue limit apportionments and instead provides funding through a weighted pupil funding formula that will be phased in over a period of five years. The proposal will be coupled with a system of accountability measures both at the state and local level.
- Provides a total of \$200 million to fund a mandates block grant incentive program for K-12 schools and community colleges. Proposes legislation to eliminate almost half of all current K-14 mandates and will create incentives for schools to continue to comply with remaining previously mandated activities.
- Proposes several changes to charter school policies and funding. Some changes include: adjusting funding for non-classroom-based charter schools, providing growth funding for all charter schools through the charter school categorical block grant (until a weighted student formula replaces this funding mechanism), stabilizing funding for the Charter School Revolving Loan Fund and providing additional borrowing opportunities for charter schools.
- Eliminates \$223.7 million for Transitional Kindergarten along with the requirement that schools provide transitional kindergarten instruction beginning in the 2012-13 academic year.

- Provides an increase of \$50.3 million for charter school categorical programs due to charter school growth.
- Provides an increase of \$12.3 million for Special Education population growth.
- Provides an increase of \$110.1 million to support a new block grant program for K-12 and community college mandates.
- Proposes to shift existing School Facilities Program bond authority from the Overcrowding Relief Grant Program to the New Construction program and to regulate the allocation of new construction and modernization funds to ensure continued construction of new classrooms and modernization of existing classrooms.

Non-Proposition 98 adjustments:

- Provides a decrease of \$10.4 million (Non-98 General Fund) to reflect the elimination of supplemental reimbursement for free and reduced-price breakfast and lunch served at private schools and private child care centers.
- Provides a decrease of \$1.8 million (Non-98 General Fund) to reflect a reduction in discretionary funding for the California Schools for the Deaf in Fremont and Riverside and the School for the Blind in Fremont.
- Eliminates Non-Proposition 98 General Fund for Indian Education Centers.

CHILD CARE**Child Care**

- Proposes to reduce non-Proposition 98 General Fund to the Department of Education administered child care programs by \$446.9 million, from the current funding level of \$1.1 billion. Proposes to reduce the Proposition 98 funded part-day preschool program funding by \$69.9 million, from its current level of \$373.7 million.
- Proposes major workload adjustments for the Child Care programs as follows:
 - Decreases CalWORKs Stage 2 non-Proposition 98 General Fund by \$26.3 million to reflect primarily the decline in the number of eligible beneficiaries as nearly 9,000 children whose families were determined eligible for diversion services will re-enter Stage 3 in the budget year. Total base workload costs for Stage 2 is \$416.2 million.
 - Increases CalWORKs Stage 3 non-Proposition General Fund by \$4.5 million that reflects a relatively flat caseload. The anticipated transfer of nearly 9,000 children from Stage 2 to Stage 3 is offset by the number of children who will be disenrolled in the current year due to contract reduction included in the 2011 Budget Act. The total base workload costs for Stage 3 is \$148.1 million.
 - Reflects an increase of \$14.9 million in federal funds, reflecting the removal of one-time carryover funds available in 2011-12 (\$3.5 million), an increase of \$23.2 million in carryover funds, and a decrease of \$4.8 million in available base grant funds.
- Proposes the following major changes to attain savings of \$516.8 million, which will lead to the elimination of services to approximately 62,000 child care slots and caseload changes:
 - Decreases non-Proposition 98 General Fund support by \$293.6 million by requiring families to meet federal welfare-to-work participation requirements, eliminating services for families who do not work a required number of hours. Eliminates about 46,300 child care slots.
 - Reduces the income eligibility ceilings for families to participation in services from 70 percent of the state median income to 200 percent of the federal poverty level, which equals to 61.5 percent of the state median income for a family size of three. This reflects a reduction in income ceiling from \$42,216 to \$37,060. The savings are \$43.9 million in the non-Proposition 98 General Fund support and \$24.1 million in

Proposition 98 General Fund support. This proposal eliminates about 15,700 child care slots.

- Eliminates the statutory COLA for capped non-CalWORKs child care programs, generating a decrease in funds of \$29.9 million in non-Proposition 98 General Fund and \$11.7 million in Proposition 98 General Fund.
- Reduces the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market, based on 2005 market survey data, to the 50th percentile based on 2009 survey data. The Governor's proposal would still keep rates for license-exempt providers comparable to current levels, and expect that these providers meet certain health and safety standards as a condition of receiving reimbursement. The corresponding reduction would be \$11.8 million in non-Proposition 98 General Fund support. (A reduction of \$5.3 million General Fund is made to CalWORKs Stage 1 in the Department of Social Services budget.)
- Reduces the standard reimbursement rate for direct contracted Title 5 centers by 10 percent, a funding reduction of \$67.8 million in non-Proposition 98 General Fund and \$34.1 million in Proposition 98 General Fund.
- Proposes administrative restructuring of child care services consisting of the following:
 - Proposes that beginning in 2013-14, families meeting federal work requirements will receive a work bonus issued by the county welfare departments.
 - Proposes in current year, to continue having CDE administer services payment contracts with alternative payment programs (APPs), which administer the voucher-based programs and Title 5 centers. Contracts with APPs for funding remaining after the reimbursement rate and eligibility reductions will be consolidated. Priority for services will be given to families whose children are recipients of child protective services, or at risk of being abused, neglected, or exploited, and cash-aided families.
 - Commences in 2013-14, the eligibility and payment functions will shift from the alternative payment programs and Title 5 centers to the counties, though counties may contract with these agencies to perform the payment function. Families eligible for these services will receive a voucher for payment to a provider of their choice. This will shift responsibility for the administration of services for approximately

142,000 children from the CDE to counties. CDE will continue to administer the part-day preschool program.

