



**2011-12 Governor's May Revision  
Week of May 16, 2011**

May 16, 2011

TO: CSAC Board of Directors  
County Administrative Officers  
CSAC Corporate Associates

FROM: Paul McIntosh, CSAC Executive Director  
Jim Wiltshire, CSAC Deputy Executive Director  
Jean Kinney Hurst, Legislative Representative

RE: **Summary of the Governor's May Revision**

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This morning, Governor Jerry Brown released his May Revision to the 2011-12 State Budget, announcing significant changes to his original budget proposal, reflecting, in part, a slight uptick in state revenues and a new commitment to addressing the state's "Wall of Debt." Recognizing about \$6.6 billion in additional state revenues over 2010-11 and 2011-12, the Governor's proposal modifies his January tax package, directs a portion of the unanticipated revenues to addressing "an unprecedented level of debts, deferrals and budgetary obligations," and outlines a litany of board and commissions slated for elimination and reductions in state operations.

The Governor also notes that there would be broad impacts to education, public safety health and human services, and other areas of state government should the Governor's budget plan not achieve success. The Governor is clear that he believes that a budget that includes "gimmicks" or "all cuts" is damaging to California.

This *Budget Action Bulletin* outlines the provisions of the Governor's May Revision proposal that directly affect counties. Please note that components included in the May Revision that have already been approved by the Legislature are not included in this summary. We have endeavored to outline both new budget proposals and modifications to previous budget proposals. As always, please do not hesitate to contact the CSAC staff with your questions.

A quick roundup of reaction to the Governor's May Revision: State Treasurer Bill Lockyer says that the State will be unable to secure short-term cash flow borrowing known as Revenue Anticipation Notes (RANs) without a Plan B budget that includes additional program reductions

that will occur if the voters fail to ratify taxes. Senate President pro Tempore Darrell Steinberg said that if voters are to ratify the tax extensions, the appropriate time for an election is 2012 to give schools certainty for the budget year. Republican leaders Senator Dutton and Assembly Member Conway not surprisingly denounce the Governor's tax plan, although other Republicans are pushing for reforms like a spending cap (bluntly endorsed by the Governor in his press conference today) and pension reforms.

## Budget Aggregates

### Updated 2011-12 Budget Problem — May Revision

(in billions)

<b>Original Problem Statement</b>	<b>\$26.6</b>
Solutions Already Enacted	-11.1
Higher Revenues	-6.6
Higher Spending	2.0
Proposition 10 Litigation	1.0
<b>Deficit Under Current Law</b>	<b>12.0</b>
Solutions Adopted by Legislature in Pending Legislation	-2.4
<b>Remaining May Revision Problem<sup>1/</sup></b>	<b>9.6</b>
Build Reserve	1.2
<b>May Revision Solutions Needed</b>	<b>10.8</b>

<sup>1/</sup> \$4.8 carry-in from current year, \$4.8 operating deficit.

### Closing the Budget Gap Under the May Revision

(in millions)

	<b>Adopted<sup>1/</sup></b>	<b>May Revision</b>	<b>Total</b>	<b>%</b>
Expenditure Reductions	\$8,958	\$2,259	\$11,217	48.3
Revenues	531	9,321	9,852	42.4
Other	2,901	-745	2,156	9.3
<b>Total</b>	<b>\$12,390</b>	<b>\$10,835</b>	<b>\$23,225</b>	

<sup>1/</sup> Excludes the \$1 billion attributable to Proposition 10, due to litigation.

### 2011-12 May Revision General Fund Budget Summary

(in millions)

	<b>Enacted Solutions</b>		<b>Enacted &amp; Proposed</b>	
	<b>2010-11</b>	<b>2011-12</b>	<b>2010-11</b>	<b>2011-12</b>
<b>Prior Year Balance</b>	-\$6,950	-\$4,166	-\$6,950	-\$2,776
Revenues and Transfers	\$94,477	\$89,867	\$95,740	\$93,623

<b>Total Resources Available</b>	<b>\$87,527</b>	<b>\$85,701</b>	<b>\$88,790</b>	<b>\$90,847</b>
Non-Proposition 98 Expenditures	\$56,002	\$60,471	\$55,875	\$50,481
Proposition 98 Expenditures	\$35,691	\$36,417	\$35,691	\$38,322
<b>Total Expenditures</b>	<b>\$91,693</b>	<b>\$96,888</b>	<b>\$91,566</b>	<b>\$88,803</b>
<b>Fund Balance</b>	<b>-\$4,166</b>	<b>-\$11,187</b>	<b>-\$2,776</b>	<b>\$2,044</b>
Reserve for Liquidation of Encumbrances	\$770	\$770	\$770	\$770
Special Fund for Economic Uncertainties	-\$4,936	-\$11,957	-\$3,546	\$1,274
<b>Budget Stabilization Account</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Available Reserve</b>	<b>-\$4,936</b>	<b>-\$11,957</b>	<b>-\$3,546</b>	<b>\$1,274</b>

**General Fund Revenue Sources**  
(in millions)

	2010-11	2011-12	Change from 2010-11	
			\$	%
Personal Income Tax	\$51,945	\$54,329	\$2,384	4.6%
Sales and Use Tax	26,740	23,915	-2,825	-10.6%
Corporation Tax	9,408	10,160	752	8.0%
Motor Vehicle Fees	1,393	443	-950	-68.2
Insurance Tax	2,016	1,893	-123	-6.1%
Liquor Tax	318	325	7	2.2%
Tobacco Taxes	93	91	-2	-2.2%
Other	3,827	2,467	-1,360	-35.5%
<b>Total</b>	<b>\$95,740</b>	<b>\$93,623</b>	<b>-\$2,117</b>	<b>-2.2%</b>

**2011-12 General Fund Expenditures by Agency**  
(in millions)

	2010-11	2011-12	Change	%
Legislative, Judicial, Executive	\$3,145	\$2,546	-\$599	-19.0%
State and Consumer Services	583	626	43	7.4%
Business, Transportation & Housing	417	603	186	44.6%
Natural Resources	2,004	2,009	5	0.2%
Environmental Protection	75	62	-13	-17.3%
Health and Human Services	26,557	21,937	-4,620	-17.4%
Corrections and Rehabilitation	9,623	9,768	145	1.5%
K-12 Education	35,849	38,252	2,403	6.7%

