CALIFORNIA BUDGET PROJECT

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Leak Results in Early Budget Release: Governor Makes Deep Cuts to the Safety Net and Assumes Voters Approve November Ballot Measure

On Thursday, January 5, Governor Jerry Brown released his proposed 2012-13 spending plan, addressing a $9.2 billion projected shortfall for the remainder of 2011-12 and the upcoming 2012-13 fiscal years. The Proposed Budget was released five days early after a staffer inadvertently posted budget documents to a public website. The Governor proposes $10.3 billion in "solutions" to close the identified gap and provide a $1.1 billion budget reserve. The gap stems from a $4.1 billion shortfall in 2011-12 and a $5.1 billion projected shortfall in 2012-13. The Governor's proposal assumes that voters approve a measure that would be placed on the November 2012 ballot that would raise $6.9 billion in 2011-12 and 2012-13. His proposed spending plan also includes $5.4 billion of additional spending cuts that would be triggered on if voters fail to approve the proposed tax measure.

The Governor's proposals include deep cuts to health and human services programs, as well as to student aid and child care. Health and human services and child care programs would be targeted for $2.5 billion of the $4.2 billion in proposed spending reductions. The Governor also proposes $301.7 million of cuts to the Cal Grant Program, which provides financial aid to lower-income students pursuing post-secondary education. The Governor's Proposed Budget also includes a number of sweeping reorganizations of state departments and agencies aimed at increasing efficiency of state services, major policy changes in health and human services programs, and significant changes to the formulas used to allocate funds among school districts.

The Governor's Proposed 2012-13 Budget includes:

- $4.2 billion in spending reductions, including a $946.2 million reduction to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program and deep cuts to Medi-Cal, In-Home Supportive Services (IHSS), child care, and Cal Grant programs;
- $4.7 billion in additional revenues, primarily from a ballot measure that would impose new income tax rates on very high-income earners and increase the sales tax rate by one-half cent;
- $1.4 billion in fund shifts, loan payment deferrals, borrowing from special funds, and other one-time measures; and
- A $1.1 billion reserve.

The following update provides a "quick and dirty" summary of key provisions of the Governor's Proposed Budget. As additional details become available, the California Budget Project (CBP) will

1107 9th Street, Suite 310
Sacramento, California 95814
P: (916) 444-0500
F: (916) 444-0172
cbp@cbp.org
www.cbp.org

update this document. The CBP also will prepare in-depth analyses of major proposals contained in the budget over the upcoming days and weeks. Please check the CBP website (www.cbp.org) for corrections and additions to this analysis as additional information becomes available. The Governor's budget documents are available on-line at http://www.ebudget.ca.gov/.

Governor's Plan Assumes Voters Approve November Ballot Measure

The Governor's Proposed Budget assumes that voters approve a ballot measure in November that would impose three new tax rates on very high-income Californians – married taxpayers earning $500,000 or above – and increase the state's sales tax rate by 0.5 percentage points on a temporary basis. The higher income tax rates would apply to 2012 through 2016; the higher sales tax rate would take effect from January 1, 2013 through December 31, 2016. This proposal would raise an estimated $6.9 billion in 2011-12 and 2012-13. The new personal income tax rates would account for approximately $5.8 billion of the new revenues in 2011-12 and 2012-13, while the half-cent sales tax rate would raise $1.2 billion from the higher sales tax rate in 2012-13. The additional revenues would be earmarked for education and would increase the Proposition 98 school funding guarantee by an estimated $2.5 billion. The new dollars would count toward the Proposition 98 guarantee, thus "freeing up" $4.4 billion to help close the budget gap in 2012-13. The Governor's measure also places the framework for the recent "realignment" of criminal justice and social services programs in the state's Constitution and clarifies that the revenues supporting realignment do not count toward the Proposition 98 guarantee.

Specifically, the Governor's proposed tax measure would impose an additional 1 percent tax rate on married taxpayers with incomes between $500,000 and $600,000, a 1.5 percent additional rate on those with incomes between $601,000 and $1 million, and a 2 percent rate on those with incomes in excess of $1 million.

Other revenue proposals in the Governor Proposed Budget include:

- Expanding the Financial Institutions Record Match Program to the Employment Development Department and Board of Equalization, increasing collections of unpaid wage withholding payments and unpaid sales and use tax payments by an estimated $4 million in 2011-12 and $11 million in 2012-13;
- Modifying the State Controller's unclaimed property program generating an estimated $21 million in 2011-12 and $57 million in 2012-13; and
- Using $417 million from the Unemployment Compensation Disability Fund to pay interest owed on a federal loan to the state's Unemployment Insurance Program.

