Summary of Significant Changes by Major Program Areas

The 2010-11 Governor's Budget includes proposals to address a $19.9 billion General Fund budget gap over two years, including a modest $1 billion reserve. Figure MPA-01 reflects the result of those proposals.

Proposed General Fund expenditures for 2010-11 are approximately $3.2 billion below the revised expenditures for 2009-10.

The 2010-11 Governor's Budget projects that General Fund revenues will increase by $1.2 billion when compared to revised 2009-10 revenues. The projected level of revenues reflects a slight decrease from the 2009-10 revenues projected as of the Amended 2009 Budget Act.

Figure MPA-01 reflects the General Fund revenues and expenditures as of the amended 2009 Budget Act, and compares General Fund revenues and expenditures proposed or estimated in 2010-11 to the revised 2009-10 revenue and expenditure estimates. The expenditures in each area reflect state program costs and do not include General Fund offsets from enhanced federal funds, the Protection of Local Government Revenues of 2004 (Proposition 1A) funds, and the funds shifted from redevelopment agencies. Major expenditure changes are highlighted below. For information regarding changes since the Amended 2009 Budget Act, please view specific departmental information under Proposed Budget Detail.

Figure MPA-01

General Fund Revenues and Expenditures
2009-10 vs. 2010-11 Proposed
(Dollars in Millions)

				Change from Revised 2009-10	
	2009-10 at Budget Act	Revised 2009-10	Proposed 2010-11	Dollar Change	Percent Change
Revenues and Transfers	**$89,541.0**	**$88,083.5**	**$89,322.1**	**$1,238.6**	**1.4%**
Expenditures					
Non-Proposition 98					
Legislative, Judicial, and Executive	$3,369.4	$3,352.9	$3,160.4	-$192.5	-5.7%
State and Consumer Services	562.9	558.4	581.2	22.8	4.1%
Business, Transportation and Housing	2,034.3	1,934.6	538.9	-1,395.7	-72.1%
Natural Resources	1,066.4	1,131.8	794.4	-337.4	-29.8%
Environmental Protection	67.6	68.6	60.6	-8.0	-11.7%
Health and Human Services	29,939.5	29,897.5	27,494.4	-2,403.1	-8.0%
Corrections and Rehabilitation	8,419.7	9,348.3	8,162.1	-1,186.2	-12.7%
K-12 Education	1,287.3	1,294.3	1,292.3	-2.0	-0.2%
Higher Education	6,461.1	6,468.6	6,693.1	224.5	3.5%
Labor & Workforce Development	64.0	61.8	58.4	-3.4	-5.5%
General Government:					
Non-Agency Department	492.3	478.7	520.3	41.6	8.7%
Tax Relief/Local Government	463.0	469.6	534.2	64.6	13.8%
Statewide Expenditures	-1,345.3	-460.7	1,044.1	1,504.8	326.6%
Debt Service	5,979.2	5,845.6	6,221.7	376.1	6.4%
Infrastructure	254.7	135.3	223.5	88.2	65.2%
Enhanced Federal Funds Offsets	-4,892.7	-4,575.9	-8,582.3	-4,006.4	-87.6%
Prop 1A and RDA Offsets	-2,784.3	-2,821.3	-350.0	2,471.3	87.6%
Higher Education--Federal Fund Offsets	-610.0	-610.0	0.0	610.0	100.0%
Employee Comp Reductions [1/]	-1,278.5	-1,146.0	-1,635.9	-489.9	-42.7%
Total, Non Proposition 98	**$49,550.6**	**$51,432.1**	**$46,811.4**	**-$4,620.7**	**-9.0%**
Proposition 98	**$35,032.4**	**$34,660.0**	**$36,089.9**	**$1,429.9**	**4.1%**
Total, All Expenditures	**$84,583.0**	**$86,092.1**	**$82,901.3**	**-$3,190.8**	**-3.7%**

[1/] Reflects three-day furlough in 2009-10 and various new proposals in 2010-11.

Legislative, Judicial, and Executive

General Fund expenditures are proposed to decrease by $192.5 million, or 5.7 percent, not including General Fund offsets.

The significant General Fund workload adjustments are as follows:

- Trial Court Operations—An increase of $135.3 million as a result of various trial court operational costs (including $100 million for the restoration of one-time savings, $17.9 million for employee retirement and health benefit costs, and $17.4 million for the implementation of the Guardianship and Conservatorship Reform Act).
- 21st Century Project—The budget includes $30.7 million General Fund for the State Controller's Office to continue implementation of the 21st Century Project, which would replace the existing statewide employment history, payroll, leave balance accounting, and position control systems. The existing systems are 30 years old, written in virtually obsolete program languages, and are very labor-intensive. The replacement of these systems will impact all state departments. Funding for this project in the budget year also includes $35.4 million from other funds.
- Special Election Costs—A one-time increase of $68.2 million local assistance to reimburse counties for costs incurred for the May 19, 2009, Statewide Special Election.
- Revenue Collection Activities—An increase of $9.9 million for the Board of Equalization (BOE), which represents the restoration of resources for BOE revenue collection activities. Providing these resources will generate approximately $90 million in additional General Fund revenues in 2010-11.
- Agricultural Inspection Station Tax Leads—An increase of $4.4 million and 55.0 positions for the BOE to expand tax enforcement activities at agricultural inspection stations from one inspection station to four. Under an interagency agreement with the California Department of Food and Agriculture, the inspection stations provide the BOE with copies of the bills of lading of commercial trucks that enter California bearing taxable property, such as construction equipment or building materials. BOE determines whether the in-state recipients paid the applicable sales and use tax. Expanding this program will generate $23 million in new General Fund revenues in 2010-11.
- Eliminate the Office of Planning and Research—The budget proposes eliminating the Office of Planning and Research and transferring certain functions and resources

to the newly created California Agency on Service and Volunteering and the State Inspector General. Other functions will transfer to the Resources Agency, Business, Transportation and Housing Agency, Office of the State Chief Information Officer, Governor's Office, Housing and Community Development, and State and Consumer Services Agency.

The significant General Fund policy adjustments are as follows:

- Convert Legal Services Clients to Billable Status—A reduction of $53.9 million from the Department of Justice (DOJ) to reflect the conversion of General Fund legal services clients to billable status. This funding will be allocated to departmental clients using a new Budget Act Control Section. This change will allow for greater accountability and allocation of legal services provided by DOJ for client departments.

The significant General Fund budget solutions are as follows:

- Reductions
    - 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 for one year.
- Alternative Funding
    - Automated Speed Enforcement Revenue—Increased revenues of $337.9 million, which allows for a $296.9 million General Fund reduction to the Trial Courts. In addition, these revenues would allow for a $41 million augmentation for trial court security, which would address the trial court security funding shortfall. The new speed enforcement program would utilize red light violation monitoring systems to identify and fine persons speeding through intersections.
    - Forensic Labs Fund Shift—A reduction of $45.1 million by shifting support of the DOJ's regional forensic labs, including lease revenue debt service costs, by increasing penalty assessments. The proposed change would permanently raise an existing penalty assessment based on fines imposed for criminal offenses from $1 to $3, and broaden the use of the DNA Identification Fund to include DOJ's crime laboratory operations.
    - Property Tax Shift—Fund $350 million in trial court costs with property tax revenues resulting in a comparable level of General Fund savings.

Non-General Fund expenditures are proposed to decrease by $3.1 billion, or 35.6 percent.

The significant non-General Fund workload adjustments are as follows:

- Federal American Recovery and Reinvestment Act (ARRA)—A $2.1 billion decrease of federal funds from the Governor's Office of Planning and Research to remove one-time ARRA funding that was distributed to the Department of Education, the Department of Corrections and Rehabilitation (CDCR), the University of California, and the California State University.
- Trial Court Facilities—An increase of $35 million for the Judicial Branch to continue Trial Court Facility Modifications authorized by Chapter 311, Statutes of 2008.
- Office of the Chief Information Officer—An increase of 394.0 positions, as the employees in the Public Safety Communications Division are transferred from the Department of General Services to the Office of the Chief Information Officer in the final phase of the consolidation pursuant to 2009 Governor's Reorganization Plan 1.
- Office of the Chief Information Officer—An increase of $16 million for data center workload capacity for the Office of Technology Services.
- Office of the Chief Information Officer—A limited-time increase of $5.5 million to provide incentives for recruitment and training of 9-1-1 dispatchers, implement an enhanced 9-1-1 network in northeastern California, and to provide website and information technology support to the California Recovery Task Force.
- One-Time Reductions—A $315.2 million decrease for various one-time cost reductions.

State and Consumer Services

General Fund expenditures are proposed to increase by $22.8 million, or 4.1 percent.

The significant General Fund workload adjustments are as follows:

- Revenue Backlog Clearance—An increase of $14.7 million and 158.0 temporary help positions for the Franchise Tax Board (FTB) to address workload backlogs. This will generate $50 million in new General Fund revenues in 2010-11.
- Enterprise Data to Revenue (EDR) Project—An increase of $7 million and 38.0 positions for the second year of the EDR Project. The EDR Project is a

multi-year effort to enhance FTB's filing, audit, and collections activities by creating a new data warehouse accessible by all branches of FTB. This funding will generate $20 million in new General Fund revenues in 2010-11 by providing resources to clear a backlog of business entity tax returns.

- Federal Treasury Offset Program (FTOP)—An increase of $850,000 and 10.0 positions for FTB to participate in the FTOP. Under FTOP, the federal government will withhold federal tax refunds and other federal payments from persons who owe unpaid tax to the FTB. In return, FTB will withhold state tax refunds and other state payments from persons who owe unpaid tax to the federal government. This program will generate $6 million in new General Fund revenues in 2010-11.

The significant General Fund budget solutions are as follows:

- Reductions
  - State Capitol Repair and Maintenance—A reduction of $5.4 million for State Capitol repair and maintenance. The Department of General Services would continue to coordinate repair and maintenance of the Capitol based on priorities set by the Joint Rules Committee; however, these activities would now be funded by the Legislature.
- Alternative Funding
  - Science Center—A reduction of $12 million General Fund resulting from charging an admission fee.

Non-General Fund expenditures are proposed to increase by $1.7 billion, or 6.2 percent.

The significant non-General Fund workload adjustments are as follows:

- Benefit Payments for State Annuitants—An increase of $1 billion in the California Public Employees' Retirement System to fund benefit payments for state annuitants.
- Benefit Payments for Retired Teachers—An increase of $879.8 million in the California State Teachers' Retirement System to fund benefit payments for retired teachers.
- Consumer Protection Enforcement Initiative—An increase of $12.8 million to enhance the Department of Consumer Affairs' enforcement and oversight of licensees in health-related professions and to improve consumer protection.

Business, Transportation, and Housing

General Fund expenditures are proposed to decrease by $1.4 billion, or 72.1 percent due primarily to the proposed shift in funding for transportation projects.

Non-General Fund expenditures are proposed to increase by $2.58 billion, or 15.4 percent, largely due to the shift in transportation funding and increased expenditures from the Safe, Reliable, High-Speed Passenger Train Bond Act (Proposition 1A).

The significant non-General Fund workload adjustments are as follows:

- **State Transit Assistance**
  - The budget includes $350 million in Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) funding for local transit projects.
- **Department of Transportation (Caltrans)**
  - The budget includes $9.1 million in Proposition 1B funding and 71.3 positions to continue various administrative, planning and programming support activities related to oversight of Proposition 1B projects. Revised staffing for project delivery will be prepared as part of the May Revision. Total Proposition 1B funding for projects will be nearly $4 billion.

The significant non-General Fund policy adjustments are as follows:

- **Caltrans**
  - Public Private Partnerships (P3)—An increase of $3.45 billion to be spent over the next 30 years ($115 million per year) to attract private partners and investors in comprehensive development lease agreements for transportation projects. The Legislature enacted legislation last year (Chapter 2, Statutes of 2009, Second Extraordinary Session) to provide broad authority for the state to enter into P3 projects such as toll roads. This proposal complements that legislation by providing a secure appropriation of state funding to be used to pay private partners for a portion of costs to construct and maintain new or rehabilitated portions of the state highway system, where terms are beneficial to the state as provided in last year's legislation.