- Proposes, effective 2013-14, to require counties and alternative payment programs to identify and collect overpayments. The legislation also imposes sanctions on agencies that do not reduce the incidence of overpayments, and it also imposes sanctions on providers and families who commit intentional program violations. It states that any savings would be reinvested in child care slots.

HIGHER EDUCATION

California State Library

- Proposes to reduce General Fund support by \$1.1 million, to impact the State Library's administrative workload. The Governor's budget links this reduction to correspond to an assumption that workload should have been reduced after the trigger reductions of \$15.9 million in local assistance support funding which went into effect in January 1, 2012.

University of California

- Proposes to provide a total of \$2.6 billion in General Fund support for the university system, which is an increase of \$297.2 million from the current year level.
- Eliminates set-aside funding for various programs and purposes, such as the Drew Medical Program, AIDS research, and Institutes for Science and Innovations.
- Provides an ongoing increase of \$90 million General Fund for base operating costs, to address costs relating to retirement program contributions.
- Proposes to include into the UC's support budget appropriation general obligation and lease revenue debt services for UC capital improvement projects.

UC Ballot Trigger Reduction

- Proposes to decrease UC's General Fund support by \$200 million in the event that the Governor's tax measure fails passage by voters. The Governor's budget anticipates that this reduction would be mitigated with a possible increase in tuition costs and Cal Grants provided to financially needy California students will increase and partially offset the General Fund savings of this proposal.

California State University

- Proposes to provide a total of \$2.2 billion in General Fund support for the university system, which is an increase of \$197.7 million from the current year level.
- Proposes to include into the CSU's support budget appropriation general obligation and lease revenue debt services funding for CSU capital improvement projects.

CSU Ballot Trigger Reduction

- Proposes to decrease CSU's General Fund support by \$200 million in the event that the Governor's tax measure fails passage by voters. The Governor's budget anticipates that this reduction would be mitigated with a possible increase in tuition costs and Cal Grants provided to financially needy California students will increase and partially offset the General Fund savings of this proposal.

California Community Colleges

- Proposes to provide a total of \$6.2 million in both General Fund and Proposition 98 funding for the community college system, which is an increase of \$480.8 million from the current year level.
- Proposes an increase of \$218.3 million in 2012-13 to partially restore funding that had been previously deferred, contingent upon the passage of the Governor's tax initiative.
- Proposes to consolidate nearly all categorical programs and provide flexibility to CCC to use "flexed" funds for any categorical program purpose.
- Proposes to preserve core mandatory program and functions, to eliminate unnecessary mandates, and to create a mandates block grant incentive program.
- Includes a current year Proposition 98 General Fund reduction of \$146.9 million in CCC apportionments to reflect an identical increase in offsetting property taxes resulting from the elimination of redevelopment agencies.

California Student Aid Commission

- Lowers the award amount provided to students attending private, for profit schools to \$4,000. This proposal is expected to generate \$59.1 million in savings, affecting approximately 14,900 students.
- Lowers the amount provided to students attending independent, non-profit schools to the CSU award amount. This proposal is expected to generate \$111.5 million in savings, affecting approximately 30,800 students.
- Raises the Cal Grant Program Grade Point Average requirements for all applicants (Cal Grant A from 3.0 to 3.25, Cal Grant B from 2.0 to 2.75, and CCC Transfers from 2.4 to 2.75) to generate \$131.2 million in savings, affecting approximately 26,600 students.

- Proposes to offset Cal Grant costs with Federal Temporary Assistance for Needy Families (TANF) reimbursements via an interagency agreement with the Department of Social Services, for a decrease in General Fund support of \$736.4 million.
- Proposes to restrict Cal Grant Program participation for independent, non-profit and private, for-profit colleges and universities. The Governor proposes to maintain the maximum student loan default rate at 25 percent. Current law would have allowed for the maximum student loan default rate to change to 30 percent from 25 percent in 2011-12.
- Proposes to restore the uninterrupted enrollment requirement for Transfer Entitlement awards from community colleges to four-year colleges so as to avoid creating new costs at a time of limited General Fund resources.

