

## **SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS**

Diana is testing the Budget Summary loading. The Budget Act held spending essentially at the same level as spending in 2007-08 and was less than \$2 billion more than the 2006-07 level, reflecting relatively flat spending growth for three years. Given the revenue decline and emergence of a \$14.8 billion of current year General Fund Budget gap, the Governor has proposed savings which, when combined with other adjustments, reduce spending from \$103.4 billion to \$92.4 billion. With the proposed program reductions, 2008-09 General Fund expenditures will decrease by \$11 billion from the 2008 Budget Act level, and then increase by 3.4 percent in 2009-10 compared to the revised 2008-09 expenditure estimate.

The Governor's Budget projects that with the proposed revenue measures, 2008-09 General Fund revenues will still decrease by \$10.9 billion from the 2008 Budget Act level. With the revenue measures proposed, revenues will increase by 7.2 percent in 2009-10 compared to the revised 2008-09 revenue estimate.

Reflects the General Fund revenues and expenditures as of 2008 Budget Act. It compares General Fund revenues and expenditures in 2009-10 to the revised 2008-09 revenue and expenditure estimates. Major expenditure changes are highlighted below. For information regarding changes since the 2008 Budget Act, please view specific departmental information under Proposed Budget Detail.

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## **LEGISLATIVE, JUDICIAL, AND EXECUTIVE**

General Fund expenditures are proposed to decrease by \$11.4 million, or 0.3 percent.

The major General Fund workload adjustments are as follows:

- Growth Factor Increase for the State Trial Courts—An increase of \$32.5 million for the Trial Courts related to the estimated growth in the State Appropriations Limit.
- Restoration of one-time Reductions for the Judicial Branch—An increase of \$109.3 million for the State Judiciary and Trial Courts related to the restoration of one-time savings included in the 2008 Budget Act.
- Guardianship and Conservatorship Reform Act—An increase of \$17.4 million related to the implementation of the Guardianship and Conservatorship Reform Act.
- New Judgeships—The Budget proposes \$71.4 million to fund additional Trial Court judgeships. These additional judgeships will increase access to the courts, address backlogs, and provide equitable justice throughout the state. Legislation is required to create the new judgeships for 2009-10.

The major General Fund policy adjustments are as follows:

- Reduction of the Legislature’s Budget—A reduction of \$18.3 million in 2008-09 and \$24.9 million in 2009-10 to the Legislature. \$18.3 million in 2008-09 and \$18.3 million in 2009-10 are related to reducing the Legislature’s budget by 10 percent, consistent with reductions adopted by state operations and for other constitutional officers reflected in the 2008 Budget Act. The balance is related to not providing funding growth in the budget year.
- Courts Reductions—A reduction of \$146 million to the State Judiciary and Trial Courts related to making permanent the one-time reductions that were included in the 2008 Budget Act, and not providing funding growth in the budget year.
- Delay Implementation of the Guardianship and Conservatorship Reform Act —A reduction of \$17.4 million related to delaying the implementation of the Guardianship and Conservatorship Reform Act.
- Governor’s Office Reduction—A decrease of \$191,000 for the Governor’s Office related to not providing funding growth in 2009-10.

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- Elimination of Cesar Chavez Day Grant Program—A decrease of \$1.5 million in 2008-09 and \$2.5 million in 2009-10 for the Office of Planning and Research related to the elimination of the Cesar Chavez Day grant program.
- Eliminate Public Safety Grants—A decrease of \$23.9 million in 2008-09 and \$57.4 million in 2009-10 for California Emergency Management Agency (CalEMA) related to the elimination of local public safety grant funding. Included in this reduction is funding for Vertical Prosecution Block Grants, Rural Crime Prevention, California Multi-jurisdictional Methamphetamine Enforcement Teams, the High Technology Theft Apprehension Program, Sexual Assault Felony Enforcement Teams, and various other public safety programs.
- Board of Equalization (BOE) Facilities Needs—An increase of \$3.3 million General Fund and \$2.5 million special fund to address problems caused by overcrowding in the Sacramento headquarters building. The funds will support relocation and rental costs for approximately 500 employees who have been added to the budget in recent years due to workload growth and efforts to improve collections.
- Flavored Malt Beverage Taxation—An increase of \$1.3 million to collect revenues resulting from BOE regulations that require flavored malt beverages to be taxed at the distilled liquor rate of \$3.30 per gallon, as opposed to the beer rate of 20 cents per gallon. BOE estimates the regulations will generate \$38.3 million in General Fund revenue in 2009-10.
- Chief Information Officer Education Data System Strategic Plan—An increase of \$2 million General Fund and one position to develop a strategic plan for education data systems by September 1, 2009, as required by Chapter 8, Statutes of 2008, which would provide an overall structural design to link education data systems.
- Chief Information Officer Workload—An increase of \$3.7 million General Fund and \$2.7 million other funds to fund 28 positions to provide sufficient resources to carry out the duties of the Chief Information Officer to provide information technology strategic vision and planning, enterprise-wide standards, information technology policy, and project approval and oversight.

Non-General Fund expenditures are proposed to decrease by \$205.8 million, or 4.5 percent.

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The major Non-General Fund workload adjustments are as follows:

- Trial Court Facilities—An increase of \$17.5 million for the Courts to implement Chapter 311, Statutes of 2008, related to Trial Court facility modifications.
- Removal of One-time Costs—A decrease of \$146.8 million various special funds related to the removal of one-time costs for the Secretary of State, California Gambling Control Commission, Department of Insurance, State Controller's Office, Judiciary, and School Finance Authority.
- Interoperability Communication Grants—An increase of \$4.5 million Federal Funds for the CalEMA related to Public Safety Interoperability Communications grants.

The major Non-General Fund policy adjustments are as follows:

- Court Case Management System—An increase of \$119.3 million in various special funds in 2008-09 and \$78.4 million in 2009-10 for the Courts to implement a comprehensive case management system.
- Emergency Response Initiative—An increase of \$17.1 million Emergency Response Fund for the CalEMA related to the implementation of the Emergency Response Initiative, intended to enhance the State's emergency response capabilities. This initiative will be funded through a 2.8% surcharge on all residential and commercial property insurance statewide.

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### **STATE AND CONSUMER SERVICES**

General Fund expenditures are proposed to increase by \$8.8 million, or 1.6 percent.

The major General Fund workload adjustments are as follows:

- Business License Information Sharing—An increase of \$3.1 million to implement legislation that allows local governments to share business license information with the Franchise Tax Board (FTB) to identify persons and entities who are not filing state tax returns. FTB estimates the associated General Fund revenues at \$4 million in 2009-10, increasing to \$40 million in 2013-14.
- Enterprise Data to Revenue (EDR) Project—An increase of \$3.9 million for first-year information technology project costs to expand the amount of usable information entered into the FTB database from personal income tax and business entity tax returns. These additional data will be leveraged for audit leads and to

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identify costly errors in multi-page tax returns. The EDR will generate \$14 million in General Fund revenues in 2009-10, due largely to clearing an existing backlog of business entity tax returns. Once fully implemented in 2012-13, FTB estimates EDR will generate a minimum of \$90 million per year in General Fund revenues.

- Enterprise Customer, Asset, Income, and Return Information Technology Project—An increase of \$1.3 million for the first year of a multi-year project to expand the capacity of FTB technology data that serve as a repository for personal income tax and corporation tax returns to facilitate improved collections. This project is expected to produce more revenues than it costs.

The major General Fund policy adjustments are as follows:

- Delay Science Center Expansion—A reduction of \$4.1 million due to the delay in the planned opening of Phase II—World of Ecology by one year.

Non-General Fund expenditures are proposed to increase by \$1.8 billion, or 7.0 percent.

The major Non-General Fund workload adjustments are as follows:

- Benefit Payments for State Annuitants—An increase of \$758.8 million in the California Public Employees Retirement System to fund benefit payments for state annuitants.
- Benefit Payments for Retired Teachers—An increase of \$972.4 million in the California State Teachers Retirement System to fund benefit payments for retired teachers.

