LAO

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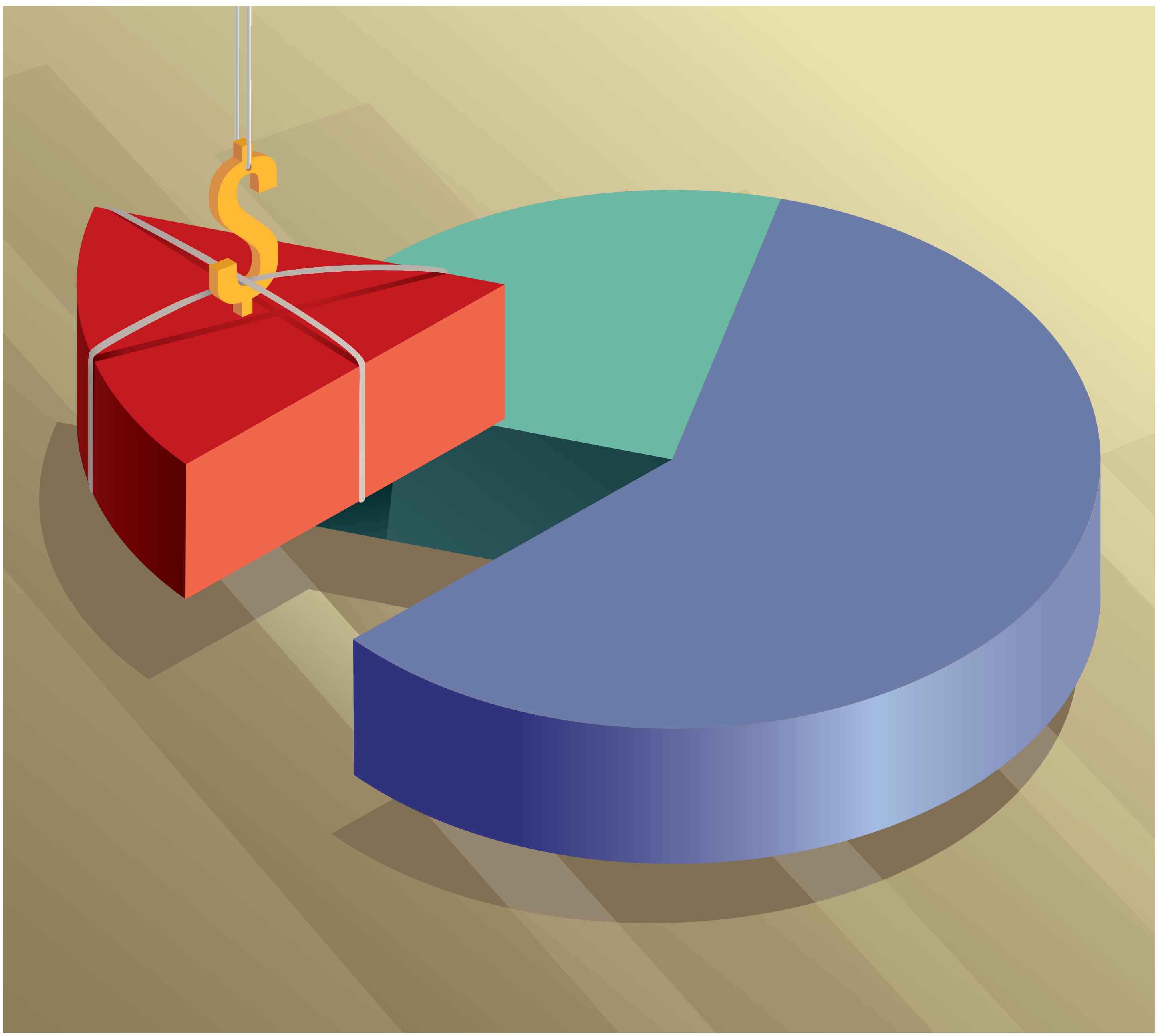
November 2010

The Budget Package

2010-11 California Spending Plan



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Chapter 1

Key Features of the 2010-11 Budget Package

Budget Overview

Total State and Federal Funds Spending

The 2010-11 state spending plan includes total budget expenditures of $117.4 billion from the General Fund and special funds, as shown in Figure 1. This consists of $86.6 billion from the General Fund and $30.9 billion from special funds. While this level of budgeted General Fund spending is far below the $103 billion recorded in 2007-08, it is $203 million—0.2 percent—higher than in 2009-10. Spending from special funds, however, is budgeted to be $7.5 billion—32.3 percent—higher than in 2010-11, driven mainly by recent changes in Medi-Cal and transportation funding that were enacted in part to offset costs in the General Fund. In addition, the budget assumes spending from bond funds of about $8 billion as the state continues to allocate moneys from the $43 billion bond package approved at the November 2006 election.

The Condition of the General Fund

Figure 2 (see next page) summarizes the estimated General Fund condition for 2009-10 and 2010-11.

2009-10: Second Consecutive Year to End With a Deficit. Under the spending plan, the General Fund ends 2009-10 with a year-end deficit of $6.3 billion. This is the second year in a row where the state has ended the year with a large deficit.

Figure 1

Total State and Federal Fund Expenditures

(Dollars in Millions)

Fund Type	Actual 2008-09	Estimated 2009-10	Enacted 2010-11	Change From 2009-10 Amount	Change From 2009-10 Percent
General Fund	$90,940	$86,349	$86,551	$203	0.2%
Special funds	23,844	23,326	30,851	7,525	32.3
Budget Totals	**$114,784**	**$109,675**	**$117,403**	**$7,728**	**7.0%**
Selected bond funds	$7,602	$12,653	$7,852	-$4,800	-37.9%
Federal funds	73,090	95,401	90,768	-4,632	-4.9

2010-11: $1.3 Billion Reserve Expected, Assuming Billions of Dollars of Federal Funds. The budget projects General Fund revenues and transfers of $94.2 billion and expenditures of $86.6 billion in 2010-11. The resulting $7.7 billion operating surplus is necessary for the state to address the carry-in deficit discussed above and rebuild a reserve balance of $1.3 billion by June 30, 2011. One major assumption in the budget package is that the state will receive federal funding (or flexibility to reduce state-funded programs regulated by the federal government) totaling $5.4 billion. As in 2008-09 and 2009-10, the state has taken a variety of cash management measures in order to meet its spending commitments, as discussed in the nearby box.

Solutions Adopted During the Budget Process

Figure 3 (see page 4) shows the solutions adopted during the 2010-11 budget process. The budget plan (including gubernatorial vetoes) includes the following actions (based on our office's categorization):

- $7.8 billion of expenditure-related solutions (including ongoing and temporary cost or service reductions). These solutions are discussed in more detail in Chapter 3.
- $5.4 billion of new federal funding. Of this amount, $1.3 billion in General Fund savings is related to recent congressional action to extend a temporary increase in the matching funds for Medi-Cal. The remaining funds have yet to be approved by the federal government.
- $3.3 billion of revenue actions (including $1.4 billion in higher assumed baseline state revenues consistent with our May 2010 state revenue forecast). These solutions are discussed in Chapter 2.

Figure 2

2010-11 Budget Package General Fund Condition

(Dollars in Millions)

		2010-11	
	2009-10	Amount	Percent Change
Prior-year balance	-$5,375	-$4,804	
Revenues and transfers	86,920	94,230	8.4%
Total resources available	$81,545	$89,426	
Total expenditures	$86,349	$86,552	0.2%
Fund balance	-$4,804	$2,874	
Encumbrances	$1,537	$1,537	
Reserve	**-$6,341**	**$1,337**	

Note: Department of Finance estimates.