TRANSPORTATION

CalTrans

- Transfers \$349.5 million in weight fee revenues to the General Fund in 2012-13. These fees are assessed on commercial trucks based on weight and would be used to offset debt service costs related to General Obligation Transportation Bonds.
- Increases special fund funding for payments Amtrak intercity rail service in Southern California by \$13.9 million in 2012-13, growing to \$28 million in 2013-14.
- Reduces mass transportation program funding by \$3.7 million and 41.7 positions to reflect a zero-based assessment of ongoing staffing needs for the program.

Department of Motor Vehicles

- Proposes \$4.4 million special fund for increased efficiency and modernization efforts in DMV field offices. The goal of this effort is to improve the customer flow so that eventual field office staff can be reduced.
- Proposes a \$5 discount for motorists that renew their vehicles by mail or over the internet. This reduction is estimated to save vehicle owners \$100 statewide, but result in saving for the DMV by reducing the amount of costly field office transactions.

Transportation Agency

- Places transportation entities under a new Transportation Agency, which would include the Department of Transportation, the Department of Motor Vehicles, the High-Speed Rail Authority, the California Highway Patrol, the California Transportation Commission, and the Board of Pilot Commissioners.

High Speed Rail Authority

- Defers the proposed capital and support appropriation for the Initial Construction Section (ICS) to "early 2012" the January budget does not include these appropriations.
- Increase funding for HSRA staff and contracts by \$6.8 million for a total funding level of \$15.9 million. The budget summary indicates that this level of funding will be revised in early 2012.

HUMAN SERVICES

CalWORKs

The Governor proposes to reduce the CalWORKs program by \$1.1 billion in 2012-13, affecting the lives of 597,000 low-income families and well over 1 million children who live in poverty and deep poverty in California. The number of unemployed adults who would lose aid prematurely as a result of this proposal and the changed design of the program is unknown at this time.

- Reduces grants for cases serving only children, also called Safety Net cases, by 15.3 percent. Beginning in October 2012, the Governor proposes for the state to create a new Child Maintenance program to provide a reduced level of “basic support” for children whose parents are not eligible for aid under a restructured CalWORKs program. Grants for these cases, which include U.S. Citizen children of undocumented parents who are unable to legally work in California, will decrease the average monthly grant for child-only cases from \$463 to \$392. When combined with CalFresh benefits, the full monthly grant for a family with two children will be at approximately 64 percent of the federal poverty level. Children will be aided at this reduced level as long as they meet eligibility criteria, including a new requirement to participate in an annual well-child exam. There are estimated to be 296,000 Child Maintenance cases on average each month in 2012-13.
- Provides minimal case management and an annual reporting requirement for these Child Maintenance cases. These cases can move to the CalWORKs Plus program (see below) by obtaining unsubsidized employment sufficient to meet federal work participation requirements, circumstances not available to the undocumented parents with U.S. Citizen children cases. Every six months, work-eligible adults who still have time remaining on the 48-month aid clock may ask for one month of child care to attend job search. If a sanctioned adult still has time remaining on the 48-month aid clock and the 24-month services clock, the family can transfer to the CalWORKs Basic program after complying with a welfare-to-work plan for at least two months.
- Reduces eligibility for employment services from the recently reduced 48 months to 24 months and imposes new, highly draconian consequences for “non-compliant” families, pushing them off the caseload earlier, even at a time of persistent and sustained unemployment. The Governor proposes to create two subprograms within CalWORKs, each with differing grant structures, services arrays, and time limits, described as follows.

CalWORKs Basic Program. The CalWORKs Basic program will provide up to 24 months of welfare-to-work services and effective October 2012, clients not participating in sufficient hours of unsubsidized employment after an initial job search will be placed in the CalWORKs Basic program and will be required to

participate in welfare-to-work activities. After the first 12 months, the adult will again participate in job search. If, during the second 12 months, the adult remains unable to find unsubsidized employment, the adult will continue to participate in welfare-to-work activities, including subsidized job placements. Failure to meet welfare-to-work requirements will result in a sanction equal to the adult portion of the grant. Clients unable to meet federal work participation requirements after 24 months, or cases in sanction status for more than three months, will be disenrolled from CalWORKs.

CalWORKs Plus Program. The CalWORKs Plus program will serve those clients working sufficient hours in unsubsidized employment to meet federal work participation requirements, generally 30 hours per week (20 hours per week for families with children under the age of six). Effective April 2013, this program will reward clients who meet federal work participation requirements with a higher grant level by allowing them to retain more of their earned income through a higher income disregard, restoring it to what it was prior to the 2011-12 Budget (first \$200 earned and 50 percent of subsequent income disregarded for purposes of computing the monthly grant level). These clients will also have full access to supportive services and child care. These benefits will continue for up to 48 months as long as clients continue to meet work participation requirements through unsubsidized employment. After 48 months, the adult will no longer be aided.

- Under this changed program, aligns state and federal rules regarding hours of required participation and counts sanction months toward the 48-month time limit.

