Amendments to the Budget Act of 2009

The Budget Act of 2009 was enacted in February, four months ahead of the constitutional deadline. As the recession deepened throughout the spring, it eroded revenues and put additional pressure on spending, especially in those areas most sensitive to economic downturns like Health and Human Services. The amendments to the Budget Act of 2009 address the additional budget gap of $24 billion that resulted from the deepening recession.

Figure SWI-01 displays the solutions incorporated in the amendments to the Budget Act of 2009.

Figure SWI-01
Solutions Adopted in the Budget Amendments
(Dollars in Millions)

	2008-09	2009-10	Total	
Expenditure Reductions	$3,708	$12,417	$16,125	67%
Fund Shifts	6	999	1,005	4%
Revenue Increases	-	3,492	3,492	14%
Borrowing	-	2,182	2,182	9%
Other	-	1,355	1,355	6%
Total	**$3,714**	**$20,445**	**$24,159**	**100%**

Expenditure Solutions

Figure SWI-02 displays the General Fund spending reductions included in the amendments to the Budget Act of 2009.

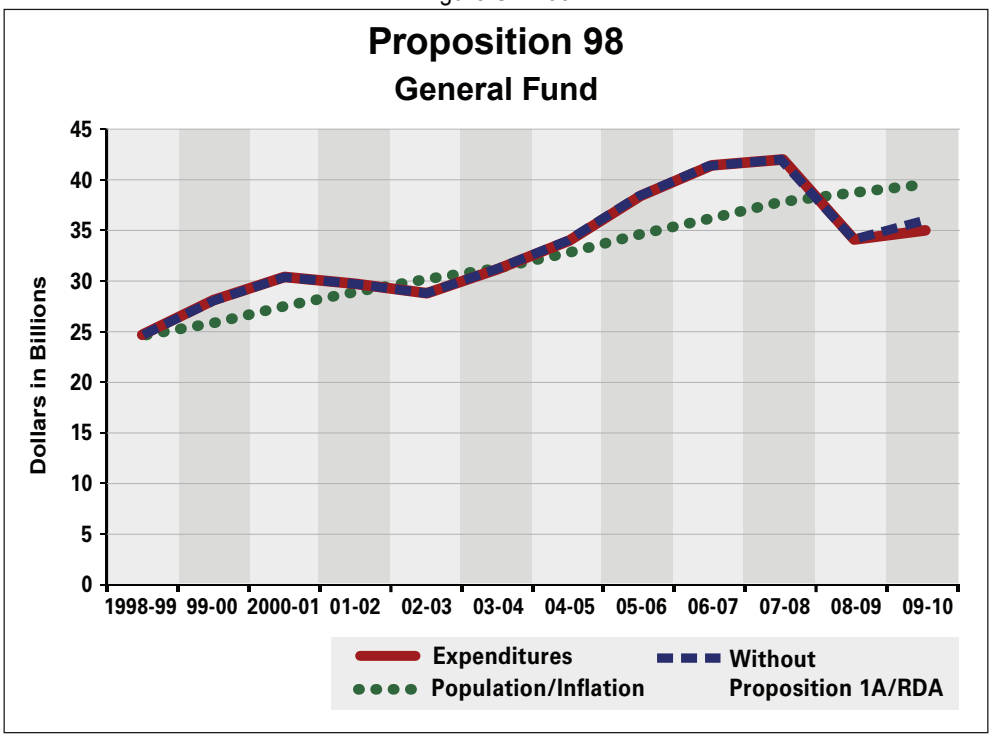
Figure SWI-02
Amendments to the Budget Act of 2009
Expenditure Solutions
(Dollars in Millions)

Major General Fund Programs	2008-09	2009-10	Total
Proposition 98	$2,056.0	$4,463.1	$6,519.1
Higher Education (excluding Comm Colleges)	1,431.0	568.8	1,999.8
RDA Shift	-	1,700.0	1,700.0
Corrections and Rehabilitation	-	785.5	785.5
Medi-Cal	-	1,381.8	1,381.8
SSI/SSP	-	108.2	108.2
CalWORKs	-	509.6	509.6
IHSS	-	263.5	263.5
Developmental Services	-	284.0	284.0
Mental Health	-	163.9	163.9
Healthy Families	-	178.6	178.6
CWS and Foster Care	-	120.6	120.6
Other HHS	-	361.6	361.6
Courts	-	168.6	168.6
Employee Compensation	62.5	783.6	846.1
Others	158.0	575.7	733.7
Totals	$3,707.5	$12,417.1	$16,124.6

Proposition 98

Figure SWI-03 displays General Fund expenditures in Proposition 98 funding since 1998-99.

Figure SWI-03



The Proposition 98 minimum guarantee is tied to General Fund revenues. There has been a steep and continued decline in General Fund revenues since the Budget Act was adopted. Therefore, total Proposition 98 funding is reduced by $2.1 billion in 2008-09 and $4.5 billion in 2009-10 compared to the levels appropriated in the February Budget Act. However, Proposition 98 General Fund savings are $5.3 billion in 2009-10 because of a property tax shift of $850 million from redevelopment agencies to schools.

Federal stimulus funding. The reductions are offset significantly by $6 billion in federal stimulus funds in 2008-09 and 2009-10—$3.2 billion from the State Fiscal Stabilization Fund (SFSF) and $2.8 billion from the American Recovery and Reinvestment Act (ARRA). With these reductions described above the state will still maintain the minimum spending level required for receipt of the ARRA State Fiscal Stabilization Fund allocations for K-12 programs.

Maintenance Factor. The Proposition 98 funding level is certified through legislation at $49.1 billion for the 2008-09 fiscal year. The legislation also specifies the outstanding maintenance factor, or future funding obligation, at $11.2 billion. Based on current estimates of General Fund and property tax revenue, the Proposition 98 minimum guarantee for 2008-09 is determined by the "Test 3" calculation, which lowers funding for education programs but also creates the maintenance factor to restore this funding over time as the state's economy and revenues improve. As a result, this maintenance factor would have been created in 2008-09 in the absence of the legislation.

The Proposition 98 minimum guarantee for 2009-10 is estimated at $50.4 billion. The amount of maintenance factor repaid in 2009-10 is estimated at $1.17 billion, leaving a remaining balance of $10.1 billion.

Local flexibility. The $2.1 billion in 2008-09 savings were achieved by reverting $1.6 billion in unallocated funds for categorical programs to the General Fund, and by delaying for one year the $450 million Proposition 98 settle-up payment from prior-year obligations for the Quality Education and Investment Act (QEIA). The Proposition 98 revenue limit funding is redirected in 2009-10 to backfill the reduction in categorical funding and to continue the QEIA program.

The budget continues the Administration's commitment to help school districts better manage their budgets during these tough economic times by providing relief from a variety of requirements attached to 42 categorical programs through fiscal year 2012-13, allowing school districts to transfer funds for any purpose to meet their highest priority needs. In addition, the reduced penalties associated with K-3 Class Size Reduction, allowing districts to retain up to 70 percent of funding if pupil-to-teacher ratios increase more than 25 to 1, continue through 2011-12, providing greater local flexibility.

Classroom funding is protected to the maximum extent possible in 2009-10 by achieving savings through the following actions:

- $1.8 billion in payments are deferred from the 2009-10 fiscal year to August of the 2010-11 fiscal year from school district revenue limits and community college apportionments.
- $850 million in General Fund savings are achieved by transferring additional property tax funding to schools. (See Redevelopment Shift.)

The Budget also contains the following reductions and changes in the way the total Proposition 98 funding is allocated to various programs:

- School district and county office of education revenue limit apportionments are reduced by $2.1 billion. Schools are provided flexibility to reduce instruction by up to five days, if necessary, to accommodate this reduction without losing any incentive funding they receive to maintain a 180-day school year. Schools are also provided additional flexibility to reduce the amount of money they must set aside for facility maintenance and to use funds from the sale of surplus property for non-facility related purposes.
- Basic aid school district categorical programs are reduced by $80 million to ensure that these schools take a fair share of the reductions and that no schools receive a disproportionate share of the reductions.
- Ongoing Community College funding is reduced by $580.2 million. (See the "California Community Colleges" heading below for further information.)
- Funding for the charter school facilities is changed from a reimbursement program to an annual grant program—providing budgetary cash relief to charter schools that currently receive these funds.
- Newly established schools that did not have access to certain categorical programs that were block granted will be allowed to apply for funding for programs such as supplemental instruction and regional occupational programs.