	2010-11	2011-12	Change	%
Higher Education	11,608	10,737	-871	-7.5%
Labor and Workforce Development	42	371	329	783.3%
General Government:				
Non-Agency Departments	542	491	-51	-9.4%
Tax Relief/Local Government	977	1,003	26	2.7%
Statewide Expenditures	144	398	254	176.4%
<b>Total</b>	<b>\$91,566</b>	<b>\$88,803</b>	<b>-\$2,763</b>	<b>-3.0%</b>

### Revised Tax Package

The Governor's tax package has been modified somewhat to reflect revenue and political realities. Primarily, the Governor's May Revision proposes to maintain the current level of Sales and Use Tax and Vehicle License Fee (VLF) for five years and the dependent exemption credit for five years. Regarding the personal income tax surcharge, the Governor proposes to reinstate the surcharge for four years beginning in January 2012. The Governor proposes that these revenue extensions be subject to voter approval.

Additionally, the Governor has modified some proposals, including:

- The adoption of the mandatory single sales factor apportionment.
- Reform (as opposed to repeal) the Enterprise Zone tax provisions to ensure hiring credits are only provided to firms that actually increase their level of employment.
- Expand the current jobs credit approved in 2009 to increase the credit to \$4,000 and to apply to employers with fewer than 50 employees.
- A new sales and use tax exclusion (state rate only) for purchases of manufacturing equipment for start-up and existing firms.

### Net Benefit of Tax Solutions (Benefit to General Fund – Dollars in Millions)

	2010-11	2011-12
<b>Direct General Fund Impact</b>		
Personal income tax surcharge: Maintain the 0.25-percent PIT surcharge for four years, from 2012 through 2015.	\$0	\$1,343
Personal income tax dependent exemption credit: Maintain the current dependent exemption credit, which is aligned to equal the personal exemption credit amount for five years.	799	1,371
Mandatory Single Sales Factor: Modify current law to make this multi-state/national corporate income apportionment method mandatory instead of elective. Under current law, the opportunity to elect begins	470	950



with the 2011 tax year.		
Reform Enterprise Zones: Make the hiring credit a credit for net increase in the number of jobs, eliminate retro-vouchering, limit carryovers to five years.	23	70
Vehicle License Fee: Maintain 1.15 VLF rate with 0.14 percent dedicated to General Fund.	0	270
Expand Jobs Credit: Provide \$4,000 credit, available to firms with fewer than 50 employees, sunsets after 2012	-29	-65
Partial SUT exemption for manufacturing equipment. Begin exemption in 2012-13	0	0
Revenue Driven Increase in Proposition 98 Expenditures	0	-1,652
<b>Realignment Revenues – Local Revenue Fund 2011</b>		
Maintain 6-percent state sales tax, with 1 percent dedicated to realignment	0	4,520
Maintain 1.15 percent VLF rate, with 0.4 percent dedicated to realignment	0	1,079
<b>Other Special Fund Revenues That Offset General Fund Costs</b>		
Extend the Hospital Fee for Medi-Cal to June 30, 2012	0	320
Continue Managed Care Organization Taxes for Medi-Cal and Healthy Families	0	103
<b>Total Net Benefit Of Revenue Solutions</b>	<b>\$1,263</b>	<b>\$8,309</b>

## Realignment

The Governor’s realignment plan is modified slightly from its prior structure, with a number of programs previously slated for realignment now removed from the package. We summarize these changes below. Look to the policy areas of this Bulletin for additional details on the provisions of realignment.

Programmatic and fiscal changes to the realignment proposal, in addition to normal May Revision caseload changes, include:

- Removing funds administered by the Commission on Peace Officer Standards and Training (POST) and those administered by the Corrections Standards Authority (\$40.5 million).
- Removing funding for public safety mandates (\$50.9 million).
- Revising the cost associated with court security to reflect more current estimates and increased workload associated with parole revocation activities.
- Revising aggregate Local Public Safety grants funding level to reflect elimination of various funding elements that currently go to entities other than local public safety agencies.

- Increasing funding associated with local jurisdiction for low-level offenders and parole violators to cover district attorney and public defender costs associated with parole revocation hearings and to support programming for offenders serving time in jail.
- Removing funding of AB 3632, Mental Health Services for Special Education Pupils, from the realignment construct. Instead, this program, including costs associated with residential treatment, is proposed to be realigned to school districts (\$98.6 million in 2011-12; \$150 million in 2012-13).
- Revising funding for foster care and child welfare services to reflect changes resulting from the proposal to realign residential costs associated with AB 3632 to school districts and to reflect governance changes in both independent and agency adoptions, among others.

These changes required the state to reevaluate the revenue component of realignment, as well. The May Revision proposes that 0.4 percent of the VLF increase be allocated to realignment, with the remaining 0.1 percent dedicated to the state General Fund, versus dedication of the full 0.5 percent to realignment as proposed in January. The one-cent sales tax extension continues as part of realignment.

The Governor remains committed to voter approval of the taxes and constitutional protections at an election at a yet-to-be-determined date, although the May Revision assumes extension of these taxes effective July 1, 2011.

**Realignment Funding – May Revision Plan**  
(in millions)

<b>Program</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Court Security	\$497.8	\$497.8	\$497.8	\$497.8
Vehicle License Fee Public Safety Programs	504.4	504.4	504.4	504.4
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	302.3	611.0	759.1	762.2
Reimbursement of State Costs	653.0	-	-	-
Realign Adult Parole				
Local Costs	157.9	295.6	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Realign Remaining Juvenile Justice Programs	241.5	241.5	241.5	241.5
Mental Health Services				
EPSDT	-	579.0	579.0	579.0
Mental Health Managed Care	-	183.7	183.7	183.7
Existing Community Mental Health	1,077.0	1,077.0	1,077.0	1,077.0