- Grant Anticipation Revenue Vehicles (GARVEE) Bonds—An increase of $680 million to accelerate the delivery of three major projects – Doyle Drive in San Francisco, the State Route 10 and Interstate 605 interchange in Los Angeles, and State Route 710 rehabilitation in Los Angeles. The funding includes $495 million for project costs and $185 million in federal funds to pay debt service costs over the next 12 years. It is estimated that this financing mechanism will save a net of $11 million in total project costs.

- Air Quality Fleet Mandates—An increase of $57.3 million to retrofit 147 vehicles and replace 288 vehicles to comply with various federal and state air quality mandates.

- Tort Reform—Increases in the number of lawsuits related to accidents on state highways and increases in the size of awards resulting from those lawsuits are eroding limited dollars to build and maintain the state highway system. To address those increased costs, legislation will be introduced to cap the state's liability on the amount of damages for non-economic losses that can be awarded in personal injury suits as a result of accidents on the state's highways. California is one of very few states in the nation that does not limit the state's liability and degree of responsibility under current joint and severable liability statutes. Consistent with other states, these reforms will cap monetary awards for non-economic damages at $250,000 per individual or $500,000 per occurrence and limit the state's liability to its share of economic damages.

- Project Initiation Document (PIDs) Reimbursement—The budget proposes to shift the costs of developing PIDs for local projects to local agencies. This will save the state $12.5 million that can be redirected to fund priority state projects.

- **High-Speed Rail**

  - Project Development and Oversight—The budget proposes $581.4 million in Safe, Reliable High-Speed Passenger Train Bond Act bond funding (Proposition 1A), $375 million in Federal ARRA funding, and 25.7 positions to continue environmental planning and preliminary engineering, and to begin purchasing land on which portions of the high-speed rail system will be built. Funding will be focused primarily on the Los Angeles-to-Anaheim, San Francisco-to-San Jose, and Fresno-to-Bakersfield segments on which grade separations, electrification, and maintenance and testing facilities will be started in 2011-12 using ARRA funding.

- **California Highway Patrol**
  - Officer Staffing — An increase of $17.8 million from the Motor Vehicle Account to fund 180 new California Highway Patrol officer positions to improve public safety with increased road patrols and quicker response times to accidents and people in need of assistance. Proactive road patrols provide a significant deterrent to motorists who violate the law and enhance security through increased officer presence. Increased staffing also reduces response times to major collisions and in getting aid to motorists in need of assistance on state highways.
- **Housing and Community Development**
  - Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C) — The budget includes $131 million in Proposition 1C housing bonds, which is a year-over-year reduction of $409 million as the majority of bonds have been obligated for housing, infill, and other community development projects. Proposition 1C funding has assisted in the creation and preservation of over 34,000 housing units.

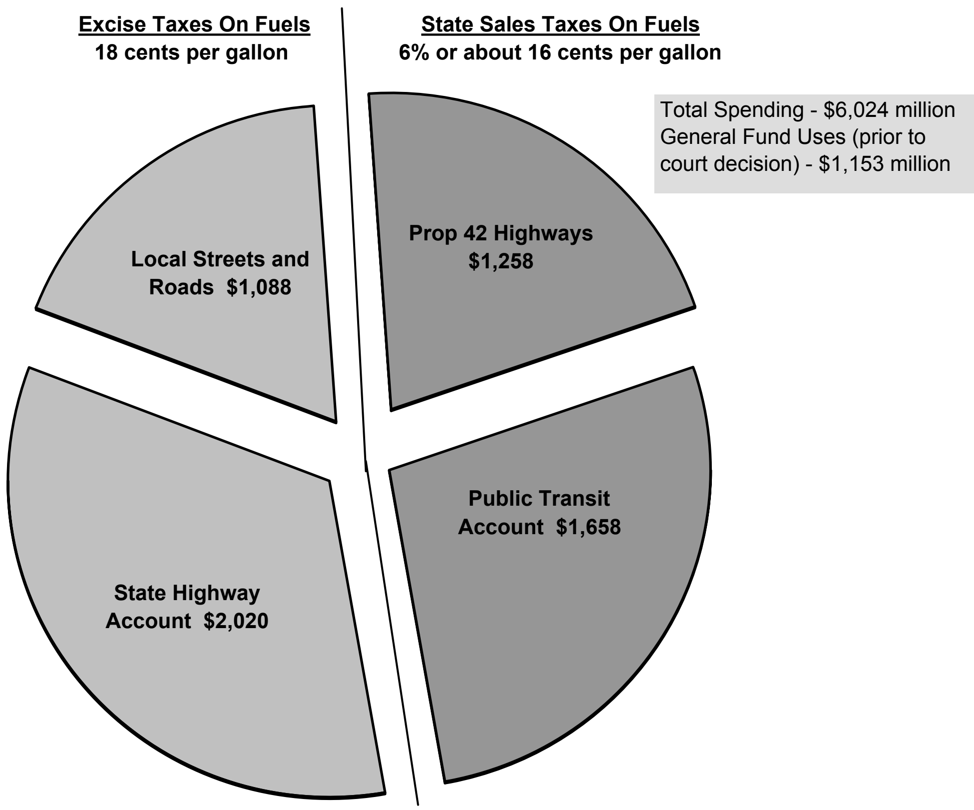
The significant General Fund budget solutions are as follows:

- Alternative Funding
  - Transportation Funding — Existing state revenues for transportation programs are raised primarily by an 18-cent excise tax on motor vehicle fuels and the state sales taxes on those fuels. In recent years, with the increase in gasoline and diesel prices outstripping the prices of other taxable goods, these sales tax revenues have dramatically increased, by almost a billion dollars since 2004-05. (See Figure MPA-02 for a summary of current law fuel taxes.) The increase in gas prices has in part shifted consumer spending on taxable goods to gasoline, and has contributed to relative decreases in General Fund sales tax revenues. In recent budgets, much of these increases have been used to fund the General Fund costs of transit bonds, school transportation, and transportation of the developmentally disabled. The use of these revenues to pay for costs otherwise borne by the General Fund has been done in part because the decision made in the early 1970s to dedicate these funds did not anticipate current high gas prices and the level of funding for local public transportation that statutory formulas would have otherwise provided. A recent court decision determined that most of the use of sales tax on gas to fund public transportation

Fig. MPA -02

Existing Transportation Fuel Taxes

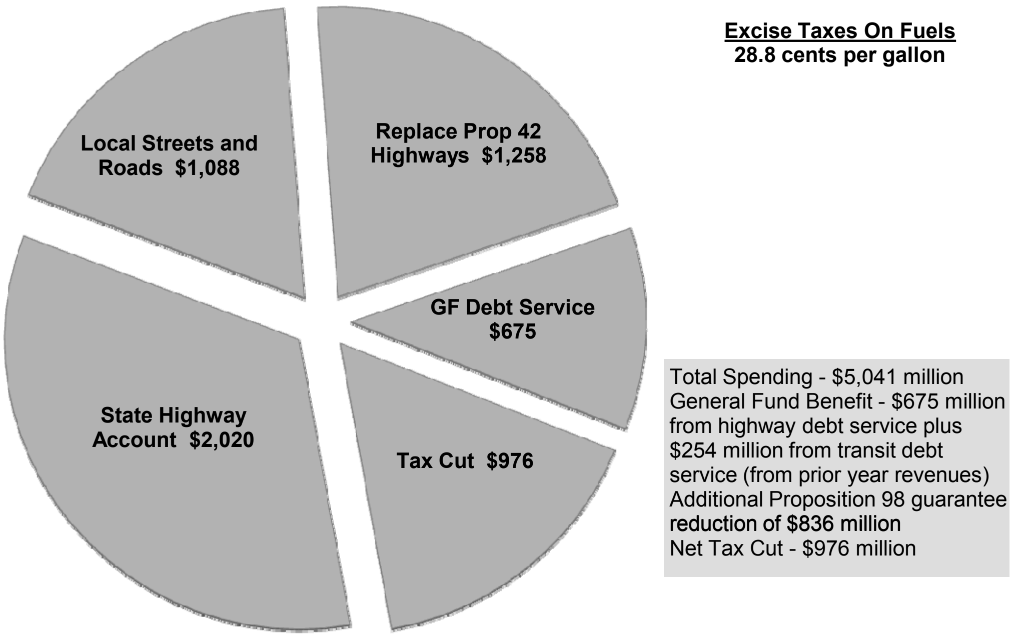
($ in millions)



costs otherwise borne by the General Fund is invalid. Based on this decision, $958 million of 2009-10 General Fund budget solutions cannot be obtained. Because these funds cannot be used as budgeted, they are being retained in the Public Transportation Account (PTA), which thus has a growing balance.

The Governor's Budget proposes to achieve $1.8 billion in General Fund savings while continuing to fund transportation programs at the level anticipated in the 2009 Budget Act. To achieve this goal, the budget proposes to eliminate the sales tax on fuel and increase the excise tax on gasoline by 10.8 cents to partially replace these revenues, thereby maintaining funding for transportation programs while reducing net taxes paid by consumers by $976 million. (See Figure MPA-03 for an outline of the plan).

Fig. MPA - 03
Proposed Transportation Revenues
($ in millions)



Under current law, the sales tax on fuel provides the revenues that fund Proposition 42. Revenues from the excise tax on gasoline have substantial constitutional protections; however they are not subject to the same legal restrictions as the sales taxes on fuels are. Under Article XIX of the Constitution, excise tax revenues cannot be used for most transit purposes. Given the goal to provide the same level of funding for transportation as was anticipated in the 2009 Budget Act, the Governor's Budget proposes the replacement revenues to be distributed as follows: $629 million for local streets and roads and $629 million for the State Transportation Improvement Program (STIP). This distribution is the same as would have been provided under Proposition 42.

The General Fund benefits from this proposal as follows:

- $603 million in new excise tax revenue will be used to reimburse the General Fund for highway bond debt service costs in 2010-11. In future years, the excise taxes will be adjusted to allow the increasing amount of debt service cost associated with Proposition 1B bonds to be offset. However, the rate will never exceed the current effective per-gallon rate.

Additionally, $72 million in miscellaneous Caltrans revenues transferred to the PTA under prior law will instead be retained in the State Highway Account to offset a portion of Proposition 116 rail bond debt service.

- From the revenue received in the PTA in 2009-10, $57 million in 2009-10 and $254 million in 2010-11 will be used to fund transit programs' bond debt service costs, as allowed under the recent court decision.

This results in an overall decrease in taxes on motorists of about five cents per gallon. In the future, state tax revenues will no longer increase from spikes in gasoline prices. Since the revenues that flowed to Proposition 42 were General Fund revenues, the elimination of these revenues reduces the Proposition 98 guarantee, which provides an $836 million budget solution (see Proposition 98 Section).

Figure MPA-04 provides details of how the program expenditures and revenues of the new proposal compare to existing law.

Intercity Rail and some transportation planning costs will continue to be funded from the PTA until those funds are exhausted in 2011-12. At that time, it will become necessary to fund these activities from the General Fund or other funding sources.

Emergency Housing Assistance—A transfer of $4.2 million from the Emergency Housing Assistance Fund to the General Fund is proposed.