Cash Deferrals. Due to state cash flow shortfalls, approximately $2 billion in K-12 payments for 2009-10 will be moved from scheduled payment dates in the first few months of the 2009-10 fiscal year to December of 2009 and January of 2010. In addition, the payment schedule for K-12 apportionment funding and categorical funding will be revised to distribute five percent of total payments in each of July and August and nine percent in each of the remaining months. This will allow for an even distribution of funding to schools and more predictable outflows from the state General Fund.

California Community Colleges (CCC)

Included as part of the Proposition 98 General Fund solutions, the budget amendments reflect Proposition 98 General Fund savings of $695.2 million from the February Budget Act for the CCCs in 2009-10, of which $115 million is one-time in nature.

For 2009-10, ongoing savings of $580.2 million include the following: (a) a $140 million base reduction to apportionments, (b) a net savings of $116.9 million by eliminating the $175.2 million growth adjustment for apportionments and shifting $58.3 million of this amount to base apportionments to partially offset an estimated $116.7 million property tax shortfall, (c) $10.2 million by eliminating the growth adjustment for categorical programs, and (d) a $313.1 million reduction to categorical programs, including elimination of funding for physical plant and equipment. The one-time savings of $115 million is the net savings achieved through: (a) implementing ongoing apportionment payment deferrals of $81.5 million in both April and May of 2010 to be paid in July of 2010, which effectively reduces spending on a one-time basis, and (b) partially offsetting this reduction by shifting $48 million for Career Technical Education funding from Quality Education and Investment Act settle-up appropriations to 2009-10 Proposition 98 funding. Deferrals for CCCs in 2009-10 now total $703 million.

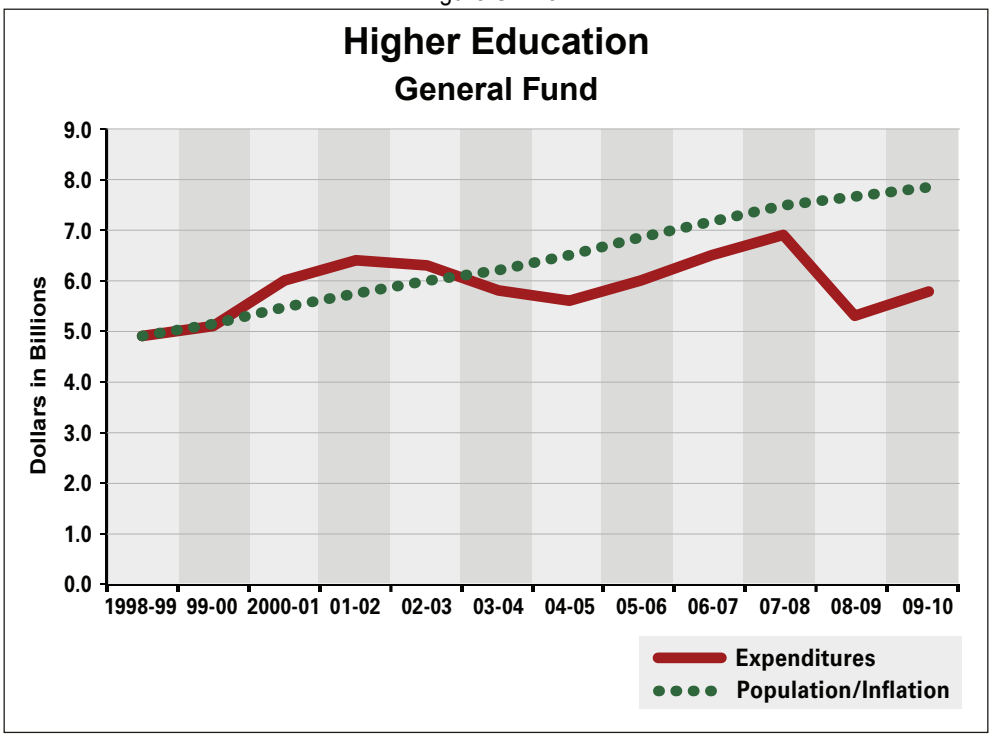
To minimize the impact of these funding reductions, the budget amendments authorize a $6 fee increase (from $20 per credit unit to $26) for 2009-10, which is anticipated to generate at least $80 million in local revenue to help mitigate base apportionment reductions. Even with this increase, California will still have the lowest per-unit fee of any community college system in the country. The budget also reappropriates $5 million in prior year savings to apportionments; and authorizes community college districts limited flexibility to utilize funds from 12 specified categorical programs to augment any categorical program through 2012-13.

Finally, the budget amendments anticipate receipt in 2009-10 of $130 million in ARRA State Fiscal Stabilization Fund allocations for higher education to partially backfill the categorical reduction. However, similar to anticipated funds for the University of California (UC) and California State University (CSU), the specific amounts will not be known until subsequent applications are made to and approved by the federal Department of Education.

Higher Education (Excluding Community Colleges)

Figure SWI-04 displays General Fund expenditures for higher education programs since 1998-99.

Figure SWI-04



The budget amendments reflect two-year solutions totaling $2 billion compared to the levels appropriated in the February Budget Act. Specific savings are as follows:

For 2008-09, the budget amendments include one-time unallocated savings totaling $1.431 billion, consisting of $715.5 million each from the UC and the CSU systems.

For 2009-10, the budget amendments include savings totaling $568.8 million that includes: (a) ongoing unallocated reductions of $266.7 million and $266.1 million to UC and CSU, respectively, (b) a $2 million unallocated reduction to Hastings College of the Law, including a $1 million veto to bring the reduction in state support for Hastings more in line with the General Fund reductions to UC and CSU since the 2008-09 budget was first enacted, (c) $32 million in one-time savings in the California Student Aid Commission (CSAC) budget by shifting a portion of Cal Grant costs to the Student Loan Operating Fund, and (d) a $2 million reduction to CSAC's state operations budget. The additional reductions to UC, CSU, and Hastings are necessary to help balance the budget, but provide the segments with the maximum flexibility to balance quality and access objectives. The $2 million reduction to CSAC's state operations budget reflects

the net change, after a veto, associated with savings that can be achieved through the decentralization of the CalGrant and other financial aid programs to the higher education segments. Decentralization of financial aid programs makes colleges and universities the single point of contact for most student's financial aid needs, thereby better serving students. Further, this change results in ongoing state operations savings and creates greater efficiency at campuses by eliminating the double handling of awards.

With these reductions, the state will still maintain the minimum spending level required for receipt of the ARRA State Fiscal Stabilization Fund allocations for higher education. Thus, it is anticipated that the reductions for UC and CSU will be partially offset with additional State Fiscal Stabilization Fund allocations, based on the formulas prescribed under federal law. It is noted that $537 million ($268.5 million each for UC and CSU) was previously allocated to these segments in April to compensate for reductions that were included in the February Budget Act. The budget amendments anticipate an additional $600 million for each segment from this source; however, the specific amounts will not be known until subsequent applications are made to and approved by the federal Department of Education.

In response to the reductions, both systems are implementing cost containment measures, including employee furloughs, and the CSU has recently acted to further raise systemwide fees by $672 effective with the fall term. This is on top of the 10-percent increase approved previously which brings the fee level to $4,026 for undergraduates in 2009-10. Compared to the $3,048 systemwide fee charged in 2008-09, these actions reflect a 32-percent increase from year to year. The UC is also considering further increases for implementation in the spring term, but to date has not yet acted to do so. Systemwide fees for UC undergraduates in 2009-10 are currently $7,788, reflecting a 9.3-percent increase from the $7,126 level charged in 2008-09. Despite the CSU fee increases, CSU fees remain among the lowest of any comparable four-year college in the nation. UC fees, at their current level, also remain below the average of comparable research universities nationwide.