<b>Program</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Substance Abuse Treatment	183.6	183.6	183.6	183.6
Foster Care and Child Welfare Services	1,567.2	1,567.2	1,567.2	1,567.2
Adult Protective Services	55.0	55.0	55.0	55.0
Existing Juvenile Justice Realignment	97.1	104.1	103.2	103.3
Growth*	-	274.0	615.3	1,069.6
<b>Total</b>	<b>\$5,599.4</b>	<b>\$6,173.9</b>	<b>\$6,623.8</b>	<b>\$7,012.0</b>
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1.0% Sales Tax	4,520.0	4,932.0	5,324.0	5,655.0
0.4% VLF	1,079.4	1,241.9	1,299.8	1,357.0
<b>Total Revenues</b>	<b>\$5,599.4</b>	<b>\$6,173.9</b>	<b>\$6,623.8</b>	<b>\$7,012.0</b>

*\*This amount will be subject to discussion and is intended to cover county costs and reimburse reasonable state costs.*

## **Reducing State Government**

Keeping in line with the Governor's penchant for frugality, the May Revision contemplates a significant reduction in many areas of state government, including the proposed elimination of 43 state boards and commissions, reducing state administration, improving management of the state's infrastructure bond proceeds, selling non-essential or under-utilized state properties, and merging the Healthy Families Program into the Medi-Cal program. These proposals result in \$82.7 million (\$41.5 million General Fund) in savings. Again, look to the policy areas of this Bulletin for greater detail as to the specific proposals.

## **Elimination of Boards, Commissions, Task Forces, and Offices**

Accelerate end of American Recovery and Reinvestment Act Task Force.

Eliminate the:

- California Privacy Security Advisory Board
- Health Care Quality Improvement and Cost Containment Commission
- Colorado River Board
- Salton Sea Council
- State Mining and Geology Board
- Nine Advisory Committees and Review Panels at the Department of Fish and Game
- Commission on Emergency Medical Services
- California Health Policy and Data Advisory Commission (CHPDAC)
- Healthcare Workforce Policy Commission
- Rural Health Policy Council
- Public Health Advisory Committee (PHAC)
- California Medical Assistance Commission (CMAC)
- Rehabilitation Appeals Board (RAB)
- Continuing Care Advisory Committee (CCAC)

- Early Learning Advisory Committee (ELAC)
- California Postsecondary Education Commission
- Office of the Insurance Advisor (OIA) within the State and Consumer Services Agency
- California Anti-Terrorism Information Center (CATIC)
- Office of Gang and Youth Violence Prevention
- California Council on Criminal Justice (CCCJ)
- Governor’s Emergency Operations Executive Council (GEOEC)
- California Emergency Council (CEC)
- Economic Strategy Panel
- Commission on the Status of Women
- California Law Revision Commission
- Commission on Uniform State Laws
- Office of Privacy Protection within the State and Consumer Services Agency
- Unemployment Insurance Appeals Board
- Fair Employment and Housing Commission
- Occupational Safety and Health (OSH) Standards Board
- Managed Risk Medical Insurance Board (MRMIB)

### **Consolidations**

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Consolidation of State Personnel Board and the Department of Personnel Administration

### **Changes Due to Realignment**

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- Elimination of the Department of Mental Health
- Elimination of the Department of Alcohol and Drug Programs (DADP)
- Create a Department of State Hospitals
- 25-percent State Operations Reduction for Realigned Public Safety Programs

### **Program Reductions and Efficiencies**

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- Office of the Inspector General Workload Reductions
- Reduce the Labor and Workforce Development Agency
- Eliminate General Fund support of the State and Consumer Services Agency
- Decrease state matching funds for tourism offices
- Federal funding for small business loan guarantee support
- Eliminate child care monitoring support
- Eliminate preservation technical assistance
- Eliminate redevelopment housing funds oversight
- Reduce housing policy funding
- Eliminate General Fund support for the Tahoe Conservancy
- Revert unexpended General Fund from the Department of Parks and Recreation’s Public Safety Modernization Project

**ACTION**



- Reduce General Fund support for Department of Water Resources
- Transfer support of the Governor’s Commission on Employment of People with Disabilities to the Department of Rehabilitation
- Elimination of the Human Resources Modernization Project

**Reducing State Government’s Property Footprint**

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- Review and dispose of properties with no state programmatic use
- Review and dispose of underutilized properties
- Consolidation of under-utilized space
- Develop a comprehensive policy for fairgrounds

**Efficiencies Achieved Through Executive Action**

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- Elimination of the Office of the Secretary of Education
- Elimination of the Inspector General of the American Recovery and Reinvestment Act
- Reduce Governor’s Office budget by 25 percent
- Ban on non-essential travel
- Reduce statewide building rental rate
- Reduce state-issued cellular phones
- Reduce statewide vehicles

**Budget Debt**

One of Governor Brown’s unifying themes throughout this morning’s press conference was budgetary debt, both avoiding new budgetary debt and illustrating how much already exists. These budget debts include debt property, so called payment deferrals, and other obligations.

Upcoming annual payment obligations include \$500 million in interest-only payments for California’s Unemployment Insurance debt to the federal government, nearly \$10 billion in increased payments to schools, and over \$3 billion to pay off bonds approved by voters but not yet sold.

**Future Annual Payment Obligations**

(in billions)

Proposition 98 Maintenance Factor	\$9.9
Interest on Unemployment Insurance Debt	0.5
Debt Service on Authorized but Unissued Bonds	3.2
<b>Total</b>	<b>\$13.6</b>

These new payments will be on top of payments for debt accumulated over the past decade, which now totals \$35 billion. For instance, the state has borrowed funds pursuant to Proposition 42 and Proposition 1A, and for years deferred required payments to local agencies and schools for pre-2004 mandates. And the state has pushed ever more of K-14 funding into the subsequent fiscal year. The General Fund owes many special funds a total of \$5 billion. The state would pay \$15 billion on these debts through 2014-15 and still owe \$20 billion.

### **Outstanding Budgetary Borrowing**

Based on Senate Bill 69 and implementing legislation  
(in billions)

Deferred payments to schools and community colleges	\$10.4
Economic Recovery Bonds	7.1
Loans from Special Funds	5.1
Unpaid costs to local governments, schools and community colleges for state mandates	4.3
Underfunding of Proposition 98	3.0
Borrowing from local government (Proposition 1A)	1.9
Deferred Medi-Cal Costs	1.2
Deferral of state payroll costs from June to July	0.8
Deferred payments to CalPERS	0.5
Borrowing from transportation funds (Proposition 42)	0.4
<b>Total</b>	<b>\$34.7</b>

Furthermore, the state’s unfunded retirement liabilities, both pension and retirement, total \$181 billion.