In-Home Supportive Services

- Eliminates domestic and related services for recipients in shared living arrangements and minor recipients living with an able and available parent is estimated to provide General Fund savings of \$163.8 million in 2012-13 and is estimated to impact approximately 254,000 recipients beginning July 1, 2012.
- Establishes a program for coordinated care for IHSS Dual Eligible beneficiaries, to be phased in over a three-year period. This proposal aims to better coordinate IHSS, other home and community-based services, and institutional long-term care. Under the Governor's proposal, all individuals receiving both Medi-Cal and Medicare benefits (dual eligible beneficiaries) will be required to enroll in managed care health plans for their Medi-Cal benefits. The IHSS program will operate as it does today during 2012-13; all authorized IHSS benefits will be included in managed care plans. No IHSS savings are estimated to result from this proposal in 2012-13.
- Proposes to make the 20 percent January 1, 2012 "trigger" reduction in IHSS operational by April 1, 2012 unless inhibited by a court decision.

- Repeals the Medication Dispensing Machine Pilot Project and the associated trigger for the reduction of authorized hours in 2012-13. Current law requires the state to implement a Home and Community Based Medication Dispensing Machine Pilot Project that utilizes an automated medication dispensing machine with associated telephonic reporting service for monitoring and assisting Medi-Cal recipients with taking prescribed medications. Current law also requires the DSS to implement an across-the-board reduction in authorized hours for IHSS recipients beginning October 1, 2012, to the extent the pilot project and/or alternative savings proposals enacted by the Legislature does not achieve a combined net annual General Fund savings of \$140 million. Based on the assumed 20-percent reduction described above, the Budget assumes neither savings from the pilot project nor savings from the associated across-the-board reduction, and proposes to repeal the associated statutory requirements.

Department of Developmental Services

- Requires a reduction of \$200 million in 2012-13, with the Department of Developmental Services engaging with stakeholders to discuss reduction proposals, which may include extending the 4.25 percent reduction to provider and regional center operations, reductions in the developmental center budget, and other potential savings options in the department's budget. The Governor asserts that this reduction will make up for lower-than-expected revenues assumed in the 2011 Budget Act.
- Reduces \$14.4 million General Fund (\$724,000 Proposition 98 General Fund) for Developmental Centers in 2012-13 as a result of a revised population estimate.
- Provides for increases to Regional Centers of \$5.9 million General Fund in 2011-12 and an increase of \$115.2 million General Fund in 2012-13 as a result of a revised population estimate.
- Reduces \$32 million General Fund in 2011-12 and \$2.9 million General Fund in 2012-13 as a result of changes and delayed implementation of Medi-Cal savings proposals regarding the Adult Day Health Care program, caps, and copayments, which will delay the need for regional centers to backfill these reductions.
- Increases by \$108.4 million General Fund in 2012-13 as a result of the 4.25-percent provider and regional center operations payment reduction expiring on June 30, 2012.
- Increases by \$50 million General Fund in 2012-13 to backfill for the one-time use of Proposition 10 funding for services to consumers age 0-5 years.

Alcohol and Drug Programs

- Eliminates the Department of Alcohol and Drug Programs and shifts the remaining non-Drug Medi-Cal programs and associated funding to the Department of Health Care Services (DHCS). DHCS will administer the federal Substance Abuse Prevention and Treatment block grant.

Department of Rehabilitation

- Eliminates the Rehabilitation Appeals Board, which hears appeals by applicants and consumers of Department of Rehabilitation services who wish to contest a denial of eligibility or are not satisfied with the services being provided to them. The Legislature rejected this proposal when it was forwarded in 2011.

Department of Child Support Services

- Suspends the county share of child support collections in 2012-13. The county share of collections is estimated to be \$34.5 million in 2012-13. Under this proposal, the entire non-federal portion of child support collections will benefit the General Fund on a one-time basis. This will not reduce the revenue stabilization funding of \$18.7 million (\$6.4 million General Fund) counties receive for caseworker staff in order to maintain child support collections.

HEALTH SERVICES

Medi-Cal (Department of Health Care Services)

- Launches a dual-eligible initiative to provide coordinated health and social services to dual eligible (Medi-Cal and Medicare) beneficiaries. The initiative is to be phased in over three years beginning January 1, 2013. In-Home Supportive Services (IHSS), other home and community-based services, and nursing home care funded by Medi-Cal will become managed care benefits in year one.
- Defers one payment for all Medi-Cal providers and aligns payment policies for all managed care counties to achieve General Fund savings of approximately \$678.8 million in 2012-13 and \$1 billion in 2013-14.
- Creates new operational flexibilities within the Medi-Cal program to allow administrative changes to benefits, services, rate methodologies and payment policies. This proposal will achieve approximately \$75 million in General Fund savings in 2012-13 and on-going.
- Reforms the payment methodology to federally qualified health centers (FQHCs) and rural health clinics (RHCs) to create a performance, risk-based payment model that will allow and reward clinics to provide more efficient and better care. Payments made to FQHCs and RHCs participating in managed care contracts will change from a cost and volume-based payment to a fixed payment. This will achieve General Fund savings of \$27.8 million in 2012-13 and \$58.1 million in 2013-14.
- Expands managed care into rural counties that currently are fee-for-service only for General Fund savings of \$2.7 million in 2012-13 and \$8.8 million in 2013-14.
- Limits Medi-Cal beneficiaries' opportunity to change plans from monthly to annually, for General Fund savings of \$3.6 million in 2012-13 and \$6 million in 2013-14.
- Creates income eligibility criteria for the Medical Therapy Program consistent with the criteria for the California Children's Services program, for General Fund savings of \$9.1 million in 2012-13 and \$10.9 million in 2013-14.
- Redirects, on a one-time basis, \$42.9 million of private and non-designated public hospital stabilization funding not yet paid for fiscal years 2005-06 through 2009-10 for General Fund savings.