Figure MPA-04
Transportation Funding Proposal
(2010-11 Dollars in Millions)

Current Law	Total	Highway Uses	Transit Uses
Revenues			
Sales Tax on Gasoline			
Proposition 42	$1,573	-	-
State Transportation Improvement Program	-	$629	-
Local Street and Road Maintenance	-	629	-
Transit	-	-	$315
Spillover	897	-	897
Proposition 111	61	-	61
Sales Tax on Diesel	313	-	313
Caltrans Miscellaneous	72	-	72
Totals	$2,916	$1,258	$1,658
2009-10 Budget Expenditures (with 2010-11 amounts)			
Capital Projects	-	$629	$36
Local Maintenance	-	629	-
Intercity Rail	-	-	131
Planning	-	-	19
Debt Service	-	-	1,344
Regional Center Client Transportation	-	-	138
Totals	-	$1,258	$1,668
Proposed Changes			
Revenues			
Excise Tax on Fuels at 10.8 cents per gallon	$1,868	$1,868	-
Caltrans Miscellaneous	72	72	-
2009-10 PTA revenues*	946	-	$946
Totals	$2,886	$1,940	$946
2010-11 Proposed Budget Expenditures			
Capital Projects	-	$629	$36
Local Streets and Roads Capital and Maintenance	-	629	-
Intercity Rail	-	-	131
Planning	-	-	19
Debt Service	-	675	254
Totals	-	$1,933	$440

Natural Resources

General Fund expenditures are proposed to decrease by $337.4 million, or 29.8 percent. This decrease is primarily attributable to alternative funding budget solutions proposed for the Department of Forestry and Fire Protection (CAL FIRE) and the Department of Parks and Recreation (Parks).

The significant General Fund workload adjustments are as follows:

- CAL FIRE Emergency Fire Suppression Expenditures—A decrease of $32.8 million for CAL FIRE's emergency fire costs. Based on expenditures to date, CAL FIRE's emergency fire suppression expenditures are estimated to be $255.8 million in 2009-10. In 2010-11, the Governor's Budget proposes a total of $223 million General Fund for CAL FIRE's emergency fire expenditures, which reflects the historical average of emergency firefighting costs over the past five years and additional federal reimbursements.
- Restoration of One-Time Fund Shift from the Fish and Game Preservation Fund —An increase of $30 million to the Department of Fish and Game to restore General Fund support. The 2009 Budget Act included a one-time fund shift of $30 million from the Fish and Game Preservation Fund to backfill reductions to the General Fund.

The significant General Fund policy adjustments are as follows:

- Beverage Container Recycling Program—An increase of $54.8 million in 2009-10 and $98.2 million in 2010-11 to reflect the repayment of loans made from the Beverage Container Recycling Fund. These loan repayments are part of a comprehensive proposal to implement market-based programmatic and budgetary reforms in the Recycling Program that will incorporate the cost of recycling into the price paid by consumers, and eliminate several unnecessary recycling programs and subsidies. Consumers will pay a higher container fee once the General Fund loans have been fully repaid in 2013-14.

The significant General Fund budget solutions are as follows:

- Reductions
    - Department of Fish and Game—A reduction of $5 million for recreational hunting and fishing programs. This includes reductions to habitat management activities that attract game species, such as deer and waterfowl, that support sport hunting, and fisheries management activities for marine and freshwater sport fishing.
- Alternative Funding
    - Fund CAL FIRE's Fire Protection Program from the Emergency Response Initiative—A reduction of $200 million in General Fund and replacement with

revenue generated from a 4.8-percent statewide surcharge on all residential and commercial property insurance. Beginning in 2011-12, the Emergency Response Initiative will provide funding to enhance the state's emergency response capabilities, including enhancements for CAL FIRE, the California Emergency Management Agency, the Military Department, and assistance to local first response agencies in support of the state's mutual aid system.

- Fund State Parks from Tranquillon Ridge Oil Revenues—A reduction of $140 million in General Fund and replacement with revenue generated from the Tranquillon Ridge oil lease. It is estimated that the Tranquillon Ridge oil lease will generate $1.8 billion in advanced royalties over the next 14 years. This revenue will be used to fund state parks. The Governor's Budget assumes that the State Lands Commission will approve the Tranquillon Ridge proposal. If not approved by the Commission, legislation will be necessary.

Non-General Fund expenditures are proposed to decrease by $2.6 billion, or 23.1 percent. This decrease is primarily attributable to numerous expiring one-time bond fund appropriations for Natural Resources Agency departments, and a reduction in the Department of Water Resources' expiring long-term energy contracts entered into during the 2001 energy crisis.

The significant non-General Fund workload adjustments are as follows:

- Implementation of the Department of Resources Recycling and Recovery (CalRecycle)—Pursuant to Chapter 21, Statutes of 2009, the Governor's Budget reflects the elimination of the Integrated Waste Management Board (Waste Board) and the consolidation of Waste Board activities with the Department of Conservation's Division of Recycling into a new CalRecycle. This reflects a net decrease in state expenditures of $2 million. Consistent with the Governor's direction, the Administration will work with the Legislature to make changes necessary to ensure that resources, recycling, and recovery programs are housed and managed by the appropriate agencies.

- Delta Water Legislation—An increase of $70.5 million and 47.4 positions to implement the comprehensive water legislation enacted in November 2009 to restore the Delta and address the state's long-term water needs. The budget reflects the establishment of the new Delta Stewardship Council and Sacramento-San Joaquin Delta Conservancy, as well as funding for the development of the Delta Plan, as required by Chapter 5, Statutes of 2009, Seventh Extraordinary Session.

The significant non-General Fund policy adjustments are as follows:

- FloodSAFE Program — An increase of $210.8 million in Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), and Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E) bond funds to evaluate, repair, and strengthen critical levees in the Central Valley and the Delta, provide grants and subventions to help local governments protect their communities from flooding, and continue the development of the Central Valley Flood Protection Plan.
- Davis Dolwig Reform — An increase of $22.6 million, including $15.1 million in Proposition 84 funds, 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 provides an annual transfer of $7.5 million from the Harbors and Watercraft Fund to DWR for boating-related recreation and fish and wildlife enhancements.
- Fish and Game Wardens — An increase of $2 million Fish and Game Preservation Fund for 6.7 additional warden positions to improve enforcement of fish, wildlife, pollution, and habitat protection laws.

Environmental Protection

General Fund expenditures are proposed to decrease by a net amount of $8 million, or 11.7 percent.

The significant General Fund policy adjustments are as follows:

- Various Water Board Program Fees — A reduction of $6.4 million in General Fund subsidies to be offset by increases to existing fees for several water quality regulatory programs including Water Rights, Irrigated Lands and National Pollutant Discharge Elimination System programs.

Non-General Fund expenditures are proposed to decrease by $251.8 million, or 12.6 percent. This reduction reflects, in part, the elimination and transfer of the Waste Board to CalRecycle.

The significant non-General Fund workload adjustments are as follows:

- Underground Storage Tank Program—An increase of $158 million Underground Storage Tank Cleanup Fund (USTCF) resulting from the enactment of Chapter 649, Statutes of 2009. The additional revenue resulting from the bill will reimburse claims that have previously been approved, but for which there are no available USTCF funds.
- Delta Water Legislation—An increase of $5.5 million and 32.0 positions to reflect recently authorized legislation to improve water quality and water conservation in the Delta. This increase includes $3.8 million and 25.0 positions identified in Chapter 2, Statutes of 2009, Seventh Extraordinary Session to establish or augment dedicated investigations and enforcement units at the Water Board.
- Department of Pesticide Regulation—An increase of $4.6 million special funds to reflect the consolidation of the Structural Pest Control Board within the Department of Pesticide Regulation, pursuant to Chapter 18, Statutes of 2009, Fourth Extraordinary Session.
- Office of Education and the Environment (OEE)—$748,000 and 6.5 positions to reflect the transfer of the OEE from the Waste Board to the Office of the Secretary for Environmental Protection, consistent with the provisions of Chapter 21, Statutes of 2009. The transfer will allow the Secretary to continue work on curriculum development and implementation of the program.

Health and Human Services

The Governor's Budget contains significant reductions necessary to address the continuing fiscal crisis while maintaining essential services for children, seniors, and persons with disabilities. In short, California can no longer sustain the level of spending necessary to support federally driven Medicaid and other health and social services programs. A federal reimbursement structure that disadvantages California seriously restricts the state's ability to fund critical Health and Human Services (HHS) programs. While ARRA provided some relief, it also prohibits states from lowering eligibility standards (even to optional populations well above the minimum income requirements). Additionally, federal and state courts have enjoined or overturned necessary budget reductions in HHS programs, and other areas. These factors have limited the state's ability to effectively prioritize the use of state funds.

To more effectively allocate resources, California must have the ability to put limits on benefits, require a measure of financial responsibility from Medicaid recipients, and obtain continued federal flexibilities. Additionally, California must receive additional federal funding consistent with what is provided to other states. Specifically, the current formula that determines the federal share of Medi-Cal provides the lowest possible reimbursement to California and is discriminatory because of an over-reliance on per capita income instead of measuring poverty rates. California's federal fund share should be changed permanently to 57 percent, reflecting the average share of federal funds of the ten most populous states. To achieve federal participation at a level consistent with other large states, the Administration has requested that the federal government increase the base level of federal participation in the Medi-Cal program. The Administration is also assuming an extension of the enhanced funding provided for health and social services programs by ARRA.

HHS General Fund expenditures are proposed to decrease by $2.4 billion, or 8.0 percent from the revised 2009-10 total to the proposed 2010-11 total. This significant year-over-year decrease in General Fund expenditures is comprised of budget solutions totaling $4.5 billion, partially offset by higher expenditures of $2.1 billion resulting from statutory caseload increases and other workload adjustments, as well as high-priority policy changes described below. The $4.5 billion excludes General Fund savings attributable to ARRA since these funds prevent program reductions that otherwise would be necessary. The budget solutions generally fall within three categories: (1) Reductions (totaling $116 million in 2009-10 and $2.8 billion in 2010-11), (2) Alternative Funding (totaling $1.8 billion in 2010-11), and (3) Federal Funds (from ARRA and other solutions totaling $5 billion in 2010-11). See below for more detail.

The significant General Fund cost drivers for HHS programs are as follows:

- Medi-Cal—California has the third lowest provider rates and spends less on a per capita basis than the average of the ten largest states, yet base costs are rising annually by about 8 percent or $1 billion, primarily due to the following factors: (1) caseload is up 3.4 percent (from 7.3 million to 7.5 million), (2) the increasing cost of providing medical services (including prescription drugs and inpatient and outpatient services), (3) California ranks 47th in terms of the percent of beneficiaries enrolled in managed care, which provides more cost-effective and high-quality care, and (4) disabled and elderly persons represent a small percentage of the population, but use most of the program budget through more costly fee-for-service benefits.

- In-Home Supportive Services (IHSS)—Major IHSS cost drivers include caseload, cost per hour, and hours per case. Over the last ten years, caseload has increased from 208,000 to 430,000 recipients, which accounts for approximately 53 percent of the increase in total costs over this same period. Hourly costs have increased primarily because state law triggered a series of increases in the hourly amount up to which the state participates in IHSS worker wages and health benefits. This accounts for approximately 39 percent of the increase in total costs over the last ten years, while hours per case account for approximately 8 percent of the increase in costs over the last ten years.

- Developmental Services—California is the only state providing developmental services as an entitlement. Under the entitlement, Department of Developmental Services (DDS) consumers receive a variety of services and supports that allow them to live and work independently, or in supported environments. The DDS' Regional Center costs are increasing due to higher caseload, the movement of consumers from developmental centers into the community, increased service utilization, and the increase in consumers diagnosed with autism spectrum disorders. In the past ten years, the number of individuals with autism served by the DDS has quadrupled. In 1999, consumers with autism accounted for 9 percent of the caseload; today they represent 23 percent.

- California Work Opportunity and Responsibility to Kids (CalWORKs)—California's welfare program differs from other states in two significant areas. First, California provides a safety net program for children after the adult(s) reach(es) their 60-month time limit (only ten other states offer such a program). Second, as of July 2009, California's grant level is the fourth highest in the nation and ranks second highest among the ten largest states. The recent economic downturn has caused CalWORKs caseload to grow, resulting in significant cost increases in the program.

The significant General Fund workload adjustments are as follows:

- Medi-Cal Base Benefit Costs—An increase of $944 million (including $590.9 million for Fee-For Service, $92.1 million for managed care, and $261 million for Medicare payments and other base adjustments).