### **Retirement Liabilities**

(in billions)

Unfunded Obligations for Retiree Health	\$59.9
Unfunded Pension Liability for State Employees	48.6
Unfunded Pension Liability for Teachers	56
Unfunded Pension Liability for Employees of the University of California	12.9
Unfunded Pension Liability for Judges	3.6
<b>Total</b>	<b>\$181.0</b>

Lastly, the state has \$81.8 billion in general obligation and lease revenue bonds.

Taken together, the Governor stated, comprises a “Wall of Debt.” The May Revision reverses the little bit of borrowing he included in his January proposal and also includes



provisions to pay off more of its debts sooner. He encourages using any new revenue in the coming years to pay off the remainder of this budgetary debt. He claims that his plan would pay off at least \$29 billion in deferrals and debt by 2014-15, twice as much as under current law.

### **Potential Scenarios if Budget Solution Not Found**

The Governor's May Revision outlines various reductions that would be necessitated by an all-cuts budget. This list is not comprehensive nor does it represent a complete "Plan B," but, rather, is illustrative of the dramatic budget actions – by broad policy area – that would have to be considered if agreement on an approach to closing the budget gap remains elusive.

#### **Public Safety/Courts**

- Implementation of public safety realignment as outlined in [AB 109](#) (Chapter 15, Statutes of 2011) would remain a priority for the Brown Administration, perhaps even more so under an all-cuts scenario.
- State would no longer fund the supervision of non-serious, non-violent parolees, and it would not return parolees to state prison for violations of parole.
- Certain programs administered by the Department of Justice and other state agencies would be reduced or eliminated.
- Fire prevention and protection would be reduced.
- Courts would be cut by an additional \$150 million, which could lead to twice monthly court closures .

#### **Health and Human Services**

- Further reduction in CalWORKs grants.
- Eliminating domestic and related services for many IHSS recipients.
- Increasing costs of AIDS drugs.
- Capping Medi-Cal coverage for prescriptions and other medical supplies.
- Deeper reductions in developmental services.
- Elimination of programs such as Adult Protective Services.

#### **Education**

- Suspension of Proposition 98 minimum in 2011-12 and additional deep reductions to education
- Future Proposition 98 suspensions likely, which would drive required future maintenance factor payments – already at \$10 billion – significantly higher
- A \$5 billion reduction in Proposition 98 spending equates to:
  - Eliminating 4 weeks of K-12 school year and 52,000 community college classes; *or*

- 51,000 teacher layoffs, increasing K-12 class size to 30 students on average; and raising community college fees from \$36 to \$125 per unit
- For higher education, the University of California and California State University systems have already been reduced in 2111-12 by \$500 million; an additional \$500 million reduction would be anticipated. Cuts of that magnitude would require fee increases exceeding 30 percent.

### **Other Impacts**

- Deep additional cuts across other areas of state budget.
- Recently negotiated state employee contracts would have to be reopened, with an expectation of identifying hundreds of millions of dollars in additional savings.
- Further cuts to: water quality programs, parks, food and agricultural protection, and veterans' services.
- Issuance of new general obligation bonds would be frozen, delaying critical transportation and other infrastructure projects.

## **ADMINISTRATION OF JUSTICE**

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The Governor's May Revision proposes several changes to his 2011 Public Safety Realignment proposal, notably the elimination of certain programmatic elements as well as inclusion of additional funding for the parole revocation process in recognition of increased duties at the local level. Below we briefly outline AB 109's core components and highlight the areas where the Governor proposes modifications to his realignment plan.

**AB 109 – Various Components of Public Safety Realignment.** AB 109, signed into law in April and operative only once it is funded, contained provisions to enact several elements of the Governor's criminal justice realignment plan as set forth in his January budget proposal. In very broad terms, AB 109 delineates the low-level offender population for which counties would assume responsibility; defines post-release community supervision, which is effectively counties' newly defined role in supervision of adult parolees; and gives counties responsibility – and ability to contract back – for the juvenile offender population placed with the Division of Juvenile Justice.

None of these elements would change under the Governor's May Revision and, indeed, the budget materials underscore the Administration's commitment to the significant policy changes to the state's correctional system.

**Notable Changes to Realignment.** The Governor's May Revision modifies certain components of the public safety realignment and eliminates several elements that had been added in the February 25 version of the Governor's proposal, as outlined below.

## PROGRAM/FUNDING ADJUSTMENTS

- **Local Public Safety Subventions.** The Governor's January realignment proposal commits \$506.4 million in funding to local public safety programs – those that currently are supported through a dedication of 0.15 percent of the Vehicle License Fee. The May Revision adjusts the funding level for local public safety to \$504 million, reflecting a shift of \$2 million – strictly associated with state functions – back to the state General Fund.
- **Court Security.** The Governor's Revision adjusts the court security estimate to \$497.8 million, reflecting (1) expected increases in court security costs of \$2.5 million associated with a local-level parole revocation process and (2) the application of an inflation factor of 2.2 percent (\$10.7 million) to more accurately produce a baseline for 2011-12.
- **Low Level Offenders.** The cost assumptions in the January 2011 realignment proposal neglected to provide funding allowances to cover the costs of programming for offenders who are detained in county jail. The May Revision provides an \$18 million within realignment for local programming costs for the specified low-level offender population detained in county jail.
- **Parole Violators/Revocations.** The Governor's initial realignment proposal did not include a funding component to cover either local county or court costs associated with a parole revocation process. AB 109 clearly shifts that responsibility to the courts. Accordingly, the May Revision provides an estimated \$26 million in 2011-12 through realignment for costs incurred by the district attorney and public defender offices for their role in the parole revocation process. In addition, the May Revision also includes \$41.8 million to the courts for their costs associated in assuming jurisdiction for parole revocations.
- **California Department of Corrections and Rehabilitation (CDCR) Reductions.** The Governor intends to reduce staffing costs by 25 percent in those state agencies, including CDCR, experiencing workload reductions as a result of the implementation of the 2011 Public Safety Realignment. Position reductions may not be fully implemented until July 1, 2013, given the time necessary to undertake required layoff processes.