The Governor Proposes Deeper Cuts if Voters Reject the Proposed Tax Increase in November

The Governor proposes to automatically trigger an additional $5.4 billion in mid-year spending reductions if voters reject the tax initiative that the Governor seeks to qualify for the November 2012 ballot. These cuts would take effect on January 1, 2013 and would primarily target K-12 and higher education. If voters do not approve the Governor's proposed tax increase, the following cuts would be triggered:

- $4.8 billion from public schools and community colleges;
- $200.0 million from the University of California;
- $200.0 million from the California State University;
- $125.0 million from the courts, a reduction "equivalent to court closures of three days per month," according to the Governor's Budget Summary;
- $15.0 million from the Department of Forestry and Fire Protection, resulting in a reduction to the emergency air response program and the closure of fire stations;

- $6.6 million from flood control programs, resulting in reduced channel and levee maintenance and floodplain mapping;
- $5.5 million by reducing funding for Department of Fish and Game wardens and state park rangers and eliminating funding for lifeguards at state beaches; and
- $1.0 million from the Department of Justice's law enforcement programs.

Recovery From Recession Remains Slow; Administration's Economic Outlook More Pessimistic Than in May

The nation finally appears to be on the mend from the Great Recession, but the pace of recovery has been slower than many forecasters anticipated. Consequently, the Administration revised economic growth projections downward. The Governor's forecast estimates that national Gross Domestic Product (GDP) – the value of all goods and services produced in the US – increased by 1.8 percent in 2011 and projects that GDP will rise by just 1.7 percent in 2012, well below the 2.5 percent annual growth rate that economists generally believe is necessary to reduce the nation's unemployment rate. In May 2011, the Administration expected GDP growth to average 2.8 percent and 2.9 percent in 2011 and 2012, respectively. Since weaker national economic growth projections mean weaker projected job gains, the Administration's forecast projects that the nation's jobless rate will *increase* by 0.1 percentage point to 9.2 percent in 2012.

California is also making slow but steady progress toward recovery. The state gained nearly three times as many jobs per month during the first 11 months of 2011 as it did in the prior year, and recent job growth – while still relatively modest – has outpaced that of the US as a whole. Yet 2011 job gains were weaker than expected, and the Administration's outlook for California is considerably more pessimistic than it was in May. The Governor's forecast projects that the state will gain just 176,600 jobs in 2012 – a modest 1.3 percent increase from the prior year. This level of job growth will not be sufficient to bring down the state's unemployment rate, which is projected to remain at 12.0 percent in 2012 – substantially higher than the 10.8 percent rate projected in May. The Administration's 2012 California job projections are also slightly more pessimistic than those published by the Legislative Analyst's Office (LAO) in November.

One bright spot for California is that total wages and salaries increased considerably more in 2010 and the first half of 2011 than originally forecast, which the Administration largely attributes to gains among high-wage earners. Due to these better-than-expected gains, the Governor's forecast estimates that California's total wages and salaries rose by 4.9 percent in 2011 – up from the 3.8 percent increase anticipated in May. In addition, the Administration estimates that the state's total personal income rose by 5.7 percent in 2011, compared to the 4.4 percent increase forecast in May. Stronger estimated personal income gains helped drive up the Administration's forecast for 2011-12 personal income tax revenues, projected to be $1.529 billion higher than was assumed in the 2011-12 spending plan. However, the Administration projects that the state's personal income growth will slow in 2012 due to weak national economic growth.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The Governor proposes deep cuts to the CalWORKs Program, which provides cash assistance for 1.1 million low-income children while helping parents find jobs and overcome barriers to employment. The Governor's proposals would cut funding for CalWORKs by $946.2 million in 2012-13 through a combination of reduced grants in "child-only" cases and a restructuring of the CalWORKs Program. Most of the savings from cutting CalWORKs spending – $736.4 million – would be transferred to support the Cal Grants financial aid program.

Specifically, the Governor proposes to:

- Cut the average monthly cash grant from $463 to $392, a 15.3 percent decrease, for families in which cash assistance is provided only on behalf of the children ("child-only" families). The Governor also proposes to move child-only families into a new program outside of CalWORKs – the Child Maintenance Program – beginning in October 2012. The Proposed Budget estimates that 296,000 families will be enrolled in the new program in 2012-13.
- Divide the existing CalWORKs Program into two subprograms: CalWORKs Basic, which would provide welfare-to-work services for adults who do not have sufficient hours of unsubsidized employment to meet federal work requirements; and CalWORKs Plus, which would serve adults meeting federal work participation requirements – 30 hours a week for most families; 20 hours a week for families with children younger than six – through unsubsidized employment.
- Cut the maximum period that CalWORKs participants can spend in welfare-to-work activities from 48 months to 24 months. CalWORKs Basic participants who do not move into unsubsidized employment that meets federal work participation requirements within 24 months would no longer receive welfare-to-work services and their grant payment would be reduced by the amount attributable to the adult. The children, however, would shift into the Child Maintenance Program.
- Increase the monthly grant levels for CalWORKs Plus participants by setting the "earned income disregard" – the amount of earnings that can be excluded when calculating a participant's monthly grant level – at the first $200 of earned income plus 50 percent of additional income. Currently, the first $112 plus 50 percent of any additional income is excluded. This change would translate into an average grant increase of $44 for a family of three. However, the earned income disregard would still remain lower than it was through 2010-11, when the first $225 earned plus 50 percent of additional earnings were disregarded.