For purposes of assisting the state's cash crisis, the budget package implements one-time delays in payments to UC totaling $750 million in the months of July through September, $250 million of which will be paid in October and the remainder between April 10 and June 30 of 2010 as specified in trailer bill legislation. For CSU, the budget package delays on a one-time basis $290 million from July to be paid in October, 2009.

Redevelopment Shift

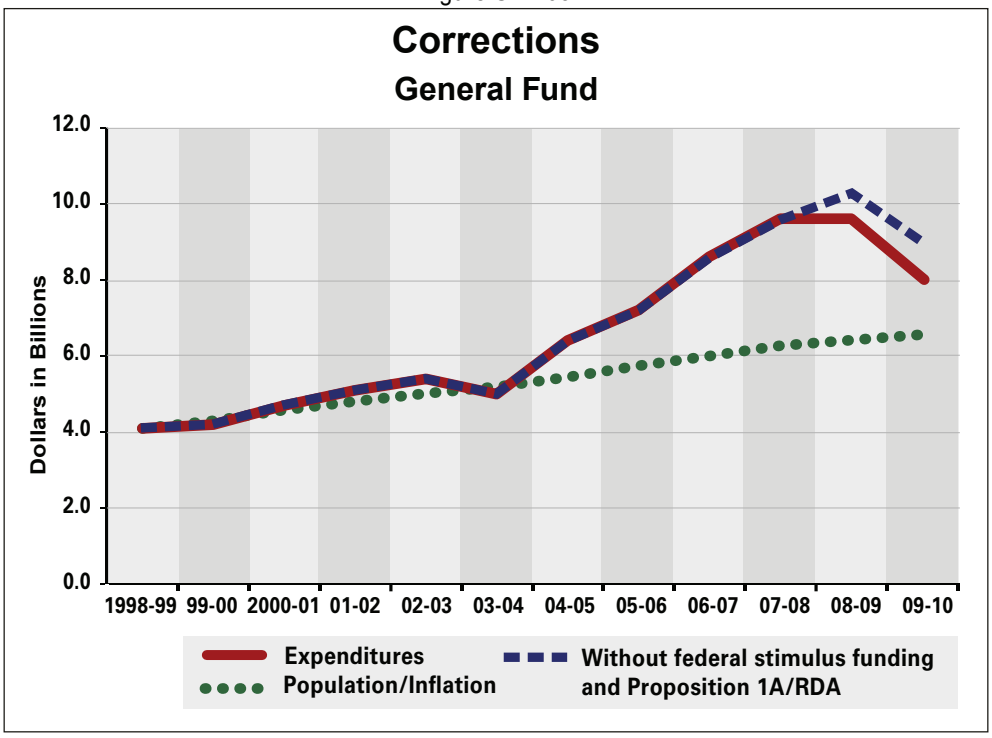
The budget amendments include a total of $1.7 billion shifted from redevelopment agency revenues and fund balances to K-12 schools that serve the redevelopment areas and the housing built by redevelopment agencies. This shift may be made from reserves or current income, including tax increment, proceeds of land sale or bonds, interest or other earned income, or borrowing the 20 percent of the tax increment that is normally dedicated to the low and moderate income housing fund. A redevelopment agency may also have its parent agency pay in its stead.

The same amount of base school property tax is shifted to the county-level Supplemental Revenue Augmentation Funds (SRAF). From these funds, $850 million will be used to fund courts, prisons, and Medi-Cal, hospital, and K-12 school bond expenses that would otherwise be funded from the state General Fund. The other $850 million is used to fund K-12 school costs offsetting Proposition 98 General Fund costs.

Corrections

Figure SWI-05 displays General Fund expenditures for Corrections since 1998-99. As a result of federal stimulus funding and an offset with Proposition 1A/redevelopment shift, General Fund expenditures for Corrections have been reduced by $1 billion in 2009-10.

Figure SWI-05



The $785.5 million in reductions to the California Department of Corrections and Rehabilitation (CDCR) is a combination of operational savings, program reductions, and policy reforms. While there is agreement on significant portions of the package, the legislation to establish significant policy reforms in the areas of parole, custody, program credits and other areas has not been enacted. We anticipate that the Legislature will enact the policy legislation upon its return in August. The following reductions can be implemented with the enactment of the Budget Act:

Selective Commutation and Deportation of Undocumented Persons in State Prison. $182.1 million due to the selective commutation and deportation of undocumented persons held in state prison. The CDCR will ensure that those offenders with the most serious convictions remain incarcerated while the remaining undocumented inmate population is referred to the United States Immigration and Customs Enforcement for deportation. Only those offenders who have been identified by the federal government for deportation will be released.

Program Reductions. $175 million associated with a decrease in the number of programs for inmates and parolees. Programs that have been demonstrated to effectively reduce recidivism will be retained. The CDCR will also attempt to achieve this savings through more efficient delivery of programs.

Operational Savings. $147.6 million associated with a one-time reduction for facility repairs, headquarters savings, additional efficiencies within the operations of the juvenile programs, and other operational savings.

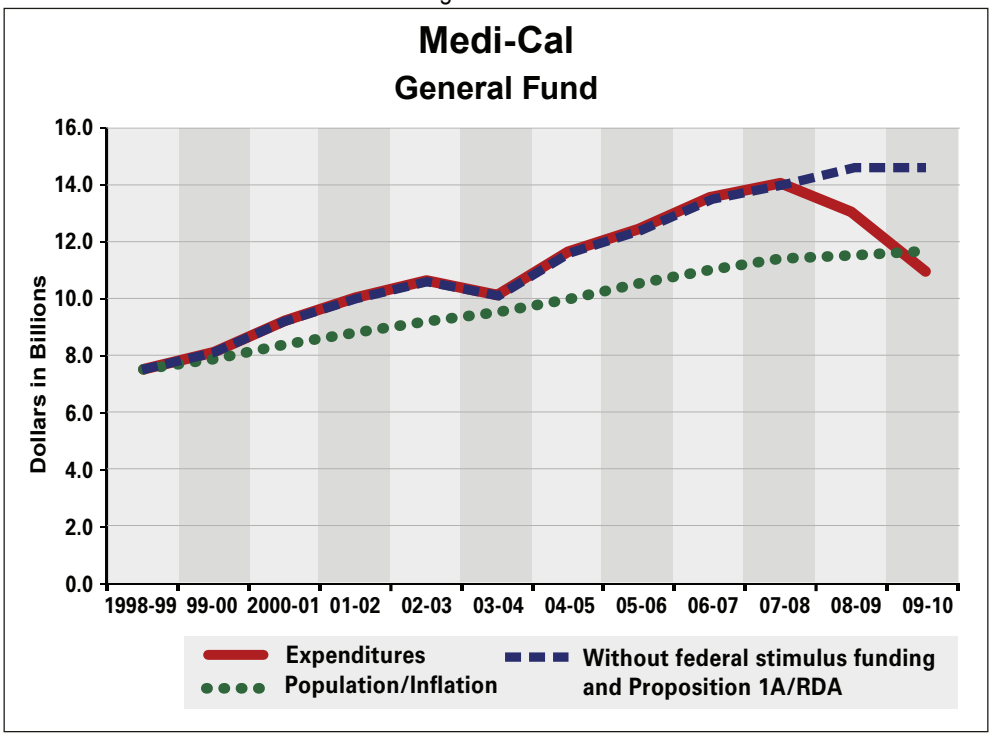
Contract Medical Rates. $50 million associated with the establishment of limits on contract reimbursement rates for medical services.

The remaining $230.8 million in budgeted savings, plus the $400 million that the Governor reduced by veto from the February Budget Act, will be achieved through various reforms intended to reduce prison and parole populations. The reforms include alternative custody options for certain offenders within the last 12 months of their sentence, inmate credit earning opportunities, various parole reforms related to who is on parole and how parolees are supervised, community corrections strategies, and sentencing changes for property crimes.

Medi-Cal

Figure SWI-06 displays General Fund expenditures for the Medi-Cal program since 1998-99. As the chart shows, General Fund costs would be much higher in 2008-09 and 2009-10 without the federal stimulus funding and an offset with Proposition 1A/ redevelopment shift. Enacted budget reforms and budget solutions will help control Medi-Cal's previous path of unsustainable growth, in the out-years.

