Summary of Significant Solutions by Category

The Budget Act addresses a General Fund budget gap of $19.3 billion and provides a modest reserve of $1.3 billion.

Expenditure Reductions

The significant expenditure reductions by agency are as follows:

Legislative, Judicial, and Executive

- Judicial Branch—A reduction of $55 million to the Trial Courts, all of which will be offset by the use of local and Trial Court Trust Fund reserves.
- Legislature—A reduction of $4.6 million for negative State Appropriations Limit growth.

Natural Resources

- Department of Fish and Game—A decrease of $8.5 million for recreational hunting and fishing programs and multiple habitat conservation and restoration activities.
- Department of Parks and Recreation—A decrease of $7 million to the state parks system. This reduction will continue the service reductions at state parks that occurred in 2009-10 and will not require closure of any state parks.

Health and Human Services

Department of Aging

- A decrease of $6.4 million for Community Based Services programs. At local discretion, federal and local funds are alternatively available to support these programs.

Department of Alcohol and Drug Programs

- A decrease of $18 million from eliminating state funding for the Substance Abuse Offender Treatment Program.

Department of Health Care Services

- A decrease of $187.1 million General Fund by enrolling seniors and people with disabilities in managed care and deferring a managed care payment for two-plan and geographic managed care counties. Savings will be achieved while also providing beneficiaries with more effective services.

- A decrease of $84.5 million General Fund by freezing daily per diem hospital inpatient rates at current levels. This rate freeze is part of a transition to a new diagnosis-related payment methodology that will provide fiscal incentives for cost effective and appropriate care (similar to Medicare). The recently enacted hospital fee provides for significant supplemental payments to these hospitals above their negotiated daily rates and supports beneficiary access to services.

- A decrease of $43.9 million General Fund due to a change in the methodology used to determine the appropriate funding growth for County Administration. The historical methodology unnecessarily included duplicative adjustments for caseload growth and its impact on administrative costs.

- A decrease of $26.4 million General Fund (including associated support costs) by strengthening efforts to identify, prevent, and detect fraud in high-priority areas, such as pharmacy, physician services, transportation, and durable medical equipment.

- A decrease of $15.2 million General Fund because of a recent pharmacy settlement with AstraZeneca. This national settlement resolves/addresses whistleblower lawsuits and federal investigations into marketing practices for the schizophrenia drug Seroquel.

- A decrease of $13.6 million General Fund by reducing radiology rates to 80 percent of the corresponding Medicare rate. In some instances, the Medi-Cal rate is as high as 120 percent of the Medicare rate. The Legislature and the Governor understand and believe that access to services will be maintained with the level of funding being provided.
- A decrease of $10 million for various clinic grants. Clinics will alternatively receive increases in funding from federal health care reform, the stimulus, and significant state funding from Medi-Cal and other state programs.
- A decrease of $3.1 million General Fund by eliminating certain over-the-counter drug benefits (acetaminophen products) for adult beneficiaries.
- A decrease of $1 million General Fund by no longer paying Medicare Part B premiums for beneficiaries whose income exceeds the Medi-Cal threshold.

Department of Public Health

- A decrease of $52.1 million to the Office of AIDS to maintain program funding at 2009-10 budgeted levels.
- A decrease of $18 million for the Infectious Disease Branch's Immunization Program.
- A decrease of $7.6 million in local assistance funding for the AIDS Drug Assistance Program (ADAP). Remaining funding is sufficient to fully support the ADAP in 2010-11.

Department of Developmental Services

- A decrease of $25 million to regional center operations and provider payments. Reductions will be increased from 3 percent to 4.25 percent.
- A decrease of $5 million to the regional centers in 2009-10. Funding for Adult Day Health Care Services (ADHC) will be reverted because the ADHC reductions were enjoined by the court.

Department of Mental Health

- A decrease of $52 million from eliminating state funding for the AB 3632 mandates. This is related to the mandate suspension issue included in the General Government and Statewide Issues section.

- A decrease of $30.4 million and 144.4 positions to the state hospitals related to an estimated decrease in 2010-11 caseload and the implementation of cost containment measures.