- $2.7 billion of largely one-time loans, transfers, and funding shifts. These budget solutions also are discussed in Chapter 2.

Longer-Term Reforms

The budget package contains two major components—a proposed constitutional amendment on budget reserves and state employee pension changes—that focus on the state's longer-term finances, rather than the current fiscal year.

Proposed Constitutional Amendment to Build State Reserves. The budget package contains a proposed constitutional amendment—to go before voters

Cash Management Measures Help State's Cash Flow

As we described in our January 2009 report, *California's Cash Flow Crisis,* the state suffers from a basic cash flow problem, even in good years. Most revenues are received during the second half of the fiscal year (January to June), while most expenses are paid in the first half of the fiscal year (July to December). In order to meet payments in the early part of the year, the state obtains short-term borrowing that is paid back within the fiscal year. This borrowing is known as revenue anticipation notes (RANs).

Some Payment Flexibility Achieved During the Special Session. As part of the special session, the Legislature passed two bills—ABX8 5 (Committee on Budget) and ABX8 14 (Committee on Budget)—that gave the executive branch more flexibility to manage cash in the 2010-11 fiscal year starting July 1, 2010. The measures allow the state to delay roughly $5 billion of scheduled payments to schools, universities, and local governments at almost any given time.

Additional Cash Deferrals Part of the Budget. In addition to the deferrals described above, the late passage of the budget meant that there were roughly $2 billion in payments each month that the Controller was not authorized to pay. Once the budget was enacted, the payments that had not been made since the start of the fiscal year (estimated at over $6 billion) became due—potentially further depleting the state's cash reserves. In order to avoid having the state issue registered warrants (commonly known as IOUs) in the period between the passage of the budget and when the RAN is obtained, the Legislature passed AB 1624 (Committee on Budget), which authorized the deferral in October 2010 of $4.7 billion in payments to schools, UC, CSU, counties, and California State Teachers' Retirement System. Most of these deferrals are to be repaid in November 2010.

Figure 3

General Fund Budget Solutions in the 2010-11 Budget Plan

(In Billions)

	Reduced Costs or Increased Revenues
Expenditure-Related Solutions	
Reduce Proposition 98 costs[a]	$3.4
Reflect savings in state employee payroll, benefit, and related costs	1.6
Reduce budget for prison medical care	0.8
Assume accelerated receipt of federal TANF funds[a]	0.4
Defer or suspend local government mandates[a]	0.4
Achieve IHSS savings through various actions	0.3
Reflect reductions in adult prison population	0.2
Offset UC and CSU General Fund costs with federal economic stimulus funding	0.2
Require managed care enrollment for certain Medi-Cal recipients	0.2
Adjust other spending (net reduction)[a]	0.3
Subtotal[a]	($7.8)
Federal Funding and Flexibility Solutions	
Assume enhanced federal funding and/or additional cost flexibility	$4.1
Score savings from recent congressional action to extend FMAP support	1.3
Subtotal	($5.4)
Revenue-Related Solutions	
Adopt LAO's May 2010 revenue forecast	$1.4
Suspend for two years the ability of businesses to deduct net operating losses	1.2
Score additional revenues from previously authorized sale leaseback of state office buildings	0.9
Adopt other compliance actions and reductions in business taxes (net reduction)	-0.1
Subtotal	($3.3)
Loans, Loan Extensions, Transfers, and Funding Shifts	
Borrow from special funds	$1.3
Extend due dates for repayment of existing loans from the General Fund to special funds	0.5
Fund courts from previously authorized shift from redevelopment agencies	0.4
Use hospital fees to support Medi-Cal children's coverage	0.2
Transfer special fund monies to the General Fund	0.1
Use Student Loan Operating Fund monies for Cal Grant costs	0.1
Adopt other funding shifts	0.1
Subtotal	($2.7)
Total, All Budget Solutions[a]	**$19.3**

[a] Amount listed includes Governor's vetoes.

TANF = Temporary Assistance for Needy Families; IHSS = In-Home Supportive Services; FMAP = Federal Medical Assistance Percentage; LAO = Legislative Analyst's Office.

at the 2012 presidential primary election—intended to increase the state's budgetary reserves and stabilize the state's financial health over time. The measure would increase the maximum size of the existing Budget Stabilization Account (BSA) from 5 percent to 10 percent of annual General Fund revenues and provide new requirements for depositing state funds into that account. It also would restrict withdrawals from the BSA to certain situations.

The measure is similar to Proposition 1A that was rejected by the state's voters at the May 2009 special election. The major changes compared to that earlier measure are:

- There is no longer a link to the extension of the temporary tax increases that were adopted as part of the February 2009 budget package.
- There is no link to any proposed constitutional changes to the Proposition 98 funding formula, as was the case with Proposition 1B in 2009.
- The new measure would increase the maximum size of the BSA to 10 percent, rather than 12.5 percent.
- A provision in the new measure would generally prevent the BSA from being entirely emptied in a single year.
- The determination of a long-term revenue trend would now be based on 20 years, rather than 10 years. This calculation determines the amounts of money that must be transferred to the reserve to the BSA in certain years.

Reductions in Pension Benefits for Future State Employees. The budget package includes a measure to reduce pension benefits for newly hired state employees. (Labor agreements recently ratified by the Legislature also reduce pension benefits for future employees in several bargaining units, and these reductions remain in effect.) In general, the measure sets benefit levels for future employees at levels that were in place for employees prior to 1999. Figure 4 summarizes the changes for the major categories of state

Figure 4

New Retirement Formulas for New State Employees

Type of State Employee	Prior Retirement Formula	Retirement Formula for New Employees[a]
Miscellaneous/Industrial	2% at age 55	2% at age 60
Highway Patrol Officers/Firefighters	3% at age 50	3% at age 55
Correctional Officers	3% at age 50	2.5% at age 55
State Safety	2.5% at age 55	2% at age 55

[a] Based on approved memoranda of understanding and trailer bills.

workers. In addition, all future state employees would have their pension benefits calculated based on their highest average annual pay over any consecutive three years of employment, not the one-year period applicable for some current state employees. These requirements would not affect pension benefits for current state employees and retirees.

Evolution of the Budget

Due to an inability of lawmakers and the Governor to reach a timely agreement, the 2010-11 budget process culminated on October 8—100 days into the fiscal year—with legislative passage and gubernatorial approval of the budget act and various "trailer bills." This is the latest budget enactment in California's history. (The budget act and related bills are listed in Figure 5.)