Figure SWI-06



The $1.4 billion reduction in Medi-Cal primarily reflects the following:

Federal Medi-Cal Flexibility and Stabilization. $1 billion is attributable to the receipt of federal funds within the Medicaid (Medi-Cal) Program which are past due or authorized through waivers from the federal government. Examples include, but are not limited to Social Security Disability Insurance benefits that inappropriately resulted in state rather than federal Medicare expenditures, retroactive payment of duplicative but federally required Part B (medical insurance) premium payments due to systemic errors, needed adjustments to formulas that penalize California, such as the Medicare Part D "clawback" (formula driven drug coverage costs that do not appropriately account for California efficiencies such as drug rebate collections), and receipt of federal funds under various existing waivers.

Medi-Cal Skilled Nursing Facilities. $96.4 million in budget solutions result by expanding the amount of revenue on which the AB 1629 fee (fees paid by the industry that match federal funds and are used for provider rate increases and General Fund relief to a lesser degree) is assessed to include Medicare revenues ($6.4 million), and suspending an estimated five percent statutory rate adjustment (individualized for each facility primarily based on their staffing) for AB 1629 skilled nursing facilities and non-AB 1629 intermediate care providers ($90 million including the impact of the related AB 1629 fee revenue loss).

Medi-Cal Pharmacy Reforms. $66 million in savings results by implementing new federal and state drug pricing policies aimed at lowering costs and retaining quality care. These reforms require federal Drug Pricing providers to dispense only drugs purchased through the program, compel manufacturers of HIV/AIDS/cancer drugs to pay particular rebates subject to a penalty for non-compliance, establish upper billing limits for drugs, and direct the state to perform a therapeutic category review of antipsychotic drugs.

Medi-Cal County Administration. $60.5 million in reductions is necessary to generate a prudent budget and to reduce the structural deficit.

Reduce Funding for Private Hospitals. $47.9 million in budget solutions result by shifting $23.9 million from unobligated distressed hospital and supplemental funds rather than General Fund to support replacement Disproportionate Share Hospital costs, and reducing General Fund support by $23.9 million for private hospitals by ten percent, a commensurate reduction as public hospitals received in the February Budget Act.

Medi-Cal Anti Fraud Expansion. $46.8 million in savings is due to expanding efforts to combat fraud, waste and abuse within the Medi-Cal program. Specific efforts will focus on the areas of adult day health care, physician services, and pharmacy.

Adult Day Health Care Reform. $28.1 million in savings results by limiting services to no more than three days per week, freezing program rates as of August 1, 2009, and performing on-site treatment authorization request reviews. Reforms also authorize the establishment of a definition of medical acuity (necessity), and direct a stakeholder workgroup process to proceed with implementation aspects of the definition.

Other Medi-Cal Solutions. $35.8 million in budget solutions result by reducing rates by 10 percent for small and rural hospitals (authorized by Chapter 758, Statutes of 2008, and excluding rural reference centers and critical access hospitals) for savings of $7 million, eliminating state only ancillary services (physician, pharmacy, laboratory, physical therapy, etc.) for individuals residing in institutions for mental diseases for savings of $14.2 million, and reflecting the federal stimulus impact on caseload and solutions for savings of $14.6 million.

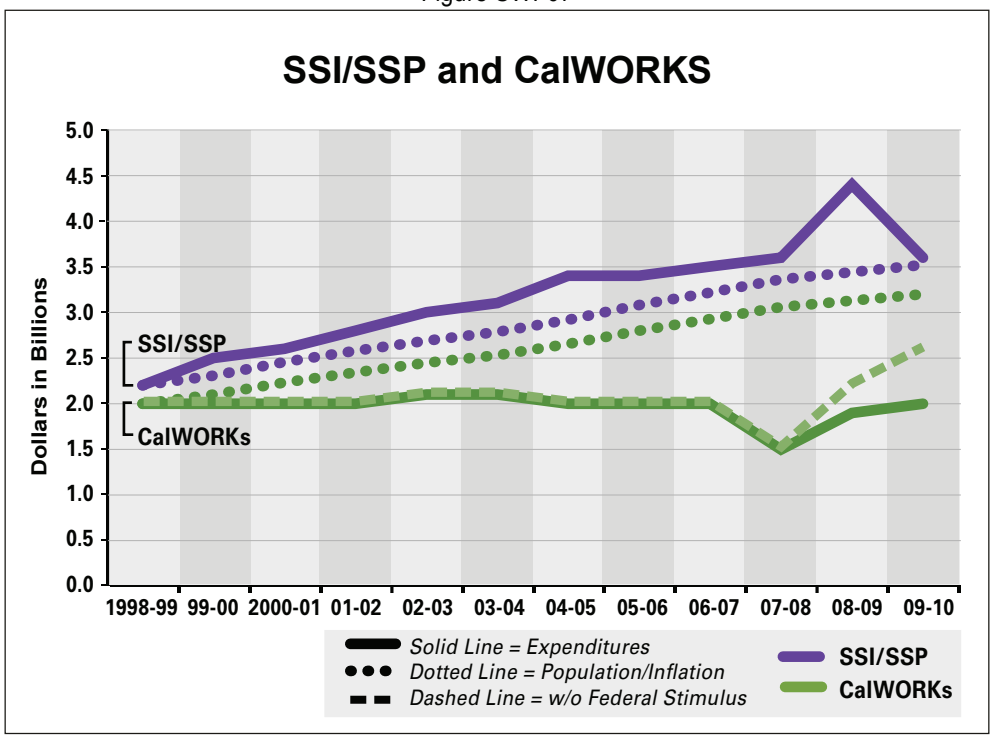
Centralizing Eligibility and Enrollment for Public Assistance. The budget establishes a framework for transforming enrollment and eligibility for the Medi-Cal, CalWORKs, and Food Stamp programs from an inefficient, labor-intensive, and decentralized system to a modern and online process. This modernization effort will help improve access to health and human services while reducing costs by an estimated $1 billion ($500 million General Fund) by 2012-13.

Improving Health Care Coordination and Controlling Long-Term Medi-Cal Costs. The budget includes reform that gives the Department of Health Care Services (in partnership with the federal government and stakeholders) broad authority under a demonstration project or waiver, to utilize managed care or other specialized delivery systems of care for vulnerable populations including seniors, people with disabilities, children with significant medical needs, and individuals with behavioral health problems. By providing earlier and appropriate care, this program restructuring will keep Californians healthier and avoid unnecessary emergency room visits. Savings of $800 million ($400 million General Fund) are estimated to be achieved through this effort by 2012-13.

Welfare Programs

Figure SWI-07 displays General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) and California Work Opportunity and Responsibility to Kids (CalWORKs) programs since 1998-99. As the chart shows, CalWORKs General Fund costs would be much higher in 2008-09 and 2009-10 without the federal stimulus funding.

Figure SWI-07



SSI/SSP. The $108.2 million reduction reflects reducing SSI/SSP grants for individuals by $5 per month, while reducing SSI/SSP grants for couples to the federal minimum (a reduction of approximately $82 per month for couples currently receiving the maximum monthly grant). With this reduction, the maximum monthly SSI/SSP grant for aged and disabled individuals will be $845 per month, approximately 94 percent of the federal poverty level (FPL), while the maximum monthly SSI/SSP grant for aged and disabled couples will be $1,407 per month, approximately 116 percent of the FPL. Even with this reduction, California's SSI/SSP grants remain among the highest in the nation.

CalWORKs. The $509.6 million reduction reflects: (1) prioritizing resources for employment services and child care to recipients who are working ($370.3 million), (2) utilizing federal stimulus funds to create subsidized employment slots ($60.1 million), (3) rejecting mid-year increases to the county single allocation in 2008-09 to enable this funding to offset General Fund costs in 2009-10 ($42.6 million), (4) offsetting General Fund costs with Employment Training funding on a one-time basis ($20 million), and (5) reflecting a reduced caseload projection ($16.6 million).