Department of Social Services

- A decrease of $365.9 million from utilizing an advance of Temporary Assistance for Needy Families Block Grant funds for the quarter ending June 30, 2011 in lieu of General Fund. This will provide one-time General Fund relief without any adverse program impacts.
- A decrease of $300 million in the In-Home Supportive Services (IHSS) program, comprised of (1) using IHSS provider-generated revenue to draw down additional federal funds and offset General Fund expenditures in the program ($190 million), (2) imposing a 3.6-percent across-the-board reduction to the hours assessed for IHSS recipients ($35 million), and (3) reflecting an updated caseload estimate based on an actual decline in recipients as compared to the previous caseload projection ($75 million).
- A decrease of $80 million to maintain the level of funding in the Child Welfare Services program that was included in the 2009-10 Budget.
- A one-time decrease of $70 million from eliminating state funding for the Seriously Emotionally Disturbed portion of the Foster Care program. This is related to the mandate suspension issue included in the General Government and Statewide Issues section.
- A decrease of $12.4 million from reducing the reimbursement rates for license-exempt child care providers. This reduction saves federal funds in the Department of Social Services budget, which can be transferred to the Department of Developmental Services budget for use in lieu of General Fund.

Corrections and Rehabilitation

- A decrease of $820 million to the Receiver's Medical Services Program budget to reduce per-inmate medical costs to a level comparable to other states' correctional health care programs. In 2008-09, California spent an average of $11,627 per inmate. Currently, New York spends approximately $5,757 per inmate per year on health care. This reduction will bring California's per-inmate medical costs in line with New York's costs and can be achieved without adversely impacting inmate care.

The Receiver is taking the following steps to achieve this reduction:

- Implementing a Utilization Management Program to reduce the reliance on costly outside medical care.
- Utilizing telemedicine to the extent feasible.
- Centralizing pharmacy operations while also exploring options to further control pharmaceutical costs.
- Contracting with a provider network that will ultimately help control costs of outside medical and specialty care.
- Contracting with a third party administrator for the payment of medical claims submitted by contracted health care providers.
- Beginning the process to release the sickest inmates on medical parole.

These steps will provide efficiencies within the Medical Services Program to ensure that appropriate inmate medical care is provided in the most cost-effective manner. In addition to these measures, the Receiver should consider reducing clinician salaries and reevaluating the classifications used to provide medical services to inmates.

- A decrease of $46.3 million to align payments to local governments for the costs of incarcerating parole violators with the way in which local mandates are funded.

K-12 Education-Non Proposition 98 Programs

- Department of Education—A decrease of $2.6 million and 22.0 positions associated with administering categorical programs. School districts have recently been granted flexibility to shift funds among and away from approximately 40 categorical programs, resulting in less workload for departmental administration and oversight.

Proposition 98

In order to balance the 2010-11 Budget, it was necessary to suspend the Proposition 98 Guarantee by $4.1 billion. Even with the suspension, the Guarantee funding level for K-14 education remains the same as 2009-10 in an effort to protect education; and with federal funding increases, it improves year over year. The Proposition 98 Guarantee is reduced from the estimated minimum funding level of $53.8 billion down to a level of $49.5 billion.

In addition, a repayment of $300 million in settle-up payments is provided to pay for mandated costs. The following bullets describe the actions necessary to reduce the level of appropriations in 2010-11 to match the desired appropriations level:

Department of Education

- A decrease of $1.7 billion, in Proposition 98 General Fund in 2010-11 to reflect a deferral of revenue limit apportionments for K-12 school districts, county offices of education and charter schools, to be repaid in the 2011-12 fiscal year.
- A decrease of $700 million in unallocated ending balances as of June 30, 2010 from a variety of K-12 categorical programs. Of these unallocated funds, $360 million are as a result of program savings; the balance of $340 million is attributable to Special Education, all of which will be repaid with one-time 2009-10 savings from the Class Size Reduction program.
- Class Size Reduction Program Savings—A reduction of $550 million to reflect projected savings in the K-3 Class Size Reduction program in 2010-11. Since the penalties for exceeding class size limits were significantly reduced in 2009-10, program savings due to schools increasing class sizes are anticipated.
- Class Size Reduction Program Savings—A reduction of $340 million to reflect projected savings in the K-3 Class Size Reduction program in 2009-10. Since the penalties for exceeding class size limits were significantly reduced in 2009-10, program savings due to schools increasing class sizes are anticipated.