The major Non-General Fund policy adjustments are as follows:

- Comprehensive Healing Arts Board Fingerprinting Program—An increase of \$5.8 million to fingerprint and conduct background checks for all licensees of the Department of Consumer Affairs healing arts boards to enhance consumer protection.
- Energy Efficiency in State-Owned Buildings—A one-time increase of \$7.2 million Service Revolving Fund for the Department of General Services to support retro-commissioning activities that will decrease energy usage in state-owned buildings.

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## **BUSINESS, TRANSPORTATION, AND HOUSING**

General Fund expenditures are proposed to increase by \$399.2 million, or 29.2 percent.

The major General Fund policy adjustments are as follows:

- The increase in 2009-10 funding over 2008-09 is due to the increase in the Proposition 42 sales tax revenues driven by the 1.5-cent sales tax rate increase and the sales tax on selected services that are proposed as part of the overall General Fund budget solution. Of note, though, base Proposition 42 revenues have declined from the 2008 enacted Budget by \$81.3 million in 2008-09 and \$233.6 million in 2009-10, due to economic conditions.

While not reflected in expenditure numbers for this Agency, the following policy proposals contribute to balancing the General Fund budget:

- The budget proposes the elimination of \$153.2 million in 2008-09 and \$306 million in 2009-10 for local transit grants previously funded with sales tax on fuels. Funds made available by this proposal are shifted to transportation programs previously funded by the General Fund including Home-to-School Transportation (see Education).
- The budget proposes trailer bill language that would redirect the \$100.8 million in annual tribal gaming revenues from funding transportation projects to the General Fund in 2008-09 and 2009-10 (see Revenues). Because this would result in a \$100.8 million reduction in resources in both years for State Highway Operation and Protection Program (SHOPP) and Traffic Congestion Relief Program (TCRP), the transfer of these revenues to the General Fund would be contingent upon the state receiving at least this amount from a federal stimulus package. These quarterly transfers would stop in the event that litigation that has prevented tribal gaming bonds from being sold is successfully resolved and when the transaction requires the availability of those funds.
- An increase of \$12 in annual vehicle registration fees to support the Department of Motor Vehicles to replace funds shifted to local government public safety programs.

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The major Non-General Fund policy adjustments are as follows:

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### STATE TRANSIT ASSISTANCE

- The estimated revenues from fuel sales tax spillover have dropped from the \$1.4 billion level estimated in the 2008 Budget Act to \$1.0 billion in 2008-09, and are forecast to drop to only \$90 million in 2009-10, due to the steep decline in gas prices.
- As part of the Governor's economic stimulus package, the proposed budget provides an additional \$800 million in Proposition 1B funding for local transit projects, and another \$350 million in 2009-10.

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### DEPARTMENT OF TRANSPORTATION (CALTRANS)

- Legislation provides that for all future spillover revenues go to the Mass Transportation Fund to fund transportation programs previously funded by the General Fund. Given current economic projections, it is not likely that there will be much, if any, spillover revenue in the next few years.
- An economic stimulus package that includes \$2.1 billion in 2008-09 and \$165 million in 2009-10 as follows:
  - Exemptions for a limited number of projects from the California Environmental Quality Act (CEQA) to accelerate project delivery. Caltrans estimates that this exemption will bring forward a total of \$822 million in projects funded from Proposition 42, Grant Anticipation Revenue Vehicles (GARVEE) bonds, Proposition 1B bonds, and local reimbursements.
  - Expanded authority for Caltrans to use design-build contracting to accelerate projects.
  - Expanded authority for Caltrans to do performance-based projects.
  - Increased appropriations by an additional \$700 million in Proposition 1B bond funds in 2008-09 for local road maintenance, provided that these funds could be spent by December 31, 2009.
- A 2008-09 increase in federal funds anticipation bonds of \$769 million to accelerate three major State Highway Operation and Protection Program (SHOPP) projects. This action will save the state over \$13.6 million in net debt service costs over

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multiple years and future cost escalation as compared to when these projects would have been done on a pay-as-you-go basis.

- An increase of \$53.4 million State Highway Account to replace and retrofit Caltrans vehicles to meet state, federal, and local air quality requirements.

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### **HIGH-SPEED RAIL**

- An increase of \$123.4 million from Proposition 1A of 2008 bonds for High-Speed Rail projects to begin the detailed engineering, design, and environmental work needed to ready segments for construction funding.

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### **CALIFORNIA HIGHWAY PATROL**

- An increase of \$34.9 million Motor Vehicle Account to fund 240 new California Highway Patrol officer and related support positions. This is part of a concerted five-year effort to improve public safety through proactive road patrols and reduced response times to major collisions and to persons needing assistance on state highways.
- An increase of \$11.9 million Motor Vehicle Account to replace the California Highway Patrol Computer-Aided Dispatch (CAD) system. This is part of an effort that will total \$38.8 million to improve dispatching of emergency calls from the public in need of assistance.

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### **DEPARTMENT OF MOTOR VEHICLES**

- An increase of \$11 million Motor Vehicle Account and 16 positions for production of the new driver license/identification/sales person cards. The new cards will meet the enhanced federal security requirements under REAL ID and will require a \$3 increase in driver's license fees. An increase of \$4.2 million and 45.1 positions is proposed to implement improved driver license/identification card procedures to begin to bring California into compliance with the REAL ID Act.

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### **DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

- The Budget includes \$487 million from Proposition 1C to assist in the development of affordable housing, including \$190 million for the Infill Incentive Grant program,

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\$34 million for the Transit-Oriented Development program, and \$10 million for the Housing–Related Parks program.

- The Budget includes \$140 million from federal funds in 2008-09 for local governments to rehabilitate neighborhoods with abandoned or foreclosed homes. Funding may be used by local governments to purchase and rehabilitate these homes to sell or lease them to low- or moderate-income families.

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### RESOURCES

General Fund expenditures are proposed to decrease by \$257.7 million, or 18 percent. This decrease is primarily attributable to the Department of Forestry and Fire Protection's (CAL FIRE's) significant emergency fire suppression expenditures in the current year.

The major General Fund workload adjustments are as follows:

- A decrease of \$248 million for CAL FIRE's emergency fire suppression expenditures. As a result of the severe summer lightning fires and additional Southern California wildfires in October 2008, CAL FIRE's emergency fire costs are estimated to be \$437 million in 2008-09. The Budget proposes \$189 million for CAL FIRE's emergency fire expenditures in 2009-10, which reflects the historical average of firefighting costs over the past five years and additional federal reimbursements.

The major General Fund policy adjustments are as follows:

- An increase of \$3.8 million to reflect the full-year cost for the Department of Conservation to administer and collect a severance tax on oil extracted from California's soil or water. The proposal to establish a 9.9-percent oil severance tax is estimated to generate \$358 million in 2008-09 and \$855 million in 2009-10.
- A decrease of \$17 million to realign the Conservation Corps. This proposal will provide additional support in future years for the 12 certified non-profit local conservation corps by eliminating the state-level Conservation Corps and increasing state grant funding to the local corps.
- A fund shift of \$11 million in 2008-09 and \$8 million in 2009-10 to Proposition 84 funds for implementation of the Department of Parks and Recreation's Americans with Disabilities Act multi-year compliance plan.

Non-General Fund expenditures are proposed to decrease by \$1.2 billion, or 11 percent.

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The major Non-General Fund workload adjustments are as follows:

- A decrease of \$332 million related to the Department of Water Resources' (DWR's) expiring long-term energy contracts entered into during the 2001 energy crisis.