In addition to addressing the need for short-term savings, the Budget includes significant long-term reform efforts for the CalWORKs program, including:

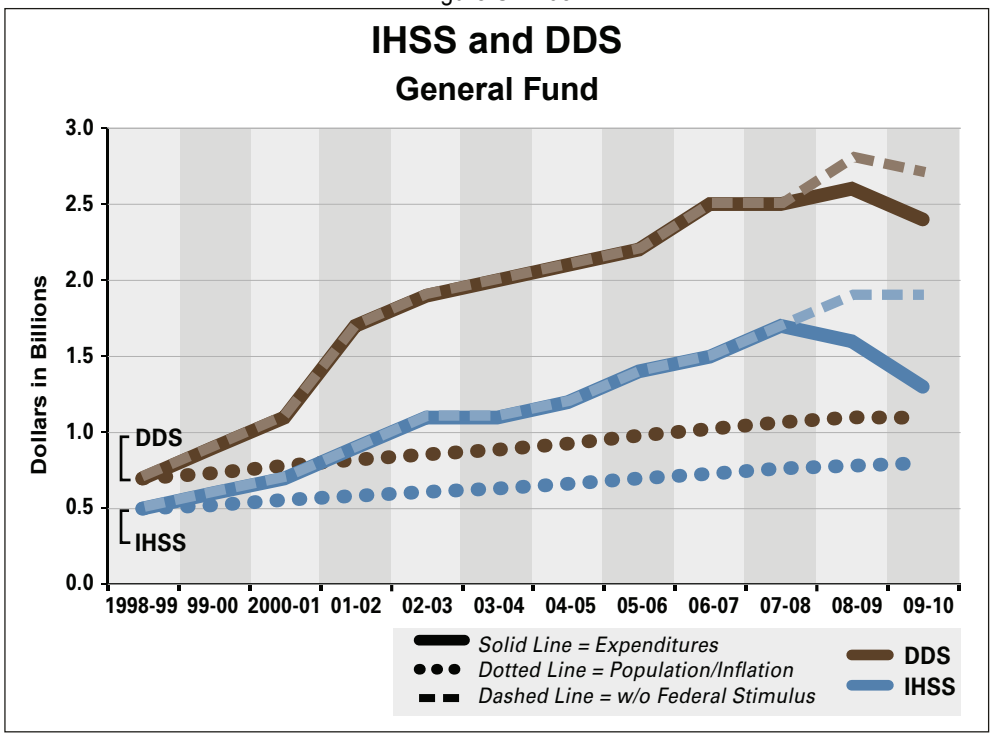
- Restructuring time limits by requiring the adults in families that have received aid for a cumulative 48 months within a 60-month period to "sit out" and not receive aid for 12 months. After 12 months has passed, the adults can receive another 12 months of aid – for a total lifetime maximum of 60 months. Any month in which the adult is in sanction status for not meeting work requirements will now count toward the 60-month cumulative time on aid.
- Requiring all non-exempt recipients who are not meeting work requirements to meet face-to-face twice a year for a review with county workers. If a recipient does not attend the review without good cause, the family's monthly grant will be reduced by 50 percent.
- Strengthening the sanction process for adults who do not comply with program requirements by removing the adult-portion of the grant if the adult refuses to comply within a cumulative total of three months. If, after another three cumulative months, the adult does not comply, the child-only portion of the grant will be reduced by 25 percent. If, after another three cumulative months, the adult does not comply, another 25 percent will be removed from the child-only portion, for a total reduction of 50 percent to the child-only grant. These sanctions also will apply to families that have reached their 60-month cumulative time on aid and are not complying with work participation requirements, provided counties make available to these families necessary child care services.
- Reducing by 25 percent the child-only grant for non-work-eligible adults, unless they meet work participation requirements. Counties may, at their own expense, provide services to enable these adults to meet program participation requirements. If they are successful in meeting program requirements, the child-only grant will continue to be provided at its full value.

Cost-of-Living Adjustments (COLAs). The budget also eliminates automatic statutory COLAs for the state's two major welfare programs. These statutory COLAs were placed in law in the early 1970's. The COLAs have been suspended or delayed during many of the years in which the state faced budget deficits.

Figure SWI-08 displays General Fund expenditures for the In-Home Supportive Services (IHSS) and Department of Developmental Services (DDS) programs since 1998-99. As reflected in the chart, General Fund expenditures in both the IHSS and DDS programs

have grown substantially faster than the growth in population/inflation. In addition, General Fund expenditures in both programs would be significantly higher in 2008-09 and 2009-10 if not for federal stimulus funding.

Figure SWI-08



IHSS

The $263.5 million reduction reflects: (1) reforms to significantly strengthen efforts to reduce and prevent fraud in this fast-growing program ($130 million) and limit the provision of IHSS services to the neediest consumers ($79.2 million), (2) eliminating the state's share-of-cost contribution for IHSS cases ($41.1 million), and (3) reducing funding for Public Authority administration rates ($13.3 million). Specific reform measures include:

- Implementing rigorous anti-fraud efforts that require: (1) all providers (current and new applicants) to attend an orientation and be fingerprinted during 2009-10, (2) IHSS recipients to be fingerprinted, (3) timesheets to be signed under a statement acknowledging that false timesheets are subject to civil penalties, and (4) fingerprints of both the recipient and provider on timecards. In addition, this reform component would generally disallow provider checks from being sent to post office box addresses, and would authorize case reviews, targeted mailings, and unannounced home visits.

- Targeting services to neediest consumers by: (1) limiting domestic and related services (housework, shopping and errands, and meal preparation and clean-up) only to individuals assessed to have the greatest need for those services, and (2) limiting all services to individuals with greater needs based on an assessment of their ability to function within 11 Activities of Daily Living.

Developmental Services

The budget imposes a $234 million cost containment target for the statewide developmental services system. Working with various stakeholder groups and the Legislature, the DDS developed a variety of proposals that are expected to generate savings in 2009-10. These savings are in addition to the $100 million in regional center cost containment measures also included in the early 2009 Budget Act.

In addition, the Governor vetoed $50 million from the DDS, Regional Centers Purchase of Services for services provided to eligible children up to age 5. These services are due to program growth and thus eligible for funding from the California Children and Families Commission.

Mental Health

The $163.9 million reduction reflects: (1) eliminating state support in the Mental Health Managed Care program for services other than federally required inpatient hospitalization and medication services ($64 million), (2) reducing Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program funding related to county programs developed in 2007-08 and 2008-09, and funded by counties using Mental Health Services Act funds ($28 million), (3) deferring payments for mandated mental health services to students with serious emotional disturbances enrolled in special education (AB 3632)($52 million), (4) reducing Caregiver Resource Center funding for services and supports to families and caregivers of cognitively impaired individuals ($4.1 million), and (5) reducing EPSDT for prior-year claims ($15.8 million).

Healthy Families

Reduces General Fund support for the program by $178.6 million, including $4.6 million from the elimination of Certified Application Assistance. The Managed Risk Medical Insurance Board, which oversees the program, froze new enrollment and established a waiting list effective July 17 because of the budget situation. Efforts are underway to solicit funding for the program from private and other sources. The Board will disenroll current beneficiaries from the program at their annual eligibility redetermination

as necessary. Any eligible individuals would subsequently go on the waiting list until they are able to be reinstated in the future as the economy and budget permits.

Child Welfare Services and Foster Care

The $120.6 million reduction reflects the following:

- Reducing General Fund support for county Child Welfare Services by $80 million.
- Reducing by 10 percent the rates paid to group homes, foster family agencies, and on behalf of seriously emotionally disturbed children ($26.6 million).
- Reducing the funding available to provide transitional housing services to emancipating foster youth ($5 million).
- Reducing funding available to maintain the case management and reporting information technology system used by county social workers ($4 million).
- Reducing funding for health oversight, case planning, and relative search and engagement activities ($4.2 million).
- Eliminating automatic increases in financial support available to families adopting a child with special needs ($900,000). Prior to this, monthly Adoption Assistance Program grants automatically increased with the age of the child.