Figure 5

2010-11 Budget and Budget-Related Legislation

Bill Number	Chapter	Author	Subject
2009-10 Regular Session[a]			
SB 870	712	Ducheny	*2010-11 Budget Act*
SB 208	714	Steinberg	Medi-Cal demonstration project waivers
SB 524	716	Cogdill	Transportation funds: Fresno County maintenance of effort
SB 846	162	Correa	MOUs for Bargaining Units 5, 12, and 18 and pension changes
SB 847	220	Steinberg	Federal education jobs funding
SB 849	628	Ducheny	*2009-10 Budget Act* supplemental appropriations
SB 851	715	Budget Committee	Proposition 98 suspension
SB 853	717	Budget Committee	Health
SB 855	718	Budget Committee	Resources
SB 856	719	Budget Committee	General government
SB 857	720	Budget Committee	Judiciary
SB 858	721	Budget Committee	Revenues
SB 863	722	Budget Committee	Local government
SB 867	733	Hollingsworth	CalPERS actuarial reporting
AB 184	403	Block	Special disabilities adjustment
AB 185	221	Buchanan	Education federal funds
AB 342	723	J. Pérez	Medi-Cal demonstration project waivers
AB 1592	163	Buchanan	MOUs for Bargaining Units 8, 16, and 19, including pension changes
AB 1610	724	Budget Committee	Education finance
AB 1612	725	Budget Committee	Social services
AB 1619	732	Budget Committee	Budget stabilization fund measure election date
AB 1620	726	Budget Committee	State Public Works Board
AB 1621	727	Budget Committee	Financial Information System for California

Continued

Governor's January Budget and Special Session

$18.9 Billion Budget Problem Estimated in January. On January 8, 2010, the Governor released the *2010-11 Governor's Budget* and declared a fiscal emergency, calling the Legislature into special session (the eighth extraordinary session of the 2009-10 Legislature). At the time, the administration put the size of the budget problem facing the Legislature at $18.9 billion—consisting of an expected General Fund deficit of $6.6 billion at the end of 2009-10 (assuming no corrective budget actions by the state) and a $12.3 billion operating deficit in 2010-11. The Governor's January budget package included $19.9 billion of solutions, according to administration estimates, which would have solved the $18.9 billion problem and left a $1 billion reserve at the end of 2010-11.

Bill Number	Chapter	Author	Subject
AB 1624	713	Budget Committee	Cash management
AB 1625	728	J. Pérez	MOUs for SEIU Local 1000 units and excluded/exempt employees
AB 1628	729	Budget Committee	Corrections
AB 1629	730	Budget Committee	Developmental services: financing for Agnews housing plan
AB 1632	731	Budget Committee	Small business and loan programs
ACA 4	174	Gatto	Budget stabilization fund ballot measure
2009-10 Sixth Extraordinary Session			
SBX6 22	3	Hollingsworth	Pension benefit changes
ABX6 10	1	Blumenfield	Secretary of Service and Volunteering
ABX6 11	2	Hill	Tax provisions related to explosion and fire in San Mateo County
2009-10 Eighth Extraordinary Session			
SBX8 4	4	Budget Committee	Developmental services and foster care
SBX8 34	9	Padilla	Renewable energy projects and Energy Commission
ABX8 1	2	Budget Committee	Department of Public Health
ABX8 3	3	Budget Committee	DNA penalty assessments, alcohol beverage control funds, and CDCR program reductions
ABX8 5	1	Budget Committee	Cash management
ABX8 6	11	Budget Committee	Transportation funding: fuel tax swap
ABX8 7	5	Budget Committee	Beverage container and water pollution funds
ABX8 9	12	Budget Committee	Transportation funding: fuel tax swap, expenditure provisions
ABX8 10	6	Budget Committee	Tribal gambling compact moneys
ABX8 11	7	Budget Committee	Proposition 116 projects
ABX8 12	8	Budget Committee	Port security projects
ABX8 14	10	Budget Committee	Cash management

[a] Proposed transportation trailer bills—SB 854 and AB 1614—were not approved by the Legislature. Proposed mandate securitization bill—SB 866—was vetoed by the Governor.

CalPERS = California Public Employees' Retirement System; CDCR = California Department of Corrections and Rehabilitation; MOUs = memoranda of understanding; SEIU = Service Employees International Union.

Governor's January Proposals Relied Heavily on Washington. Around 40 percent of the budget solutions proposed by the Governor in January relied on funding or flexibility to be provided by the federal government. This consisted of $6.9 billion of federal funds, as well as about $1 billion of federal actions to allow implementation of some other budget solutions. Another 40 percent consisted of reductions to state spending, including education funding reductions, reduction of state personnel costs (including increases in employee retirement contributions), Medi-Cal changes, and reductions in various other health and social services programs. In particular, the Governor proposed reductions of Supplemental Security Income/State Supplementary Program (SSI/SSP) cash grants and elimination of the Cash Assistance Program for Immigrants and the California Food Assistance Program, both of which provide state-only benefits to legal immigrants not eligible for certain federal programs. In addition, the Governor proposed a "fuel tax swap" to reduce General Fund costs by about $1 billion, June 2010 ballot measures to modify Propositions 10 and 63 to reduce General Fund costs by $1 billion, and other funding shifts. The Governor's main budget proposal in January included no significant revenue or tax budget solutions, but his "trigger proposals," described below, did.

Trigger Proposal in Event of Not Receiving Federal Funding. In the Governor's January budget proposal, various expenditure and revenue solutions would "trigger" on if the federal government did not provide the $6.9 billion of federal funds anticipated. These trigger proposals included the elimination of the California Work Opportunity and Responsibility to Kids (CalWORKs) program, elimination of the In-Home Supportive Services program, reduction in Medi-Cal eligibility to the federal minimum and elimination of some optional benefits, and the elimination of the Healthy Families Program. The trigger proposals also included several major revenue solutions, such as an extension of the suspension of business net operating loss deductions on income taxes, extended reduction in the dependent tax credit for personal income taxpayers, and delays of some business tax reductions included in prior budget agreements.

Special Session Legislation. Between March 8 and March 23, 2010, the Governor signed several special session bills. Collectively, the enacted special session bills reduced 2009-10 General Fund expenditures by $215 million and 2010-11 spending by $1.2 billion—principally due to the effects of the modified fuel tax swap approved by the Legislature. (We discuss this measure further in Chapter 3.) The Governor vetoed ABX8 2 (Committee on Budget), which provided that the *2010-11 Budget Act* would not include various items of spending totaling over $2 billion. The Governor stated that he vetoed ABX8 2 because the bill "does not actually implement spending reductions and make progress to close our budget gap."

May Revision

Updated Budget Problem Estimate: $17.9 Billion. In the May Revision, the administration's updated estimate of the budget problem was $17.9 billion: a $7.7 billion deficit at the end of 2009-10 and a $10.2 billion gap between revenues and expenditures in 2010-11.

Governor's Proposal Relied Heavily on Spending Reductions. The Governor's May budget package proposed $19.1 billion of solutions—enough to close the $17.9 billion shortfall and leave the General Fund with a $1.2 billion reserve. The May Revision assumed a more modest level of increased federal aid ($3.4 billion) and dropped the notion of trigger proposals. Major new spending reduction proposals, as compared to his base budget proposal in January, included eliminating CalWORKs and state funding for need-based, subsidized child care.

Conference Committee

Conference Considered Plans From the Two Houses. The Legislature's Budget Conference Committee began considering budget plans from the Assembly and Senate in June. While the Governor's May Revision proposal included limited additional revenues, both the Senate and Assembly plans considered by conference would have increased state revenues by several billion dollars, including changes to previously approved corporate tax reductions. Both houses' plans adopted the Governor's $3.4 billion federal funds assumption, but rejected his proposed eliminations of CalWORKs and child care funding. The Assembly plan included an $8 billion borrowing backed by beverage container recycling revenues, while the Senate plan relied on the extension of temporary tax rate increases originally enacted in 2009.

Conference Committee Plan. In early August, the Conference Committee approved a budget plan with an identified $18.5 billion of budget solutions—enough to address the $17.9 billion May Revision budget problem and leave a reserve of about $500 million. The Conference plan assumed federal funds receipts consistent with the Governor's May Revision proposal, and included an estimated $4.5 billion of additional revenues from delays of previously approved corporate tax reductions, institution of an oil severance tax, and another "tax swap" that would have reduced state sales taxes (which generally are not deductible for federal personal income tax purposes) and increased personal income taxes and the vehicle license fee (which generally are deductible for federal income tax purposes).