The major Non-General Fund policy adjustments are as follows:

- An increase of \$38.4 million, including \$30.9 million Proposition 84, for recreation and fish and wildlife enhancements at State Water Project facilities. This proposal also includes amendments to the Davis-Dolwig Act to clarify the Legislature's constitutional appropriation authority and provide an annual transfer of \$7.5 million from Harbors and Watercraft Fund to DWR for boating-related recreation and fish and wildlife enhancements.
- An increase of \$684.5 million in Proposition 84 and 1E bond funds for multiple flood control projects and levee improvements in the Delta and Central Valley.
- An increase of \$2.2 million State Water Project funds and 16.1 positions to support the development of an Environmental Impact Report/Environmental Impact Statement for alternative Delta conveyance options, consistent with the recommendations of the Delta Vision Task Force.
- An increase of \$3 million reimbursements and 20.9 positions for the Department of Fish and Game to develop a Natural Community Conservation Plan to facilitate environmental permitting of renewable energy generation projects in the Colorado and Mojave Desert regions. Related to this effort, the California Energy Commission will receive \$2.6 million Energy Resources Programs Account and 10 positions to assist DFG and to work with the Bureau of Land Management to facilitate the development of solar projects while minimizing environmental impacts.
- An increase of \$3 million Fish and Game Preservation Fund for 14.2 additional warden positions to improve enforcement of fish, wildlife, pollution, and habitat protection laws.

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### **ENVIRONMENTAL PROTECTION**

General Fund expenditures are proposed to decrease by \$3.9 million, or 4.7 percent.

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The major General Fund workload adjustments are as follows:

- A decrease of \$2.7 million for capital outlay and \$1.1 million for general obligation bond debt service.

Non-General Fund expenditures are proposed to decrease by \$155.2 million, or 8.3 percent.

The major Non-General Fund workload adjustments are as follows:

- An increase of \$2.9 million in various special funds to provide grant funding to small, disadvantaged communities for wastewater projects per Chapter 609, Statutes of 2008 and to develop pilot projects in the Tulare Lake Basin and the Salinas Valley that focus on nitrate contamination in groundwater.
- An increase of \$682,000 Air Pollution Control Fund and 1.9 positions for the Air Resources Board to implement Chapter 728, Statutes of 2008. The Air Resources Board, in consultation with the California Transportation Commission and the Department of Transportation, will prepare specific guidelines for the travel demand models used in the development of transportation plans by regional transportation planning agencies by January 1, 2010, and will maintain such models thereafter, along with providing greenhouse gas emission reduction targets for 2020 and 2035.
- A decrease of \$193.5 million in carryover and one-time expenditures of bond and special funds from Fiscal Year 2008-09.

The major Non-General Fund policy adjustments are as follows:

- An increase of \$8.6 million Tire Recycling Management Fund and 4.3 positions to implement Waste Tire Recycling Management Program activities, including a new equipment loan program, local assistance grants, and public outreach and education.
- An increase of \$1.6 million Motor Vehicle Account and 4.8 positions for the Air Resources Board to provide compliance assistance and outreach to businesses and individuals subject to new heavy-duty diesel-powered vehicle regulations aimed at reducing toxic emissions to meet federal clean air standards.
- An increase of \$675,000 Safe Drinking Water and Toxic Enforcement Fund and 4.3 positions for the Office of Environmental Health Hazard Assessment to identify and list additional chemicals subject to the provisions of Proposition 65.

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## HEALTH AND HUMAN SERVICES

The Governor's Budget includes significant reductions necessary to address the state's fiscal shortfall. The Administration remains committed to supporting improved outcomes for children and youth in foster care, ensuring more children are enrolled in no- and low-cost health coverage programs, better linking the needs of seniors and persons with disabilities with appropriate services, protecting the health and safety of Californians served by Health and Human Services Agency-licensed facilities, and ensuring the state's public health system is ready to respond to natural and/or man-made disasters and incidents.

General Fund expenditures are proposed to decrease by \$1.025 billion in 2009-10, or 3.3 percent.

The major General Fund workload adjustments are as follows:

- An increase of \$2.407 billion for enrollment, caseload and population-driven programs including:
  - \$1.085 billion in the Department of Health Care Services, primarily due to caseload and rate adjustments in the Medi-Cal Program;
  - \$907.4 million in the Department of Social Services, primarily due to caseload increases in the CalWORKs and Supplemental Security Income/State Supplementary Payment programs, as well as caseload growth and provider wage and benefit increases in the In-Home Supportive Services program;
  - \$382.5 million in the Department of Developmental Services, resulting from increased population and service utilization in the Regional Centers; and
  - \$38.7 million in the Department of Mental Health, primarily due to higher services costs, increased service utilization, and increased caseload in the Early and Periodic Screening, Diagnosis, and Treatment program.
- An increase of \$106 million for statutorily required cost-of-living adjustments (COLAs) to monthly benefit payment levels for programs in the Department of Social Services.

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The major General Fund policy adjustments are as follows:

- A decrease of \$275 million through elimination of the California Children and Families Commission and redirection of all state funds and 50 percent of local funds to support children's programs administered by the Department of Social Services. This reduction would target resources to high-priority state programs that would otherwise require General Fund support, while also allowing some funding to be retained by counties to continue to fund local priorities. This proposal does not impact local fund reserves.
- A decrease of \$24.7 million for suspending the statutory COLA for County Administration in the Medi-Cal Program.
- A decrease of \$50.8 million in 2008-09 and \$668.7 million in 2009-10 for various eligibility and benefit changes in the Medi-Cal Program, including:
  - \$39.4 million (\$19.7 million General Fund) in 2008-09 and \$258.8 million (\$129.4 million General Fund) in 2009-10 by eliminating certain Medi-Cal optional benefits for adults, including dental, optometry, and psychology.
  - \$4.4 million (\$9.4 million General Fund and increased federal funds of \$5 million due to diminished recoupments) in 2008-09 and \$64.6 million (\$139.9 million General Fund and increased federal funds of \$75.3 million) in 2009-10 by providing "limited-scope" benefits to newly qualified immigrants and immigrants who permanently reside under the color of law.
  - \$9.6 million (\$4.8 million General Fund) in 2008-09 and \$142.4 million (\$71.2 million General Fund) in 2009-10 by implementing month-to-month eligibility for undocumented immigrants unless a subsequent emergency ensues.
  - \$5.2 million (\$2.6 million General Fund) in 2008-09 and \$176.4 million (\$88.6 million General Fund) by reducing income eligibility for the Medi-Cal 1931(b) program and modifying eligibility for two-parent families by redefining under-employment.
  - \$54.2 million General Fund and an increase of \$54.2 million in federal funds in 2009-10 by reducing reimbursement rates for public hospitals and instead using federal funds for particular public health programs.
  - \$28.6 million (\$14.3 million General Fund) in 2008-09 and \$371.6 million (\$185.8 million General Fund) in 2009-10 by increasing the Medi-Cal

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share of cost requirement to the 2001 eligibility level for the Aged, Blind, and Disabled program.

- A shift of \$85.5 million from 2008-09 to 2009-10 to reflect a one-month delay in checkwrite payments to Medi-Cal fee-for-service providers. This proposal is in addition to a previously authorized two-week delay under current law.
- A decrease of \$334 million in 2009-10 in the Department of Developmental Services (DDS) Regional Centers. The DDS Regional Centers continue to experience significant and unsustainable expenditure growth. The DDS will work closely with the regional centers to manage program expenditures while meeting consumer service needs within the existing 2008-09 appropriation authority. For 2009-10, the DDS estimates that absent changes to contain costs, there will be significant caseload and expenditure growth. The budget establishes a savings target of \$334 million. The DDS will work with the Legislature and stakeholders in the coming months to develop proposals to maintain the 2008-09 fund level and achieve the targeted savings while maintaining the entitlement and ensuring program and service integrity.
- A decrease of \$24.6 million in 2008-09 for DDS regional centers, annualized to \$60.2 million in 2009-10, related to a 3-percent discount of payments made to service providers by regional centers and a reduction of regional center operations costs by 3 percent effective February 1, 2009. The savings in this proposal reflect a reduction of \$4.1 million in 2008-09, and \$12.2 million in 2009-10 to adjust for the proposed reduction of the State Supplemental Payment (SSP) to the federal minimum.
- A decrease of \$226.7 million General Fund in 2009-10 by instead funding Mental Health Managed Care with Proposition 63 funds. This requires amending the non-supplantation requirement of the Mental Health Services Act (Proposition 63) to allow the use of Proposition 63 funds for Mental Health Managed Care. Also, the Department of Mental Health will work with the counties and other stakeholders on changes necessary to provide greater local flexibility regarding the maintenance of effort and non-supplantation requirements of the Act. Implementation of this proposal will require passage of a voter initiative.
- A decrease of \$79.1 million in 2009-10 by suspending the July 2009 CalWORKs COLA.