- Eliminates the sunset on the Gross Premium Tax on Medi-Cal managed care plans for General Fund savings of \$161.8 million in 2012-13 and \$259.1 million in 2013-14.
- Restores the 10 percent provider rate reduction within the nursing home fee program ("AB 1629") at a cost of \$171.2 million General Fund and provides for supplemental payments to nursing homes of \$245.6 million General Fund. Permanently extends the rate methodology and nursing home fee established by AB 1629 (Chapter 875, Statutes of 2004).

Managed Risk Medical Insurance Board

- Reduces managed care rates in the Healthy Families Program by 25.7 percent effective October 1, 2012 to achieve General Fund savings of approximately \$64.4 million in 2012-13 and \$91.5 million in 2013-14.
- Transfers 875,000 Healthy Families Program beneficiaries to Medi-Cal over a nine-month period beginning October 2012.
- Eliminates the Managed Risk Medical Insurance Board (MRMIB) by July 1, 2013 and transfers all other MRMIB programs (Access for Infants and Mothers, Major Risk Medical Insurance Program, & Pre-Existing Conditions Insurance Plan) to the Department of Health Care Services.

Departments of Mental Health

- Implements the elimination of the Department of Mental Health (DMH) by transferring DMH programs to other departments as follows:
- Transfers to the Department of Health Care Services: Mental Health Services Act (MHSA) programs, financial oversight of MHSA funds, and MHSA discretionary and block grants, veterans' mental health programs and mental health components of the California Health Interview Survey.
- Transfers to the Department of Public Health: Office of Multicultural Services.
- Transfers to the Department of Education: Early Mental Health Initiative grants.
- Transfers to the Office of Statewide Health Planning and Development: Mental Health Workforce Education and Training Program.
- Transfers to the Mental Health Services Oversight and Accountability Commission: responsibility for MHSA training, technical assistance, and program evaluation.

- Eliminates Caregiver Resource Centers for General Fund savings of \$2.9 million in 2012-13.

Department of State Hospitals

- Creates the Department of State Hospitals to oversee the state's mental hospitals. The budget reflects on-going savings of \$193.1 million and 620 positions achieved through staffing ratio changes, program flexibilities and other efficiencies, including the following:
- Reduces documentation, implements flexible treatment models and eliminates ineffective auxiliary services.
- Enhances communication between hospital and headquarters staff and consolidates fiscal operations.
- Changes the staffing ratios to achieve General Fund savings of \$21.3 million in 2011-12 and \$68.7 million in 2012-13.
- Modifies services and treatment and eliminates less effective programs for General Fund savings of \$8.6 million in 2011-12 and \$24.4 million in 2012-13.
- Increases utilization of generic drugs and revises pharmaceutical contract rates for General Fund savings of \$2 million in 2011-12 and \$23 million in 2012-13.
- Increases bed rates charged to counties for civil commitments for General Fund savings of \$20 million in 2012-13.
- Redirects staff to higher priority assignments and reduces overtime and temporary help costs for General Fund savings of \$8.4 million in 2011-12 and \$15.4 million in 2012-13.
- Streamlines documentation for General Fund savings of \$6.9 million in 2011-12 and \$14 million in 2012-13.

Department of Public Health

- Increases client cost sharing in the AIDS Drug Assistance Program (ADAP) to a maximum of two percent, the maximum allowed under federal law. This is expected to result in \$14.5 million in General Fund savings in 2012-13.
- Creates the Office of Health Equity to house several programs related to health disparities that are currently contained in several different state departments. These programs include: the Office of Women's Health (currently at DHCS); the Office of Multicultural Health, Health in All Policies Task Force, & Health Places

Team (currently at DPH); and the Office of Multicultural Services (currently at DMH).

- Transfers the following health care programs to the Department of Health Care Services effective July 1, 2012: 1) Every Woman Counts; 2) Prostate Cancer Treatment; and 3) Family Planning Access Care and Treatment.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Eliminating and Consolidating Departments, Boards, Commissions, and Programs

- Eliminates the Department of Boating and Waterways and transfers the functions into the Department of Parks and Recreation. Also, eliminates the California Boating and Waterways Commission.
- Eliminates the State Geology and Mining Board.
- Reduces Number of Regional Water Boards by merging two of the smaller existing regional water boards. The proposal also reduces the number of members on the boards from nine to seven.
- Transfers the Department of Resources, Recycling and Recovery (CalRecycle) to the California Environmental Protection Agency.