## PROGRAM ELIMINATIONS

The May Revision **removes several program elements** that had been incorporated into the February 25 version of the Governor's realignment proposal. Eliminated from realignment include the following:

- **Peace Officer/Correctional Officer Training:** The Governor previously proposed to include in realignment \$40.5 million to cover (1) peace officer training

# ACTION

administered through the Commission on Peace Officer Standards and Training (POST) and (2) correctional officer training administered by the Corrections Standards Authority.

- **Public safety mandates:** The Governor also proposed to shift \$50.9 million in funding to cover mandate reimbursements associated with a variety of public safety mandates.

It is our understanding that these functions will continue to be funded as they are today.

**Community Corrections Performance Incentive Grants.** The May Revision includes an additional \$30 million in probation incentive funds, pursuant to counties' demonstrated success in keeping felony adult probationers out of state prison pursuant to the provisions of SB 678 (Leno, 2009). Approximately 6,200 felony probationers have been diverted from state prison as a result of counties' efforts.

**Board and Commission Eliminations.** As noted earlier, the Governor's May Revision proposes to eliminate numerous boards and commissions. Some of these entities currently oversee public safety grants and/or programs. Those of significance to counties in the administration of justice area safety include:

- *California Council on Criminal Justice (CCCJ)* – It is anticipated that the Legislature and Governor would have final authority over how federal Byrne-JAG funds are distributed to the local level if the CCCJ is eliminated.
- *Office of Gang and Youth Violence* – The California Emergency Management Agency (CalEMA) would assume responsibility for distributing grant funding to local jurisdictions, the duty formally vested with this office.
- *California Law Revision Commission* – This commission is charged with reviewing laws and making recommendations for revisions in various policy areas, including trial court funding reform.
- *California Rehabilitation Oversight Board (C-ROB)* – This board currently operates within the Office of the Inspector General (OIG). The workload of the OIG is being reduced to core functions and the C-ROB is not viewed as critical at this time due to oversight of state correctional issues being provided by the Bureau of State Audits and improved internal controls at CDCR.
- *Office of Privacy Protection* – This board, which operates out of the State and Consumer Services Agencies, works to promote and protect the rights of consumers.

## AGRICULTURE AND NATURAL RESOURCES

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**Proposition 1E Fund Shift.** To address an additional shortfall in the Resources Agency's budget, the Governor's May Revision includes a fund shift of \$16 million from Proposition 1E to fund levee maintenance, Delta levees, and floodplain mapping activities, currently funded by the state GF.

**Department of Water Resources.** The Governor's May Revision proposes to eliminate GF support for the state's Watermaster, a program developed to ensure that water is allocated by an impartial third-party according to established water rights. The program will be funded through fees paid by those who benefit from the service.

**California Energy Commission.** The Governor's May Revision includes an increase of \$646,000 to the California Energy Commission's (CEC) budget to help implement SBX1 2, recent legislation requiring the CEC to adopt regulations to help implement the 33 percent Renewable Portfolio Standard by 2020.

**Reducing State Government.** As noted in the summary, the Governor's May Revision includes the proposal to eliminate a number of state boards and commissions. Among those slated for elimination include the State Mining and Geology Board. The Governor's proposal would move the current appeals process to the Office of Administrative Hearings, and the remainder of the State Mining and Geology Board's responsibilities would be transferred to the Office of Mine Reclamation within the Department of Conservation. In addition, the Governor is proposing to eliminate nine Advisory Committees and Review panels at the Department of Fish and Game, the Salton Sea Council and the Colorado River Board, among others. Additional GF reductions include a three percent reduction to the Tahoe Conservancy's overall budget and a decrease of \$1.8 million in GF support to the Department of Water Resources directed towards water data collection activities, and the Central Valley Flood Board and flood control activities.

**Department of Parks and Recreation.** In April, the Legislature approved the reduction to state parks, which includes a decrease of \$11 million in 2011-12, and when fully implemented, a total reduction of \$22 million in ongoing GF savings, resulting in the closure of up to 70 state parks. The Department has released a list of [parks slated for closure](#).

**Network of California Fairs.** In March, the Governor signed AB 95, the resources budget trailer bill, which eliminates state support for the California Network of Fairs. Since that time, individual legislative proposals have been introduced to sell fairgrounds. The Governor's May Revision states that these proposals should be evaluated in the context of a statewide policy and a property-by-property review of the fairgrounds. The Revision states that the Secretary of Food & Agriculture will develop a plan to be included in the Governor's 2012-13 budget, addressing future operation, maintenance and oversight of the Network of California Fairs.

## GOVERNMENT FINANCE AND OPERATIONS

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### Employee Relations

**State Employees.** The Governor's May Revision includes the proposal that most state employees pay at least three percent more of their salary toward their retirement costs. Additionally, the May Revision proposes a reduction in the state's workforce by 5,500 positions.

**Unemployment Insurance (UI) Fund.** A \$13.4 billion deficit in the UI Fund is expected by the end of 2011 due to an imbalance between annual employer contributions and benefit payouts. To continue paying benefits out of the UI Fund without interruption, the California Employee Development Department borrowed funds from the Federal Unemployment Account starting in January 2009. A \$362.3 million interest payment on this loan is due in September 2011. The May Revision includes a \$500 million interest payment for 2011.

**Reducing State Government.** As stated in the introduction of this *Budget Action Bulletin*, the May Revision includes the elimination and consolidation of several state Boards, Commissions, Task Forces and Offices. This includes the elimination of the Unemployment Insurance Appeals Board (which will culminate in the elimination of seven board members in 2012-13), the Fair Employment and Housing Commission (discrimination cases will instead be appealed to the Director of the Department of Fair Employment and Housing), the consolidation of the State Personnel Board and the Department of Personnel Administration (which will result in a single California Department of Human Resources, effective July 1, 2012) and a four-position reduction within the Labor and Workforce Development Agency.