Other Health and Human Services

The $361.6 million reduction primarily reflects the following:

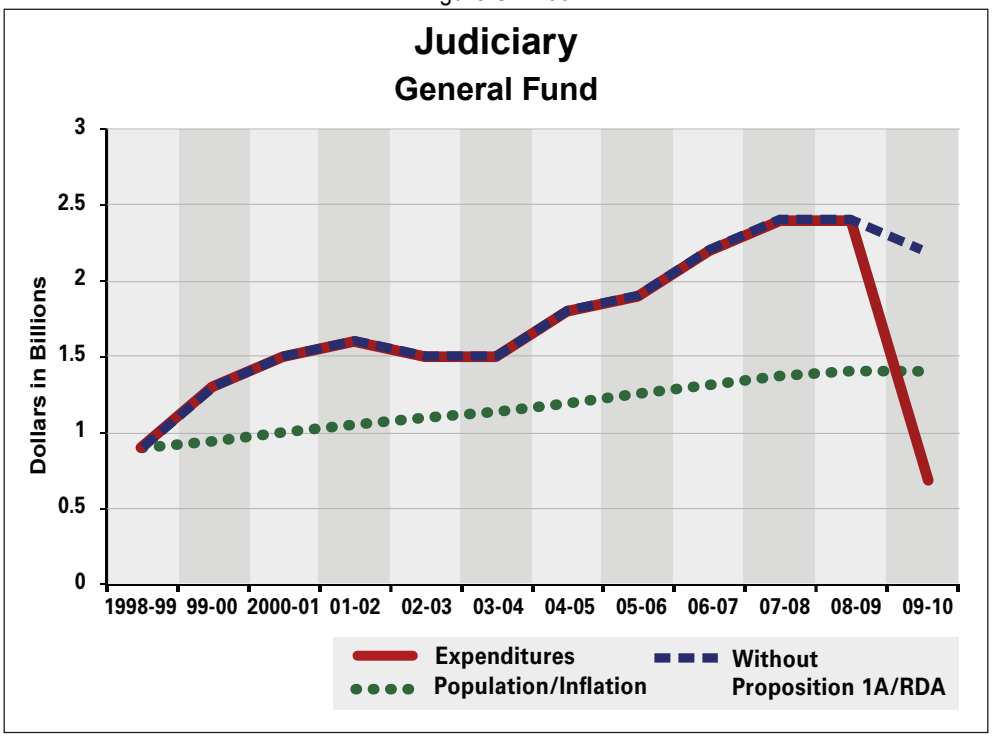
- Eliminating funding for the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36) ($90 million General Fund) and a 10-percent reduction in Drug Medi-Cal provider reimbursement rates ($8.8 million General Fund) for total savings of $98.9 million General Fund. The budget includes a one-time augmentation for the Offender Treatment Program (OTP), which serves drug court clients. The $50 million augmentation is supported by a one-time increase in federal Byrne JAG grants, bringing total funding for the OTP in 2009-10 to $68 million (includes $18 million General Fund).
- Eliminating $59.1 million General Fund for various programs administered by the Office of AIDS: Education and Prevention, Therapeutic Monitoring, Counseling and Testing, Early Intervention, Home and Community Based Care, and Housing.

- A shift of $25 million from the General Fund to the AIDS Drug Assistance Program (ADAP) Rebate Fund for support of the ADAP.
- Eliminating General Fund for various programs administered by the Maternal, Child, and Adolescent Health (MCAH) Division within the Department of Public Health, including the Domestic Violence Program ($20.4 million), Adolescent Family Life Program ($10.8 million), Black Infant Health Program ($3.9 million), other local MCAH services ($2.1 million), and related state administration ($1.7 million).
- Eliminating $35.1 million General Fund for various Community Clinic Grants (Rural Health Services, American Indian Health, Seasonal Migratory Worker, and Expanded Access to Primary Care clinics). Many, if not all of these clinics, will continue to receive funding from Medi-Cal and other state programs, federal funds, local grants, and private funds. In addition, many of these clinics are also receiving increased federal stimulus funds, which will help soften the impact of this necessary reduction.

Courts

Figure SWI-09 displays General Fund expenditures for Judiciary funding as compared to population and inflation since 1998-99. The costs would be higher if not for an offset with Proposition 1A/redevelopment shift.

Figure SWI-09



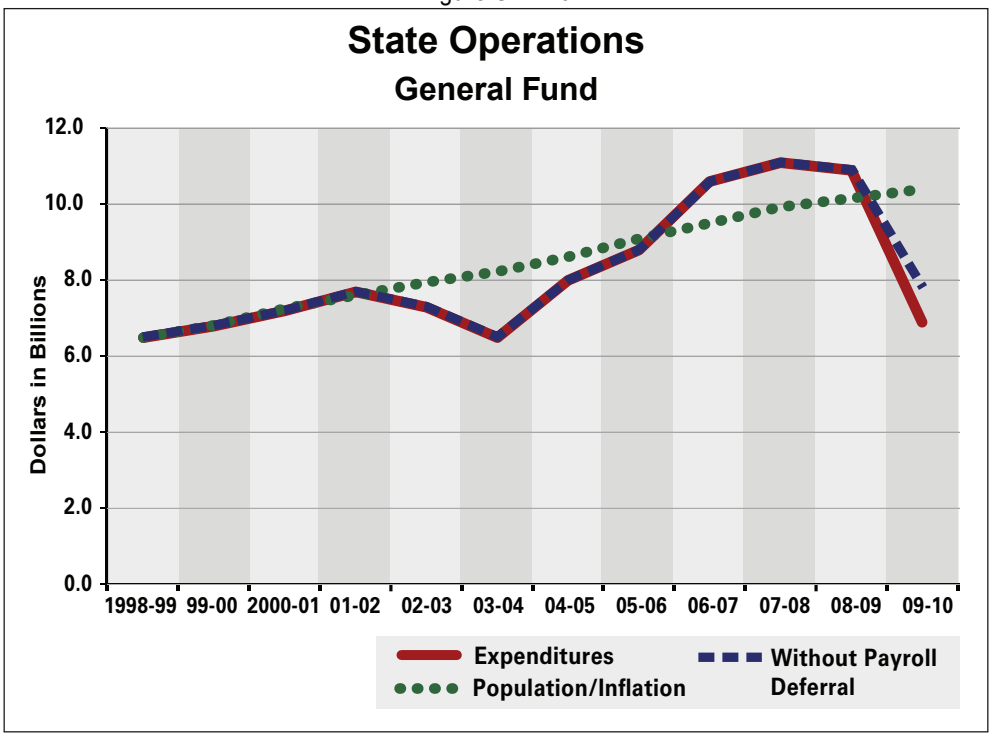
The $168.6 million reduction for the state trial courts, in conjunction with the February Budget Act reductions, brings the total reduction for the trial courts to $393 million. The $393 million reduction consists of the following: a one-day per month court closure statewide ($102 million), the use of trial court reserves ($71 million), transfers from special funds ($130 million), forego statutory growth ($32 million), and new fee increases ($58 million). Of the $393 million reduction, $100 million General Fund is a one-time reduction, to be restored as part of the 2010-11 Budget.

State Operations

While the bulk of state General Fund spending is allocated to programs operated by school districts, counties, other local governments, the judiciary, the University of California and California State Universities, or directly to recipients and providers of services, 8 percent is used to operate the various departments and agencies. State operations' General Fund spending grew at close to the combined rate of growth of the state's population and inflation over the past decade, with most of the increase occurring in the corrections system. State operations' General Fund costs have been reduced substantially in the last two years. The budget amendments contain a variety of cuts to state operations.

Figure SWI-10 displays General Fund expenditures for state operations since 1998-99. (Amounts also include the one-time savings in 2009-10 from shifting the June payroll and health care premiums to July (see Other Solutions) and exclude debt service, health and dental benefits for annuitants, higher education, and judiciary.)

Figure SWI-10



Furloughs. In response to the fiscal emergency, the Governor issued Executive Order S-16-08 imposing a two-day furlough on most state workers, effective February 1, 2009 through June 30, 2010. As the crisis deepened, the Governor issued Executive Order S-13-09 mandating a third furlough day, effective July 1, 2009 through June 30, 2010. The combined savings from both executive orders amounts to $2,217.5 million ($1,278.5 million General Fund).