Department of Forestry and Fire Protection

- Establishes trigger cuts to reduce by 10 percent, or approximately \$60 million, the Department's firefighting capabilities, including emergency air response program reductions and fire stations closures if the Governor's tax proposal is not approved by voters in November.

Department of Parks and Recreation

- Increases by \$4.3 million State Parks and Recreation Fund and shifts \$11 million from its base budget to a continuous appropriation to provide the Department additional flexibility to implement new projects and/or new programs that generate additional revenues and help keep parks open to the public.
- Establishes trigger cuts to reduce 20 percent of park rangers and eliminate all seasonal lifeguards if the Governor's tax proposal is not approved in November, resulting in savings of approximately \$8.7 million.

Department of Fish and Game

- Establishes trigger cuts to reduce 20 percent of game wardens if the Governor's tax proposal is not approved in November, resulting in savings of approximately \$5 million.
- Eliminates Various Entities within the Department, including the Salton Sea Restoration Council, the California Advisory Committee on Salmon and Steelhead Trout, the Commercial Salmon Review Board, the State Interagency

Oil Spill Committee, the State Interagency Oil Spill Review Subcommittee, and the Abalone Advisory Committee.

State Lands Commission

- Increases \$1 million General Fund and 9 positions for the Commission to increase financial audit activities related to management of oil, gas, and other mineral resources owned by the state, as well as to ensure compliance and prompt payment of rentals from surface leasing. These additional audits are expected to annually generate \$6.6 million in General Fund revenues.

Department of Water Resources

- Increases \$25.4 million California Water Resources Development Bond Fund and 135 positions for preliminary engineering work to support the Delta Habitat Conservation and Conveyance Program's plan to promote the recovery of endangered, threatened, and sensitive fish and wildlife and their habitats in the Sacramento-San Joaquin Delta in a manner that will also ensure water supply reliability.

Air Resources Board

- Proposes auctioning greenhouse gas (GHG) emission allowances, through the Cap and Trade program, as a market-based compliance mechanism authorized by AB 32 (The California Global Warming Solutions Act of 2006). The auctions will generate substantial funds to support existing and new efforts to address the causes of GHG emissions. Fee proceeds from the Cap and Trade auctions are expected to be \$1 billion in the first year of the program. In the coming years, the auctions will generate substantially more in fees as the program phases in other major GHG emitters.
The budget proposes a framework to invest proceeds from Cap and Trade fees to reduce greenhouse gases. Investments in the following areas will be proposed: clean and efficient energy, low carbon transportation, natural resources protection, and sustainable infrastructure development.

PUBLIC SAFETY

Corrections and Rehabilitation

- Reduces \$453.3 million in 2011-12 and \$1.1 billion in 2012-13 due to projected reductions in adult inmate and parolee populations.
- Reduces \$44.5 million to reflect the cancellation of the Estrella infill project and a new proposal to halt construction and conversion of the DeWitt youth facility to an adult facility.
- Proposes \$33.4 million in 2011-12 and \$30.1 million in 2012-13 to reflect implementation of the Mental Health staffing ratios specified in the *Coleman v. Brown* lawsuit.
- Proposes \$109.1 million (\$16.9 million General Fund and \$92.2 million other funds) to fund the establishment and operation of the Board of State and Community Corrections.

Judicial Branch

- Proposes \$50 million from the Trial Court Trust Fund from proposed civil court fee increases to offset the ongoing impact of recent General Fund budget reductions.
- Proposes a Ballot Trigger Reduction of \$125 million if the Governor's tax proposal is not approved in November. While the Judicial Branch would determine how to implement this reduction, it is the equivalent of court closures equal to three days per month.

Department of Justice

- Proposes \$11.8 million (\$4.9 million General Fund) to partially restore the Division of Law Enforcement and create the California Bureau of Special Investigations. This proposal would fund special investigations, prosecute foreign crimes, and address a backlog in entries in the Armed Prohibited Persons System.
- Proposes a Ballot Trigger Reduction of \$1 million to the Division of Law Enforcement if the Governor's tax proposal is not approved in November. By 2013-14, this reduction would grow to eliminate the \$4.9 million General Fund resources proposed in the Budget for the Division of Law Enforcement.