California Community Colleges

- A decrease of $129 million to reflect a deferral of $129 million in apportionments at the rate of $21.5 million per month for the last six months of the fiscal year, to be repaid in the 2011-12 fiscal year.

Child Care

- A decrease of $83.1 million on a one-time basis by requiring contractors to utilize accumulated reserves to offset contract amounts.
- A decrease of $18.7 million to reflect a reduction of license-exempt provider reimbursement rate limits from 90 percent of the licensed provider limits to 80 percent. This solution also saves $12.4 million General Fund in the Department of Social Services Stage 1 Child Care program budget. This is an ongoing solution that will save additional amounts in out-years when annualized.

- A decrease of $17.1 million to reflect a reduction in the administrative and support services cost allowance for voucher-based contractors from 19 percent of the contract amount to 17.5 percent.
- A decrease of $256 million to reflect the elimination of remaining funding for CalWORKs Stage 3 effective November 1, 2010.

General Government and Statewide Issues

- Commission on State Mandates—A one-time reduction of $365 million by suspending most mandates not related to elections, law enforcement, and property taxes.
- Lease Revenue Bond Debt Service Adjustments—A reduction of $75.6 million General Fund, $83.7 million all funds, to reflect updated lease revenue bond debt service estimates.
- Shared Revenues—A decrease of $11.9 million General Fund by eliminating backfills for Vehicle License Fee revenues local governments lost when the state changed the manner in which fees are assessed for commercial truck trailers. These funds were used by counties for non-realignment-related mental health, public health, and social services activities.
- Employee Compensation—A reduction of $1.557 billion in General and special funds achieved through: (1) six ratified memoranda of understanding and a pending agreement with the Service Employees Internation Union, Local 1000 representing nine bargaining units, that include savings resulting from increased employee pension contributions and unpaid personal leave days, (2) subsequent labor agreements containing similar provisions, and (3) other administrative actions to reduce employee compensation costs, including but not limited to, past and future furloughs authorized by section 3.91 of the Budget Act.
- Workforce Cap—A reduction of $449.6 million achieved through a five-percent workforce reduction. Executive Order S-01-10 required Agency Secretaries and Department Directors to implement changes necessary to achieve an ongoing five-percent workforce reduction beginning in fiscal year 2010-11. The Budget also includes $130 million in associated operating expenses and equipment savings. Constitutional offices are not included in the workforce cap because the fiscal year 2009-10 budget for each of those officers included a permanent reduction that achieves savings to the level of the workforce cap or a higher amount.

Federal Funds

A total of $1.4 billion in federal funds has already been achieved and is reflected in the workload budget as follows:

- A decrease of $584 million General Fund in 2009-10 and $933 million in 2010-11 by successfully working with the federal government to apply enhanced funding to Safety Net Care Pool and Medicare Part D drug payments, making prior year Section 1115 waiver funds available, and reducing the discount factor for state-only services in the Family Planning program.

A total of $5.4 billion federal fund solutions as follows:

- A decrease of $1.3 billion General Fund statewide resulting from the federally approved extension of enhanced Medicaid funding.
- Department of Health Care Services—A decrease of $29 million General Fund resulting from the federally approved two-month extension of the current Hospital Financing Waiver. This policy will allow the state to claim additional federal funds for supporting health services.
- Department of Health Care Services—A decrease of $5 million General Fund by changing the Family Planning Program from a waiver to a state plan program authorized by federal health care reform (and thus, making more services eligible for enhanced federal funding).
- Department of Health Care Services—An increase of $45.4 million General Fund to technically account for the impact of federal stimulus funds from state budget policy.
- Department of Developmental Services—A decrease of $32.9 million to the regional centers due to an estimated extension through 2010-11, of the American Recovery and Reinvestment Act increase for the Individuals with Disabilities Education Act, Part C.
- Department of Developmental Services—A decrease of $14.5 million to the regional centers due to increased federal financial participation for day treatment and transportation services provided to residents of Intermediate Care Facilities – Developmentally Disabled. This increase also resulted in total prior years' savings of $39 million for 2007-08, 2008-09, and 2009-10.