## HEALTH AND HUMAN SERVICES

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### MEDI-CAL

Major Medi-Cal changes include the following:

- **Shift Healthy Families Children to Medi-Cal.** The Administration is proposing to transition children currently enrolled in the Healthy Families Program into the Medi-Cal program. The proposal implements the Medicaid expansion for children up to 133 percent of the federal poverty level (FPL) required under federal health reform early and takes the additional step of transitioning all Healthy Families children to Medi-Cal. Under federal law, children up to 150 percent of FPL are exempt from premium cost sharing. Under the Administration's proposal, the new co-pay and premium increases will still be applicable to children with family incomes between 150-250 percent of FPL. The transition will occur from January to June 2012. Of the 890,000 children currently enrolled in Healthy Families, 840,000 live in Managed



Care counties. Children will be enrolled in the same plan or a plan that allows them to retain their current provider. For the 50,000 children living in counties without Medi-Cal managed care plans, children will access services through the fee-for-service system. About a third of children enrolled in the Healthy Families Program are below 150 percent FPL. By providing Medi-Cal, children will be entitled to a richer benefit package that includes services such as Early Periodic Screening Diagnosis and Treatment (EPSDT).

The Administration is estimating the proposal will save \$31.2 million GF in 2011-12. None of the savings are associated with the loss of health care. Presumably, savings are associated with the different reimbursement rates for Medi-Cal and Healthy Families.

A statutory change would be required in order to make these changes; the Administration's proposed trailer bill language has not been made available yet. The proposal would maintain a Single Point of Entry (run by Maximus) where applications would be screened and then transmitted electronically to county human services departments for eligibility determinations. County human services departments also would accept applications directly, as under current rules. As proposed, Maximus would be responsible for premium collection for the 150% to 250% FPL cases, with county human services departments conducting eligibility determinations and annual redeterminations for those cases.

- **Hospital Fee.** The Administration is proposing to extend the existing hospital fee for an additional year, through June 30, 2012, which saves \$320 million GF.
- **Bridge to Reform Medicaid Demonstration Waiver.** The Administration believes it may not achieve the full \$400 million in state GF savings associated with the option to claim federal funds for state-only programs through the "Bridge to Reform" Medicaid Section 1115 Demonstration Waiver. In order to achieve the full \$400 million in savings, the state is proposing to use surplus certified public expenditures from public hospitals on a volunteering basis in the current year.
- **Intergovernmental Transfers (IGTs).** Counties that operate Medi-Cal managed care plans have been utilizing IGTs to increase capitation rates. The state is proposing to assess a fee equal to 20 percent of the transferred funds to offset state GF costs by \$34.2 million in 2011-12. The remaining 80 percent would be used to match federal funds to provide rate increases.
- **Medi-Cal Managed Care Program Changes.** The Administration is proposing to limit Medi-Cal beneficiaries from changing managed care plans to once annually, within the first 60 days of enrollment. This would save \$1.7 million in 2011-12.

- **First 5 (Proposition 10) Funding.** The budget restores \$1 billion in GF for the Medi-Cal program that would have been funded with First 5 funds per AB 99 (Statutes of 2011). A number of county commissions filed lawsuits against the state challenging the fund shift outlined in AB 99. The Administration will continue to defend the legal challenges, but the Administration is electing to take a conservative budget approach and restore GF costs.
- **Medi-Cal Base Adjustment.** The May Revision includes base adjustments to Medi-Cal, primarily due to managed care cost increases of \$66.3 million in 2010-11 and \$122.2 million in 2011-12.
- **Savings Erosions.** Due to the one-month delay in implementation of budget solutions previously adopted by the Legislature, the May Revision contains \$156.6 million in increased costs for Medi-Cal.
- **Federal Funds.** The May Revisions includes an additional \$170.6 million in federal stimulus funds to offset GFs.
- **Adult Day Health Care (ADHC).** The May Revision includes \$25 million in 2011-12 to provide funding for ADHC transition assistance as beneficiaries transition to other Medi-Cal services. Please recall the March budget eliminated ADHC. The state has submitted a Medicaid state plan amendment to eliminate ADHC. Once the plan is approved by the Center for Medicare and Medicaid Services, ADHC will end the first day of the month 60 days after federal approval. Please recall that the Legislature included intent language in the March budget trailer bill to provide more narrowly-defined services to be provided under a new program, Keeping Adults Free from Institutions (KAFI). The Legislature provided \$85 million for this purpose. The May Revision does not appear to conform to the Legislature's action.

## MENTAL HEALTH

**State Hospitals.** The Governor proposes a \$50 million increase for state hospitals for the current year due to unidentified cost increases. The Governor also increases funding by \$9.5 million and 78 positions in 2011-12 to increase safety and security at Napa State Hospital, Metropolitan State Hospital, and Patton State Hospital. Lastly, the Governor's plan includes \$1.4 million and eight positions for the planning and activation of the California Health Care Facility. Please note that the California Health Care Facility will be operated by the California Department of Corrections and Rehabilitation and is slated to open in 2013.

The Governor also proposes to create a Department of State Hospitals – please see the State Health and Human Services Government Restructuring portion below.

**ACTION**

## **SOCIAL SERVICES**

The Governor proposes no additional cuts in services to the CalWORKs, In-Home Supportive Services (IHSS), and Supplemental Security Income/State Supplemental Payment (SSI/SSP) programs beyond the cuts already signed into law in March of this year. Those cuts included reducing the time limit on CalWORKs aid from 60 to 48 months, reducing monthly CalWORKs grants by 8 percent, requiring a medical certification for all IHSS recipients, and reducing SSI/SSP payments to adults down to the federal minimum.

However, due to caseload adjustments, the Governor proposes to adjust the state's spending in the following ways:

- Increase CalWORKs funding by \$14 million in 2010-11 and approximately \$80 million in 2011-12 due to a larger-than-forecast number of cases.
- Decrease IHSS funding by \$6.9 million in 2010-11 and \$7 million in 2011-12 due to projected decrease in caseload. Some of the decline in funding is offset by an increase in the cost per IHSS case.