GENERAL GOVERNMENT

Employment Development Department

Unemployment Insurance Program

- Increases the Unemployment Insurance Interest Payment by \$417 million in 2012-13 on funds borrowed from the federal government to pay California's UI benefits.
- Authorizes a \$417-million loan from the Unemployment Compensation Disability Fund to the General Fund to pay for UI interest expense. This loan is in addition to a \$362.3 million loan from the Disability Fund made in 2011-12.
- Implements a surcharge on employers totaling \$472.6 million effective January 1, 2013 to fund future interest payments owed to the federal government and repay the funds borrowed from the Unemployment Compensation Disability Fund.
- Limits eligibility for UI benefits by raising the amount of wages a worker must earn in the 12-month base period to qualify for UI benefits. Currently, workers must earn at least \$1,300 in one quarter of the base period, or at least \$900 in one quarter and \$1,125 total during the based period, to qualify for benefits. The proposal would significantly increase the earnings requirement. Workers would have to earn at least \$3,200 in one quarter or at least \$1,920 in one quarter and \$2,400 total in the base period to be eligible for UI benefits.
- Decreases the Unemployment Fund by \$5.4 billion in 2011-12 and \$11.7 billion in 2012-13 as a result of the end of federal UI extensions. Total benefit payments will be \$13.2 billion in 2011-12, and \$6.9 billion in 2012-13.

California Department of Veterans Affairs

- Postpones the opening of two new Veterans Homes of California. The homes in Redding and Fresno were scheduled to open in January and April 2012, respectively, but are now proposed to remain unopened through 2012-13.

California Department of General Services

- Decreases state expenditures by \$59.1 million as a result of operational efficiencies, such as reducing office space leasing costs, cutting state employee travel costs, and closing three state vehicle garages.

Agency Restructuring

- Places consumer protection entities under a new Business and Consumer Services Agency, which would include the Department of Consumer Affairs, the Department of Housing and Community Development, the Department of Fair Employment and Housing, the Department of Alcoholic Beverage Control, and the newly created Department of Business Oversight.
- Places state administration entities under a new Government Operations Agency, which would include the Department of General Services, the
- California Technology Agency, the Department of Human Resources, the Office of Administrative Law, the Public Employees' Retirement System, the State Teachers' Retirement System, the State Personnel Board, and the newly created Department of Revenue.

Consolidation, Elimination of Departments, Boards, Commissions

- Proposes the elimination of 39 state entities and nine programs, and the consolidation of other programs, including consolidating the tax collection functions at the Employment Development Department and the Franchise Tax Board into a new Department of Revenue (discussed below). Other changes include eliminating the Department of Mental Health, the Department of Alcohol and Drug Programs and the Managed Risk Medical Insurance Board and transferring their functions to the Department of Health Care Services; reducing the number of Regional Water Boards from nine to eight; eliminating the Department of Financial Institutions and the Department of Corporations and creating a new Department of Business Oversight (discussed below); transferring entities such as the Infrastructure Bank and Small Business Centers into the Governor's Office of Business and Economic Development; eliminating the Unemployment Insurance Appeals Board and transferring its functions into the Employment Development Department; and eliminating the Commission on the Status of Women

Combine Revenue Functions

- Proposes to combine the tax functions of the Employment Development Department and the Franchise Tax Board to improve revenue collection and enforce tax laws.
- Consolidates the Employment Development Department's tax collection functions (mainly personal income tax withholding and payroll tax administration) with the Franchise Tax Board in a new Department of Revenue.

Consolidate Oversight of Financial Businesses

- Eliminates the Department of Financial Institutions and the Department of Corporations and consolidates their functions into a new Department of Business Oversight.
 - Department of Corporations regulates a variety of entities involved in the financial industry that are not affiliated with banks, and financial planners. Department of Financial Institutions regulates state-chartered banks, credit unions, and money transmitters.
 - Since these departments perform similar fundamental missions (i.e. the licensing and regulation of business entities), the administration proposes consolidating these in a single department under the Business and Consumer Services Agency.

Board of Equalization

- Proposes an increase of \$6.4 million and 57 positions in 2012-13 to collect and administer the State Responsibility Area Fire Prevention Fund fee in accordance with Chapter 8, Statutes of 2011. The fee is expected to generate General Fund savings of \$88 million in 2012-13.
- Authorizes an increase of \$2.1 million General Fund and 28 positions in 2012-13 to implement collection of use tax from out-of-state retailers in accordance with Chapter 313, Statutes of 2011. This is expected to generate \$50 million in General Fund revenue in 2012-13.

State Mandates

- Proposes to suspend various mandates except for most mandates related to law enforcement or property taxes. The Budget proposes to repeal dozens of the approximately 50 mandates that have been suspended for the past two years or more. This proposal will result in a decrease of \$728.8 million General Fund in 2012-13.
- Incorporates a redetermination of the sexually violent predators reimbursable state mandate. The voters approved Jessica's Law (Proposition 83), which restated several of the provisions of the reimbursable mandate and since mandates imposed by voter-approved initiatives are not reimbursable state mandates, the administration will submit a request to adopt a new test claim decision for the mandate to reflect this change.

- Includes a delay of program participation requirements for specified probationers for enhanced sentencing of sex offenders. The Budget proposes to implement a two-year delay, from July 2012 to July 2014, of the requirement that probationers who are registered sex offenders participate in a sex offender management program. The enhanced sentencing terms and parole lengths that were part of the bill, which basically required longer sentences for sex offenders, would remain in place.
- Proposes a decrease of \$99.5 million in 2012-13 as a result of deferring the 2012-13 payment for mandate costs incurred prior to 2004-05.