- Department of Child Support Services—A decrease of $18.9 million from the federal government continuing to allow California to use incentive funds to match federal funds through June 30, 2011.
- Department of Social Services—A decrease of $9.9 million resulting from the federally approved extension of enhanced funding for the Foster Care and Adoption Assistance programs.
- Department of Social Services—A decrease of $395.4 million from the federal government continuing through 2010-11 the Temporary Assistance for Needy Families Emergency Contingency Funding.
- Student Aid Commission—A decrease of $7.2 million reflecting a shift of costs for the Assumption Program of Loans for Education (APLE) program to the federal College Access Challenge Grant.
- University of California—A decrease of $106 million reflecting a shift of costs on a one-time basis to the federal American Recovery and Reinvestment Act State Fiscal Stabilization Fund.
- California State University—A decrease of $106 million reflecting a shift of costs on a one-time basis to the federal American Recovery and Reinvestment Act State Fiscal Stabilization Fund.
- Department of Education—A decrease of $775,000 and the elimination of the Alternative Schools Accountability Model Program.
- Department of Education—An anticipated increase of $1 billion in federal funding for Special Education.
- A decrease of $3.6 billion General Fund by obtaining additional federal funds in a number of targeted areas, including federal reimbursement for the cost of incarcerating undocumented immigrant felons, special education, an increase in the state's Federal Medical Assistance Percentage, monies owed to the state for incorrect Medicare disability determinations, and recalculation of state Medicare Part D clawback payments after taking into consideration aggressive state rebates (which would reduce clawback costs to California if these benefits were still provided through Medi-Cal), as well as possible General Fund relief through the new comprehensive Section 1115 Medi-Cal Financing Waiver. Additional options include seeking federal support on court cases currently preventing the state from implementing previously enacted program changes to Health and Human Services

programs or increasing the income standard to receive federal funds in the Foster Care program.

Other Solutions

A total of $5.5 billion, including:

- Legislative Analyst's Office (LAO) Revenue Forecast—The Budget Act assumes the LAO's revenue forecast, which increases revenues by $399 million in 2009-10 and by $961 million in 2010-11.
- Extension of Net Operating Loss (NOL) Suspension and Delay of Carrybacks—Except for taxpayers with income that is less than or equal to $300,000, NOL deductions are suspended for tax years 2010 and 2011. The suspension exempts over 90 percent of all corporations. In addition, the ability to carry back losses for two years will be delayed until 2013. Carrybacks will be limited to 50 percent of losses for tax years beginning in 2013, 75 percent of losses for tax years beginning in 2014 and 100 percent of NOLs will be allowed to be carried back for tax years beginning tax year 2015 and later. This tax law change is expected to increase revenues by $1.2 billion in 2010-11.
- Cost of Performance Sales Location Rule—For taxpayers that do not elect single sales factor apportionment of income between states, the sale will be deemed to have occurred where the cost of performance has been incurred instead of where the sale occurs. This tax law change is expected to decrease revenues by $28 million in 2010-11 and an additional reduction of $2.6 million is due to the interaction between this provision and the NOL suspension.
- Safe Harbor For Large Corporate Understatement Penalty—This provision exempts corporations from the penalty of 20 percent of their tax understatement if the understatement is less than 20 percent of the tax shown on the original or amended return filed by the due date for the taxable year. This provision applies to tax years beginning 2010, and is expected to reduce revenues by $105 million in 2010-11. The interaction between this provision and the NOL suspension is estimated to result in an additional reduction of $12 million in 2010-11.
- Make Permanent the Use Tax Reporting Line on Income Tax Returns—Eliminate the sunset date for the separate line on the Franchise Tax Board income tax returns for use tax reporting. This provision is expected to increase annual General Fund revenues by $6.7 million in 2010-11.