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- A decrease of \$40 million in CalWORKs in 2009-10 by suspending the Pay for Performance county incentive program.
- A decrease of \$27 million in 2009-10 by suspending the June 2010 state Supplemental Security Income/State Supplementary Payment (SSI/SSP) COLA. The annualized savings resulting from this COLA suspension is estimated to be \$323.9 million beginning in 2010-11.
- A decrease of \$14.6 million due to delaying by six months the replacement of Los Angeles County's automated benefit and eligibility determination system.
- A decrease of \$200.1 million in 2008-09 and \$1.247 billion in 2009-10 in the SSI/SSP program by reducing the SSP grant to the federally required minimum and eliminating the Cash Assistance Program for Immigrants.
- A decrease of \$123.5 million in 2008-09 and \$696.9 million in 2009-10 for the CalWORKs program. These savings would be achieved by modifying the Safety Net program to reward working families who are fully participating in federal work requirements with continued maximum Safety Net benefits, imposing a 60-month time limit on assistance for certain child-only cases, implementing a six-month self sufficiency review requirement to engage families who are not participating in work requirements, and reducing monthly assistance payments by 10 percent. Due to the shifting of federal funds, these proposals also result in General Fund savings of \$24.3 million in the DDS budget and \$192.6 million in the California Student Aid Commission budget.
- A decrease of \$62.7 million in 2008-09 and \$384.2 million in 2009-10 for the In-Home Supportive Services (IHSS) program. These savings would result from providing non-medical services to only the neediest IHSS recipients, eliminating the state's share of cost contribution for the least-needy recipients, and reducing state participation in IHSS provider wages to the minimum wage.
- A decrease of \$37.8 million in 2009-10 from eliminating the California Food Assistance Program effective July 1, 2009.
- An increase of \$584,000 for enhancing Medi-Cal Program Integrity and Eligibility Verification.
- An increase of \$448,000 for readily available pharmaceutical cache supplies to treat patients at state-owned Mobile Field Hospitals in a disaster situation. The pharmaceutical vendor will ensure delivery of appropriate pharmaceutical

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supplies to the designated location within 48 hours of activation of the Mobile Field Hospitals.

- A decrease of \$8.3 million and an increase of \$8.3 million Cigarette and Tobacco Products Surtax Fund for certain costs for hospital services reimbursed by the Medi-Cal program.

The major Non-General Fund workload adjustments are as follows:

- A decrease of \$511 million Local Revenue Fund attributable to revenue declines in the State-Local Realignment program.
- An increase of \$86.1 million AIDS Drug Assistance Program (ADAP) Rebate Fund for the ADAP to fund a projected increase in prescription drug costs and number of clients served.
- An increase of \$3.5 million Technical Assistance Fund for the Department of Social Services Community Care Licensing Division to provide for investigations of Registered Sex Offenders and investigation of serious crime arrests of licensees. Licensing fees would be increased as needed to offset the General Fund impact of this proposal.

The major Non-General Fund policy adjustments are as follows:

- A shift of \$365.5 million from the General Fund to the newly created Drug and Alcohol Prevention and Treatment Fund to support existing alcohol and drug programs. Beginning July 1, 2009, these programs will be supported by a proposed increase to the existing alcohol excise tax, estimated to generate an additional \$585 million in General Fund revenues annually. A portion of these revenues will also offset \$219.5 million General Fund costs for alcohol and drug programs administered by the California Department of Corrections and Rehabilitation.

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### **CORRECTIONS AND REHABILITATION**

General Fund expenditures are proposed to decrease by \$841.9 million, or 8.7 percent.

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The major General Fund workload adjustments are as follows:

- Full-Year Cost of Approved Programs—An increase of \$232.1 million to reflect the full-year cost of new and expanded programs, including increases to continue the previously approved rollout of substance abuse and other programs under AB 900 (\$56.7 million), contracted out-of-state beds (\$34.0 million), activation of the Northern California Reentry Facility (\$47.2 million), and rehabilitative programs for female offenders (\$94.2 million).
- Price Increase—An increase of \$88.3 million to adjust the California Department of Corrections and Rehabilitation (CDCR) operating budget for anticipated price increases.

The major General Fund policy adjustments are as follows:

- Substance Abuse Treatment Programs Fund Shift—A decrease of \$219.5 million to reflect a funding shift for correctional drug and alcohol treatment programs from the General Fund to a special fund with revenues to be derived from a proposed increase to the existing Alcohol Excise Tax. Similar fund shifts, which provide General Fund relief while instituting a permanent and appropriate new fund source, are proposed in the Department of Drug and Alcohol Programs and the Department of Social Services.
- Prison and Parole Reforms—A decrease of \$598.4 million General Fund related to various prison and parole reforms, as proposed by the Administration in the Special Session. This savings would be generated through enhanced credit earnings for inmates, including providing continuous day-for-day credits for inmates who are in jail pending transfer to a state prison and providing program credits for each program successfully completed by an eligible inmate, eliminating parole for non-serious, non-violent, and non-sex offenders, and by adjusting the threshold value for property crimes to reflect inflation since 1982.
- Unallocated Reduction to Receiver's Budget—A decrease of \$180.8 million as a result of a 10-percent unallocated reduction to the Receiver's Medical Services Program budget.
- Reduction of Public Safety Grants—A reduction of \$181.2 million General Fund for local public safety grants administered by the Corrections Standards Authority. Specifically, the budget proposes to eliminate General Fund local assistance funding of \$151.8 million to support local juvenile probation activities and \$29.4 million to

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offset costs of operating juvenile camps and ranches. The reduction of General Fund resources for juvenile probation activities is largely offset by a backfill of Vehicle Licensing Fee funds of \$135.9 million.

Non-General Fund expenditures are proposed to increase by \$219.9 million, or 87.2 percent.

The major Non-General Fund policy adjustments are as follows:

- Substance Abuse Treatment Programs Fund Shift—An increase of \$219.5 million to reflect expenditures from a special fund with revenues to be derived from a proposed increase to the existing alcohol excise tax (See Revenues).

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### **HIGHER EDUCATION-NON PROPOSITION 98 PROGRAMS**

General Fund expenditures for Higher Education agencies, including the University of California (UC), California State University (CSU), Hastings College of Law (HCL), California Postsecondary Education Commission (CPEC), the Student Aid Commission (CSAC), and the California Community Colleges (CCC) are proposed at approximately \$6.9 billion for 2008-09 and \$6.8 billion for 2009-10, reflecting a decrease of \$67.7 million, or 1.0 percent.

Non-General Fund expenditures are proposed to increase by \$717.3 million, or 2.9 percent.

All Proposition 98-related program expenditures for the Community Colleges are reflected in a separate Proposition 98 section below. Also, General Obligation Bond and Lease-Revenue Debt Service associated with higher education construction is addressed in a separate Infrastructure Section.

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### **GENERAL FUND**

The major General Fund workload adjustments are as follows:

- \$427.7 million increase pursuant to the Higher Education Compact for UC (\$209.9 million), CSU (\$217.3 million) and HCL (\$531,000) reflecting 4 percent for general operating costs, 1 percent for core needs that impact instruction, and 2.5 percent enrollment growth for UC and CSU. Growth adjustments

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

include \$71.6 million for 8,786 Full Time Equivalent Students (FTES) for CSU and \$56.2 million for 5,086 FTES for UC.