LOCAL GOVERNMENT

Savings from Redevelopment Elimination

- Incorporates substantial savings from the elimination of redevelopment agencies, recently validated by the California Supreme Court. This results in General Fund savings of approximately \$1 billion in both 2011-12 and 2012-13 and increasing amounts thereafter.
 - The savings result from the receipt of additional property taxes by local governments that would have otherwise flowed to redevelopment agencies.
 - A portion of these property tax revenues—approximately 60 percent of the \$1.7 billion total—goes to local education and offsets the state's Prop 98 obligation.

SUMMARY OF REVENUE SOLUTIONS

Temporary Personal Income and Sales Taxes

- Assumes the passage of the Governor's proposed initiative at the November election which would temporarily increase the personal income tax on the state's higher income taxpayers and temporarily increases the sales tax by one-half percent.
 - Increases in the personal income tax rate for joint filers would be 1 percent on taxable income in excess of \$500,000 and less than \$600,000, 1.5 percent for taxable income in excess of \$600,000 and less than \$1 million, and 2 percent on taxable income in excess of \$1 million.
 - Personal income tax increase would be effective for tax years beginning January 1, 2012. The sales tax increase would begin January 1, 2013.
 - The measure would guarantee these new revenues to schools and constitutionally protect the 2011 Realignment funds for local public safety.
 - Taxes would generate an estimated \$6.9 billion through 2012-13. After accounting for the increased Proposition 98 minimum guarantee, it will provide \$4.4 billion in net benefit to the General Fund budget.

Financial Institution Records Match

- Proposes to expand Financial Institutions Record Match to the Employment Development Department (EDD) and the Board of Equalization (BOE) beginning in January 2013.
 - EDD match program would primarily collect unpaid wage withholding debts, while the BOE match program would primarily collect unpaid sales and use tax debts. This program is expected to generate \$4 million General Fund revenue in 2011-12 and \$11 million General Fund revenue in 2012-13. In addition, this program is expected to generate local revenue and special fund revenue.

Other Revenue Solutions

- Proposes to improve the State Controller's Office management of the unclaimed property program. This improvement is expected to generate \$21 million in 2011-12 and \$57 million in 2012-13.

- Reflects the transfer of an additional \$349.5 million in weight fee revenues to the General Fund to be used to offset future debt service costs on transportation bonds.
- Proposes to continue the 2011-12 practice of paying the interest on the loan from the federal government for unemployment insurance payments from the Unemployment Compensation Disability Fund, for revenues of \$417 million for 2012-13.
- Includes a suspension the county share of child support collections in 2012-13 for a revenue gain of \$34.5 million.

SUMMARY OF CHARTS

2012-13 General Fund Summary
(in millions)

	2011-12	2012-13
Prior Year Balance	-\$3,079	-\$985
Revenues and Transfers	\$88,606	\$95,389
Total Resources Available	\$85,527	\$94,404
Non-Proposition 98 Expenditures	\$53,883	\$55,035
Proposition 98 Expenditures	\$32,629	\$37,518
Total Expenditures	\$86,512	\$92,553
Fund Balance	-\$985	\$1,851
Reserve for Liquidation of Encumbrances	\$719	\$719
Regular Reserve (SFEU)	-\$1,704	\$1,132
Budget Stabilization Account	-	-
Final Reserve	-\$1,704	\$1,132

2012-13 General Fund Revenue Sources
(in millions)

Source	Amount
Personal Income Tax	\$59,552
Sales Tax	20,769
Corporation Tax	9,342
Motor Vehicle Tax	\$30
Insurance Tax	2,179
Estate Tax	45
Tobacco Taxes	90
Liquor Tax	329
Other	3,053
Total	\$95,389

General Fund Expenditures
(in millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$2,600	\$2,842	\$220	\$5,662
State and Consumer Services	\$689	\$723	\$15	\$1,427
Business, Transportation and Housing	\$558	\$8,003	\$2,716	\$11,277
Natural Resources	\$1,896	\$2,458	\$289	\$4,643
Environmental Protection	\$47	\$1,047	\$213	\$1,307
Health and Human Services	\$26,414	\$16,320	\$159	\$42,893
Corrections and Rehabilitation	\$8,744	\$1,974	\$1	\$10,719
K-12 Education	\$38,179	\$87	\$949	\$39,215
Higher Education	\$9,377	\$41	\$385	\$9,803
Labor and Workforce Development	\$448	\$386	-	\$834
General Government				
Non-Agency Departments	\$514	\$1,612	\$3	\$2,129
Tax Relief/Local Government	\$2,534	\$1,715	-	\$4,429
Statewide Expenditures	\$553	\$2,617	-	\$3,170
Total	\$92,553	\$39,825	\$4,950	\$137,328