- Medi-Cal Federal Flexibility and Stabilization—An increase of $696.8 million as a result of federal funding available in 2009-10 that will not be available in 2010-11. The state expects to claim $360 million in unused federal funds from the existing hospital waiver ($180 million annually for 2005-06 and 2006-07) under the Safety Net Care Pool (SNCP) and an additional $380.3 million by applying ARRA enhanced

Federal Medical Assistance Percentage (FMAP) to the SNCP ($43.5 million available in 2010-11).

- Children's Health Coverage—A decrease of $320 million because of newly enacted hospital fees established by Chapter 627, Statutes of 2009 enabling the state to use $80 million per quarter of fee revenue to offset General Fund for children's Medi-Cal coverage.
- Family Health Program Costs—An increase of $36.2 million in 2010-11 because of a $22.1 million decrease in available federal SNCP funds, a $3 million decrease in federal Title V reimbursement funds, and an $11.1 million increase in caseload and treatment-related costs.
- CalWORKs—An increase of approximately $500 million resulting from increased caseload and federal Temporary Assistance for Needy Families (TANF) Block Grant funds being fully committed and unable to entirely support the cost of the program.
- Other Social Services—An increase of approximately $78 million associated with caseload increases in the Supplemental Security Income/State Supplementary Payment (SSI/SSP), IHSS, and Food Stamp programs.
- AIDS Drug Assistance Program (ADAP)—An increase of $97 million consisting of: (1) $59.3 million increase related to increased caseload and the increased cost of prescription drugs, and (2) $37.7 million increase to backfill a projected shortfall in the ADAP Rebate Fund.
- Regional Centers—An increase of $143.5 million because of increased service utilization and costs associated with autism spectrum disorders, growth in regional center caseload, the expiration of specified provider payment reductions, and the backfill of PTA funds for regional center transportation costs related to *Shaw v. Chiang*.
- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program —An increase of $42.2 million primarily because of increased service costs and the payment of 2006-07 cost settlement claims deferred in the Budget Act of 2009.
- Mental Health Managed Care—An increase of $11.7 million resulting from an increase in the number of Medi-Cal eligible beneficiaries in all programs.
- State Hospitals—An increase of $19.4 million for an estimated increase in the state hospital population, Phase XI of the Coalinga State Hospital activation, and the 64-bed expansion of the Vacaville Psychiatric Program.

The significant General Fund policy adjustments are as follows:

- Managed Care Expansion—An increase of $54.9 million for managed care expansion into Ventura, Mendocino, Lake, Madera, and Kings Counties. Madera and Kings Counties will be partnering with Fresno County, which already has a Medi-Cal managed care delivery system.
- Nursing Home Fees—The Quality Assurance Fee, which is used to reimburse facilities for providing long-term care skilled nursing services to Medi-Cal beneficiaries, sunsets on July 31, 2011. In the months leading to the May Revision, the Administration will work with stakeholders on reauthorization of this fee.
- ADAP—A decrease of $9.5 million for the elimination of ADAP services to county jails.

The current and significant General Fund reforms and major changes underway are as follows:

- Targeting IHSS to the Neediest Consumers—Current law limited (1) domestic and related services (housework, shopping and errands, and meal preparation and clean-up) to only those individuals assessed to have the greatest need for those services, and (2) all services to only those individuals with greater needs based on an assessment of their ability to function within 11 activities of daily living. While these limits were estimated to save approximately $492.7 million ($123 million General Fund) annually, federal court injunctions have prevented the state from implementing these measures.
- Reducing the State Share of IHSS Wages and Health Benefits—Current law reduced state financial participation in the cost of IHSS worker wages and health benefits from a combined $12.10 per hour to a combined $10.10 per hour. While this was estimated to save approximately $352.5 million ($88 million General Fund) annually, federal court injunctions have prevented the state from implementing this measure.
- IHSS Anti-Fraud Reform—The budget includes rigorous anti-fraud efforts that require: (1) all IHSS providers to attend an orientation, obtain a background check, and be fingerprinted during 2009-10, (2) IHSS recipients to be fingerprinted, (3) timesheets to be signed under a statement acknowledging that false timesheets are subject to civil penalties, and (4) fingerprints of both the recipient and provider to be included on timecards. In addition, this reform generally disallows provider checks from being sent to post office box addresses, and authorizes case reviews, targeted

mailings, and unannounced home visits. While these measures were estimated to save $520.8 million ($130 million General Fund) annually, state court injunctions have prevented the state from implementing certain components.

- CalWORKs — Beginning in 2011-12, the following long-term reforms (which are estimated to result in savings of $600 million General Fund annually) will become effective: (1) restructuring time limits by requiring the adults in families that have received aid for a cumulative 48 months within a 60-month period to "sit out" and not receive aid for 12 months, (2) requiring all non-exempt recipients who are not meeting work requirements to meet face-to-face twice a year for a review with county workers, and (3) strengthening the sanction process for adults who do not comply with program requirements by progressively decreasing the family's monthly grant if the adult continues to refuse to comply.
- Improving Health Care Coordination and Controlling Long-Term Medi-Cal Costs — Current law includes reform that provides the Department of Health Care Services, in partnership with the federal government and stakeholders, broad authority under a demonstration project or waiver to utilize managed care or other specialized delivery systems of care for vulnerable populations, including seniors, people with disabilities, children with significant medical needs, and individuals with behavioral health problems. By providing earlier and appropriate care, this program restructuring will keep Californians healthier and avoid unnecessary emergency room visits. Annual savings of $800 million ($400 million General Fund) are estimated to be achieved through this effort by 2012-13.
- Centralizing Eligibility and Enrollment for Public Assistance — Current law establishes a framework for transforming enrollment and eligibility for the Medi-Cal, CalWORKs, and Food Stamp programs from an inefficient, labor-intensive, and decentralized system to a modern online process. This modernization effort will help improve access to health and human services while reducing costs. Resulting savings could be as high as $1 billion ($500 million General Fund) annually by 2012-13, although the plan required by the legislation will specify the timeframes and savings expected from these reforms.

The significant General Fund budget solutions are as follows:

- Reductions
    - Medi-Cal Cost Containment Strategies — A decrease of $750 million as a result of a number of program cost containment strategies. While California operates one of the least costly Medicaid programs in the nation, costs continue to increase primarily as a result of increases in caseload and costs of services.

The Governor's Budget includes a reduction of $750 million General Fund from the implementation of strategies, similar to what other states have done, to reduce Medi-Cal costs. These strategies will include a combination of the following: (1) Limits on services and utilization controls, (2) Increased cost-sharing through co-payment requirements, premiums, or both, and (3) other programmatic changes.

- Eliminate Full-Scope Medi-Cal for Certain Immigrants—A decrease of $118 million resulting from the elimination of full-scope Medi-Cal for adult Newly Qualified Immigrants (legal immigrants who have been residing in the United States less than five years), except pregnant women, and immigrants Permanently Residing Under the Color of Law, and Amnesty Immigrants who are not defined as eligible Qualified Immigrants under federal law. This proposal would take effect March 1, 2010, but savings would not be realized until June 2010 because of implementation times and notification requirements.
- Eliminate Optional Adult Day Health Care Benefits—A decrease of $104 million as a result of the elimination of the optional adult day health care benefit. This proposal would take effect March 1, 2010, but savings would not be realized until June 2010, because of provider and beneficiary notification requirements and the timing associated with related cash payments in Medi-Cal.
- Delay Checkwrite—A decrease of $55 million by deferring one weekly payment to institutional providers.
- Medi-Cal Anti-Fraud Initiative—A decrease of $26.4 million (including the associated support costs) resulting from the Department of Health Care Services' aggressive targeting of fraud in high-priority areas, such as pharmacy, physician services, transportation, and medical equipment.
- Roll-back Rate Increase for Family Planning Services—A decrease of $28.7 million by rescinding the substantial discretionary rate increase authorized by Chapter 636, Statutes of 2007, for family planning services. This proposal would take effect March 1, 2010, but savings would not be realized until June 2010 because of provider and beneficiary notification requirements and timing associated with related cash payments in Medi-Cal.
- Reduce Healthy Families Program Eligibility—A decrease of $10.5 million in 2009-10 and $63.9 million in 2010-11 by reducing program eligibility from 250 percent to 200 percent of the federal poverty level. This proposal

would align California's eligibility standards with the standards in most other states, and take effect May 1, 2010, after appropriate provider and beneficiary notification. A conforming $3.9 million decrease also results in the California Children's Services program for beneficiaries who were previously eligible under the Healthy Families program.

- Reduce Healthy Families Program Benefits and Increase Premiums —A decrease of $21.7 million by eliminating vision coverage and increasing monthly premiums in families with incomes from 151 percent to 200 percent of the federal poverty level by $14 per child or $42 maximum increase per family with 3 or more children (from current $16 per child or $48 maximum per family premiums—the lowest income families under 150 percent of poverty would not have a premium increase). These proposals are consistent with what other states have done and would take effect July 1, 2010, after appropriate provider and beneficiary notification.

- IHSS—A reduction of $77.9 million in 2009-10 and $872.6 million in 2010-11 for: (1) limiting the provision of services to consumers with the highest level of need and (2) reducing state participation in the wages of IHSS workers to the state minimum wage of $8.00 per hour, plus $0.60 per hour for health benefits. These proposals would become effective June 1, 2010, based on the assumption that the state prevails in pending litigation on similar but lesser reductions previously enacted.

- CalWORKs—A reduction of $146.1 million by: (1) reducing monthly grant payments by 15.7 percent to reduce California's grant level to the average of the ten states with the highest cost of living, (2) reducing the level at which the state reimburses child care providers, and (3) eliminating the Recent Noncitizen Entrants program, which provides CalWORKs benefits to legal immigrants who have been in the United States for less than five years. Due to the shifting of federal funds, these proposals also result in General Fund savings of $42.7 million in the Department of Developmental Services budget and $18.3 million in the California Student Aid Commission budget. These proposals would become effective June 1, 2010. The General Fund savings resulting from these proposals would increase to approximately $700 million if the federal government does not extend ARRA funding for CalWORKs (see related Federal Funds issue below).

- SSI/SSP—A reduction of $21.8 million in 2009-10 and $285.1 million in 2010-11 by: (1) reducing SSI/SSP grants for individuals by $15 per month (from

$845 to $830) to the federal minimum (SSI/SSP grants for couples are already at the federal minimum) and (2) eliminating the Cash Assistance Program for Immigrants, which provides state-only benefits to legal immigrants who are not eligible for federal benefits. These proposals would become effective June 1, 2010.

- California Food Assistance Program (CFAP)—A reduction of $3.8 million in 2009-10 and $56.2 million in 2010-11 by eliminating the CFAP, which provides state-only benefits to legal immigrants not eligible for federal Food Stamp benefits. This proposal would become effective June 1, 2010.
- Regional Centers—Reductions of: (1) $61.6 million for additional savings associated with the annualization of $334 million in current year reforms developed by a stakeholder process, which included advocacy and provider groups, (2) $60.9 million for extending the three-percent payment reduction for regional center operations and for services provided through 2010-11, (3) $52.5 million for full-year implementation and expansion of consumer services associated with a 1915(i) amendment to California's Medicaid State Plan submitted to the Centers for Medicare and Medicaid Services in December 2009. A 1915(i) amendment would allow receipt of federal funds for services to consumers who are Medi-Cal eligible, but are not on the existing Home and Community-Based Services Waiver because they do not meet the institutional level of care required for Waiver eligibility, and (4) $25 million for additional program reforms to be developed by the existing stakeholder process while maintaining the entitlement and ensuring program and service integrity.
- Substance Abuse Offender Treatment Program—A reduction of $18 million to eliminate funding for the Substance Abuse Offender Treatment Program.

- Alternative Funding
  - Children's Health Coverage—A decrease of $240 million from available proceeds ($80 million per quarter from April 2009 until December 2010) authorized in law from newly enacted hospital fees. This is in addition to $320 million reflected in the budget as a workload adjustment.
  - Cigarette and Tobacco Products Surtax Fund (Proposition 99)—Savings of $36 million from using available one-time Proposition 99 reserves to offset costs in Medi-Cal. The 2010 Budget also contains $25 million from the available special funds to replace one-time 2009-10 savings (from a change in

payment methodology) made available from the Access for Infants and Mothers Program to meet anticipated demand for health care in 2010-11.