Child Care and Development Programs

The Governor proposes cutting spending for programs that provide child care assistance and preschool for low-income families by $516.8 million, which includes $446.9 million in non-Proposition 98 General Fund spending and $69.9 million in Proposition 98 General Fund spending. The reductions would be achieved through changes in eligibility criteria and reimbursement formulas and would eliminate an estimated 62,000 child care slots.

Specifically, the Governor proposes to:

- Require all families to meet federal work participation requirements applicable to the CalWORKs Program as a condition of eligibility for child care assistance for reduced spending of $293.6 million.
- Lower the income eligibility limit from 70 percent of the state median income (SMI) to 200 percent of the federal poverty line. For a family of three, this new limit would equal 61.5 percent of SMI and would lower the income eligibility limit to $37,060 for reduced spending of $68.0 million.
- Make three changes to child care reimbursement formulas: eliminate the statutory COLA for child care programs serving non-CalWORKs families and for part-day preschool programs; lower the maximum reimbursement rate for voucher-based child care programs; and lower the reimbursement rate for child care and preschool centers that contract directly with the state by 10 percent for a total spending reduction of $155.3 million.

In-Home Supportive Services (IHSS) Program

IHSS helps low-income seniors and people with disabilities live safely in their own homes, preventing more costly out-of-home care. The Governor's Proposed Budget includes two major changes to IHSS. Specifically, the Governor proposes to:

- Eliminate "domestic and related services" – which include housework, shopping, and meal preparation – for approximately 254,000 IHSS recipients for a spending reduction of $163.8 million in 2012-13. The Governor's proposal would affect, with some exceptions, recipients whose need for any domestic or related service is "met in common" with other household members, including children under age 18 who live with a parent.
- Implement an across-the-board 20 percent reduction in hours of service for the IHSS Program on April 1, 2012. The "trigger cuts" in the 2011-12 budget agreement imposed this reduction on January 1, 2012. A court injunction has thus far prevented the state from reducing hours.

Child Support

The Governor proposes to not provide counties with their share of child support collections in 2012-13 and instead deposit those dollars in the state's General Fund for additional state revenues of $34.5 million.

Medi-Cal Program

The Governor proposes several significant changes to the Medi-Cal Program, which provides health care services to more than 7 million low-income Californians, including children, seniors, and people with disabilities. The Governor's proposals would reduce state spending on Medi-Cal from $15.4 billion in 2011-12 to $15.1 billion in 2012-13. Absent the Governor's proposals, state spending on Medi-Cal would rise to $15.9 billion in 2012-13. Specifically, the Governor proposes to:

- Shift more than 1 million seniors and people with disabilities who currently qualify for both Medi-Cal and Medicare – so-called "dual eligibles" – from fee-for-service Medi-Cal into managed care. This proposal would also broaden the scope of managed care services to include In-Home Supportive Services, other home and community-based services, and nursing home care funded by Medi-Cal. These changes would be phased in over a three-year period beginning on January 1, 2013. The Administration indicates that it plans to consult with counties, consumers, and other stakeholders to address the range of issues associated with this proposal. This proposal – along with a related proposal to defer payments to Medi-Cal health care providers on a one-time basis to "accelerate" savings into 2012-13 – would reduce state spending by $678.8 million in 2012-13 and $1 billion in 2013-14.
- Expand managed care into rural counties that currently offer Medi-Cal services only on a fee-for-service basis. This proposal would be implemented in June 2012, reducing state spending by $2.7 million in 2012-13 and $8.8 million in 2013-14.
- Initiate a process to increase "flexibility" in Medi-Cal in order to "be able to change benefits, services, rate methodologies, and payment policies faster than the current regulatory process allows." This proposal is estimated to reduce state spending by approximately $75 million beginning in 2012-13.
- Change the method used to determine payments for two types of clinics – federally qualified health centers (FQHCs) and rural health clinics (RHCs) – reducing state spending by $27.8 million in 2012-13 and $58.1 million in 2013-14. Currently, clinics that participate in Medi-Cal managed care are paid based on "cost and volume," according to the Administration. Under the proposal, clinics would receive a "fixed payment to provide a broad range of services." The Administration suggests the proposed method would create a "performance, risk-based" model that would encourage these clinics "to provide more efficient and better care".
- Reduce eligibility for the Medical Therapy Program (MTP), reducing state spending by $9.1 million in 2012-13 and $10.9 million in 2013-14. Currently, the program does not require families to meet an income test. Under the proposal, families would be eligible for the MTP only if their income is less than $40,000 per year or if they also receive services through the California Children's Services (CCS) Program and their CCS expenses exceed 20 percent of their income.