**Foster Care.** The Governor proposes to increase foster care funding by \$10.7 million in 2011-12 in response to the foster care rate lawsuit (*Foster Parent Association, et al vs. John A. Wagner, et al*). This will roll back previous foster care rate cuts, and will affect foster family homes, Adoption Assistance Payments, Kinship Guardianship Assistance Payments, and non-related Legal Guardian payment rates. The May Revision document also notes that \$1.6 million of these increased state costs are offset by the elimination of the supplemental clothing allowance for foster family homes.

**LEADER and CWS/Web Project Reductions.** While not making additional changes to the above social services programs, the Governor seems to have targeted technology projects in this area for reductions. Specifically, he proposes to suspend funding for the CWS/Web Project to save the state \$3.1 million in 2011-12. He proposes to suspend funding indefinitely, citing possible upcoming changes to the federal Administration for Children and Families requirements for adopting a statewide automated child welfare information system. As for Los Angeles County's Eligibility, Automated Determination, Evaluation and Reporting Replacement (LEADER Replacement) system, the Governor has proposed to indefinitely suspend funding – a decrease in state costs of \$26.2 million in 2011-12. The LEADER Replacement system is supposed to replace the County's existing automated systems for eligibility and benefit determinations for the CalWORKs, CalFresh, Medi-Cal and other social services programs. The Governor also intends to

redirect \$13.8 million in federal Temporary Assistance to Needy Families (TANF) Block Grant funds that would have gone to the project to Cal Grants instead.

**In-Home Supportive Services.** The May Revision adjustment for Public Authorities cuts state funding by another \$7.5 million on top of the January reduction of \$2.5 million – for a total cut of \$10 million from the 2010-11 appropriation.

The proposed 2011-12 appropriation for Public Authority administration is \$17.2 million (federal, state & county funds) – down from the 2010-11 appropriation of \$27.2 million.

## **PUBLIC HEALTH**

**AIDS Drug Assistance Program (ADAP).** The Governor proposes decreasing funding by \$17.3 million GF in 2010-11 and \$20.2 million in 2011-12 for the ADAP. He would achieve this by modifying the eligibility requirements of the Comprehensive AIDS Resources Emergency/Health Insurance Premium Payment Program (CARE/HIPP), enrolling more clients in the Pre-Existing Condition Insurance Plan through the new California Health Care Exchange, and using an unspecified amount of funds from the Safety Net Care Pool.

**Immunization Funding.** The Governor proposes to increase spending by \$7.3 million General Fund to local health departments for influenza vaccine purchases and immunization programs for elder and at-risk Californians.

**Health Care Surge Capacity Funding.** The Governor proposes to transition the Department of Public Health’s healthcare surge stockpiles and the Emergency Medical Services Authority’s mobile field hospitals to “public and private organizations”. To do so, he has included \$1.8 million GF over two years (\$1.3 million in 2011-12 and \$560,000 in 2012-13) to support the storage, maintenance, and transportation costs of the transfer. CSAC will provide clarification of this proposal as we receive more information.

**Public Health Licensing and Certification.** Currently, the state contracts with Los Angeles County to perform licensing and certification of health care facilities. This arrangement is set to expire on June 30 of this year, and under the Governor’s May Revision, the state would renew it for one more year (2011-12) and then discuss possibly transferring it to the state in 2012-13. There is not yet a fiscal estimate for this proposed transfer.

**California Children’s Services (CCS) Program.** The Governor’s May Revision budget decreases the Family Health Programs Base Estimate by \$8.3 million in the current year and \$5 million in 2011-12 due to changes in enrollment and benefit treatment costs on the California Children’s Services Program, the Child Health and Disability Prevention Program, and the Genetically Handicapped Persons Program.

## STATE HEALTH AND HUMAN SERVICES GOVERNMENT RESTRUCTURING

As part of his overall pledge to reign in the deficit and reduce state government costs, Governor Brown has included in his May Revision proposals to eliminate or restructure a bevy of state departments, boards and commissions. The one exception is the creation of a new Department of State Hospitals. We'll begin with the state government changes that are related to the Governor's realignment proposal.

**State Government Changes Proposed Due to a Successful Realignment.** Should the Governor's proposal to realign some public safety and social services programs to local governments be funded and approved by the voters, he promises to eliminate the Department of Mental Health and the Department of Alcohol and Drug Programs. The state would continue to have federal and oversight responsibilities for these areas, but the departments themselves would be eliminated. The Department of Health Care Services would maintain functions for mental health and substance abuse treatment related to Medi-Cal.

**New Department of State Hospitals.** Should the Department of Mental Health be eliminated, Governor Brown would also create a new Department of State Hospitals, which would oversee state hospitals. A changing environment in which more patients are committed through the court system, as well as a federal consent judgment to change the state hospital model of treatment, require a continued statewide oversight agency.

**Elimination of Boards, Commissions, Task Forces and Offices.** The Governor proposes eliminating the following health and human services-related state entities:

- **California Privacy Security Advisory Board.** The Board develops and recommends privacy and security policies for the new California Health Information Exchange. Instead, committees and task groups will take the place of the Board's 14 members.
- **Health Care Quality Improvement and Cost Containment Commission.** This Commission, which is inactive, was tasked with researching and recommending changes for promoting high quality care and containing health care costs.
- **Commission on Emergency Medical Services.** The Commission provides advice to the Emergency Medical Services Authority (EMSA) and approves regulations brought forward by EMSA.
- **California Health Policy and Data Advisory Commission.** The CHPDAC advised the Office of Statewide Health Planning and Development (OSHPD) on data collection

and outcome reporting programs.