- \$174.1 million increase to CSAC local assistance for projected increased costs in the CalGrant program (\$150.4 million) resulting primarily from a current-year surge in renewals and higher-than-expected new awards, anticipated undergraduate fee increases for UC and CSU (9.3 percent and 10 percent, respectively), plus \$24 million to backfill the use of one-time Student Loan Operating Fund resources. A net current-year estimated shortfall of \$62.6 million General Fund local assistance is recognized, as well.
- \$12.1 million increase for annuitant retirement benefits (primarily \$11.3 million for UC).
- \$6.4 million increase to the State Teacher Retirement System for additional costs for CCC employees based on 8.02 percent of applicable payroll.
- \$5 million increase to UC to backfill use of one-time federal funds in 2008-09 for the Subject Matter Projects.
- \$1.5 million increase to UC to fund the next phase of medical enrollments for the PRIME program.
- \$5 million decrease to UC to reflect phase-out of the UC Merced campus startup funding.
- \$1 million decrease to CSAC state operations to remove one-time funding for relocation of CSAC.

The major General Fund policy adjustments are as follows:

- \$427.7 million cost avoidance decrease to reflect elimination of the Higher Education Compact funding as part of solutions to address the fiscal crisis.
- \$192.6 million decrease to CSAC local assistance resulting from shifting a portion of CalGrant costs in the budget year to Temporary Assistance for Needy Families (TANF) reimbursements as part of the Administration's proposed solution on TANF Maintenance of Effort.
- \$132.1 million ongoing decreases commencing in the current year for unallocated reductions proposed for UC (\$65.5 million), CSU (\$66.3 million), and HCL (\$402,000).

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- \$87.5 million decrease to CSAC's CalGrants local assistance to reflect cost savings measures proposed to keep costs flat from year to year. Those policy proposals include: freezing income eligibility limits (\$7 million); reducing the maximum award for students attending private institutions from \$9,708 to \$8,322 (\$11 million); elimination of the CalGrant Competitive Program (\$52.9 million); and partially decoupling awards to public institutions from fee increases (\$16.6 million —which reflects approximately one-third of the undergraduate fee increases assumed for UC and CSU in 2008-09 as noted below).
- \$2 million decrease for anticipated savings from a proposal to consolidate the functions of CPEC and CSAC through a reorganization proposal and to decentralize the administration of financial aid, including CalGrants, to the higher education segments. This reorganization is intended to eliminate duplicative handling of financial aid awards, to reduce administrative costs at the segment level, to eliminate duplicative overhead costs in state operations, and to create one-stop packaging of financial aid that will benefit students.
- \$79.5 million estimated ongoing increase to replace the segments' shares of Lottery proceeds related to securitization of the Lottery pursuant to Chapter 764, Statutes of 2008 (\$49.6 million for CSU, \$29.8 million for UC and \$170,000 for Hastings).
- \$3.6 million increase to CSU to fund an additional cohort of 340 undergraduate nursing enrollments at full cost.
- \$1.1 million increase to UC to fund an additional cohort of 50 undergraduate and 42 master's level nursing enrollments at full cost.
- \$280,000 increase to the Chancellor's Office for CCC to address critical state operations workloads.

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### **OTHER FUNDS**

The major Non-General Fund workload adjustments are as follows:

- \$300.7 million increase to reflect assumed fee increases of 9.3 percent for UC (\$166.1 million), 10 percent for CSU (\$130.4 million), and 13 percent for HCL (\$4.2 million). Systemwide undergraduate fees are assumed to increase from \$7,126 to \$7,788 for UC and from \$3,048 to \$3,354 for CSU. These increases would apply to professional and graduate students at UC and CSU. Consistent with current policy, at least one-third of additional fee increase revenue would be set aside for

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

institutional financial aid to preserve equitable access for low-income students. For HCL, enrollment fees will increase from \$26,003 to \$29,383. Fees for most professional schools at UC will increase by an average of about 12 percent ranging from 5 percent to 24 percent.

The major Non-General Fund policy adjustments are as follows:

- \$167.5 million decrease to CCC local assistance for removal of Lottery revenue to reflect the shift to General Fund for the Lottery Securitization proposal in the budget year pursuant to Chapter 764, Statutes of 2008.
- \$79.5 million total decrease for UC, CSU and HCL for removal of Lottery revenue to reflect the shift to General Fund for the Lottery Securitization proposal in the budget year.
- \$132,000 increase in current year (\$92,000) and in budget year (\$40,000) from a federal grant for CCC state operations and local assistance activities to better coordinate math- and science-related professional development improvements.

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### **K-12 EDUCATION-NON PROPOSITION 98 PROGRAMS**

General Fund expenditures for K-12 agencies, including the Department of Education (CDE), California State Library (CSL), Teacher Credentialing Commission (CTC), and others are proposed at approximately \$1.2 billion in 2008-09 and \$1.3 billion in 2009-10, reflecting an increase of \$111.4 million, or 9.4 percent.

Non-General Fund expenditures are anticipated to decrease by \$5 billion, or 19 percent.

All Proposition-98 related program expenditures for K-12 agencies are reflected in a separate Proposition 98 Section below. Also, General Obligation Bond and Lease-Revenue Debt Service associated with K-12 construction is addressed in a separate Infrastructure Section.

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### **GENERAL FUND**

- The major General Fund workload adjustments are as follows:
- \$108.6 million net increase to the State Teacher Retirement System (STRS) for additional K-12 employee costs, including \$21.1 million for the Defined Benefits Program based on 2.017 percent of applicable payroll, \$30.5 million for the STRS

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

Supplemental Benefits Maintenance Account (SBMA) based on 2.5 percent of applicable payroll, and \$57 million as the first interest payment on settlement of the SBMA lawsuit.

- \$2.2 million increase to CDE for the purpose of funding the next phase of the California Longitudinal Teacher Integrated Data Education System (CALTIDES), the new teacher information database.
- \$195,000 increase for growth in nutrition programs at private entities.
- \$3.4 million net decrease to CSL for one-time costs for the Integrated Library System Replacement project (-\$1.3 million) and for costs of relocation during renovation (-\$2.0 million). The budget continues to provide (\$81,000) and (\$549,000), respectively, for these same programs.
- \$1.7 million decrease to CDE to align High School Exit Examination legal defense costs with expected expenditures.

The major General Fund policy adjustments are as follows:

- \$3.8 million increase to CDE to offset a reduction to the State Special Schools that was made possible by use of one-time federal funds in the current year.
- \$500,000 increase to the State Board of Education (in CDE budget) for legal defense costs related to Federal Algebra I reporting requirements.

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### **OTHER FUNDS**

The major Non-General Fund workload adjustments are as follows:

- \$3.9 billion current year increase in estimated expenditures of bond funds for the K-12 School Facilities Aid Program. This virtually exhausts balances in the 2002 and 2004 K-12 facilities bond funds, thereby resulting in a large decrease in 2009-10 by comparison.
- \$10.7 million increase to CDE from federal Title VI funds for the next phase of the California Longitudinal Pupil Achievement Data System (CALPADS) implementation and development, which will establish a longitudinal student level database.
- \$1.7 million increase to CDE from federal funds for extension of limited-term positions for the Child Nutrition Information and Payment (CNIPS) System.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- \$1 million increase to CDE from reimbursement authority for local assistance, for a total of \$4 million, pursuant to an interagency agreement with the CCC Chancellor's Office for the second year of the \$12 million Green Partnership Academies program that was funded from the Public Interest Research, Development, and Demonstration Fund in legislation enacted to implement the budget in 2008. This funding provides three-year start-up funding for dozens of new academies throughout the state focused on clean energy and other technologies that improve the environment utilizing the statutory academy funding model.
- \$736,000 increase to CDE from federal funds for the next phase of implementation of the Child Care Provider Accounting and Reporting Information System (PARIS).
- \$568,000 net increase to CDE from federal funds to align the testing appropriation with anticipated contract costs and the one time availability of federal carryover funds.
- \$474,000 increase to CDE from reimbursements for oversight of State Board of Education-authorized charter schools.
- \$100,000 increase to CDE from reimbursements for the costs of California High School Proficiency Exam.
- \$945,000 decrease to CDE from federal funds for elimination of the Compliance, Monitoring, Intervention, and Sanctions Program. These funds will be shifted to offset General Fund costs related to the next development phase of CALTIDES.

