

INTRODUCTION

The 2011 Budget Act closes a \$26.6 billion budget gap and makes substantial progress in addressing the state’s long-term structural budget deficit. It also returns authority to local governments and makes state government more efficient.

As shown in Figure INT-01, the Budget relies on deep spending reductions. In total, the Budget reduces expenditures by \$15.0 billion. Targeted revenue increases of \$0.9 billion and other solutions of \$2.9 billion were also adopted. The remaining \$8.3 billion in changes are from the improvement in the state’s revenue outlook. The total of \$27.2 billion in changes balances the Budget and leaves the state with a reserve of \$543 million. General Fund spending totals \$85.9 billion, a 6.1-percent reduction from 2010-11.

Figure INT-01
Closing the Budget Gap
 (Dollars in Millions)

	Two-year total	%
Expenditure Reductions	\$15,043	55.3
Revenues	947	3.5
Other	2,920	10.7
Natural Changes	8,287	30.5
Total Solutions and Changes	<u>\$27,197</u>	

REALIGNING SERVICES TO LOCAL GOVERNMENTS

The Budget includes a major realignment of public safety programs from the state to local governments. The realignment moves program and fiscal responsibility to the level of government that can best provide the service, eliminating duplication of effort, generating savings, and increasing flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 will end the costly revolving door of lower-level offenders and parole violators through the state’s prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services.

The Budget funds the \$5.6 billion realignment using two fund sources: (1) the dedication of 1.0625 cents of the existing sales tax rate (\$5.1 billion) and (2) the redirection of vehicle license fee revenues (\$453.4 million).

See Figure INT-02 for a summary of Realignment Funding.

Figure INT-02
Realignment Funding
(Dollars in Millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	\$496.4	\$496.4	\$496.4	\$496.4
Local Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	956.7	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Mental Health Services				
EPSDT	-	629.0	629.0	629.0
Mental Health Managed Care	-	183.7	183.7	183.7
Existing Community Mental Health Programs	1,083.6	1,119.4	1,119.4	1,119.4
Substance Abuse Treatment	183.6	183.6	183.6	183.6
Foster Care and Child Welfare Services	1,567.2	1,567.2	1,567.2	1,567.2
Adult Protective Services	55.0	55.0	55.0	55.0
Existing Juvenile Justice Realignment	97.1	104.1	103.2	103.3
Program Cost Growth*	-	339.0	624.5	1,063.9
Total	\$5,559.1	\$6,024.8	\$6,467.9	\$6,841.3
VLF Funds	453.4	453.4	453.4	453.4
1.0625% Sales Tax	5,105.7	5,571.4	6,014.5	6,387.9
Total Revenues	\$5,559.1	\$6,024.8	\$6,467.9	\$6,841.3

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

REDUCING STATE GOVERNMENT

To reduce spending to match available resources, the Budget makes substantial cuts to state programs. General Fund spending as a share of the economy is now at its lowest level since 1972-73. Figure INT-03 summarizes the \$15 billion in spending reductions included in the Budget. These include the following:

Figure INT-03
Adopted Solutions Reduce Spending
(Dollars in Millions)

	2-Year Total
<u>EXPENDITURE REDUCTIONS</u>	
<u>Health and Human Services Programs</u>	
Medi-Cal	\$2,036.3
Proposition 63 Community Mental Health Services	861.2
CalWORKs	837.0
Developmental Services	567.2
In-Home Supportive Services (IHSS)	413.0
Supplemental Security Income/State Supplementary Payment Grants	178.4
Other Health and Human Services Programs	106.8
<u>Realignment Savings</u>	2,583.2
<u>Education</u>	
Proposition 98	2,082.9
UC and CSU	1,375.0
Cal Grant Program	153.0
Other Education	16.7
<u>All Other Reductions</u>	
Transportation Debt Service	1,130.2
Courts	743.6
Employee Compensation and State Operations Efficiencies	471.1
Corrections and Rehabilitation	366.0
State Mandates	327.5
Other Reductions	793.5
Total Expenditure Reductions	<u><u>\$15,042.6</u></u>

- Maintaining K-12 education funding at a similar level as 2010-11.
- Reducing State Supplementary Payment grants to below the level in effect in 1983.
- Reducing CalWORKs grants to below the 1987 level.
- Reducing California Department of Corrections and Rehabilitation's inmate population by 25 percent once realignment is fully implemented.

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- Requiring recipients of Medi-Cal health benefits to pay a share of the cost for doctor visits and other services.
- Shrinking the state's support for the University of California and California State University by 22 and 25 percent, respectively.
- Requiring community college students to pay \$10 more per class unit.
- Pausing the court system's construction program for one year.
- Eliminating the Adult Day Health Care program, Williamson Act subventions, and the refundable child care and dependent tax credit.
- Reducing the state's workforce by about 5,500 positions.
- Eliminating 20 boards, commissions, task forces, offices, and departments, including the California Medical Assistance Commission and the Office of Insurance Advisor.