Final Budget Enactment

Latest Budget in California History. Following negotiations between the legislative leadership and the Governor, the two houses met to consider the budget on October 7. After meeting throughout the night, lawmakers in both houses approved the *2010-11 Budget Act* and various budget-related bills by the early morning of October 8. The Governor signed the budget act later that day, and he signed additional budget-related legislation later in October.

Governor's Vetoes. When signing the budget, the Governor vetoed $963 million in General Fund spending that had been approved by the Legislature. In doing so, the anticipated year-end reserve increased from $364 million to $1.3 billion. The vetoes included:

- The elimination of CalWORKs Stage 3 child care ($256 million), effective November 1, 2010. This will mean the loss of subsidized child care for approximately 55,000 children from low-income families who formerly received cash aid through the CalWORKs program.
- The assumed accelerated receipt of future federal Temporary Assistance for Needy Families funds, allowing a like reduction ($366 million) in state CalWORKs General Fund spending.
- The rejection of various legislative augmentations to health and social services programs. The Governor vetoed similar amounts as part of last year's budget. Specifically, he vetoed $80 million for child welfare services, $52 million for HIV/AIDS programs, $10 million for health clinics, and $6 million for community-based programs in the Department of Aging.
- The deletion of $133 million of funding for the AB 3632 mandate for students' mental health services. As part of the veto, the Governor declared his intent that the mandate be suspended for 2010-11.

Chapter 2

Revenue Provisions

Figure 1 displays the revenue assumptions underlying the *2010-11 Budget Act*. General Fund revenues in 2010-11 are estimated at $94.2 billion, an increase of $7.3 billion, or 8.4 percent, from the estimated 2009-10 level. Baseline revenue estimates for 2010-11 were derived from our office's May 2010 revenue and economic forecast, which estimated that major tax revenues would be $1.4 billion over those forecasted at that time by the administration for 2009-10 and 2010-11 combined.

Figure 2 (see next page) displays the estimated revenue effects of the various revenue-related budget solutions in the budget package. It includes a suspension of the use of net operating losses (NOLs) and actions to increase taxpayer compliance. These measures are expected to increase 2010-11 General Fund revenues by a net amount of about $1.1 billion. In addition, the budget package assumes one-time revenues totaling $1.2 billion from the sale and leasing back of 11 state office buildings ($911 million more than originally anticipated). Additional loans and transfers to the General Fund from state special funds also are authorized by the budget package.

Figure 1

2010-11 Budget Act
General Fund Revenues

(Dollars in Millions)

	2008-09 Actual	2009-10 Estimated	*2010-11 Budget Act*	Change From 2009-10	
				Amount	Percent
Personal income tax	$43,376	$44,820	$47,127	$2,307	5.2%
Sales and use tax	23,754	26,618	27,044	426	1.6
Corporation tax	9,536	9,275	10,897	1,622	17.5
Insurance tax	2,054	2,029	2,072	43	2.1
Vehicle license fee	216	1,338	1,459	121	9.0
Estate tax	—	—	782	782	—
Other major taxes	463	454	459	5	1.1
Sale of fixed assets	3	—	1,200	1,200	—
Other revenues	2,345	1,939	1,790	-149	-7.7
Transfers and loans	1,026	447	1,399	952	212.8
Totals	**$82,772**	**$86,920**	**$94,230**	**$7,309**	**8.4%**

Business Tax Provisions

Net Operating Loss and Carryback Changes. The Legislature's September 2008 budget package eliminated the ability of firms with taxable income over $500,000 to deduct NOLs from their income taxes for tax years 2008 and 2009. The 2010-11 budget package extends this suspension of NOL use for two additional years—tax years 2010 and 2011—for firms with income over $300,000.

In addition to the NOL suspension, the September 2008 budget package expanded the ability of California firms to deduct NOLs by allowing them for the first time to "carry back" NOLs for up to two years to retroactively reduce their tax bills from previous years. The 2010-11 budget package delays the date when businesses can begin to use these carrybacks to reduce their taxes from 2011 to 2013. Under the plan, carrybacks will be limited to 50 percent of losses beginning in tax year 2013 and 75 percent beginning in tax year 2014, but not limited in subsequent tax years.

Figure 2

General Fund Revenue and Transfer Solutions[a]
***2010-11 Budget Act* and Related Legislation**

In Millions, Increase (+) or Decrease (-) in Revenues

	2009-10	2010-11	2011-12	2012-13
Business Tax Provisions				
Net operating loss and carryback changes	—	$1,200	$410	-$205
Changes to Large Corporate Understatement Penalty	—	-117	-109	-93
Cost of performance sales location rule	—	-31	-104	-104
Subtotals	—	($1,052)	($197)	(-$402)
Tax Compliance Actions				
Revenues from increased resources for State Board of Equalization	—	$14	$62	$81
Use tax reporting line on income tax returns	—	7	7	7
Subtotals	—	($21)	($69)	($88)
Sale-Leaseback of State Office Buildings				
Assumed sales proceeds	—	$911[b]	—	—
Adoption of Legislative Analyst's Office's May 2010 Forecast				
Increase in baseline revenues compared to administration's forecast	$399	961	—	—
Loans, Loan Extensions, and Transfers				
Special fund borrowing and transfers (net)	—	1,916	—	—
Totals	**$399**	**$4,861**	**$266**	**-$314**

[a] Excludes exceptions to 2008 net operating loss suspension included in legislation. Tax agency was unable to provide an estimate for this change due to taxpayer confidentiality rules. Figure reflects administration and tax agency estimates.

[b] This amount is in addition to $289 million in sale proceeds already assumed by the administration in its workload budget.

The NOL suspension and carryback changes are estimated to increase General Fund revenues by $1.2 billion in 2010-11 and $410 million in 2011-12. In future years, these gains would be offset by revenue losses of a roughly similar amount.

Changes to Large Corporate Understatement Penalty (LCUP). The September 2008 budget package established a new penalty—known as the LCUP—for significantly underpaying corporate income taxes. Beginning in 2009, that package established a 20 percent penalty in any case in which underpayment exceeded $1 million. The 2010-11 budget package exempts from the LCUP those firms for which the underpayment is less than 20 percent of the tax shown on an original or amended return filed by the due date for the taxable year. Including interactions with the NOL suspension described above, this change to LCUP is projected to reduce General Fund revenues by $117 million in 2010-11, with slightly smaller amounts in future years.

Cost of Performance Sales Location Rule. Multistate and multinational businesses have various rules for determining the portion of their profits that are apportioned for California taxation. These rules generally consider the proportion of business sales, property, and payroll attributable to a business' California operations. The February 2009 budget package allowed businesses to have a new option for apportioning their profits to California—the single sales factor—beginning in 2011. As part of this February 2009 budget package, the Legislature changed tax rules for how sales were attributed to California for apportionment purposes. These changed rules provided that sales of services were attributed to California to the extent the purchaser received the benefit of the services here, and intangible product sales were attributed to California to the extent the product was used here. The 2010-11 budget package effectively reverses these rule changes for those multistate and multinational businesses that do *not* choose the single sales factor beginning in 2011. Accordingly, the old rules will apply: for these businesses' sales (other than tangible products), the sales will only be attributable to California when a greater proportion of the activities supporting the sales are performed here compared to any other state. These rules are known as "costs of performance" rules. Including interactions with the NOL suspension discussed above, this change is projected to reduce General Fund revenues by $31 million in 2010-11 and $104 million in both 2011-12 and 2012-13.