The major Non-General Fund policy adjustments are as follows:

- \$891.6 million decrease to CDE local assistance for removal of Lottery revenue associated with the Lottery Securitization proposal. Under the proposal, this funding is shifted to General Fund in 2009-10.
- \$1 billion increase to CDE local assistance (\$618.7 million in current year and \$398.5 million in budget year) to directly fund Home-to-School Transportation from the Public Transportation Account and Motor Vehicle Transportation Fund.
- \$4 million increase to CDE local assistance from federal funds for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the school day.
- \$1.2 million increase to CTC from the Teacher Credential Fund for the following state operations purposes: \$248,000 for funding positions for the next phase of CALTIDES

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

development, \$413,000 for the Credential Web Interface Project, and \$515,000 for revalidation of the Formative Assessment for California Teachers.

- \$1.1 million increase to the Scholarshare Investment Board from the Scholarshare Administrative Fund to initiate a new outreach and public education program focused on young families and state employees that promotes systematic saving for college through the Golden State Scholarshare College Savings Trust Program.
- \$172,000 increase in the current year and \$193,000 in the budget year to CTC from federal funds for foreign language professional development.

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### **PROPOSITION 98**

Total Proposition 98 expenditures are proposed to decrease from the \$58.1 billion amount assumed for the enacted budget to the minimum required guarantee of \$51.5 billion in 2008-09 reflecting a decrease of \$6.6 billion, or 11.4 percent.

The budget also funds the minimum required guarantee in the budget year at \$55.9 billion, reflecting an increase of \$4.4 billion, or 8.5 percent, compared to the current year minimum level.

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### **2008-09**

The major General Fund workload adjustments for K-12 entities are as follows:

- An increase of \$430 million to backfill significant reductions in school district and county office of education property tax revenues. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments.

The major General Fund workload adjustments for Child Care are as follows:

- A decrease of \$42 million to reflect expected savings in CalWORKs Stage 2 Child Care (\$27 million) and CalWORKs Stage 3 (\$15 million) caseload-driven programs based on revised estimates.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

The major General Fund workload adjustments for Community Colleges are as follows:

- Although current year property tax revenue estimates are revised down by \$4 million, increases in estimated current year fee revenue plus oil and mineral revenue will more than offset that amount; thus, no deficit in Apportionments should result.

The major General Fund policy adjustments for K-12 entities are as follows:

- The budget includes proposals to reduce the 2008-09 Proposition 98 Guarantee that do not directly reduce program spending in the current year. These include the multi-year deferral of \$2.6 billion of school district revenue limit and K-3 Class Size Reduction program payments from April of the 2008-09 fiscal year to July of the 2009-10 fiscal year, the use of \$1.1 billion in settle-up monies, owed in satisfaction of prior year Proposition 98 minimum guarantees which were underappropriated, for school district revenue limit costs, and the use of \$618.7 million of Public Transportation Account and Mass Transportation Fund resources for the Home-to-School Transportation program.
- As a result of the proposals identified above to reduce the Proposition 98 Guarantee without reducing program spending, actual reductions proposed in 2008-09 are limited to the elimination of the \$247.1 million cost of living adjustment included in the 2008 Budget Act and a further decrease of \$1.6 billion to school district and county office of education revenue limits to bring Proposition 98 funding to the minimum guarantee for 2008-09.
- A decrease of \$55.5 million in 2008 Budget Act appropriations to reflect anticipated savings in various programs including CDE's Economic Income Aid (\$48.5 million), High Speed Network (\$2 million), National Board Certification (\$2 million), Certificated Staff Mentoring (\$1 million), Pupil Retention Block Grant (\$1 million), and CTC's Paraprofessional Teacher Training (\$1 million).
- These proposals are accompanied by a comprehensive package of flexibility proposals intended to help schools minimize impacts to essential classroom instruction including:
  - Authorizing local education agencies (LEAs) to transfer any categorical allocations received to their general fund for any purpose, without dollar limitation. In order to utilize this flexibility, LEAs would be required to sunshine those decisions in public hearings.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- Reducing required contributions into restricted routine maintenance accounts from 3 percent of an LEA's general fund expenditures to 1 percent in current and budget year.
- Eliminating Deferred Maintenance Program matching requirements of one-half of one percent of revenue limit funding.
- Reducing budget reserve requirements in half for at least the current and budget years.
- Utilizing prior-year restricted fund reserves, with certain limitations, for any purpose in the current year.

The major General Fund policy adjustments for Child Care are as follows:

- A decrease of \$55 million to reflect a permanent reduction of anticipated savings for child care programs that show significant and recurring amounts of savings each year, including General Child Care and Preschool, among others. No reduction in families served should result.
- Reappropriation of an additional \$108 million of anticipated savings in prior-year child care programs to address shortfalls in the one-time sources used to partially fund CalWORKs Stage 2 and Stage 3 in the current year.

The major General Fund policy adjustments for Community Colleges are as follows:

- A decrease of \$230 million to Apportionments to reflect an ongoing deferral of a portion of payments in January and February of the current fiscal year to July of the subsequent fiscal year. This deferral lowers the Proposition 98 guarantee in the current year, but does not reduce program spending.
- A decrease of \$39.8 million to eliminate the partial 0.68-percent COLA authorized in legislation enacted to implement the budget in 2008.
- The proposals above are accompanied by significant categorical spending flexibility, similar to that described for K-12 entities, by authorizing college districts to transfer any categorical allocations received to their General Fund, without dollar limitation, in order to maximize course offerings aligned with the system's highest priorities for transfer, basic skills and career preparation. In order to utilize this flexibility, districts would be required to sunshine those decisions in public hearings.

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**2009-10**

The major General Fund workload adjustments for K-12 entities are as follows:

- An increase of \$268.2 million to backfill significant reductions in property tax revenues. In general, increases in local property tax revenues decrease the amount of state General Fund costs for revenue limit apportionments.
- An increase of \$83.2 million for growth for the following programs: Adult Education (\$19.3 million), Child Nutrition (\$8.4 million), Charter School Categorical Block Grant (\$42.6 million), K-3 Class Size Reduction (\$9.1 million), and Teacher Credentialing Block Grant (\$3.8 million).
- An increase of \$35.5 million to reflect increased Deferred Maintenance program allocations.
- A decrease of \$152.7 million to school district and county office of education revenue limits due to a decline in average daily attendance and other miscellaneous adjustments.
- A decrease of \$4.5 million to align the testing appropriation with anticipated contract costs and one time availability of federal carryover funds.

The major General Fund workload adjustments for Child Care are as follows:

- An increase of \$287.5 million to backfill one-time sources used to fund the current year and to adjust for revised estimates in the caseload-driven CalWORKs Stage 2 and 3 programs, which are estimated to decrease by \$35.7 million and \$1.4 million, respectively, compared to revised current year costs.
- An increase of \$18.9 million for 1.23-percent statutory growth based on the age 4 and under population change.

The major General Fund workload adjustments for Community Colleges are as follows:

- An increase of \$185.4 million for 3-percent growth in apportionments and categorical programs. The apportionment growth amount is estimated to fund approximately 36,000 FTES.
- A net decrease of \$24 million for other baseline adjustments, including estimated increases in local property taxes (\$6.1 million), fee revenue (\$17.6 million) and oil and mineral revenues (\$1.2 million) which offset General Fund plus an increase

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

in amounts necessary to compensate colleges for administration of fee waivers (\$934,000).

- A decrease of \$1.3 million in estimated lease purchase payments.