- Require Medi-Cal enrollees to select their health plan during an annual open enrollment period and remain in that plan for a full year. Currently, Medi-Cal enrollees may change their plans every month. This proposal would reduce state spending by $3.6 million in 2012-13 and $6 million in 2013-14.
- Shift unexpended funds that were intended for certain public and private hospitals between 2005-06 and 2009-10 in order to achieve one-time state savings of $42.9 million and "avoid direct service reductions."
- Continue the tax on Medi-Cal managed care plans by "eliminat[ing] the sunset date." Revenues from this tax have been used to increase Medi-Cal managed care plan rates and fund the Healthy Families Program. Continuing this tax, coupled with increased use of managed care as proposed by the Governor, would result in state savings of $161.8 million in 2012-13 and $259.1 million in 2013-14.
- Extend a fee imposed on hospitals through an unspecified date. Revenues from this fee have been used to increase funding for hospitals and "offset the costs of health care coverage for children." This proposal would result in state savings of $255 million in 2011-12 and $472 million in 2012-13.

Managed Risk Medical Insurance Board (MRMIB)

MRMIB oversees a number of health programs, including the Healthy Families Program, which covers approximately 875,000 children with incomes somewhat above the Medi-Cal eligibility limit, and the Access for Infants and Mothers (AIM) Program, which provides health care to pregnant women. The Governor proposes to:

- Eliminate MRMIB effective July 1, 2013.
- Shift all children in Healthy Families to the Medi-Cal Program between October 2012 and June 2013.
- Transfer the remaining programs overseen by MRMIB – AIM, the County Health Initiative Matching Fund Program, the Major Risk Medical Insurance Program, and the Pre-Existing Conditions Insurance Plan – to the Department of Health Care Services (DHCS) by July 1, 2013.

In addition, the Governor proposes to reduce payments to Healthy Families managed care plans by 25.7 percent effective October 1, 2012, reducing state spending by $64.4 million in 2012-13 and $91.5 million in 2013-14.

Department of Public Health

The Governor proposes to:

- Increase costs imposed on Californians who participate in the AIDS Drug Assistance Program (ADAP), which provides medication to uninsured or underinsured individuals who are living with HIV and AIDS. The Governor's proposal would increase ADAP participants' share of cost for medication to the maximum allowed by federal law, with average monthly copayments ranging from $28 to $385. This change is designed to discourage ADAP participants with private insurance from remaining in the program "because their cost-sharing obligation will exceed their private insurance out-of-pocket costs," according to the Administration. This proposal would reduce state spending by $14.5 million in 2012-13 .
- Transfer the three health services programs from the Department of Public Health (DPH) to DHCS effective July 1, 2012: Every Woman Counts, which provides free breast and cervical cancer screening and diagnostic services to low-income women; the Prostate Cancer Treatment Program, which provides free prostate cancer treatment services to low-income men; and Family Planning, Access, Care, and Treatment (Family PACT), which provides comprehensive family planning services to eligible low-income women and men.

Behavioral Health Programs

Behavioral health programs include mental health and substance abuse treatment services overseen by the Department of Mental Health (DMH) and the Department of Alcohol and Drug Programs (DADP). The 2011-12 budget agreement began the process of eliminating the DMH and DADP by transferring some of their functions to DHCS. The Governor proposes to complete the elimination of the DMH and DADP during 2012-13 and to transfer their remaining programs as follows:

- Major community mental health programs and remaining non-Drug Medi-Cal services would be transferred to the DHCS;
- Licensing functions would be transferred to the Department of Social Services;
- Early Mental Health Initiative grants would be transferred to the California Department of Education;
- The Mental Health Workforce Education and Training Program would be transferred to the Office of Statewide Health Planning and Development ;
- Mental Health Services Act (Proposition 63 of 2004) training, technical assistance, and program evaluation would be transferred to the Mental Health Services Oversight and Accountability Commission;
- Problem gambling services, counselor certification, and related functions would be transferred to the DPH.

In addition, the Governor proposes to establish a new Department of State Hospitals to oversee long-term care and services provided in mental hospitals to individuals with mental illness.

Department of Developmental Services

The Department of Developmental Services (DDS) oversees services provided to more than 250,000 Californians with developmental disabilities. The Governor proposes a $200 million reduction to the DDS budget in 2012-13. The Administration indicates that the DDS will meet with stakeholders to discuss potential savings options, which could include extending the current 4.25 percent reduction to Regional Center operations and purchase of services.