- Board of Equalization (BOE) Enhanced Tax Compliance—Provide additional resources to the BOE to address the growing number of audit leads and collection cases currently not addressed, enhance collection and enforcement efforts through the participation in the Higher Intensity Financial Crimes Area task force, and address significant increases in the settlement and appeals inventory of cases. This is expected to increase General Fund compliance revenues by $13.6 million in 2010-11.
- Exception to 2008 NOL Tax Year Suspension—Permit NOL deductions for corporations undergoing specified bankruptcy/re-organization. The revenue impact is unknown but it is expected that relatively few companies would be affected by this provision.
- Judicial Branch—A redevelopment agency fund shift of $350 million to offset trial court costs.
- Sale Leaseback of 11 State Office Buildings—Additional one-time revenues of $1.2 billion General Fund to reflect the sale of 11 state office buildings. The state would leaseback these properties for a period of 20 years with first right of refusal if the properties are put up for sale. The purchaser will be fully responsible for the maintenance and management of all facilities, with the exception of the CalEMA facility. In addition, the state will continue to pay for utilities. It is the intent that current cafeteria and day care facilities in the buildings will continue to operate as they do today.
- Department of Health Care Services—A decrease of $240 million General Fund by using funds available from the authorized hospital fee (AB 1383) to offset Medi-Cal costs for services provided to children. The fees also match federal funds to provide supplemental payments to hospitals.
- Department of Health Care Services—A decrease of $47.2 million General Fund by authorizing Proposition 99 funds to support specific Medi-Cal costs.
- Managed Risk Medical Insurance Board—A decrease of $11 million General Fund due to a similar increase in the Children's Health and Human Services Special Fund resulting from higher than anticipated revenues from the enactment of Chapter 157, Statutes of 2009 (AB 1422).
- Student Aid Commission—A decrease of $100 million to the Student Aid Commission to shift a portion of Cal Grant Program costs on a one-time basis to the Student Loan Operating Fund.

- Department of Justice—A $15.7 million loan from the False Claims Act Fund to the General Fund.
- California Tax Credit Allocation Committee—A revenue increase of $70 million from two loan repayment extensions and two new loans from special funds to the General Fund.
- Department of Consumer Affairs—Loans of $10 million from the Accountancy Fund and $60 million from the Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account to the General Fund.
- Highway Users Tax Account—Loans $762 million to the General Fund. This includes $650 million in fuel excise tax revenues that were set aside as part of the special session tax swap. It also includes a loan of $112 million in fuel excise tax revenues that had been part of an appropriation made in special session to reimburse the General Fund for debt service costs on highway bonds. Due to lower-than-anticipated debt service costs on highway bonds, these additional resources are available to be loaned to the General Fund.
- Department of Transportation—Loan of $29 million from the Public Transportation Account to the General Fund. These funds were also part of special session appropriation providing General Fund relief through reimbursement of debt service costs. Due to lower-than-anticipated debt service costs on transit bonds, the amount needed for General Fund relief has been reduced, freeing up these additional resources to be loaned to the General Fund.
- Department of Transportation—Loan of $80 million from the State Highway Account fund balance to the General Fund. These funds were made available through efficiencies and savings achieved by the Department of Transportation.
- Department of Transportation—Extends the repayment date of $231 million in loans which were made to the General Fund from the State Highway Account and other transportation funds in the 2008 Budget Act by an additional year, until June 30, 2012.
- Department of Motor Vehicles—Loan of up to $180 million from the Motor Vehicle Account. These funds were made available as a result of furloughs and associated reductions to operating expenses, as well as a procurement savings for California Highway Patrol Enhanced Radio System project equipment.

- Department of Motor Vehicles — Transfer of $72.2 million of non-Article XIX revenue from the Motor Vehicle Account to the General Fund.
- Department of Resources Recycling and Recovery — An $80 million loan to the General Fund from the Electronic Waste Recovery and Recycling Account. The loan will be repaid by July 1, 2012.
- California Energy Commission — A deferral of $35 million in General Fund loan repayments to the Renewable Resources Trust Fund (RRTF), and a newly authorized $25 million RRTF loan to the General Fund. The loans will be repaid by June 30, 2012 and June 30, 2013 respectively.
- Office of Statewide Health Planning and Development — A decrease of $32 million General Fund due to a delay in loan repayments to the California Health Data and Planning Fund and the Hospital Building Fund.
- Department of Public Health — A decrease of $2.7 million due to a delay in loan repayments to the Occupational Lead Poisoning Prevention Account and the Drinking Water Operator Certification Special Account.
- School Facilities Aid Program — A transfer of $10 million in surplus revenues from the School Building Aid Fund to the General Fund
- Public Utilities Commission (PUC) — A deferral of $150 million in anticipated loan repayments from the General Fund to various PUC special funds. The loans were originally authorized in the 2008 Budget Act and will be repaid by June 30, 2012.

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