The major General Fund policy adjustments for K-12 entities are as follows:

- A cost avoidance of \$2.5 billion for statutory and discretionary cost-of-living adjustments for K-12 education programs.
- A decrease of \$1.5 billion to school district and county office of education revenue limits to bring Proposition 98 funding to the minimum guarantee for 2009-10.
- A decrease of \$1.1 billion commensurate with allowing school districts to reduce the school year by five days.
- A decrease of \$398.5 million to reflect the use of an identical amount of Public Transportation Account and Mass Transportation Fund resources for the Home-to-School Transportation program. The total funded amount for this program in 2008-09 is \$618.7 million from all sources, including \$220.2 million Proposition 98 General Fund.
- Cost avoidance of \$150 million due to prepayment of Proposition 98 settle-up funding owed to schools. This funding was scheduled to be provided to schools to reimburse them for outstanding mandate claims in 2009-10.
- A decrease of \$114.2 million to eliminate the High Priority Schools Grant Program.
- An additional decrease of \$1 million for the National Board Certification Incentive Program to suspend new teacher participants from entering the program.
- An increase of \$891.6 million to replace the allocation of State Lottery revenues to school districts and county offices of education with Proposition 98 General Fund pursuant to Chapter 764, Statutes of 2008.
- An increase of \$65 million to fund Special Education Behavior Intervention plans.
- A net increase of \$13.4 million for K-12 mandates.
  - An increase of \$6.3 million for mandated costs related to interdistrict and intradistrict transfers.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- An increase of \$7.1 million for mandated costs related to the California High School Exit Exam.

The budget proposes to suspend all education mandates with the exception of the mandates noted above. A recent court decision and a separate ruling by the Commission on State Mandates (CSM), that requires the state to either pay or suspend all education mandates. Pending an appeal of these decisions it would be premature to fund these higher costs. Given local policies and eligibility requirements for UC and CSU, the Administration expects school districts to continue to provide a second science course as part of the current Graduation Requirements.

- An increase of \$5.1 million to replace one-time federal funding included in the 2008 Budget Act to fund State Special School instructional costs.
- Continuation of the comprehensive flexibilities described for 2008-09.
- In recognition of the current fiscal constraints that schools face and to assist them absorb the reductions in state aid that are necessary due to the current economic downturn, the Administration also proposes to allow schools complete and permanent flexibility with respect to categorical funding. This will allow schools and districts flexibility to use education funds on the basis of their individual needs. Categorical funds often fall short in providing the targeted assistance needed to significantly improve achievement, particularly with respect to low-achieving students. Under current law and practice, schools and school districts often are forced to focus on how they spend their funds—instead of improving student achievement. While many funding streams offer latitude to use funds in different ways, more local discretion is needed to provide support services and additional instruction to those students most in need.

The major General Fund policy adjustments for Child Care are as follows:

- A cost avoidance of \$79.5 million for the 5.02-percent COLA, consistent with all other Proposition 98 programs.
- A decrease of \$38.7 million to reflect a policy proposal to reduce reimbursement rate limits in voucher-based programs from the 85<sup>th</sup> percentile of the market to the 75<sup>th</sup> percentile, based on the 2007 regional market rate survey, effective July 1, 2009. Although this proposal affects all voucher programs, including the Alternative Payment Program, the savings are only scored in the caseload-driven CalWORKs Stage 2 (\$20.3 million) and Stage 3 (\$18.4 million) programs.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- A decrease of \$14.4 million to reflect a revised family fee schedule. The revised fee schedule retains a flat fee per family, begins at income levels where families currently begin paying fees, increases fees by \$2 per day at the low end, and increases fees thereafter on a sliding scale up to 10 percent of income which occurs at a lower point in the income eligibility spectrum when compared to the current schedule. Although this proposal would apply to all means-tested child care programs, the savings are only scored in the caseload driven CalWORKs Stage 2 (\$5.8 million) and Stage 3 (\$8.6 million) programs. This proposal would not reduce the number of families served because fee revenue augments provider contract amounts.

The major General Fund policy adjustments for Community Colleges are as follows:

- A cost avoidance of \$322.9 million for the budget year 5.02-percent COLA, consistent with all other Proposition 98 programs.
- A decrease of \$4 million by suspending all community college reimbursable state mandates, consistent with the proposal for K-12 mandates.
- An increase of \$167.5 million to replace the allocation of State Lottery revenues to community college districts with Proposition 98 General Fund pursuant to Chapter 764, Statutes of 2008.
- Continuation of the categorical flexibility described for 2008-09.
- The Administration will sponsor legislation that will reduce or eliminate the annual uncertainty districts face with regard to property tax revenue which currently funds a substantial portion of the colleges' general purpose revenue.

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### **LABOR AND WORKFORCE DEVELOPMENT**

General Fund expenditures are proposed to increase by \$2.5 million, or 2.5 percent.

The major General Fund workload adjustments are as follows:

- Automated Collection Enhancement System—A net increase of \$6.6 million for continuation of the Employment Development Department's Automated Collection Enhancement System (ACES).

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

The major General Fund policy adjustments are as follows:

- Division of Labor Standards Enforcement Fund Shift—A reduction of \$2.5 million General Fund to be replaced with \$2.5 million from the Uninsured Employers Benefits Trust Fund (UEF). Activities within the Department of Industrial Relations include identification and enforcement of uninsured employers which are appropriately funded by UEF.

Non-General Fund expenditures are proposed to decrease by \$1.7 billion, or 10.1 percent from the revised 2008-09 Budget.

The major Non-General Fund workload adjustments are as follows:

- Employment Development Department October Benefit Estimate—The October Revise reflects Unemployment Insurance and Disability Insurance benefit payment increases of \$3.1 billion in the current year and \$1.5 billion in the budget year when compared to the May 2008 estimate.

The major Non-General Fund policy adjustments are as follows:

- Employment Training Panel—An increase of \$20 million Employment Training Fund to provide additional training funds to California employers to reduce unemployment.

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### **GENERAL GOVERNMENT: NON-AGENCY DEPARTMENTS**

General Fund expenditures are proposed to increase by \$171 million, or 45.1 percent.

The major General Fund workload adjustments are as follows:

- Veterans Homes Activation—An increase of \$18.5 million and 172.5 positions for continued activation of the veterans homes in West Los Angeles, Lancaster, and Ventura. By the end of the 2009-10, these homes will provide residential care, skilled nursing, memory care and adult day health care to more than 100 veterans. When fully operational, these homes will serve approximately 500 veterans.
- Mandates Payments—An increase of \$222 million for state reimbursable mandates, consisting of \$131 million for current mandates and \$91 million for the 2009-10 payment of the mandates obligation for costs incurred prior to 2004-05.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

The major General Fund policy adjustments are as follows:

- Education Benefit Program—An increase of \$1.8 million for the Military Department to establish an education benefit program for members of the California National Guard, to improve retention of Guard members and their respective skill sets, thereby providing a more experienced, effective reserve force. Fifty-one other states and territories offer some sort of education benefit program, which has proven to be an effective recruitment and retention tool for National Guard membership.
- Service Member Care—An increase of \$1 million for the Military Department to support the mental health readiness needs of California National Guard service members by providing mental health prevention services, training, intervention, and reintegration assistance during pre- and post-mobilization activities. These resources will also enhance mission readiness, mitigate risk of injury or death, and ensure our commitment to the well-being and fitness of service members.
- Veterans Homes Resident Fees—An increase of \$2.8 million (from \$17.2 million to \$20 million) in fees collected from the residents of the Veterans Homes. Currently, residents pay fees based on a percentage of their income, up to a dollar cap, with the percentage and cap increasing as the level of care increases. This proposal would increase resident fees by removing the dollar caps, increasing the percentage for the Residential Care for the Elderly (RCFE), and revising the fee structure for non-veteran spouses to more accurately reflect their share of costs.
- Mandates Deferral—A one-time decrease of \$91 million by deferring the 2009-10 payment of the mandates obligation for costs incurred prior to 2004-05 which are statutorily required to be completely paid by 2020-21. The balance will be refinanced over the remaining payment period.