Tax Compliance Actions

Increased Resources for State Board of Equalization (BOE). The 2010-11 budget package provides additional resources to BOE to enhance taxpayer compliance in the following areas:

- Increased resources for sales and use tax (SUT) collections. The number of SUT collectors at BOE will increase by about 13 percent.

- Increased auditing resources for BOE's alcoholic beverage tax programs. This will bring audit coverage for alcoholic beverage tax accounts to levels comparable to that for other excise tax programs.
- Resources to allow BOE to participate in the multiagency High Intensity Financial Crimes Area task force, which is focused on identifying tax evasion in the underground economy.
- Establishment of an appeals and settlement unit in Southern California (22 positions).

Estimated net revenues to result from these BOE compliance activities are $14 million in 2010-11, $62 million in 2011-12, and $81 million in 2012-13. The majority of revenues by 2011-12 result from the Southern California appeals and settlement unit on the assumption that appeals and settlements could be finished earlier than otherwise—meaning that payment of these revenues will result in reductions of settlement and appeals revenues in later years.

Use Tax Reporting Line on Income Tax Returns. The budget package eliminates a statutory sunset date for the separate line on Franchise Tax Board (FTB) income tax returns that allows taxpayers to easily report and pay use tax obligations. The use tax—created in 1935—is a companion to the sales tax in California and other states, and it often is owed when an out-of-state or online retailer sells an item to a Californian who uses or consumes the product here. General Fund revenues of $7 million per year are expected to result from the use tax reporting line on FTB returns.

Other Business Tax Actions

Exception to 2008 NOL Suspension. The revenue trailer bill in the budget package also exempts from the 2008 NOL suspension a corporate taxpayer that sold or transferred its assets resulting in a gain prior to August 28, 2008 pursuant to a Chapter 11 bankruptcy reorganization. This would allow the taxpayer to offset the gain with NOL deductions notwithstanding the 2008 NOL suspension. Because this provision would affect a very small number of taxpayers, FTB was unable to estimate the revenue effects of this provision due to taxpayer confidentiality laws.

Sale-Leaseback of State Office Buildings

$1.2 Billion of Revenue Assumed in 2010-11. The 2010-11 budget package assumes $1.2 billion in one-time revenue from the sale of 11 state office properties, as authorized in the 2009-10 budget agreement. This amount reflects the net revenue from the sale after the state pays off the outstanding debt on the buildings and the transaction's expenses. (Because $289 million was assumed from the sale by the administration in its workload budget, this solution contributes a net amount of $911 million to closing the budget gap, as reflected in Figure 2.) Following passage of the budget, the administration announced its intention to sell the properties to a single bidder at a price matching the spending plan's assumptions. The sale is now subject to a 30-day legislative review period and could close by December 2010. The state would immediately lease back the office buildings in order to retain use of the properties. The spending plan estimates the additional cost of leasing the facilities will be $20 million in 2010-11, but the actual amount will depend upon when the sale is finalized. Generally, the state's rent costs will increase in future years.

Loans, Loan Extensions, and Transfers

Special Fund Borrowing and Transfers Totaling $1.9 Billion. The 2010-11 budget package assumes one-time General Fund benefits of $1.9 billion resulting from various new loans, extensions of prior loans, and transfers from state special funds. (Not included in this amount are about $800 million of "fund shifts" listed in Figure 3 of Chapter 1, as these other fund shifts generally reduce 2010-11 expenditures, rather than increase General Fund revenues and transfers.) A significant portion of these loans and transfers relate to the state's transportation accounts, including the Highway Users Tax Account ($762 million loan), the Motor Vehicle Account ($180 million loan and $72 million transfer), and other special funds related to the Department of Transportation ($231 million of loan repayment extensions).

Chapter 3

Expenditure Highlights

Proposition 98

Proposition 98 funding constitutes about 70 percent of total funding for child care, preschool, K-12 education, and the California Community Colleges (CCCs). In this section, we review major Proposition 98 decisions for 2009-10 and 2010-11 and then discuss the budgets for K-12 education and child care in more detail. In the "Higher Education" section, we discuss the community college budget in more detail.

Major Proposition 98 Developments

Figure 1 shows the Proposition 98 minimum guarantee, spending level, settle-up obligation, and maintenance factor for 2008-09 through 2010-11.

State Has Large 2009-10 Settle-Up Obligation. After the *2009-10 Budget Act* was enacted, the Proposition 98 minimum guarantee increased from $50.4 billion to $51.4 billion due to higher-than-anticipated growth in General Fund revenues. The budget package, however, also reduced spending from the *2009-10 Budget Act* level by more than $800 million—bringing 2009-10 spending down to $49.5 billion. As a result of these two developments,

Figure 1

State Has Large Proposition 98 Obligations Moving Forward

(In Millions)

	2008-09	2009-10	2010-11
Minimum Guarantee	$49,102[a]	$51,378	$53,752
Ongoing Proposition 98 Spending	49,102	49,543	49,658
Suspension Level	—	—	4,094
Outstanding Settle-Up Obligation	—	1,835	1,791[b]
Outstanding Maintenance Factor	11,213	9,311	9,554

[a] The 2008-09 Proposition 98 minimum guarantee was statutorily certified at this level in Chapter 3, Statutes of 2009 (ABX4 3, Evans).

[b] In 2010-11, a $300 million payment is made toward the 2009-10 obligation but an additional $256 million in settle up is created due to the Governor's veto of certain Proposition 98 spending.

the state ended 2009-10 with a settle-up obligation of $1.8 billion. (Unless the minimum guarantee is suspended, a settle-up obligation results when Proposition 98 funding for a particular year ends up below the minimum guarantee. The state is required to make the settle-up payment to meet its Proposition 98 obligation for that year. Historically, the state has made settle-up payments either in one lump sum or over multiple years using a payment schedule set in law. When provided, the payments reflect a one-time settling up for a prior year and are in addition to the ongoing Proposition 98 funding the state provides to meet the minimum guarantee for the new fiscal year.)

State Suspends Proposition 98 Minimum Guarantee in 2010-11. As Figure 1 shows, the 2010-11 minimum guarantee, as estimated at the time of budget enactment, is $53.8 billion. The 2010-11 guarantee is higher than the 2009-10 guarantee due to a variety of factors, including the $2.5 billion in tax revenue-related solutions adopted as part of the final 2010-11 budget package. The state determined it could not afford to fund at this level and suspended the Proposition 98 minimum guarantee for 2010-11. As shown in Figure 1, the $49.7 billion the state provided in Proposition 98 funding in 2010-11 is $4.1 billion lower than the guarantee.

Maintenance Factor Obligation of $9.6 Billion Moving Forward. As a result of the suspension, the state created a like amount of maintenance factor obligation. (Maintenance factor is created when the state suspends Proposition 98 or provides less Proposition 98 funding than otherwise required if the state General Fund condition had been healthier. Though the state achieves near-term savings as a result of the suspension/lower Proposition 98 funding level, the state is required to increase K-14 funding in the future to the level it would have attained absent the earlier reduction.) At the end of 2010-11, the state is estimated to have an outstanding maintenance factor obligation of $9.6 billion. (A formula linked to the health of the state General Fund condition determines how much of this obligation is paid in any given year moving forward.)

Settle-Up Obligation of $1.8 Billion Owed. Two budget actions affected the settle-up obligation outstanding as of the end of 2010-11. Whereas the budget package made an initial $300 million payment to begin retiring the 2009-10 settle-up obligation, this was offset almost entirely by the Governor's veto of $256 million in child care spending. Despite the suspension of the Proposition 98 minimum guarantee in 2010-11, the administration decided to treat the $256 million in vetoed spending as a settle-up obligation to be paid in the future. The net impact of the two actions is that the state's outstanding settle-up obligation as of the end of 2010-11 remains nearly unchanged at $1.8 billion.