- **Healthcare Workforce Policy Commission.** Designates geographic areas that have a maldistribution of health care services and offers contract advice to the Office of Statewide Health Planning, which will take over its functions.
- **Rural Health Policy Council.** Serves as an advisory body that examines rural health care policy. The membership is made up of Department Directors in the Health and Human Services Agency, and rural county supervisors sometimes participate.
- **Public Health Advisory Committee.** Provides advice and makes recommendations on the development of policies to prevent illness and promote public health. The Department of Public Health can obtain this advice from ongoing consultation rather than a formal committee.
- **California Medical Assistance Commission.** The California Medical Assistance Commission is responsible for negotiating contracts with hospitals, on behalf of the Department of Health Care Services (DHCS) for specific services, under the Medicaid program in California (called Medi-Cal). CMAC would be eliminated on July 1, 2012. Remaining CMAC responsibilities would be transferred to the Department of Health Care Services following implementation of a revised hospital payment structure. The CMAC executive director would report to the Health and Human Services Agency Secretary as of July 1, 2012.
- **Rehabilitation Appeals Board.** Currently hears appeals from consumers dissatisfied with decisions regarding their eligibility for services. The Board would be eliminated and appeals would be heard by hearing officers.
- **Continuing Care Advisory Committee.** Advises the Department of Social Services concerning issues related to the continuing care industry. Instead, the Administration recommends DSS convening workgroups as necessary with stakeholder members.
- **Managed Risk Medical Insurance Board (MRMIB).** Eliminates MRMIB as of July 1, 2012 and the MRMIB executive director would report to the Health and Human Services Agency Secretary as of July 1, 2012. Healthy Families and the Access for Infants and Mothers (AIM) program will transfer to the Department of Health Care Services in 2011-12. In 2012-13, the remaining programs (high risk health insurance purchasing pools and the County Children's Health Initiative Program) would transfer to the Department of Health Care Services.

## REALIGNMENT

The Administration has made adjustments to the realignment proposal in the health and human services area.

**Mental Health Services for Education Pupils (AB 3632).** The May Revision proposes that AB 3632 no longer be realigned to counties, but instead be realigned to school districts.

As such, the Administration is proposing to rebench the Proposition 98 guarantee to reflect the shift in responsibility to schools. This rebenching includes \$221.8 million to reflect the shift of responsibility for providing mental health services, including out-of-home residential services, required under federal law from county mental health agencies and county welfare agencies to school districts. The May Revision continues to reflect the \$98.6 million in Mental Health Services Act funds (Proposition 63) to county mental health agencies on a one-time basis in 2011-12. School districts will be able to contract with counties to provide services using these Proposition 63 funds but schools will become responsible for any costs exceeding this amount.

Foster Care and Child Welfare Services adjustments include:

- **AB 3632.** Reduction of \$68 million in Foster Care costs to reflect the fact that AB 3632 residential services will no longer be the responsibility of counties.
- **Independent Adoptions.** The state will retain responsibility for independent adoptions. Therefore, \$1.7 million in realignment funding is being reduced to reflect the ongoing state role. The state does this work in 55 of the 58 counties.
- **Agency Adoptions.** Realignment will include funding for counties to do agency adoptions. Currently, 28 counties perform this work, with the state doing the work for the balance of counties. \$6 million is being provided in realignment for these activities.
- **Tribal-State Agreements.** The state is retaining \$911,000 at the state level to perform Foster Care and Child Welfare Services work for all state-tribal agreements.
- **Child Welfare Training activities.** The state is retaining \$8.2 million to contract for Child Welfare training activities.
- **Foster Care Rate Increase.** The Foster Care rates reflect an increase of \$10.7 million in 2011-12 to increase payment rates for foster family homes as well as prospective Adoption Assistance Payment, Kinship Guardianship Assistance Payments, and Non-Related Legal payment rates (*Foster Parent Association, et al vs. John A. Wagner, et al* court case).

The Administration is not proposing changes to the remainder of the health and human services elements proposed for realignment. Please recall that the following are included:

# ACTION

- Early Periodic Screening Diagnosis and Treatment (EPSDT) Program
- Mental Health Managed Care (Medi-Cal)
- Drug Medi-Cal
- Drug Courts
- Non Drug Medi-Cal Regular
- Non Drug Medi-Cal Perinatal
- Foster Care
- Child Welfare
- Adoptions
- Adult Protective Services
- Shifting of community mental health funded from 1991 realignment into 2011 realignment
- Funding a higher share of CalWORKs grants with 1991 realignment funds

## **HOUSING, LAND USE AND TRANSPORTATION**

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### **Highway User Tax Account Fully Funded**

The Governor's May Revision of the Proposed FY 2011-12 State Budget includes full funding for transportation consistent with the Transportation Tax Swap (Swap) enacted in 2010 and validated by the Legislature with a 2/3 vote earlier this year in March. Recall that the Swap eliminated the sales tax on gasoline (Proposition 42 and spillover) and replaced it with an equal amount of excise tax (Highway User Tax Account or HUTA). The new HUTA is adjusted annually, either increased or decreased, to keep pace with what the sales tax would have otherwise generated, which also ensures revenue neutrality into the future.

Pursuant to the Swap, the Board of Equalization (BOE) must, on or before March 1 of each year, recalculate the new HUTA tax rate. According to the BOE's February 2011 projections, the sales tax on gasoline would have generated \$2.663 billion in 2011-12, which requires a minor increase of 0.4-cents in the new HUTA tax rate. Beginning July 1, 2011, the new HUTA tax rate will increase from the current 17.3-cents to 17.7-cents. To be clear, this does not reflect a tax increase, merely an adjustment to ensure the new HUTA revenues keep pace with what the sales tax would have generated. While the increased price of gasoline would seem to suggest a more significant adjustment, two factors attribute to the lower than expected increase: first, the projections were done back in February 2011 and do not realize the significant increases in gasoline prices that we have seen since that time; second, the projections assume that the additional sales tax currently being paid does expire June 30, 2011. Thus, consideration or changes to the price of gas and sales tax rate should be reflected in the March 1, 2012 adjustment.



The first call on the \$2.663 billion generated is to backfill the State Highway Account for the transfer of truck weight fees for general fund and debt service relief, estimated at approximately \$900 million a year. The remaining \$1.763 billion will be allocated through the formula established in statute with 12 percent going to the State Highway Operation and Protection Program, 44 percent to the State Transportation Improvement Program, and 44 percent to counties and cities for local streets and roads. Thus, CSAC estimates that counties will receive \$387.9 million in new HUTA in 2011-12.

With respect to old HUTA, the May Revision did not provide 2011-12 estimates. However, historically, counties have received between \$500-550 million in old HUTA annually.

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*If you would like to receive the Budget Action Bulletin electronically, please e-mail Stanicia Boatner, CSAC Senior Legislative Assistant, at [sboatner@counties.org](mailto:sboatner@counties.org). We're happy to accommodate you!*

**ACTION**