Non-General Fund expenditures are proposed to increase by \$167.7 million, or 4.0 percent.

The major Non-General Fund policy adjustments are as follows:

- Emergency Response Initiative—An increase of \$2.2 million Emergency Response Fund in 2009-10 to purchase airborne fire suppression systems as part of the enhanced emergency response capability proposed in the Emergency Response Initiative. These new systems will enhance the Military Department's ability to fight wildland fires by providing more accurate water dropping dispersion and increased efficiency in existing helicopters.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- CARE Program—An increase of \$129.6 million Gas Consumption Surcharge Fund to programs for low-income utility customers. The programs are operated by investor-owned utilities (IOUs) and are funded by natural gas surcharges on utility ratepayers. The funding supports weatherization and other programs for low income residents. The IOUs remit surcharges to the State Board of Equalization quarterly, which are in turn deposited into the Gas Consumption Surcharge Fund with the State Treasurer. These monies are continuously appropriated to the Public Utilities Commission (PUC), which reimburses utilities for their costs.
- California Advanced Services Program—An increase of \$25 million for the PUC to implement the California Advanced Services program pursuant to Chapter 393, Statutes of 2008. The program will encourage the deployment of broadband infrastructure in unserved and underserved areas in California.
- Rail Safety and Security Information Management System—An increase of \$1.4 million in various special funds, and one position, to develop the Rail Safety and Security Information Management System. The PUC will develop an integrated work and records management system that will be utilized to address rail safety and security. The system will integrate the PUC's three out dated databases as well as various other electronic and non-electronic media.
- Renewable Portfolio Standard—An increase of \$322,000 Public Utilities Commission Utilities Reimbursement Account and three positions to implement a 33-percent Renewable Portfolio Standard (RPS) by 2020. The requested positions will work to ensure that transmission infrastructure is permitted and constructed on an accelerated basis in order to achieve the RPS goal.

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### **GENERAL GOVERNMENT: TAX RELIEF AND LOCAL GOVERNMENT**

The budget proposes to reduce General Fund expenditures in 2008-09 by \$316.2 million, or 41 percent from the baseline level. Expenditures are proposed to decrease by \$184.3 million, or 28.5 percent from 2008-09 to 2009-10.

The major General Fund policy adjustments are as follows:

- The creation of a new Local Safety and Protection Account beginning in 2008-09 to serve as a stable, ongoing funding source for the Citizens Option for Public Safety/ Juvenile Justice Crime Prevention Act (COPS/JJ) program, Juvenile Probation

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

grants, and the Booking Fees program. Funding for the Account will come from vehicle license fee revenue formerly used to support the Department of Motor Vehicles (discussed in Business, Transportation and Housing).

- In 2008-09 the COPS/JJ program will be funded with \$53.8 million from the Local Safety and Protection Account. This will increase to \$191.6 million in 2009-10. Of the amount provided for the COPS/JJ program, 50 percent for countywide juvenile crime prevention initiatives, 39.7 percent is for front-line law enforcement activities, 5.15 percent is for county jail operation, and 5.15 percent is for district attorneys. Funds are apportioned on a population basis, with each police department and sheriff's department guaranteed at least \$100,000.
- Juvenile Probation grants are funded at \$38.2 million in 2008-09, and \$135.9 million in 2009-10. The Juvenile Probation program supports a broad spectrum of local juvenile probation activities statewide.
- The Booking Fees program will be funded at \$31.5 million in 2009-10. The program provides payments to county sheriffs departments that eliminate the need for them to charge booking fees to other law enforcement agencies that book arrestees into county jails.
- Overall expenditures for these programs will be reduced by \$60.6 million in 2008-09 and \$38.5 million in 2009-10. This preserves 90 percent of the funding for these programs in 2009-10.
- A decrease of \$18.5 million by eliminating state funding for the Small/Rural Sheriffs program. The program provides \$500,000 grants to 37 specified smaller county sheriffs departments. The funds were used for discretionary law enforcement purposes.
- A decrease of \$34.7 million for the Williamson Act in both 2008-09 and 2009-10. This represents elimination of reimbursements to local governments that defray the property tax revenues lost due to contracts with landowners who agree to only use of their land for agricultural or open space purposes in exchange for reduced property taxes.
- A decrease of \$32 million by suspending new property tax deferrals under the Senior Citizen's Property Tax Deferral program beginning February 1, 2009. Savings of \$6.5 million are estimated for 2008-09. Year-over-year expenditures are reduced by \$25.5 million. Under specified conditions, this program pays the property tax

for eligible senior and blind/disabled citizens. The state is repaid after the recipient relinquishes ownership through death or sale of the property.

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## **GENERAL GOVERNMENT: STATEWIDE EXPENDITURES**

The major General Fund workload adjustments are as follows:

- An increase of \$95.7 million to restart state employer contributions to the University of California Retirement System.

The major General Fund policy adjustments are as follows:

- A decrease of \$6.143 billion in 2009-10 to reflect expenditure offsets provided by the securitization of future lottery revenues, including \$5.0 billion in bond proceeds and \$1.143 billion in lottery revenues. A corresponding increase of \$6.143 billion from the Debt Retirement Fund is proposed to reflect the above General Fund offset.
- A decrease of \$4.7 billion in 2008-09 to reflect expenditure offsets provided by the issuance of Revenue Anticipation Warrants in 2009-10 for costs incurred in 2008-09.
- A decrease of \$414.6 million in state employee compensation costs in 2008-09 resulting from: two days furlough per month beginning February 1, 2009 (\$375.8 million); elimination of two state holidays and premium pay for hours worked on holidays (\$26.3 million); and computation of overtime pay based on actual time worked (\$12.5 million).
- A decrease of \$1.006 billion in state employee compensation costs in 2009-10 resulting from: two days furlough per month (one-time, \$901.8 million); elimination of two state holidays and premium pay for hours worked on holidays (\$74.5 million); and the computation of overtime pay based on actual time worked (\$30 million).
- A decrease of \$150 million through layoff of current state employees as well as efficiencies and other savings.
- A decrease of \$132.2 million in health care costs beginning in January 2010 by contracting for lower cost health care coverage directly from an insurer rather than through CalPERS. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit costs.
- A decrease of \$75.7 million to restart state employer contributions to the University of California Retirement System at \$20 million.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

The major Non-General Fund policy adjustments are as follows:

- A decrease of \$283.1 million from various special funds in state employee compensation costs in 2008-09 resulting from: two days furlough per month beginning February 1, 2009 (\$282.4 million); and elimination of two state holidays and premium pay for hours worked on holidays (\$0.8 million).
- A decrease of \$679.9 million from various special funds in state employee compensation costs in 2009-10 resulting from: two days furlough (one-time, \$677.8 million); and elimination of two state holidays and premium pay for hours worked on holidays (\$2.1 million).
- A decrease of \$47.9 million from various special funds in health care costs by contracting for lower cost health care coverage directly from an insurer rather than through CalPERS. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit costs.

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### **DEBT SERVICE**

General Fund expenditures for debt service will increase by \$1.410 billion, or 30.9 percent, due to the projected sale of bonds to pay for infrastructure projects, the complete erosion of debt service offsets provided from the Transportation Debt Service Fund (Spillover), and higher short-term borrowing costs (RANs/RAWs).

The major General Fund workload adjustments are as follows:

- An increase of \$1.219 billion in General Obligation bond debt service to reflect increased sales and reduced transportation bond debt service offsets.
- An increase of \$82 million in lease revenue bond debt service to reflect recent bond sales.
- An increase of \$106 million in short-term borrowing costs (RANs/RAWs) due to insufficient internal cash flow resources.

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### **INFRASTRUCTURE**

General Fund expenditures are proposed to increase by \$129 million, or 59.5 percent, which includes carryover funding from the current year to the budget year. Infrastructure budgets are zero-based, whereby funding requirements are determined each year.

## SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

The budget proposes a total of \$345 million for critical projects that are essential to protect the state's citizens and employees' health and safety.

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