Overall Proposition 98 Funding

Figure 2 shows Proposition 98 overall funding levels for K-12 education, CCC, and other Proposition 98-supported agencies (including the state special schools and juvenile justice). As the figure shows, funding for both K-12 education and CCC increases slightly from 2009-10 to 2010-11. The figure also provides the breakdown of General Fund and local property tax revenues. Despite the total Proposition 98 funding level remaining relatively flat from 2009-10 to 2010-11, significant declines in local property tax revenues result in an increase in General Fund spending.

Major Proposition 98 Spending Decisions

2009-10 Reductions Reflect Program Savings, 2010-11 Reductions Result From Additional Deferrals. Figure 3 (see next page) lists the major Proposition 98 spending changes in 2009-10 and 2010-11. For 2009-10, the state reduced Proposition 98 spending by $876 million—achieving savings from lower-than-expected costs for K-12 revenue limits, the K-3 Class Size Reduction (CSR) program, and various other K-14 programs. For 2010-11, the state also achieved some participation/attendance-related savings from K-3 CSR, Economic Impact Aid (EIA), and special education. Most of the 2010-11 savings, however, come not from cuts but from payment deferrals—with the largest spending change in 2010-11 being a $1.7 billion deferral of K-12 payments until 2011-12. Similarly, the Legislature deferred $189 million in

Figure 2

Proposition 98 Funding

(Dollars in Millions)

	2008-09 Final	2009-10 Revised	2010-11 Budgeted	Change From 2009-10	
				Amount	Percent
K-12 Education					
General Fund	$30,075	$31,662	$32,249	$588	1.9%
Local property tax revenue	12,969	12,105	11,529	-576	-4.8
Subtotals	($43,044)	($43,767)	($43,778)	($11)	(—)
California Community Colleges					
General Fund	$3,918	$3,722	$3,885	$163	4.4%
Local property tax revenue	2,029	1,962	1,907	-55	-2.8
Subtotals	($5,947)	($5,683)	($5,792)	($108)	(1.9%)
Other Agencies	$105	$93	$89	-$4	-4.5%
Totals, Proposition 98	**$49,096**	**$49,543**	**$49,658**[a]	**$115**	**0.2%**
General Fund	$34,098	$35,477	$36,223	$746	2.1%
Local property tax revenue	14,997	14,066	13,435	-631	-4.5

[a] Due to the Governor's veto of CalWORKs Stage 3 child care, the administration intends to create an additional $256 million settle-up obligation to be paid in the future.

community college payments (though the Governor vetoed $60 million of these deferrals—eliminating two deferred program augmentations). The community colleges also received a $126 million augmentation for a 2 percent increase in funded enrollment. Whereas K-12 education and CCC were largely spared program cuts in 2010-11, the budget passed by the Legislature reduced Proposition 98 support for child care by more than $300 million. These reductions, however, consisted largely of funding swaps and changes to program administration that were not intended to result in the loss of child care slots. Please see the "Child Care" section for more detail on these reductions and the Governor's veto of additional funds.

State Continues to Fund Quality Education Investment Act (QEIA). In addition to ongoing Proposition 98 spending, the state provided non-Proposition 98 General Fund monies to support QEIA per Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Specifically, the state provided $420 million for QEIA in 2010-11. Of this amount, $402 million was provided to K-12 schools and $18 million was provided to CCC. In addition, the state provided a $30 million prepayment to CCC, with funds attributable to 2009-10 but supporting 2010-11 program costs. (The prepayment was made to ensure

Figure 3

Major Proposition 98 Spending Changes

(In Millions)

2009-10	
K-12 revenue limit and other adjustments	-$176
K-3 Class Size Reduction savings	-340
Other 2009-10 savings	-360
Total Changes	**-$876**
2010-11	
Backfill for prior-year one-time actions	$2,268
K-12 revenue limit and other adjustments	168
K-12 principal apportionment deferral	-1,719
K-3 Class Size Reduction savings	-210
Economic Impact Aid caseload savings	-54
Special Education caseload savings	-45
Categorical funding for new schools	14
Child care savings	-318[a]
CCC apportionment deferral	-129
CCC apportionment growth	126
Other K-14 adjustments	14
Total Changes	**$115**

[a] Does not reflect Governor's veto of $256 million. See Figure 8 for additional detail.

the state met a federal maintenance-of-effort requirement in 2009-10.) After making these payments, the state's outstanding QEIA obligation is $1.5 billion.

State Dedicates Settle-Up Payment to K-14 Mandates. The budget package also provides $300 million in non-Proposition 98 General Fund monies to support two mandate-related actions. The funds constitute a first payment toward reducing the state's Proposition 98 2009-10 settle-up obligation. Of the $300 million, the state budgeted $90 million for the 2010-11 cost of mandates ($80 million for K-12 mandates and $10 million for CCC mandates). Providing this annual payment effectively stops the state's practice of deferring K-14 mandate payments, which a Superior Court in 2008 declared unconstitutional. In addition, the state allocated $210 million on a per-student basis, with monies first used for any unpaid prior-year K-14 mandate claims. This latter action was intended to help pay off a portion of the K-14 mandate backlog.

Budget Actions Coupled With Some K-14 Mandate Reform. The budget package also included several provisions—summarized in Figure 4 (see next page)—that reduce the state's out-year mandate-related debt and relieve districts from performing certain mandated activities. Specifically, the budget package eliminated the state's two costliest K-12 mandates—related to the high school science graduation requirement and behavioral intervention plans for special education students. In addition, the package reduced costs associated with 3 mandates (two K-12 and one K-14 mandate) and suspended all or part of 13 mandates (eight K-12, two CCC, and three K-14 mandates). Finally, the budget package authorized a work group to analyze the cost-effectiveness of each remaining mandate and make recommendations to the budget and policy committees on how to treat those mandates going forward.

Out-Year Proposition 98 Spending Commitments Still Substantial

Even with the mandate actions taken as part of the 2010-11 budget package, we estimate the state will end 2010-11 with $3.7 billion in unpaid K-14 mandate claims (almost $3.4 billion in K-12 claims and $369 million in CCC claims)—costs that the state is constitutionally required to pay at some point in the future. In addition to these constitutional obligations, the state has kept track of recent foregone cost-of-living adjustments (COLAs) as well as base reductions to K-12 revenue limits, and it has made a statutory commitment to increase K-12 revenue limits accordingly at some point in the future. The estimated cost of funding these COLAs and restoring these cuts is $7.2 billion. (The state would need to provide this amount every year on an ongoing basis to retire what is commonly referred to as the statutory revenue limit "deficit factor.") Finally, as discussed in more detail below, the state has deferred more than $8 billion in K-14 payments.

Figure 4

Education Mandates Included in 2010-11 Reform Package

Mandate[a]	Action
Behavioral Intervention Plans	Eliminate
High School Science Graduation Requirement	Eliminate
Open Meetings Act (K-14)	Eliminate
Teacher Incentive Program	Eliminate
Collective Bargaining (K-14)	Reduce Costs
Habitual Truants	Reduce Costs
Notification of Truancy	Reduce Costs
County Treasury Withdrawals	Suspend
Grand Jury Proceedings (K-14)	Suspend
Health Benefits for Survivors of Peace Officers (K-14)	Suspend
Integrated Waste Management (CCC)	Suspend
Law Enforcement Jurisdiction Agreements (CCC)	Suspend
Law Enforcement Sexual Harassment Training (K-14)	Suspend
Physical Education Reports	Suspend
Removal of Chemicals	Suspend
School Bus Safety I-II	Suspend
Scoliosis Screening	Suspend
Pupil Residency Verification and Appeals	Suspend
Pupil Promotion and Retention	Suspend (partial)
School Accountability Report Cards	Suspend (partial)

[a] Unless otherwise noted, mandate applies to K-12 education. Any mandate not listed was funded in the *2010-11 Budget Act.* All mandates not eliminated will be reviewed by a work group.