All state civil service employees with the exception of those in Bargaining Unit 5 (Highway Patrol Officers), the Bureau of State Audits, the Legislative Counsel Bureau, and the Department of Forestry and Fire Protection (excluded for five months for fire seasons) are subject to the three-day per month furlough. While the furloughs reduce employee pay by 13.8 percent, they do not affect the pay used to calculate retirement benefits.

Rural Health Care Equity Program. The $14.6 million General Fund reduction reflects the elimination of the Rural Health Care Equity Program effective August 1, 2009. This program provided a payment to employees who live in rural areas to cover higher health care cost due to the lack of managed care providers in many rural areas of the state. The payments averaged $125 per employee per month.

Unallocated Reductions. State agencies will be required to achieve savings of $125 million General Fund associated with employee health care costs and reducing costs of information technology as directed by the state Chief Information Officer (CIO).

Reorganizations and Consolidations. Savings of $50 million will be achieved based on legislative proposals implemented to eliminate, reorganize, and consolidate various government functions to achieve operational efficiencies. Control Section 13.25 provides the mechanism to make necessary budget adjustments.

Figure SWI-11 provides a summary of reorganizations and consolidations.

Figure SWI-11
Reorganizations and Consolidations

Adopted Reorganizations and Consolidations	Referred to Policy Committee
Eliminates the Integrated Waste Management Board, consolidates recycling functions of the Department of Conservation into a new Department of Resources Recycling and Recovery.	Streamline and realign energy functions by consolidating and reorganizing functions of various entities into a single Department of Energy. In addition, eliminate the Department of Community Services and Development and transfer its functions to the Department of Social Services and to the new Department of Energy.
Eliminates Bureau of Naturopathic Medicine, creates a 9-member Committee under the Osteopathic Medical Board which will provide oversight.	Consolidate the Department of Corporations, Department of Financial Institutions, Department of Real Estate and Department of Real Estate Appraisers.
Eliminates the Board of Geologists and Geophysicists and transfer responsibility of functions to the Board for Professional Engineers and Land Surveyors.	Eliminate duplication and improve tax collections by merging tax collection operations currently split between the Franchise Tax Board, the Board of Equalization, and the Employment Development Department.
Moves the Structural Pest Control Board from the Department of Consumers Affairs to the Department of Pesticide Regulation.	Consolidate the Hearing Aid Dispensers Bureau under the Speech-Language Pathology and Audiology Bureau.
Consolidates the Bureau of Home Furnishings and Thermal Insulation with the Bureau of Electronic and Appliance Repair under the Department of Consumer Affairs.	
Establishes a sunset date for the Inspection and Maintenance Review Committee.	
Consolidates state information technology programs previously administered by the Department of Technology Services, the Telecommunication Division in the Department of General Services, and the Office of Information Security under the Chief Information Officer and grants the Officer authority to supervise departmental information technology projects and ongoing operations.	

Department of Industrial Relations

A reduction of $40.1 million reflects the shift of General Fund costs of the Labor Standards Enforcement and Occupational Safety and Health programs to revenue from increased employer fees. The increased assessments for the Occupational Safety and Health fee and the proposed new Labor Enforcement and Compliance fee would be assessed based on the size of the employer.

Local Conservation Corps

The Legislature included an augmentation of $16.5 million in the budget amendments of the California Conservation Corps, with language directing that the funds be allocated to local conservation corps. One-half of this augmentation is being retained. However, because of the state's fiscal constraints, the $8.25 million augmentation from the General Fund is being eliminated.

CAL FIRE Savings

The $27 million reduction to the Department of Forestry and Fire Protection (CAL FIRE) reflects: (a) a delay in CAL FIRE vehicle and equipment replacements for one year ($17 million), (b) a cancelation of an existing DC-10 aircraft contract ($7 million), and (c) an unallocated reduction to the Resource Management program ($3 million).

State Parks

The $14.2 million reduction to the Department of Parks and Recreation reflects an expenditure reduction to the state park system. This reduction will achieve $22.2 million in savings when fully implemented. It will result in the closure of probably more than 100 parks which will be identified once the Department has been able to complete a full assessment of its remaining resources and be in a position to determine where it will need to shut facilities down.

Cash Management Savings

A projected decreased need for external borrowing due to the adoption of budget and cash solutions in the 2009-10 fiscal year will result in $210 million savings for cash flow financing costs.

Savings of $92 million in interest costs for the Revenue Anticipation Notes (RANs) issued to cover cash-flow in 2008-09 fiscal year was achieved by reducing the size of the RANs issued.

Funding for General Fund Deficiencies

The Budget provides a reserve for funding certain contingencies and emergencies. However, the use of this funding over the years has been lower than previously anticipated. Therefore, the amount for the 2009-10 fiscal year has been reduced by $24 million, leaving a balance of $20 million.

For 2008-09, $18 million was allocated to departments for contingencies or emergencies, resulting in savings of $26 million.

Suspend Small Business Loan Guarantee program

The Small Business Loan Guarantee Program provides loan guarantees to eligible small businesses that otherwise would not be able to obtain a loan through commercial lenders. The budget amendments suspend any new guarantees and transfers not needed to guarantee existing loans, for a savings of $10 million.

Suspend Metal Plating Facility Loan Guarantee Program

The Metal Plating Facility Loan Guarantee program provides loan guarantees to eligible small businesses to purchase equipment that meets or exceeds environmental requirements. The budget amendments suspend any new loan guarantees and transfers $3.5 million to the General Fund.

Suspend Williamson Act Program

The budget amendments reflect only $1,000 for the Williamson Act Open Space program, effectively suspending the program. These monies partially backfill property tax revenues that local governments forego when they enter into voluntary contracts with property owners who agree to use their land for agricultural or open space purposes in exchange for a lower property tax assessment.

Fund Shifts

Figure SWI-12 displays the fund shifts included in amendments to the Budget Act of 2009.

Figure SWI-12
Amendments to the Budget Act of 2009
Fund Shifts
(Dollars in Millions)

Major General Fund Programs	2008-09	2009-10	Total
Various Fund Shifts	-	$88.3	$88.3
Fish and Game Preservation Fund	-	(30.0)	(30.0)
Eliminate GF Support to Marine Lift Protection Act	-	(4.4)	(4.4)
Shift Flood Protection Activities to Proposition 1E	-	(7.0)	(7.0)
Office of Environmental Health Hazard Assessment	-	(4.1)	(4.1)
Shift Department of Industrial Relations Major Programs to Fees	-	(40.1)	(40.1)
Revise Veteran Homes Member Fees	-	(2.7)	(2.7)
Various HHS Fund Shifts	-	4.4	4.4
California Children's Services Program	-	(3.0)	(3.0)
Child Welfare Services	-	(1.4)	(1.4)
Transportation	-	876.0	876.0
CAL FIRE Interagency Agreement with the Legislature	6.6	26.1	32.7
Local Airport Grant from Aeronautics Account	-	4.0	4.0
Totals	$6.6	$998.8	$1,005.4

The fund shifts are described in greater detail below.

Transportation

A total of $876.6 million in General Fund relief will be provided by using fuel sales tax spillover revenues to offset General Fund costs for transit, debt service, and regional center transportation.

Aeronautics

Local airport grants will be suspended in 2009-10 and $4 million will be transferred from the Aeronautics Account to the General Fund.

Motor Vehicle Account

The budget amendments transfer $70 million in non-Article XIX miscellaneous revenues from the Motor Vehicle Account to the General Fund.

CAL FIRE Savings

The budget amendments include a $26.1 million savings to CAL FIRE to reflect a one-time transfer of spending authority from the Legislature.

Revenue Solutions

Figure SWI-13 displays the revenue solutions included in the amendments to the Budget Act of 2009.