Proposition 98

The Governor's Proposed Budget assumes a total 2012-13 Proposition 98 funding level of $52.5 billion for K-14 education. The Governor's Proposed Budget assumes voters approve a tax measure that the Governor seeks to place on the November 2012 ballot and provides $2.2 billion in 2012-13 to repay K-12 education for payments the state deferred in previous years. If voters do not approve the proposed tax measure in November, the Governor's Proposed Budget assumes total 2012-13 Proposition 98 funding would drop by $2.4 billion. The Governor would then eliminate the $2.2 billion repayment of prior year deferrals and "rebench" the Proposition 98 guarantee to achieve $2.4 billion in additional savings. According to the Governor, the $2.6 billion reduction in Proposition 98 funding remaining after eliminating the deferral repayment would "equate to shortening the school year by more than three weeks." The Governor's Proposed Budget assumes the 2011-12 Proposition 98 guarantee will increase to $48.3 billion and proposes $661 million in "settle-up" payments to repay the obligation to schools in future years. The Governor's Proposed Budget adjusts the Proposition 98 guarantee downward by $373.2 million to reflect a series of "rebenchings" and would provide "a single consistent methodology for all rebenching adjustments."

K-12 Education

The Governor's Proposed Budget:

- Creates a weighted pupil funding formula that would distribute dollars to school districts based on "factors that account for the variability in costs of educating specific student populations." The new formula, which would be phased in during a period of five years, would consolidate the "vast majority of categorical programs (excluding federally required programs such as special education) and revenue limit funding into a single source of funding." The Governor proposes that funding for consolidated programs could immediately be used to support "any locally determined educational purpose."
- Eliminates the cost-of-living adjustment (COLA) for K-14 education programs in 2012-13, for savings of $1.8 billion. The Governor's Proposed Budget projects that the 2012-13 COLA would otherwise have been 3.17 percent and establishes a total deficit factor for revenue limit payments of 21.67 percent for school districts and 22.50 percent for county offices of education (COE), which would restore funding for COLAs that were not provided in 2012-13 and previous years. Revenue limits provide general-purpose funding for K-12 schools. A deficit factor is the difference between revenue limit payments to school districts and COEs and the revenue limit funding level specified by state law.
- Assumes an increase of $1.1 billion in 2012-13 school district local property tax revenue due to phasing out of redevelopment agencies. The Governor's Proposed Budget also estimates that K-12 school and community college districts will receive $1.1 billion in additional property tax revenue in 2011-12. Increased property tax revenue for K-12 school and community college districts reduces the state's Proposition 98 obligation, which results in an equivalent amount of General Fund savings. On December 29, 2011, the California Supreme Court ruled in *California Redevelopment Association et al. v. Matosantos et al.* that redevelopment agencies will be dissolved as of February 1, 2012 and that property tax revenue previously received by the redevelopment agency, after meeting debt service obligations, would be distributed to cities, counties, school and community college districts, and special districts.
- Reduces 2011-12 revenue limit funding for school districts and COEs by $694 million and increases 2012-13 revenue limit funding for school districts and COEs by $158 million due to projected changes in average daily attendance.
- Eliminates funding for the Home-to-School Transportation program, reducing state spending by $618.7 million in 2012-13. The "trigger cuts" in the current year's budget agreement reduced funding for home-to-school transportation by $248.0 million in 2011-12.
- Increases revenue limit payments to school districts and COEs by $196 million in 2011-12 and by $627 million in 2012-13 due to lower projected local property tax revenues.
- Eliminates the requirement that school districts establish a transitional kindergarten program in 2012-13, for savings of $223.7 million.
- Increases funding by $110.1 million to support a new block grant program to pay for K-12 and community college mandates. The Governor proposes to eliminate nearly half of existing mandates and would make remaining mandates optional. The Governor's Proposed Budget would not provide new funding to schools unless they continue to meet the requirements of mandates that are not eliminated.
- Increases funding for charter school categorical programs by $50.3 million to reflect charter school growth.
- Reduces 2011-12 funding for special education programs by $24.3 million to reflect increased property tax revenue allocated to school districts due to the phase out of redevelopment agencies.
- Increases funding by $21.8 million to pay for increased unemployment insurance costs for school districts and COEs.
- Increases special education funding by $12.3 million to reflect enrollment growth.

- Reduces funding for free and reduced-price breakfast and lunch served at private schools and private child care centers by $10.4 million
- Eliminates funding for the Advancement Via Individual Determination (AVID) program, reducing state spending by $8.1 million.
- Reduces funding for the California Schools for the Deaf in Fremont and Riverside and the School for the Blind in Fremont by $1.8 million.
- Reduces California State Library funding by $1.1 million to reflect a decrease in administrative workload due to the 2011-12 trigger cut to local assistance programs.
- Eliminates funding for American Indian Education Centers, reducing state spending by $376,000.
- Makes several changes to charter school funding, including providing growth funding through the Charter School Categorical Block Grant Program and providing additional access to borrowing.