Almost a Fifth of K-14 Bills Now Paid Late. The state first relied on payment deferrals in 2001-02 to address a midyear drop in the Proposition 98 minimum guarantee by reducing state spending without reducing local programs. (Funds still were provided, but later than originally expected.) Over the last three years, the state has relied much more heavily on K-14 payment deferrals. As shown in Figure 5, the state is now deferring more than $8 billion in Proposition 98 payments ($7.3 billion in K-12 payments and $832 million in CCC payments). This reflects 17 percent of all Proposition 98-supported programs being funded after the school/fiscal year has ended. In essence, the first $8 billion in Proposition 98 funding provided in 2011-12 will pay for services that school districts already have provided in 2010-11.

K-12 Education

Figure 6 (see page 24) shows K-12 per-pupil programmatic funding from 2007-08 through 2010-11. The amounts shown are intended to reflect funding within the Legislature's purview that is provided to school districts after adjusting for certain fund swaps, payment deferrals, and special one-time funding sources. As the figure shows, per-pupil programmatic funding increased slightly from 2009-10 to 2010-11, though school districts will still receive about 5 percent less in 2010-11 than in 2007-08. This reduction would have been greater had federal funding not been provided to help mitigate the drop in state funding (please see below for more detail).

One-Time Federal Funding Important Part of K-12 Budget. The state recently enacted legislation authorizing the release of four streams of federal

Figure 5

Inter-Year Deferrals of Proposition 98 Payments

(Dollars in Millions)

	Amount
Deferrals Established Prior to 2008-09	
Shift some K-12 revenue limit and categorical payments from June to July	$1,103
Shift some CCC apportionment payments from May-June to July	200
Subtotal	($1,303)
Deferrals Enacted in February 2009 Budget (Began in 2008-09)	
Shift some K-12 revenue limit and categorical payments from February to July	$2,000
Shift K-3 Class Size Reduction payment from February to July	570
Shift portions of CCC apportionments from January-April to July	340
Increase size of existing K-12 June-to-July deferral	334
Retire Home-to-School Transportation deferral	-53
Subtotal	($3,191)
Deferrals Enacted in July 2009 Budget (Began in 2009-10)	
Shift K-12 revenue limit payment from May to August	$1,000
Shift K-12 revenue limit payment from April to August	679
Shift additional CCC apportionment payments from April-May to July	163
Subtotal	($1,842)
New Deferrals Enacted in October 2010 Budget (Beginning in 2010-11)	
Increase size of existing K-12 May-to-August deferral	$800
Increase size of existing K-12 June-to-July deferral	500
Increase size of existing K-12 April-to-August deferral	420
Shift additional CCC apportionments from January-June to July	129
Subtotal	($1,849)
Total Inter-Year Deferrals	**$8,185**
K-12 Education	($7,353)
CCC	(832)
Share of 2010-11 Proposition 98 Program to Be Paid in 2011-12	
K-12 Education	17%
CCC	14
Total	**17%**

funding for K-12 education. Chapter 220, Statutes of 2010 (SB 847, Steinberg), appropriates $1.2 billion in new federal funding for retaining school staff and reducing teacher layoffs. These funds were part of the federal Education Jobs and Medicaid Assistance Act of 2010. Chapter 221, Statutes of 2010 (AB 185, Buchanan), authorizes the final $272 million in education funding provided under the federal American Recovery and Reinvestment Act (ARRA) of 2009. These funds are to be used to backfill cuts to revenue limits. In addition, Chapter 221 authorizes the release of $64 million in 2009-10 funds and $352 million in ARRA funds to support schools implementing one of four federal school improvement models. School districts participated in a competitive application process to receive one of these School Improvement Grants. Districts with successful applications will receive funding in three annual installments beginning this fall. Lastly, the budget designates $38 million in ARRA Enhancing Education Through Technology (EETT) funding for a special competitive grant program focused around using data and technology to improve college and career readiness and reduce high school dropout rates. (The remaining ARRA EETT funds were authorized in the spring and used for the state's existing EETT programs.)

Figure 6

K-12 "Programmatic" Funding

(Dollars in Millions Unless Otherwise Specified)

Programmatic Funding[a]	2007-08 Final	2008-09 Final	2009-10 Final	2010-11 Enacted
K-12 ongoing funding[b]	$48,883	$43,215	$40,438	$42,759
Additional payment deferrals	—	2,904	1,679	1,719
Settle-up payments	—	1,101	—	267
Public Transportation Account	99	619	—	—
Freed-up restricted reserves[c]	—	1,100	1,100	—
ARRA funding[c]	—	1,192	3,575	1,192
Federal education jobs funding[d]	—	—	—	1,202
Totals	**$48,982**	**$50,130**	**$46,792**	**$47,139**
Per-Pupil Programmatic Funding				
K-12 attendance[e]	5,947,758	5,957,111	5,933,762	5,927,828
K-12 per-pupil funding (In Dollars)	**$8,235**	**$8,415**	**$7,886**	**$7,952**
Percent Change From 2007-08	**—**	**2.2%**	**-4.2%**	**-3.4%**

[a] Excludes federal funds not associated with stimulus packages, lottery, and various other local funding sources.

[b] Includes ongoing Proposition 98 funding, Proposition 98 accounting adjustments, and funding for the Quality Education Investment Act.

[c] Reflects LAO estimates of restricted reserves and American Recovery and Reinvestment Act (ARRA) funds spent in each year.

[d] Funds available through September 30, 2012.

[e] Reflects attendance data updated as of June 2010.

Notable Budget Provisions Involving K-12 Education. The budget package includes a few notable K-12 provisions, including:

- ***English Learner (EL) Programs Consolidated.*** The budget package eliminates the English Learner Acquisition Program, which provided funds for EL students in grades 4-8. It merges associated funding ($51 million) into the $956 million EIA, which can be used for low-income and EL students in all grades. (The budget also adds $3 million to extend EIA funding to county court schools.)
- ***Charter School Facilities Funding Converted From Reimbursements to Grants.*** The budget package contains a provision authorizing the California Department of Education to provide Charter School Facility Grants for current-year costs, as long as all prior-year costs have been reimbursed. In essence, this provision converts funding for the program from a reimbursement to a grant basis. The budget provides a total of $61 million for the program.
- ***K-3 CSR Funding Taken "Off Book in 2010-11."*** Whereas the K-3 CSR program traditionally has been itemized and funded in the annual budget act, the 2010-11 package removes the CSR item from the budget act and contains no fixed dollar amount for the program. Instead, Chapter 724, Statutes of 2010 (AB 1610, Committee on Budget), authorizes the Superintendent of Public Instruction for 2010-11 to certify the amount needed for the program and then sets forth a schedule whereby the Controller is to release funding to local educational agencies.