- California Children and Families Act of 1998 (Proposition 10)—A reduction of $550 million in General Fund through a redirection of Proposition 10 funding from the California Children and Families Commission budget to high-priority state programs serving children. This proposal includes shifting (for five years) approximately 50 percent of the Proposition 10 revenues currently directed to state and local accounts within the Commission's budget ($242 million in 2010-11) and a one-time sweep of state and local reserves ($308 million). The redirected funds will be used to support children enrolled in programs administered by the Department of Social Services and the Department of Developmental Services. Implementation of this proposal will require voter approval. It is anticipated this initiative will be included in the June 2010 election.
- Redirection of County Savings—A decrease of $505.5 million General Fund by redirecting a portion of the county savings resulting from reductions in IHSS and CalWORKs (discussed in Reductions section above) to fund an increased county share in Department of Social Services children's programs.
- Regional Centers—A reduction of $42.7 million in General Fund and substitute with reimbursements from federal Title XX funds for the TANF program.
- Community Mental Health Services—A reduction of $452.3 million in General Fund and substitute with Mental Health Services Act (Proposition 63) funding for a portion of the EPSDT program and a portion of the Mental Health Managed Care program. This requires amending the non-supplantation and maintenance-of-effort provisions of Proposition 63 and requires voter approval. It is anticipated this initiative will be included in the June 2010 election.

- Federal Funds
    - Federal Flexibility and Stabilization—A decrease of $1 billion resulting from federal reimbursement for the following costs: (1) health costs for disabled individuals who were actually eligible for Medicare ($700 million), (2) recalculating the rate at which California pays for Medicare Part D drug coverage ($75 million ongoing), and (3) applying the enhanced ARRA FMAP ratio to the Medicare Part D drug coverage payments ($250 million). An additional $43 million in ARRA enhanced Safety Net Care Pool funding is available in 2010-11.

- Increase California's base FMAP—A savings of $1.8 billion as a result of the federal government increasing California's base FMAP to 57 percent to be consistent with the federal funding ratios provided to the ten most populous states as well as the nationwide average.
- Expand Federal Eligibility for Foster Care—A decrease of $86.9 million as a result of the federal government providing financial participation to all currently state-only foster care cases.
- Continuation of ARRA FMAP Through June 30, 2011 — A decrease of $1.5 billion as a result of the continuation of California's ARRA-enhanced FMAP (11.59 percent increase to the base percentage) through June 30, 2011.
- CalWORKs ARRA Funding—A decrease of $538 million as a result of the federal government continuing through 2010-11 the TANF Emergency Contingency Funding provided to California.
- Title IV-E ARRA—A reduction of $26.8 million from continuation through 2010-11 of the enhanced FMAP (6.2 percent increase to the base percentage) available for California's Foster Care and Adoptions Assistance programs.
- Child Support ARRA Funding—A decrease of $20.8 million resulting from the federal government allowing California to use incentive funds to match federal funds through June 30, 2011.
- Early Start Program—An offset of $32.9 million for an increase in funding from the federal Individuals with Disabilities Education Act, Part C grant that was augmented as part of ARRA.

The significant non-General Fund workload adjustments are as follows:

- Gross Premiums Tax—An increase of $163.8 million to the Department of Health Care Services ($91.9 million in 2009-10 and $71.9 million in 2010-11) and $239 million to the Managed Risk Medical Insurance Board's Healthy Families Program ($101.7 million in 2009-10 and $137.3 million in 2010-11) resulting from the enactment of Chapter 157, Statutes of 2009, that created an industry-supported tax on managed care plans.
- Proposition 10—A one-time increase of $55.6 million in funding provided by the First 5 California Children and Families Commission to help fund the costs of children up to five years old enrolled in the Healthy Families Program.

- Local Revenue Fund—An increase of $175.3 million attributable to revenue increases in the State-Local Realignment program.
- Clinical Laboratory Inspections—An increase of $3.4 million Clinical Laboratory Improvement Fund to comply with the provisions of Chapter 201, Statutes of 2009, which revises licensing and registration requirements for private nonprofit organizations to accredit clinical laboratories for state compliance, and revises licensing fees to fund state resources to provide improved oversight.
- ADAP—A decrease of $37.7 million ADAP Rebate Fund to avoid a shortfall and maintain a prudent reserve. This reduction is fully backfilled with General Fund.
- Mental Health Services Act Local Assistance—A decrease of $405.9 million Mental Health Services Fund, which is a technical adjustment to reflect updated county resource plans.

Corrections and Rehabilitation

General Fund expenditures are proposed to decrease by $1.19 billion, or 12.7 percent, not including General Fund offsets.

The significant General Fund cost drivers are:

- Correctional Officer Salaries—Correctional officer salaries are 33 percent higher than the average salary for comparable positions in other jurisdictions and parole agent salaries are 25.5 percent higher, according to a Department of Personnel Administration salary survey.
- Court-Driven Costs—Numerous state and federal court orders have dramatically increased the cost of prison health care, parole hearings, Americans with Disabilities Act compliance, and juvenile incarceration. Medical costs are the largest cost driver. California's average annual medical inmate cost is approximately $11,000 per inmate, as compared to approximately $5,757 for New York, which has similar inmate demographics.

The significant General Fund workload adjustments are as follows:

- Adult Inmate and Parolee Population—An increase of $176.2 million related to projected changes in the inmate and parolee populations, as well as payments to local jurisdictions that temporarily house inmates on behalf of the state prison system. The inmate population is expected to decrease from 168,628 to 168,461, primarily because of a decrease in new admissions from the courts, and the parolee population is expected to decrease from 118,371 to 118,342, primarily because of a decrease in the number of discharges from prison to parole.

- Juvenile Institution and Parolee Population — A decrease of $16.2 million General Fund and $4.8 million Proposition 98 General Fund related to projected changes in the juvenile institution and parolee populations, the closure of the Heman G. Stark Youth Correctional Facility, and the use of revised staffing ratios. The juvenile institution population is projected to decrease from 1,637 to 1,624 and the parolee population is expected to decrease from 1,690 to 1,391.

- Removal of Price Increase — A decrease of $92.8 million in 2009-10 and 2010-11, pursuant to Control Section 4.04, to remove the augmentation that had been provided in the 2009-10 Budget to adjust General Fund appropriations for inflation.

- Revised Savings Estimates — An increase of $613.1 million in 2009-10 and $359.2 million General Fund in 2010-11 to reflect revised savings estimates associated with prison reforms assumed in the 2009 Budget Act. The Administration proposed reforms that would have achieved an estimated $1.18 billion in savings. The savings were included in the Budget Act, but not all of the statutory changes necessary to achieve those savings were subsequently enacted by the Legislature. In addition, the legislation that was enacted was passed later in the year than the savings estimates had assumed. The delay in passage of the legislation resulted in the loss of $119.7 million in 2009-10, while another $265 million for 2009-10 and $130.8 million in 2010-11 were lost because some proposals that were implemented will not achieve the full amount of estimated savings. The remainder of the savings loss, $228.4 million in 2009-10 and 2010-11, is due to the lack of statutory changes that would have been necessary for the proposals to be implemented.

- Receiver's Medical Services Program — An increase of $519.1 million in 2009-10 and $532.2 million in 2010-11 to account for contract medical expenditures and to implement various portions of the Receiver's court-approved Turnaround Plan. This includes the provision of additional nursing resources, improving the information technology infrastructure, and establishing an electronic medical records system.

The significant General Fund current reforms and major changes underway are as follows:

- Parole Reforms — Reduced parole agent caseloads and focused parole supervision on serious and violent offenders, as well as offenders who have a high risk of reoffending. Prohibit low and moderate risk offenders from being returned to prision for technical violations. Required the use of science-based, risk assessment instruments to determine appropriate sentences and expanded use of active GPS monitoring as a part of parole supervision tool.

- Credit Earning Changes—Enhanced sentence credits were put in place for time served in county jails while awaiting placement with CDCR, completing rehabilitative programs, placement on a waiting list to serve in a fire camp, and time served while being processed for return to custody due to parole violations.
- Reduce the Number of Felony Probationers Coming to Prison—A system of financial incentives for counties to reduce the number of failed felony probationers sent to state prison.
- Parolee Revocation Courts—Pilot program establishing parole reentry courts designed to prevent parole revocation and return to prison for parolees who would benefit from community drug treatment or mental health treatment.
- Cap Medical Rates—Limit hospital, physician, and ambulance service provider reimbursements rates at or slightly above the amount payable under the Medicare Fee Schedule.

The significant General Fund budget solutions are as follows:

- Reductions
    - Reduce Funding for Medical Services Program—A decrease of $811 million General Fund to the Receiver's Medical Services Program budget to reduce per-inmate medical costs to a level comparable to other correctional health care programs. Currently, New York spends approximately $5,757 per inmate per year on health care, Pennsylvania approximately $4,418, and Florida approximately $4,720. In contrast, in 2008-09 California spent an average of $11,627 per inmate per year. 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 through a combination of measures including: reducing inmate over-utilization of the medical services program, reducing clinician salaries, reducing unnecessary referrals to outside providers and clinical specialists, increasing the utilization of telemedicine, reducing the ratio of clinical staff to inmates to levels comparable to other states, and reevaluating the classifications that provide medical services. Furthermore, other states have implemented more efficient correctional health care models that have enabled

them to maintain lower costs than California. For example, Pennsylvania contracts for medical, psychiatric and pharmacy services, but utilizes civil servants for nursing, psychology and administrative services. Texas has a major contract with the University of Texas Medical Branch; Oregon utilizes state employees for practitioners but contracts with a third-party administrator, whereas Indiana contracts for all inmate medical services. The state will explore these alternatives as a means to provide appropriate inmate medical care in the most cost-effective manner possible.

- Jail Time Instead of Prison for Specified Felonies—A decrease of $291.6 million related to proposed statutory changes that would modify sentencing for specified non-serious, nonviolent, non-sex felonies, including drug possession, to be for one year punishable by imprisonment in local jails.

- Juvenile Offender Population Reform—A reduction of $41.3 million and $6.7 million Proposition 98 General Fund related to proposed statutory changes to reduce the juvenile offender population by restricting the age of jurisdiction to 21, transferring eligible offenders to adult institutions, and limiting time-adds.

- Federal Funds
  - Obtain Federal Funds to Offset the Full Cost of Incarcerating Criminal Aliens —A decrease of $879.7 million, which is the estimated amount that the federal government fails to reimburse California each year for the cost of incarcerating undocumented immigrants who commit crimes. The budget assumes a vigorous and successful effort to obtain full reimbursement for the cost of incarcerating these inmates.

Non-General Fund expenditures are proposed to decrease by $388.4 million, or 58.4 percent.

The significant non-General Fund workload adjustments are as follows:

- Reimbursement Authority Adjustment—A decrease of $358 million to reflect the expiration of ARRA funds received as reimbursements from the Governor's Office of Planning and Research.

- Local Public Safety Account Adjustment—An increase of $21.2 million Local Safety and Protection Account funds for allocation to counties that operate juvenile camps and ranches, pursuant to Chapter 4, Statutes of 2009, Third Extraordinary Session.

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 $1.3 billion in both 2009-10 and 2010-11, reflecting a decrease of $2 million, or 0.2 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 adjustments associated with K-12 construction are addressed in a separate section.

General Fund

The significant General Fund workload adjustments are as follows:

- $769,000 increase to the CSL for costs of relocation during renovation ($596,000) and the Integrated Library System Replacement Program ($173,000).
- Decreases of $411,000 General Fund and $469,000 in federal Title I funds to CDE and the removal of 9.0 positions due to the elimination of the High Priority Schools Grant Program.
- $573,000 decrease to CDE for nutrition programs at private entities.