California Community Colleges

The Governor proposes to:

- Increase 2012-13 apportionment payments by $218.3 million to partially restore previously deferred funding. The Governor's proposal would not increase apportionment payments unless voters approve the tax measure the Governor seeks to place on the November ballot.
- Reduce 2011-12 apportionment funding by $146.9 million to reflect increased property tax revenue allocated to community college districts due to the elimination of redevelopment agencies.
- Consolidate funding for nearly all categorical programs and allow community colleges to use the funds for any purpose. Currently, restrictions on categorical funding limit the purposes for which those dollars can be used.
- Implement a new block grant to pay for community college mandates. The Governor's Proposed Budget, consistent with his K-12 mandate proposal, would eliminate nearly half of existing mandates and would make remaining mandates optional. The Governor's Proposed Budget would not provide new block grant funding to community colleges unless they continue meeting the requirements of mandates that are not eliminated.

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

The Governor proposes to:

- Increase funding for the CSU by $197.7 million and for the UC by $297.2 million. The increase for the UC includes $90 million for base operating costs which could be used to pay for employer contributions to retirement programs on behalf of UC employees.
- Eliminate "set-asides" that earmarked funds for several UC programs including the Drew Medical Program, AIDS research, and the Institutes for Science and Innovation.

California Student Aid Commission

The Governor proposes to:

- Shift $736.4 million in federal Temporary Assistance to Needy Families (TANF) funds to support Cal Grants, which would result in an equivalent amount of General Fund savings.
- Reduce the maximum Cal Grant award to $4,000 for students attending private, for-profit colleges and universities for savings of $59.1 million.

- Reduce the maximum Cal Grant award for students attending independent, non profit colleges and universities to the maximum amount awarded to CSU students for savings of $111.5 million.
- Raise the minimum grade point average required for Cal Grant eligibility for savings of $131.2 million. The Governor proposes to increase the minimum grade point average required for students who apply for Cal Grant A awards from 3.0 to 3.25, for Cal Grant B awards from 2.0 to 2.75, and for California Community College Transfer Entitlement awards from 2.4 to 2.75.
- Maintain California Community College Transfer Entitlement award eligibility requirements, for estimated savings of $70 million. Currently, community college students are only eligible for Transfer Entitlement awards if they enroll at a four-year institution in the year immediately after completing community college. This proposal would reverse a recent California Student Aid Commission decision that provided Transfer Entitlement awards for students who take "prolonged enrollment breaks" between community college and four-year institutions and that would increase the number of awards.
- Phase out funding for Assumption Program of Loans for Education (APLE) and the State Nursing Assumption Program of Loans for Education for Nursing Faculty (SNAPLE NF) for savings of $6.6 million. The Governor proposes to eliminate new awards for loan assumption programs and provide funding for existing renewal awards only through 2015-16.
- Maintain current restrictions imposed on independent, non profit and private, for-profit colleges and universities seeking to qualify as Cal Grant eligible institutions. As part of the 2011-12 budget agreement, higher education institutions where 24.6 percent of students or more default on student loans were excluded from Cal Grant Program participation. Absent the Governor's proposal, the maximum student loan default rate for Cal Grant Program participation will increase to 30 percent in 2012-13.

State Operations and State Employees

The Governor's Proposed Budget eliminates and consolidates a number of state agencies, departments, boards, commissions, and programs. Some of the entities subject to the proposed reorganization have independent boards that include independently elected officials, and some of the Governor's proposals appear to centralize certain functions under the Governor's control.

Specifically, the Governor proposes to:

- Restructure the State and Consumer Services Agency and the Business, Transportation, and Housing Agency by; consolidating government entities that license or regulate business activities, including the departments of Consumer Affairs, Housing and Community Development, Fair Employment and Housing, and Alcoholic Beverage Control, into a new Business and Consumer Services Agency; combining departments and boards involved in general state administration, including the departments of General Services, Human Resources, Technology, the Office of Administrative Law, the State Personnel Board, the Government Claims Board, the Public Employees' Retirement System, and the State Teachers' Retirement System, into a new Government Operations Agency; and consolidating government entities providing transportation functions, including the Department of Transportation (Caltrans), the Department of Motor Vehicles, the High-Speed Rail Authority, the California Highway Patrol, the California Transportation Commission, and the Board of Pilot Commissioners into a new Transportation Agency.
- Create a new Department of Revenue made up of the Franchise Tax Board and the tax collection functions currently carried out by the Employment Development Department. The new department would be under the proposed Government Operations Agency.
- Eliminate the California Volunteer Agency and transfer its functions to the Governor's Office of Planning and Research.
- Make the California Emergency Management Agency an office that reports directly to the Governor.