IMPROVING REVENUE OUTLOOK

The May Revision reflected the state's continuing recovery from the Great Recession with \$6.6 billion in higher tax receipts compared to the January Budget. Since the May Revision, tax receipts have continued to come in higher than expected by an estimated \$1.2 billion in May and June. With the improved revenue receipts, the Budget projects an additional \$4 billion in estimated 2011-12 revenues.

The Budget recognizes the potential risk to the state's fiscal condition if the higher revenues do not materialize. Under the budget package, if revenues are projected to fall short of expectations by more than \$1 billion, an additional \$600 million in cuts to higher education, health and human services, and public safety would be implemented beginning in January 2012. If revenues are projected to fall short by more than \$2 billion, an additional \$1.9 billion in education reductions would be implemented—shortening the school year by 7 days, eliminating the home-to-school transportation program, and reducing community college apportionments. These potential cuts are summarized in Figure INT-04.

ADDRESSING THE STATE'S LONG-TERM CHALLENGES

In January, California's long-term fiscal problems were immense, with the budget forecast projecting an annual structural deficit of up to \$21.5 billion into the future.

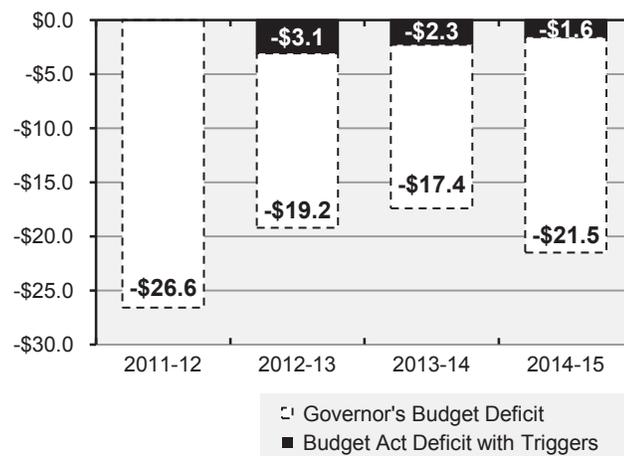
Figure INT-04
Trigger Reductions
 (Dollar in millions)

	2011-12
TIER 1 (If Revenues Fall Short of Budget Act Estimate By More Than \$1 billion)	
Unallocated Reduction to the University of California	\$100.0
Unallocated Reduction to California State University	100.0
Eliminate State Grants for Local Libraries	15.9
Additional Reduction to the Department of Developmental Services	100.0
In Home Supportive Services (IHSS)—20 percent Reduction in Service Hours	100.0
IHSS—Eliminate Funding for Local Anti-Fraud Efforts	10.0
Medi-Cal—Extend Provider Cuts and Copayments to all Managed Care Plans	15.0
Unallocated Reduction to the Department of Corrections and Rehabilitation (CDCR)	20.0
Juvenile Justice—Increase County Charge for Youthful Offenders Sent to CDCR	72.1
Eliminate Vertical Prosecution Grants	15.0
Proposition 98—Community College \$10 per unit fee increase	30.0
Child Care—4 percent Across-the-Board Reduction	23.0
Subtotal	\$601.0
TIER 2 (If Revenues Fall Short of Budget Act Estimate By More Than \$2 billion)	
Proposition 98—Reduce 7 Days of School	\$1,540.0
Proposition 98—Reduce Community College Apportionments	72.0
Proposition 98—Eliminate Home-To-School Transportation	248.0
Subtotal	\$1,860.0
Total Trigger Reductions	\$2,461.0

As shown in Figure INT-05, the 2011 Budget Act makes substantial progress in reducing this deficit through the combination of ongoing spending reductions and an improved revenue outlook. Under current projections, the structural deficit has been reduced to less than \$5 billion annually.

Despite eliminating most of the structural deficit, the state continues to face major long-term challenges and must address the remaining structural problem. California remains

Figure INT-05
State's Budget Gaps Have Been Nearly Eliminated
 (Dollars in Billions)



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burdened by \$35 billion in debt from a decade of unprecedented budgetary deferrals and borrowing. Education funding is more than \$6 billion below the level provided in 2007-08.

The Administration plans to seek voter approval of a ballot measure by November 2012 to better position California for the future by constitutionally protecting public safety realignment, supplementing the state's revenues to restore education funding, paying down the state's wall of debt, and balancing the Budget into the future. A structurally balanced Budget that preserves critical levels of government services will lay the groundwork for a strong economic recovery and employment growth. The resulting stability will give businesses the certainty and reassurance they need to expand investments in California.