Other Funds

The significant non-General Fund workload adjustments are as follows:

- $8 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.
- $710,000 increase to CDE from federal funds for ongoing support of the Child Nutrition Information and Payment System (CNIPS).
- $674,000 increase to CDE from federal funds to provide technical assistance to local agencies to improve compliance with federal Child Nutrition Program requirements.
- $600,000 increase to CDE from federal Title I and Title VI funds to conduct an alignment study of the California Modified Assessment.

- $97,000 increase to CDE from Special Deposit Funds and 2.0 positions as a result of shifting the California Career Resource Network (CalCRN) to CDE pursuant to Chapter 32, Statutes of 2009.
- $50,000 increase to CDE from the federal California Newborn Hearing Screening Program Grant to help improve the early diagnosis and treatment of infants and children with hearing loss.
- $1.4 million decrease to CDE from federal Title I Reading First funds and a decrease of 6.0 positions due to the elimination of federal funding.

The significant non-General Fund policy adjustments are as follows:

- $2.5 million increase in federal Title VI funds to CDE for continued implementation and development of the California Longitudinal Pupil Achievement Data System (CALPADS), which will establish a longitudinal student level database.
- $560,000 increase in the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) bond funds to CSL to administer local grants for additional California Cultural and Historical Resource Preservation projects and to complete a survey required pursuant to Chapter 1126, Statutes of 2002.
- $193,000 increase to CTC from federal funds for foreign language professional development.
- $96,000 increase to CDE from federal Title I funds and 1.0 position to research School Accountability Growth Models pursuant to Chapter 273, Statutes of 2009.

Higher Education — Non-Proposition 98 Programs

General Fund expenditures are proposed to increase by $224.5 million, or 3.5 percent, not including $610 million in one-time General Fund offsets used in 2009-10.

Actual 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 $5.9 billion in 2009-10 and are proposed at $6.7 billion in 2010-11.

All Proposition 98-related program expenditures for the Community Colleges are reflected in a separate Proposition 98 section below. General Obligation Bond and lease-revenue debt service adjustments associated with Higher Education construction are addressed in a separate section.

General Fund

The significant General Fund workload adjustments are as follows:

- UC and CSU: Backfill One-Time Reductions—An increase of $610 million to backfill one-time reductions ($305 million each for CSU and UC), which included $255 million in reductions for each segment that were backfilled in 2009-10 by federal ARRA funds and an additional $50 million reduction for each segment, consistent with Government Code Section 99030 which contained specific reductions and revenue increases that were not to occur if the state received $10 billion in additional federal funding to offset General Fund costs.
- UC and CSU: Enrollment Growth—An increase of $111.9 million for 2.5-percent enrollment growth for UC ($51.3 million) and CSU ($60.6 million). Growth adjustments would fund approximately 5,121 Full-Time Equivalent Students (FTES) for UC and 8,290 FTES for CSU.
- CSAC: Budget Year CalGrant Growth—A net increase of $197.4 million in 2010-11 local assistance cost for CSAC, including $32 million to backfill the use of one-time Student Loan Operating Fund resources, continuation of unanticipated current-year fee increases for UC and CSU ($97.1 million), additional budget year fee increases of 15 percent for UC ($59 million) and an assumed 10-percent budget year fee increase for CSU ($19.5 million), that are partially offset by a $4.6 million reduction in estimated Assumption Program of Loans for Education (APLE) payments and other adjustments.
- CSAC: Current Year CalGrant Growth—A net increase of $32.9 million in 2009-10 local assistance cost for CSAC reflecting increased costs in the CalGrant program ($37 million) resulting primarily from unanticipated undergraduate fee increases for CSU and UC that are partially offset by a reduction in estimated APLE payments ($4 million).
- UC, CSU and HCL: Annuitant Benefits Adjustments—An increase of $14.8 million for annuitant benefits primarily for UC ($14.1 million).

- CSAC: State Operations Restoration—$4.3 million restoration for CSAC state operations in 2009-10 and 2010-11 pursuant to Chapter 644, Statutes of 2009.
- CCC: STRS Cost Adjustment—An increase of $1.9 million to the State Teachers' Retirement System for additional costs for CCC employees based on 8.2 percent of applicable payroll.
- UC Merced Start-Up Funding—A reduction of $5 million for UC to reflect the original UC Merced phase-out plan for startup funding.
- UC and CSU: Expiring Loan Repayments—A reduction of $4.6 million for expiring UC ($2.7 million) and CSU ($1.9 million) deferred maintenance loan repayments.

The significant General Fund policy adjustments are as follows:

- UC Merced Start-Up Funding—An increase of $5 million for UC Merced start-up funding that reflects a longer transition period resulting from lagging enrollments and higher-than-anticipated costs.

The significant General Fund budget solutions are as follows:

- CSAC: CalGrant Reform—A reduction of $45.5 million to reflect suspension of new awards for the Competitive CalGrant program. The Competitive program is largely duplicative of the CalGrant High School Entitlement program and the Community College Transfer Entitlement program, which provide opportunities for California high school students to pursue four-year degrees.
- CSAC: TANF Reimbursements—$18.3 million shift of local assistance CalGrant costs from General Fund to TANF reimbursements in the budget year. The TANF funds are available as a result of the 15.7-percent CalWORKS Grant reduction discussed in the Health and Human Services section.

Other Funds

The significant non-General Fund workload adjustments are as follows:

- UC and CSU Current-Year Fee Increases—An increase of $335.1 million in 2009-10 to reflect a mid-year 15-percent fee increase for UC ($97.9 million) that was approved by the UC Regents in November and a 20-percent fee increase for CSU ($237.2 million) that was approved by the Trustees in July. Including the initially approved fee increases of 9.3 percent for UC and 10 percent for CSU, systemwide undergraduate fees increased from $7,126 in 2008-09 to $8,373 in 2009-10 for UC and from $3,048 in 2008-09 to $4,026 in 2009-10 for CSU. These increases also apply to professional and graduate students at UC and CSU. Consistent with current policy, at least one-third of additional fee revenue will be set aside for institutional financial aid to preserve equitable access for low-income students.

- UC and CSU Budget-Year Fee Increases—An increase of $1.1 billion in 2010-11 to reflect annualization of the mid-year fee increase plus an additional 15-percent increase approved by the UC Regents ($662.7 million) and continuation of the current-year fee increases for CSU ($390.7 million), based upon the estimated funded level of FTES. In addition, the budget reflects a 22.5-percent increase for HCL ($8.1 million) which has been approved by the HCL governing board. Systemwide undergraduate fees will increase from $8,373 to $10,302 for UC and from $4,026 to $4,429 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 revenue will be set aside for institutional financial aid to preserve equitable access for low-income students. For HCL, enrollment fees will increase from $29,383 to $36,000. Fee increases for professional schools at UC will range from 0 percent to 30 percent, and reflect establishment of a professional fee for seven additional disciplines.

- UC, CSU and CCC: One-Time ARRA State Fiscal Stabilization Fund (SFSF) Adjustments—A decrease of $1.3 billion in 2010-11 to reflect the one-time nature of reimbursements estimated for the three eligible higher education segments in the revised 2009 Budget Act ($600 million each for UC and CSU and $130 million for CCC). Further, 2009-10 decreases totaling $399 million are reflected to conform the amounts budgeted for the three segments to actual allocations received ($95 million for CCC and $152 million each for UC and CSU).

- CCC: Lottery Increases—An increase of $12.1 million and $4.5 million in estimated Lottery revenues for 2009-10 and 2010-11, respectively.

- CCC: Math and Science Program—An increase of $64,000 in federal funds to complete grant-funded activities that improve coordination of math and science related professional development improvements. Of this amount, $6,000 is for state operations and $58,000 is for local assistance.

- CSAC: California National Guard Education Assistance Award Program—$1.7 million and $3.3 million reimbursement increases in 2009-10 and 2010-11, respectively, as a result of an interagency agreement with the Military Department to promote the pursuit of higher education and to provide education benefits to members of the California National Guard, pursuant to Chapter 12, Statutes of 2009, Fourth Extraordinary Session.

The significant non-General Fund policy adjustments are as follows:

- CCC: Special Services for CalWORKS Recipients Program—$6.2 million reimbursement increase in 2009-10 as a result of a revised interagency agreement with the Department of Social Services. This increase allows the state to meet maintenance-of-effort requirements to leverage over $275 million in TANF Emergency Contingency Funds for subsidized employment programs made available through ARRA.
- CCC: Advanced Transportation Technologies and Energy Program—$1.7 million and $1.8 million reimbursement increases in 2009-10 and 2010-11, respectively, as a result of an interagency agreement with the California Energy Commission to expand college instructional programs in transportation technology and alternative fuels. Of these amounts, $150,000 and $250,000 are for state operations in 2009-10 and 2010-11, respectively, and $1.5 million is for local assistance in each year.

Higher Education Infrastructure

Almost all bond funds that have been approved by the voters for Higher Education have been committed to projects. While the Governor's Budget does not include additional infrastructure funds at this time, the Administration intends to propose funding for Higher Education facilities in the May Revision. The Administration will seek to develop proposals for alternative funding souces for Higher Education facilities to reduce future General Fund costs.

Proposition 98

Despite facing a $19.9 billion deficit, the Governor's Budget proposes full funding of the Proposition 98 guarantee. The Proposition 98 Guarantee moderately increases year over year, from 2008-09 to 2009-10 and from 2009-10 to 2010-11. In an effort to protect classroom funding, the Governor is proposing a reduction of approximately 10 percent in funding for administration, overhead and other non-instruction related spending by school districts to offset increases in workload. The reductions are targeted to school district and county office of education central administration costs, with the balance coming from program savings and one-time Proposition 98 Reversion Account funding.

Total Proposition 98 expenditures are projected to be lower than the $50.4 billion amount assumed in the revised enacted budget to $49.9 billion in 2009-10 reflecting a minimum guarantee that is $567.5 million lower, or 1.2 percent lower. The General Fund share of Proposition 98 decreased from $35 billion to $34.7 billion. The budget also funds the minimum required guarantee in the 2010-11 at $50 billion, reflecting an increase of $103 million, or 0.2 percent. The General Fund share of Proposition 98 increased to $36.1 billion.

As part of a compromise in the July 2009 Budget Revision, the Proposition 98 funding level for 2008-09 was certified through legislation at $49.1 billion. Chapter 3 of the 4th Extraordinary Session, Statutes of 2009 also establishes a future funding obligation of $11.2 billion even if it is determined that no maintenance factor is created in 2008-09. The legislation establishes a repayment schedule for this "in lieu" maintenance factor beginning in 2010-11.

Revenues in 2008-09 are significantly lower than was estimated at the time the Proposition 98 funding level was certified, resulting in the Proposition 98 minimum funding level shifting to a "Test 1", which does not create a maintenance factor, dropping the Proposition 98 minimum guarantee to $46.8 billion.

Absent corrective action, the $2.3 billion overappropriation of the Proposition 98 Guarantee in 2008-09 and required repayments of the "in lieu" maintenance beginning in 2010-11, would substantially increase the Proposition 98 Guarantee in 2009-10 and 2010-11. The Administration proposes two solutions. First, the budget reflects an $82.9 million reduction to the guarantee, which will bring the level of appropriations down to the actual level of expenditures for 2008-09. This will result in an overappropriation of Proposition 98 of $2.2 billion in 2008-09. The Governor's Budget proposes to use a portion of the $2.2 billion overappropriation toward satisfying the outstanding maintenance factor, which was $1.3 billion as of 200708. This change will reduce the amount of the minimum Proposition 98 Guarantee for 2009-10 and 2010-11.

The "in lieu" maintenance factor payments adopted as part of the 2009 Budget compromise were to begin in 2010-11. However, because the state faces a $19.9 billion deficit, the Governor's Budget delays the start date of these payments to 2012-13. This change, along with the two changes proposed above and various tax reductions and shifts, will result in savings of $892.6 million in 2009-10 and $1.5 billion in 2010-11. All the proposed changes will require legislation.