- Eliminate the Commission on the Status of Women. The Governor proposed to eliminate the Commission last year, however, the Legislature rejected his proposal.
- Eliminate the Fair Employment and Housing Commission and transfer its adjudicatory and regulatory functions to the Department of Fair Employment and Housing.
- Eliminate the Rehabilitation Appeals Board and shift its duties to independent hearing officers.
- Eliminate the Office of Privacy Protection.
- Eliminate the Department of Financial Institutions and the Department of Corporations and transfer their functions into a new Department of Business Oversight that would be housed within the proposed Business and Consumer Services Agency.
- Eliminate the Unemployment Insurance Appeals Board and consolidate its functions in the Employment Development Department.
- Eliminate the Occupational Safety and Health Standards Board and transfer its functions to the Department of Industrial Relations.
- Eliminate the California Housing Finance Agency (CalHFA) and transfer its functions to the Department of Housing and Community Development.
- Consolidate the Office of Women's Health, the Office of Multicultural Health, the Health in All Policies Task Force, the Health Places Team, and the Office of Multicultural Services within the a new Office of Health Equity in the Department of Public Health.
- Transfer the Department of Resources, Recycling, and Recovery (CalRecycle) from the Natural Resources Agency to the California Environmental Protection Agency.
- Eliminate the Department of Boating and Waterways and transfer its functions to the Department of Parks and Recreation.
- Reduce the number of regional water boards from nine to eight by merging the Colorado River Basin Water Board with another board.
- Eliminate the Colorado River Board and transfer its functions to the Natural Resources Agency.
- Eliminate a number of entities within the Department of Fish and Game, including the Salton Sea Restoration Council.

The Governor also proposes to:

- Reduce the size of the state workforce. Press reports indicate that the Governor proposes to eliminate a total of 3,000 positions.
- Reduce spending on state operations – amounts spent directly by state departments and agencies – by $59.1 million. The Administration suggests that these savings could be achieved through various actions, including renegotiating departmental leases, reducing costs for repairing office equipment, and cutting state employee travel costs.

In addition, through an Executive Order issued on December 8, the Governor directed the Department of Finance to develop a plan for modifying the budget process to increase efficiency through a number of strategies, including program evaluation and cost-benefit analyses.

Governor Proposes a Permanent Funding Structure for Programs "Realigned" to Counties in 2011-12

The 2011-12 budget agreement "realigned" – or transferred – responsibility for a number of public safety, human services, and mental health programs from the state to counties. In addition, the Legislature provided a dedicated source of funding for counties to carry out their new responsibilities. Funding for realignment comes from two sources: a 1.0625 percent sales tax rate and approximately $460 million in Vehicle License Fee revenues. While the framework for realignment established as part of the 2011-12 budget agreement is intended to be permanent, the implementing legislation only allocated funds among counties and programs for a single year. The ballot measure containing the Governor's proposed temporary tax increase would constitutionally dedicate the revenues earmarked for realignment in the 2011-12 budget agreement.

The Governor's Proposed Budget includes a permanent allocation structure that is "designed to provide local entities with a known, reliable, and stable funding source for these programs." The Governor's framework addresses a number of issues, including the need for a reserve account and the possibility that revenues could be insufficient to support one or more realigned programs. The proposal also suggests that "federally required programs should receive priority for funding if warranted by caseload and costs" and that, over time, the Child Welfare Services Program should receive an additional $200 million to help make up for past budget cuts.

Corrections

The Governor's Proposed Budget projects a significant reduction in state spending on corrections due to the "realignment" of criminal justice programs, which shifted responsibility for certain "low-level" adult offenders and parolees to the counties beginning in October 2011. The Governor's Proposed Budget assumes savings of $453.3 million in 2011-12 and $1.1 billion in 2012-13 as a result of the projected decline in state prison and parolee populations.

In addition, the Governor proposes to:

- Expand the Alternative Custody for Women Program to include women with a prior violent or serious felony conviction. These women would participate in community-based treatment programs designed to reduce recidivism. The Governor's Budget Summary states that the cost of the treatment programs would be funded with savings achieved by reducing the number of women in prison. Budget documents indicate that this proposal could result in savings of $2.5 million beginning in 2014-15 and $5 million annually thereafter.
- Stop accepting new juvenile offenders in state facilities effective January 1, 2013 and transfer complete responsibility for managing this population to local jurisdictions. The juvenile offender population overseen by the state Division of Juvenile Justice – which is currently approximately 1,100 – would "gradually diminish through attrition," according to the Governor's Budget Summary. This proposal, which builds on previous juvenile justice realignment efforts, would also provide $10 million in 2011-12 to help counties plan for this transition.

Labor and Workforce Development

The Governor proposes to:

- Reduce the Governor's discretionary Workforce Investment Act funding by $39.5 million. The reduction reflects a decrease in federal funding.
- Increase funding for the Labor and Workforce Development Fund by $2.3 million to expand education and outreach efforts aimed at compliance with labor laws and standards.