Figure SWI-13
Amendments to the Budget Act of 2009
Revenue Solutions
(Dollars in Millions)

Major General Fund Programs	2008-09	2009-10	Total
Various Tax Enforcement Changes	-	$26.0	$26.0
Estimated Payments	-	610.0	610.0
Withholding	-	1,732.0	1,732.0
SCIF Sale	-	1,000.0	1,000.0
Special Fund Transfers	-	81.0	81.0
Teacher Credentialing - Transfer from Special Fund to Cover Partial 2005-06 Deficiency	-	(2.7)	(2.7)
Transfer from Motor Vehicle Account	-	(70.0)	(70.0)
Transfer Balance of LWDF	-	(5.5)	(5.5)
Delay Opening of Science Center Phase II by One Year (transfer from special fund)	-	(2.8)	(2.8)
State Lands Royalties	-	42.9	42.9
Totals	-	$3,491.9	$3,491.9

The revenue solutions are described in greater detail below.

Non-retailer registration for use tax

Under current law, non-retailers – those who do not have a sales tax liability – are not required to register with the Board of Equalization (BOE). This law change will require qualified purchasers to register with the BOE and submit a return that details purchases made during the year that were subject to the use tax yet for which no use tax was paid. In general, a qualified purchaser would be a person required to hold a business license but not a seller's permit and who receives at least $100,000 in annual gross receipts.

This law change is expected to increase General Fund sales and use tax revenue by $26 million. The increased revenue does not come from increasing taxes. Instead, it will result from reducing tax evasion.

Accelerate estimated payments

Under current law, individuals and corporations are required to pay 30 percent each with the first two estimated payments, and 20 percent each for the last two estimated payments. Under this law change, which will begin with the 2010 tax year, the first quarterly estimated payment percentage will remain at 30 percent, the second quarter will increase from 30 percent to 40 percent, the third estimated payment will be eliminated, and the fourth quarter will increase from 20 percent to 30 percent. This law change, which was proposed in the 2009 May Revision, is expected to accelerate $610 million into 2009-10—$250 million in personal income tax receipts and $360 million in corporate tax receipts.

Accelerate wage withholding

The Employment Development Department administers the state's wage withholding program whereby employers are required to withhold personal income tax from wages paid to employees. This tax law change, which was proposed in the 2009 May Revision, will increase current wage withholding by 10 percent and is expected to accelerate $1.7 billion of personal income tax receipts into 2009-10.

Require backup withholding

Under current federal law, gambling winnings reported on Internal Revenue Service (IRS) Form W2G and payments made by banks and businesses reported on various IRS Forms 1099 may be required to backup withholding on those payments. Payments reported on IRS Forms 1099 include payments to independent contractors, rents, commissions, and royalty payments. This law change will conform to federal law by requiring a withholding rate of 7 percent for state purposes whenever it is required for federal purposes and it is expected to increase personal income tax revenues by $32 million in 2009-10.

State Compensation Insurance Fund

The sale of a portion of the State Compensation Insurance Fund's Book of Business to a private entity is estimated to achieve $1 billion in revenue.

Borrowing Solutions

Figure SWI-14 displays the borrowing solutions included in the amendments to the Budget Act of 2009.

Figure SWI-14
Amendments to the Budget Act of 2009
Borrowing Solutions
(Dollars in Millions)

Major General Fund Programs	2008-09	2009-10	Total
Loan of Fund Balance from the State Highway Account	-	$135.0	$135.0
Loans from the Harbors and Watercraft Fund, Off Highway Vehicle Trust Fund, and the Renewable Resources Trust Fund	-	112.0	112.0
Suspend Proposition 1A	-	1,935.0	1,935.0
Totals	-	$2,182.0	$2,182.0

The borrowing solutions are described in greater detail below.

Suspend Proposition 1A

The budget amendments include $1.9 billion in property tax monies borrowed from cities, counties, and special districts pursuant to Proposition 1A (2004). The borrowed sums will be shifted to county-level Supplemental Revenue Augmentation Funds where they will be used to fund K-12 schools, courts, prisons, and Medi-Cal, hospital and K-12 school bond expenses that would otherwise be funded from the state General Fund. The enabling legislation requires the borrowed sums to be repaid with interest by June 30, 2013. To alleviate any budget impacts the borrowing may have on local government, the legislation also authorizes a local government-created joint powers authority to issue bonds against the state's repayment obligation.

State Highway Account Loan

A loan of $135 million will be made from the fund balance in the State Highway Account to the General Fund. This loan will be repaid by June 30, 2013.

Other Solutions

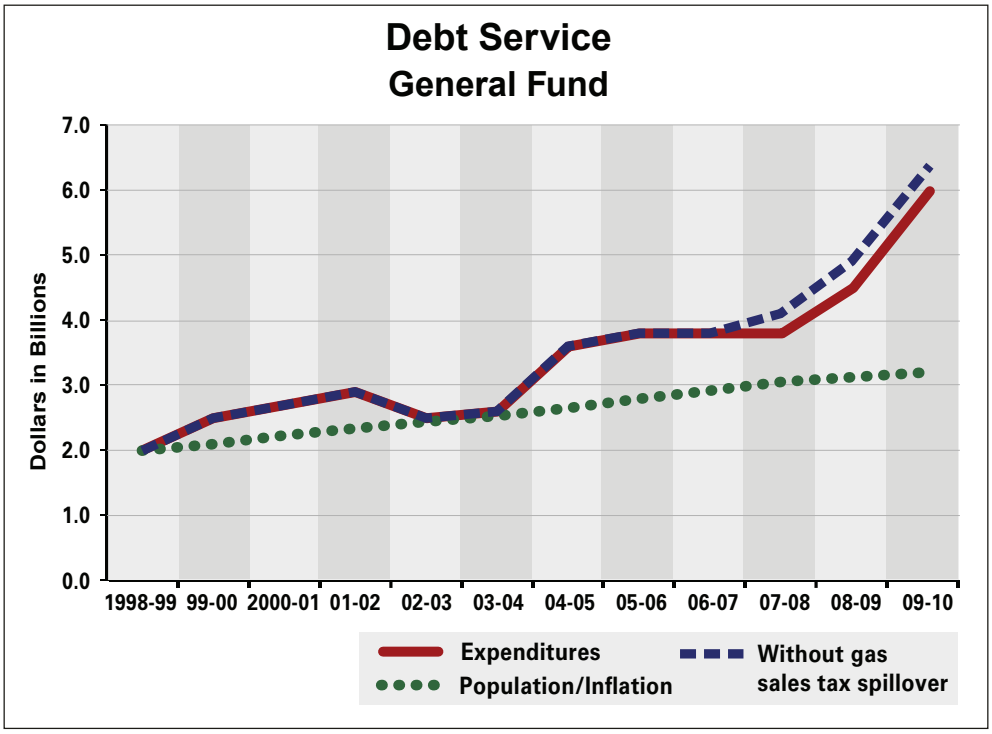
Payment Shifts

One-time savings of $1.618 billion ($937.6 million General Fund) from shifting the June payments for employee payroll and active and retiree health to July each year beginning with the pay period ending June 30, 2010. This payment shift excludes the University of California, California State University, Community Colleges, the Legislature, the California Exposition and State Fair, and local trial courts.

Strategic Growth Plan

Figure SWI-15 displays General Fund spending for debt service since 1998-99. With the ability to use funds from gas sales tax spillover proceeds, the General Fund expenditures have been reduced by $427 million in 2008-09 and $254 million in 2009-10.

Figure SWI-15



Despite the recession and budget crisis, California has continued to invest in critical infrastructure through the state's Strategic Growth plan. In addition to capturing federal ARRA funds for shovel-ready projects, the state has continued and even accelerated spending from the $42.7 billion of bonds approved on the November 2006 ballot. While these investments are critical to California's future, the costs of debt service will continue to put pressure on state General Fund spending.

In order to better utilize and leverage the state's existing real property assets, legislation was enacted that will authorize the Department of General Services (DGS) to lease out properties that may not be needed for many years. Also, the DGS will be authorized to sell and lease back some of the currently used high-value state properties in order to capture valuable equity. State agencies will be required to improve the justification of keeping state properties that are not fully utilized so that they may be disposed of if no long-term need can be proven. Finally, the legislative package authorizes the DGS to sell all or a portion of the Orange County Fairgrounds, an underutilized state property, and deposit those proceeds into the General Fund when sold.