Given that the state continues to face a budget deficit, the Administration proposes to provide additional flexibilities to schools to allow them to protect classroom spending to the maximum extent possible, and to build on the reforms embodied in President Obama's Race to the Top Initiative:

- Teacher Seniority—The Governor's Budget proposes to change state law to give local school districts the flexibility to layoff, assign, reassign, transfer and rehire teachers based on skill and subject matter needs without regard to seniority. Under current law, layoffs, transfers, assignments, reassignments and reappointments must be conducted strictly on the basis of seniority, with limited exceptions related to positions which require specific skills. Because of these provisions, , the current fiscal difficulties have already resulted in the loss of many committed and highly effective teachers, while districts are forced to retain or rehire ineffective teachers solely based on their seniority status. The seniority provisions also disproportionately impact struggling schools in low-income neighborhoods because these schools tend to have teachers with the least seniority. As a result, a large portion of teacher layoffs have come from these schools and have disrupted these schools' efforts to improve student achievement. In addition, the laid-off teachers may be replaced with district administrators who have not been in the classroom for many years and have no familiarity with the school and the families it serves, yet have return rights to teaching positions and seniority under current state law.
- Substitute Costs—The Budget also proposes to eliminate the provisions in state law that require teachers who have been laid off to receive first priority for substitute assignments and that these substitutes be paid at the rate they received before they were laid off if they work more than 20 days within a 60-school day period. For districts that have laid-off teachers, these provisions will significantly increase their substitute teacher costs and could force additional layoffs and cuts to classroom spending.
- Staffing Notification Process—The Administration proposes to change the staffing notification window for teachers to 60 days after the state budget is adopted or amended. Current state law requires that school districts notify teachers by March 15 of the year before the layoff, well before the state typically adopts its budget and districts know how much funding they will receive. Under limited circumstances, districts are also provided a layoff notification window between

five days after the state budget is adopted and August 15. However, this window leaves districts little time to appropriately plan layoffs even when the state budget is adopted on time in June. If the state budget is adopted or amended after July, these provisions effectively prohibit districts from implementing layoffs. As a result, districts are forced to assume the worst, over-notify teachers, proceed with the time-consuming and expensive layoff process and then, after the state adopts its budget, rescind the notifications and attempt to rehire teachers who really should not have been notified in the first place. This process causes unnecessary anxiety for teachers, makes it difficult for principals and teachers to plan for the coming school year, and disrupts schools' efforts to improve student achievement.

- School Year—Schools will continue to be provided flexibility through 2012-13 to reduce instruction by up to five days, if necessary, to accommodate the reductions made in 2009-10 without losing any incentive funding they receive to maintain a 180-day school year.
- Comprehensive Reforms—The Administration will also consider additional reforms to the state's public school system to augment the fiscal reforms identified above and build on the spirit of reform embodied in President Obama's Race to the Top initiative. These reforms, among others, will address statutory and regulatory barriers which hinder districts from focusing on needed improvements to student achievement and increasing the number of high quality schools and highly effective teachers and principals.

2009-10

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

- Property Tax—An increase of $234 million for school district and county office of education revenue limits as a result of a decrease in offsetting property tax revenue.
- Average Daily Attendance—A decrease of $229.3 million for school district and county office of education revenue limits from a decrease in average daily attendance and unemployment insurance and retirement costs.
- Restoration of Categorical Funds—A decrease of $14.3 million because the amount needed to make schools whole for the categorical funds swept in 2008-09 was lower than anticipated.

- State-Operated-Programs—A decrease of $17.8 million to reflect lower education program costs for the Department of Corrections and Rehabilitation Juvenile Justice Division and the Department of Education State Special Schools.

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

- CalWORKs Child Care Adjustments—A decrease of $12.4 million to reflect expected savings in CalWORKs Stage 2 Child Care ($9 million) and CalWORKs Stage 3 ($3.4 million) caseload-driven programs based on revised estimates.

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

- Offsetting General Fund Revenue Adjustments—Although current year property tax estimates increased by $6.3 million, student fees and oil and mineral estimates decrease by $9.8 million and $1.6 million, respectively. As a result, the base apportionment deficit increases slightly from $58 million to $63.1 million.

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

- Class Size Reduction Program Savings—A reduction of $340 million to reflect projected savings in the K-3 Class Size Reduction program. Although the penalties for exceeding class size limits were significantly reduced in 2009-10, program savings are anticipated as a result of local school district decisions to increase class sizes.

2010-11

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

- Property Tax—An increase of $1.5 billion for school district and county office of education revenue limits and special education program costs, which reflects a decrease in offsetting property tax revenue.

- Average Daily Attendance—A net decrease of $27.3 million for school district and county office of education revenue limits, nutrition program and special education program costs as a result of lower average daily attendance and unemployment insurance and retirement costs.

- Cost–of-Living Adjustment—A decrease of $202.2 million for school district and county office of education revenue limits and categorical costs resulting from the lower price level.
- Adjustment for the 2009-10 Deferral—An increase of $1.7 billion to fund the ongoing costs of the deferral of program funding from 2009-10.
- Backfill One-Time Funding—An increase of $34.4 million to backfill one-time monies used to fund school district revenue limit costs in 2009-10.
- New School Categorical Funding—An increase of $29.5 million to provide categorical funding to newly established schools. Under current law, schools established after the base year used for proportioning the categorical funds that were made flexible in 2008-09 may receive an allocation for these programs if they are administering the programs as they existed before they were made flexible.
- State-Operated-Programs—A decrease of $23.4 million to reflect lower education program costs for the Department of Corrections and Rehabilitation Juvenile Justice Division and the Department of Education State Special Schools.

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

- CalWORKs Child Care Adjustments—A decrease of $13.8 million to reflect revised estimates in the caseload-driven CalWORKs Stage 2 ($12.6 million) and Stage 3 programs ($1.2 million).
- Extended Day / Latchkey Program—A decrease of $5 million in one-time funding appropriated for the phase out of the program that was enacted in 2009-10.
- Backfill One-Time Funds for Pre-School—An increase of $65.5 million to backfill a like amount of one-time funds used in the current year.
- Cost-of-Living Adjustment—A decrease of $5.9 million to reflect a -0.38-percent cost-of-living adjustment for applicable programs.

The major workload adjustments for Community Colleges are as follows:

- Enrollment Growth—An increase of $126 million for 2.2-percent growth in apportionments, sufficient to fund approximately 26,000 FTES.
- QEIA-CTE Funding Shift—A decrease of $48 million to reflect the one-time nature of the 2009-10 agreement to fund the Quality Education Investment Act's (QEIA)

Career Technical Education (CTE) program through the proceeds of the 2009-10 Proposition 98 Guarantee. QEIA payments from settle-up funding resume in 2010-11, thereby providing the same level of funding in the budget year.

- Cost of Living Adjustment—A decrease of $22.9 million to reflect a -0.38-percent cost-of-living adjustment for apportionments (-$22.1 million) and applicable categorical programs (-$786,000).
- Offsetting General Fund Revenues—An increase of $39.3 million to offset estimated decreases in local property taxes ($33.7 million), oil and mineral revenues ($1.6 million), and student fee revenues ($1.9 million); plus increased costs to compensate colleges for the administration of fee waivers ($2.1 million).
- Lease Purchase Payments—An increase of $2.1 million in estimated lease purchase payments.
- Adjustment for the 2009-10 Deferral—An increase of $163 million reflect the ongoing costs of the deferral of program funding from 2009-10. The appropriation for this purpose was made in Chapter 23, Statutes of 2009, Fourth Extraordinary Session, by revising the ongoing deferral appropriation from $540 million to $703 million.

The significant General Fund policy adjustments for K-14 programs are as follows:

- Behavioral Intervention Plans—An increase of $65 million for the ongoing costs of mandated behavioral assessments and intervention plans.
- Mandates—An increase of $14.5 million for K-12 mandates. As a result of a lawsuit that requires all education mandates be paid or suspended, the Administration proposes to suspend all K-14 education mandates with the exception of the following mandates which will be fully funded:
    - An increase of $7.7 million for mandated costs related to interdistrict and intradistrict transfers.
    - An increase of $6.8 million for mandated costs related to the California High School Exit Exam.
- Science Graduation Requirements—No funding is included in the budget for the science graduation requirement, nor is the Administration proposing to suspend this requirement. The Administration believes this is not a reimbursable state mandate because funding is available to offset the cost of this requirement and, as a

result, the Administration is seeking a court decision to reject the reimbursement rate methodology adopted by the Commission on State Mandates.

Classroom funding is protected to the maximum extent possible in 2010-11 by achieving savings through the following actions:

- K-12
  - School District Administrative Costs—A reduction of $1.2 billion targeted to school district central administration. This proposal will protect classroom spending, including spending for teachers and principals, from further reductions. This proposal will also limit the proportion of funding school districts can spend on central administration to prevent them from using future funding increases to augment central administration at the expense of classroom funding. Also, districts will be prevented from shifting central administration costs to school sites.
  - County Office of Education Administrative Consolidation—A reduction of $45 million to county office of education administrative costs. This proposal will require county offices of education to consolidate services and functions, which may include county offices of education forming regional consortia to provide these services. The consolidation of county offices will achieve economies of scale and reduce administrative costs.
  - Contracting Out—A reduction of $300 million to school district and county office of education administrative costs. This proposal will eliminate barriers to contracting out to enable school districts to achieve cost reductions.
  - Class Size Reduction Program Savings—A reduction of $550 million to reflect projected savings in the K-3 Class Size Reduction program. Although the penalties for exceeding class size limits were significantly reduced in 2009-10, program savings are anticipated as a result of local school district decisions to increase class sizes.
- Child Care Reductions:
  - Child Care Reimbursement Rate Reforms—A decrease of $77.1 million to reduce reimbursement rate limits in voucher-based programs from the 85^{th} percentile of the market to the 75^{th} percentile, based on the 2005 regional market rate survey, effective July 1, 2010. This proposal will also reduce the reimbursement rate limits for licensed-exempt providers from 90 percent of the

ceilings for licensed family child care homes to 70 percent. This proposal affects all voucher programs, including the Alternative Payment Program ($12 million), and the caseload-driven CalWORKs Stage 2 ($37 million) and Stage 3 ($28.1 million) programs.

- Reduce Funding for CalWORKs Stage 3 Child Care—A further decrease of $122.9 million to CalWORKs Stage 3 Child Care to achieve additional ongoing Proposition 98 General Fund savings. Although Stage 3 has been funded in the past to continue care for all income-eligible CalWORKs families after their Stage 2 transitional entitlement has ended, Stage 3 is not an entitlement. Funding constraints require that Stage 3 must serve only the neediest families. Going forward, it is the intent of the Administration to provide efficient, equitable child care services to California's neediest families, CalWORKs and non-CalWORKS working poor families alike. Therefore, the Administration intends to explore options in the coming months to achieve these goals and to develop such reform proposals for action this year.

- Alternative Funding
  - Proposition 98 Reversion Account—A reduction of $64.3 million in General Fund and substitute with available Proposition 98 Reversion Account funds for the Economic Impact Aid Program.

The significant Proposition 98 Reversion Account expenditure proposals are as follows:

- Emergency Repair Program—An increase of $51 million to fully fund the 2008-09 appropriation for the Emergency Repair Program.
- Charter Schools Facilities Grant Program—An increase of $18.4 million to forward fund the Charter Schools Facilities Grant Program. Legislation adopted with the Amended 2009 Budget Act included language to change this program from a reimbursement program to an annual grant program allowing charter schools that currently receive these funds budgetary cash relief.
- New School Categorical Funding—An increase of $20 million to provide categorical funding to newly established schools for 2008-09 and 2009-10.

Labor and Workforce Development

General Fund expenditures are proposed to decrease by $3.4 million, or 5.5 percent.

The significant General Fund workload adjustments are as follows:

- Automated Collection Enhancement System—An increase of $24.6 million to implement the Employment Development Department's Automated Collection Enhancement System (ACES). The tax revenue increase associated with implementation of ACES is estimated to be $42.1 million General Fund for 2010-11. This project will also result in non-General Fund expenditures and revenue increases.
- Division of Labor Standards Enforcement Fund Shift—A reduction of $21.6 million General Fund to be replaced with $21.7 million from the Labor Compliance and Enforcement Fund for the full-year implementation of increased employer fees established in 2009-10.