Unemployment Insurance

The Governor proposes to:

- Raise the earnings threshold needed to qualify for Unemployment Insurance benefits when an individual loses a job through no fault of their own. Raising the threshold would reduce the number of individuals that qualify for unemployment benefits and would particularly affect low-wage and part-time workers or those who recently

obtained a job and are subsequently laid off. The Employment Development Department estimates that 40,000 workers would lose eligibility for benefits that currently average $56 per week under the proposed change. 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 base period, to qualify for benefits. The Governor's proposal would require workers 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 benefits.
- Continue to loan balances in the Unemployment Compensation Disability Fund to the General Fund to pay for interest owed to the federal government on amounts loaned to the state to cover the cost of Unemployment Insurance benefit payments. The Governor assumes savings of $417 million in 2012-13.
- Impose an Unemployment Insurance tax surcharge on employers to generate revenues needed to make future payments on amounts owed to the federal government for Unemployment Insurance benefit costs beginning January 1, 2013. The proposed surcharge would generate an estimated $472.6 million that would be used to cover future interest payments for funds borrowed from the federal government to pay California's Unemployment Insurance benefits and repay the funds borrowed from the Unemployment Compensation Disability Fund.

Legislative, Executive, and Judicial

The Governor proposes to:

- Increase civil court fees to raise $50 million in Trial Court Trust Fund revenues.
- Restore $4.9 million of a $71.5 million reduction in General Fund support for the Division of Law Enforcement that was enacted in the 2011-12 Budget in order to create the California Bureau of Special Investigations.

Resources and Environmental Protection

The Governor proposes a "framework" for allocating revenues raised from the auctioning of greenhouse gas emission allowances through a "Cap and Trade" program, estimated at $1 billion in 2012-13. The California Global Warming Solutions Act of 2006 authorized the Air Resources Board (ARB) to auction Cap and Trade fees beginning in 2012-13. The Governor proposes to allocate funds to clean energy, low-carbon transportation, natural resource protection, and sustainable infrastructure development. However, more specific expenditures are not included in the proposed budget. The Governor's Proposed Budget provides that the Department of Finance and the ARB jointly submit an expenditure plan at least 30 days prior to allocating funds.

In addition the Governor proposes to:

- Increase support for the State Responsibility Area Fire Prevention Fund by $9.3 million. The increase is the result of ABX1 29 (Blumenfield, Chapter 8 of 2011-12, First Extraordinary Session), which imposed a fire prevention fee "not to exceed $150 on each structure on a parcel that is within a state responsibility area to pay for the fire prevention activities that benefit the owners of those structures."
- Reduce support for the Department of Parks and Recreation by $22 million in 2012-13, which would result in the closure of up to 70 state parks effective July 1, 2012. The 2011-12 Budget reduced funding for state parks by $11 million.
- Increase funding by $11 million for the State Water Pollution Control Revolving Fund Small Community Grant Fund.
- Appropriate $25.4 million in Proposition 84 bond funds for the Delta Habitat Conservation and Conveyance Program. Funding will support preliminary engineering work needed to create a plan that "will provide the basis for issuing permits for the operation of state and federal water projects."

Transportation

The Governor proposes to:

- Transfer $349.5 million in weight fee revenues to the General Fund to offset future debt service costs. The proposal would shift weight fee revenues remaining after the payment of current debt service on general obligation transportation bonds.
- Increase non-General Fund support for Amtrak by $13.9 million in 2012-13 and $28 million in 2013-14. Funds would support current Southern California intercity rail services, reducing funds available for future capital projects or increased services by an equivalent amount.
- Reduce funding for the Mass Transportation Program by $3.7 million and eliminate 41.7 positions by streamlining planning and administrative work. The program provides administrative and managerial support to transportation projects and services across the state.
- Allocate $15.9 million for the High-Speed Rail Authority, including $6.8 million for contract activities and additional staff "to support legal analysis, accounting, personnel, procurement, grant administration, and information technology, as well as environmental planning, program management oversight, and financial consulting" in 2012-13.
- Appropriate an additional $4.4 million to the Department of Motor Vehicles to improve the efficiency of the department through modernization projects.

Local Government

The Governor proposes to:

- Suspend a number of state mandates and repeal "dozens" that were suspended in the past two years for savings of $728.8 million. According to budget documents, "many of the activities required by these mandates have become common practice and should not be mandated by the state."
- Defer payments to local governments for pre-2004 mandate claims for savings of $99.5 million.
- Delay for two years the requirement that probationers who are registered sex offenders participate in a sex offender management program, as required by a 2010 law. According to the Governor's proposed budget summary, "if this program were determined to be a reimbursable state mandate, this two-year delay could result in significant General Fund savings."