Non-General Fund expenditures are proposed to decrease by $4.3 billion, or 13.9 percent.

The significant non-General Fund workload adjustments are as follows:

- Employment Development Department October Benefit Estimate—The October Revise reflects Unemployment Insurance benefit payment decreases of $6.8 billion in the current year and $11.6 billion in the budget year and a Disability Insurance benefit payment decrease of $42.4 million in the current year and an increase of $341 million in the budget year when compared to the May 2009 estimate. While the number of individuals receiving benefits has continued to increase, the May 2009 benefit payments were overestimated; these adjustments project the updated estimated need for benefit payments.
- Employment Opportunities Initiative – An increase of $230 million to the Employment Training Panel (ETP) to implement a program to assist employers and employees to rebuild California's workforce. Of these funds, $140 million will be available to employers and training providers that deliver training for unemployed and underemployed individuals, as well as for employment expansion and job retention. Reimbursement for the cost of training would be provided after the person has been gainfully employed for three months and would be calculated based on current ETP reimbursement rates.

  The balance of $90 million would be available to provide a $3,000 incentive to employers to hire and retain an unemployed individual. To be eligible for the incentive, the employee must be retained for a total of nine months. Over the life of this initiative a total of $500 million will be provided to expand employment opportunities in California resulting in 140,000 individuals obtaining higher paying jobs and providing 100,000 currently unemployed individuals with a job.

General Government: Non-Agency Departments

General Fund expenditures are proposed to increase by $41.6 million, or 8.7 percent.

The significant General Fund workload adjustments are as follows:

- Veterans Homes—An increase of $8.3 million and 97.2 positions to activate business operations and begin admissions at the Veterans Homes in West Los Angeles, Lancaster, and Ventura (GLAVC). An additional $11.7 million is provided for the full-year cost of the GLAVC implementation which began in 2009-10.
- Veterans Homes—An increase of $2.4 million and 16.9 positions to ensure that all aspects of construction and business operations are compliant with federal, state, and local laws at the Veterans Homes in Redding and Fresno.
- Mandate Payments—An increase of $236 million for state reimbursable mandates, consisting of $141 million for current mandates and $95 million for the 2010-11 payment of the mandates obligation for costs incurred prior to 2004-05.

The significant General Fund budget solutions are as follows:

- Reductions
    - Suspend Mandates—A one-time reduction of $137 million by suspending most mandates not related to elections, law enforcement, or property taxes, consistent with mandate suspensions included in the Amended 2009 Budget Act.
    - Mandate Deferral—A one-time reduction of $95 million by deferring the 2010-11 payment of 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.
    - California Law Revision Commission and Commission on Uniform State Laws—A reduction of $666,000 for the California Law Revision Commission and

- a reduction of $148,000 for the Commission on Uniform State Laws, both of which would now be funded by the Legislature.

- Alternative Funding
  - Office of Administrative Law—A reduction of $1.7 million in General Fund and substitute with fees for services provided to other entities.

Non-General Fund expenditures are proposed to increase by $233 million, or 5.8 percent.

The significant non-General Fund workload adjustments are as follows:

Public Utilities Commission

- Renewable Portfolio Standard and Renewable Transmission—An increase of $1.8 million to provide staff and resources for transmission siting that will assist the state in achieving a 33-percent Renewable Portfolio Standard by 2020.

Department of Food and Agriculture

- Mitigating the Asian Citrus Psyllid (ACP)—An increase of $19.8 million in one-time federal funds for detection, eradication, and control of the ACP. Prohibiting the establishment of ACP and the citrus disease Huanglongbing will protect the state's citrus production, nursery industries, urban environment, and economy.
- California Citrus Pest and Disease Prevention Committee—An increase of $15 million to establish the Committee that will develop and implement a citrus-specific pest and disease work plan.

General Government: Tax Relief and Local Government

General Fund expenditures are proposed to increase by $64.6 million, or 13.8 percent.

The significant General Fund workload adjustments are as follows:

Proposition 1A Revenue Bonds, Series 2009

- The budget includes $90.8 million for interest payments on bonds that were sold by local governments to backfill the $1.9 billion in property tax revenues that the state borrowed from local governments in 2009-10 pursuant to Proposition 1A of 2004.

The significant General Fund budget solutions are as follows:

- Reductions
  - Trailer Fee Revenue Backfill—The elimination of $11.8 million, representing funding that backfilled Vehicle License Fee revenues when the state changed the manner in which weight-based fees are assessed for commercial truck trailers.

General Government: Statewide Expenditures

The significant General Fund workload adjustments are as follows:

- Employee Compensation—An increase of $938 million in 2010-11 for removing one-time savings in 2009-10 by shifting June 2010 payroll costs to July 2010 and each June and July thereafter. This ongoing shift results in savings only in 2009-10.
- California Public Employees' Retirement System Contributions—An increase of $130 million above what was budgeted in order to fund $1.9 billion in fiscal year 2010-11 resulting from the changes in workforce and investment losses suffered through June 30, 2009.
- Pre-funding for Health and Dental Benefits for Annuitants—An increase of $98.1 million for pre-funding other post-employment benefits.
- Budgetary Loan Costs—An increase of $6.4 million in 2009-10 and $51.4 million in 2010-11 for interest costs related to scheduled budgetary loan repayments and budgetary loan repayments accelerated from future years that result from special fund program needs.
- The Governor's Budget includes $10.5 million in the Central Services Cost Recovery Fund to support the oversight of ARRA funds. Of this amount, $3.2 million will be recovered through the ARRA Statewide Cost Allocation Plan and $7.3 million will be paid from the General Fund. California stands to receive billions of dollars in new federal funds and tax benefits. The Governor created the California Recovery Task Force (Task Force) to take the lead responsibility for helping to ensure the state receives the optimal benefit from ARRA and that funds are deployed strategically and in a manner consistent with federal requirements. In addition, the Governor appointed an Inspector General (IG), independent from the Task Force, to protect the integrity and accountability of the expenditure of ARRA funds in California by

preventing and detecting fraud, waste, and misconduct in the use of those funds. The State Controller's Office (SCO) is responsible for sound fiscal control over both receipts and disbursements of public funds. The SCO will review all ARRA disbursements, review additional local government single audit reports, conduct high-value field audits, and make public information regarding local government ARRA expenditures. Correspondingly, as the state's independent auditor, the Bureau of State Audits (BSA) will conduct additional audits of state agencies receiving ARRA funding as part of the statewide Single Audit program. Funding by entity for ARRA oversight will be as follows:

- Task Force: $4 million
- IG: $3.4 million
- SCO: $2.4 million
- BSA: $0.7 million

The significant General Fund budget solutions are as follows:

- Federal Funds
  - Reimbursements for Special Education—A $1 billion reimbursement of the state General Fund from the federal government for special education mandated service requirements which the state was required to cover because the federal funding received has been insufficient to fund the federal share of costs for the program.

Debt Service

General Fund expenditures for debt service will increase by $376 million, or 6.4 percent, to reflect the projected sale of General Obligation bonds and lease revenue bonds to pay for infrastructure projects, not including General Fund offsets. The increase also reflects a year–over-year increase in cash management costs.

The significant General Fund workload adjustments are as follows:

- A net increase of $56.3 million in General Obligation debt service to reflect additional debt service from recent sales, which is almost entirely offset by reimbursements from alternative funding sources (see below).
- An increase of $119.8 million in lease revenue bond debt service to reflect recent bond sales.

- A decrease of $200 million in 2009-10 resulting in an increase in 2010-11 primarily from lower-than-projected interest and other costs related to Revenue Anticipation Notes.

The significant General Fund debt service budget solution relates to funding reimbursement for transportation General Obligation bond debt service. Transportation debt service offsets will provide General Fund relief of $57 million in the current year and $929.1 million in the budget year. (See Business, Transportation, and Housing section.)

Infrastructure

General Fund expenditures are proposed to increase by $88.2 million, or 65.2 percent. This increase is mainly attributable to carryover funding from the current year to the budget year. Thus, $197.5 million of the $223.5 million budgeted in 2010-11 is carryover from earlier years.

Enhanced Federal Funds Offsets

Federal stimulus offsets through ARRA and offsets through the receipt of new federal funds are estimated to increase by $4 billion or 87.6 percent from 2009-10 to 2010-11, resulting in a commensurate reduction in General Fund spending. To demonstrate an analogous comparison between 2009-10 and 2010-11 for the affected agency spending, these significant offsets are removed from the agency spending amounts and displayed separately.

These offsets are budgeted in the following agency areas as a reduction to General Fund costs:

- $4.6 billion to be received in 2009-10:
    - $4.2 billion for various Health and Human Services programs.
    - $358 million for Corrections and Rehabilitation.
- $8.6 billion to be received in 2010-11:
    - $6.7 billion for various Health and Human Services programs.
    - $879.7 million for Corrections and Rehabilitation.
    - $1 billion for Special Education mandated service requirements.

The significant year-over-year growth in these offsets is discussed in the Federal Funds section of the Health and Human Services and Corrections and Rehabilitation major program area sections.

Protection of Local Government Revenues of 2004— Proposition 1A (2004) and RDA Offsets

As part of the Amended 2009 Budget Act, the Legislature enacted General Fund offsets in 2009-10 from the proceeds of the Proposition 1A (2004) securitization ($1.9 billion) and funds shifted from redevelopment agencies to schools serving project areas and housing aided by redevelopment funds ($1.7 billion in 2009-10 and $350 million in 2010-11). This allows base property tax for schools to be shifted to county offices of education to offset a variety of state program costs in each county as noted below. These offsets are available only in 2009-10, except for $350 million that will be available in 2010-11 to offset costs of the trial courts. Thus, the budget reflects an increase of $2.5 billion in 2010-11 for non-Proposition 98 costs and $850 million in Proposition 98 costs. These offsets are removed from the affected non-Proposition 98 agency spending to provide a better program cost comparison.

These savings are budgeted in the following program areas as an offset to non-Proposition 98 General Fund costs in 2009-10:

- $1.5 billion for Courts
- $0.6 billion for Corrections and Rehabilitation
- $0.6 billion for Medi-Cal Program
- $0.1 billion for Debt Service

Employee Compensation Reductions

The furloughs in 2009-10 were implemented under the Governor's emergency authority and resulted in one-time savings of $1.1 billion General Fund. Funding is restored to department budgets in 2010-11 consistent with the anticipated end of the furlough program adopted as part of the 2008 and 2009 revised Budgets.

Employee compensation reductions in 2010-11, as outlined below, result in a savings of $1.6 billion General Fund. These moneys will be removed from department budgets going forward.

With the restoration of $1.1 billion General Fund to department budgets and the reduction of $1.6 billion General Fund, a net additional decrease of $489.9 million General Fund is reflected in 2010-11.

The significant General Fund budget solutions are as follows:

- Reductions
  - Workforce Cap—A reduction of $449.6 million achieved through a five-percent increase in salary savings. An Executive Order will require that Agency Secretaries and Department Directors immediately act to achieve the five-percent reduction by July 1, 2010. It is expected that attrition will be the primary factor in achieving the increased salary savings. The constitutional offices are not included in the workforce cap because the fiscal year 2009-2010 budget for each of those officers included a permanent reduction that achieves savings to the level of the workforce cap or a higher amount.
  - Five-Percent Salary Reduction—A reduction of $529.6 million achieved through an across-the-board reduction in salaries by five percent.
  - Increased Employee Retirement Contribution—A reduction of $405.8 million achieved by increasing employees' retirement contribution by 5 percent and reducing the employer contribution accordingly.
  - Lower Cost Health Care—A reduction of $152.8 million in health care costs beginning in January 2011 achieved by contracting for lower-cost health care coverage either directly from an insurer or through CalPERS. Savings beginning in 2011-12 will pre-fund other post-employment benefit costs.
  - Pre-funding for Health and Dental Benefits for Annuitants—A decrease of $98.1 million for pre-funding other post-employment benefits.