Two Notable Vetoes Affecting K-12 Education. Finally, the budget package for K-12 education contains two notable vetoes by the administration:

- ***Mental Health Funding.*** As discussed later in this chapter, the Governor vetoed all funding for the AB 3632 mandate, thereby creating uncertainty as to whether school districts must assume responsibility for providing mental health services to special education students beginning in 2010-11.
- ***Data Funding.*** The Governor also reduced about half the funding for the administration and support of the California Longitudinal Pupil Achievement Data System and California School Information Services—bringing funding for the two companion projects down from $13.3 million to $6.8 million. In a related action, the Governor also vetoed most funding for the California Teacher Integrated Data Education System—bringing funding for this project down from $4.1 million to $560,000.

Child Care and Development

As shown in Figure 7, the *2010-11 Budget Act* includes a total of $2.6 billion for child care and development (CCD) in 2010-11. This is a decrease of nearly $500 million, or 16 percent, compared to the prior year. Ongoing Proposition 98 support for CCD programs dropped from $1.8 billion to $1.3 billion, while federal support stayed relatively flat at $1.1 billion. As in prior years, a notable portion of ongoing CCD programs are supported in 2010-11 with one-time funds ($201 million in prior-year Proposition 98 carryover and $110 million in federal ARRA funds).

Figure 7

Child Care and Development Budget Summary

(Dollars in Millions)

				Change From 2009-10	
	2008-09	**2009-10**	**2010-11**	**Amount**	**Percent**
Expenditures					
CalWORKs Child Care					
Stage 1	$616	$547	$488	-$59	-10.8%
Stage 2[a]	505	485	440	-45	-9.3
Stage 3	418	412	129	-283	-68.8
Subtotals	($1,539)	($1,445)	($1,057)	(-$388)	(-26.8%)
Non-CalWORKs Child Care					
General Child Care	$780	$797	$776	-$21	-2.7%
Other child care	329	321	303	-18	-5.5
Subtotals	($1,109)	($1,118)	($1,079)	(-$39)	(-3.5%)
State Preschool	$429	$439	$380	-$59	-13.5%
Support Programs	106	109	100	-9	-7.8
Totals	**$3,183**	**$3,110**	**$2,616**	**-$495**	**-15.9%**
Funding					
State General Fund					
Proposition 98	$1,690	$1,836	$1,262	-$574	-31.3%
Non-Proposition 98	28	29	29	—	—
Other state funds[b]	339	66	201	135	206.7
Federal funds					
CCDF	$528	$541	$544	$3	0.6%
TANF	598	528	469	-59	-11.2
ARRA	—	110	110	—	—

[a] Includes funding for programs operated by California Community Colleges.

[b] Includes prior-year Proposition 98 carryover and redirected Child Care Facilities Revolving Fund monies.

CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; ARRA = American Recovery and Reinvestment Act.

Legislature Rejects May Revision Proposal, Focuses CCD Reductions on Program Administration. In the May Revision, the Governor proposed to eliminate all state funding for subsidized child care, with the exception of state-funded preschool. This would have saved $1.2 billion in Proposition 98 funds and $500 million in state General Fund monies and resulted in the elimination of roughly 220,000 child care slots. The Legislature rejected this proposal and instead sought savings by making permanent policy changes, particularly with regard to the way CCD programs are administrated. Most significantly, as detailed in Figure 8, the *2010-11 Budget Act* scores almost $140 million in savings from the following policy changes:

- Caps the amount of funding Title V child care centers may hold in reserve at 5 percent of their total contract amount, and, for 2010-11, requires centers to use reserve funds to serve children before receiving additional state funds.
- Reduces the maximum rates that license-exempt child care providers can charge from 90 percent to 80 percent of the maximum licensed rate.
- Reduces the Alternative Payment agency allotment for administration and support activities from 19 percent to 17.5 percent of total contract amounts.
- Reduces or ceases ten different state-level quality improvement activities, such as professional development and technical assistance for providers.

Governor Vetoes All State Funding for CalWORKs Stage 3 Child Care. Despite the Legislature's attempt to preserve child care slots, the Governor vetoed all state support for California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 3 child care ($256 million). This program offers

Figure 8

Major Changes to Child Care and Development Spending

(In Millions)

	Proposition 98	Other	Total
Eliminate CalWORKs Stage 3 (Governor's veto)	-$256.0	—	-$256.0
Technical/caseload adjustments	-193.1	$92.0	-101.1
Cap provider reserves at 5 percent	-83.1	—	-83.1
Reduce license-exempt provider reimbursement rates	-18.7	-12.4	-31.2
Reduce administration and support allowance	-17.1	—	-17.1
Reduce some quality improvement activities	-6.2	—	-6.2[a]
Total Changes	**-$574.2**	**$79.6**	**-$494.7**

[a] Child care quality improvement activities were reduced by a total of $10.5 million, and the corresponding federal funds were redirected for state savings. Specifically, $6.2 million was redirected for Proposition 98 child care savings, and $4.3 million was redirected for General Fund savings scored in the Community Care Licensing Division of the Department of Social Services budget.

subsidized child care services for approximately 55,000 children from low-income families who formerly received CalWORKs grants. As shown in Figure 7, the Governor maintained $129 million in federal funds to pay for services rendered from July 1 through October 31, with services to be eliminated effective November 1, 2010.

Higher Education

The enacted budget provides a total of $11.4 billion in General Fund support for higher education in 2010-11 (see Figure 9). This reflects an increase of $911 million, or 8.7 percent, from the 2009-10 level of funding. In addition to this increase in General Fund support, higher education received increases from other fund sources such as student fees and federal stimulus funds. When these funds are included, and after accounting for community college funding that is "deferred" to subsequent years, programmatic support for higher education increases by $1.8 billion, or 10.9 percent, from the prior year. (See Figure 10.)

Overall Funding Bounces Back Near Pre-Recession Levels. Over the past several budget cycles, higher education (like almost all other state programs) experienced significant reductions in state support. With the augmentations provided in the 2010-11 budget, state funding for higher education is now close to what it was in 2007-08, which most consider to be the last "normal" funding year before the current recession necessitated spending reductions. Specifically, General Fund support for higher education in 2010-11 is about 97 percent of what it was in 2007-08. When considering all core funding

Figure 9

Higher Education Funding

(General Fund, Dollars in Millions)

					Change From 2009-10	
	2007-08	2008-09	2009-10	2010-11	Amount	Percent
University of California	$3,257	$2,418	$2,596	$2,913	$317	12.2%
California State University	2,971	2,155	2,350	2,617	267	11.4
California Community College	4,152	3,928	3,731	3,895	164	4.4
Hastings University	11	10	8	8	—	1.1
California Postsecondary Education Commission	2	2	2	2	—	11.3
California Student Aid Commission	867	888	1,019	1,079	59	5.8
General obligation bond debt service	496	594	765	869	104	13.6
Lease-revenue bond debt service[a]	($276)	($283)	($281)	($346)	($65)	(23.2%)
Totals	**$11,756**	**$9,996**	**$10,471**	**$11,383**	**$911**	**8.7%**

[a] Amounts in parentheses are shown here for reference only, as they are already reflected in the individual segments' General Fund appropriations.

(including student fees and federal stimulus funds), total support for higher education is now 7 percent *higher* than it was in 2007-08.

UC and CSU

Overall Funding. As shown in Figure 9, the 2010-11 budget provides the University of California (UC) with $2.9 billion, and the California State University (CSU) with $2.6 billion, in General Fund support. These amounts reflect increases of $317 million and $267 million, respectively. While these augmentations are relatively large given the state's fiscal constraints, they do not fully restore the universities' General Fund support to their 2007-08 levels. However, when other core funding sources are included, total core funding for the universities is well above pre-recession levels. Figure 10 shows that between 2007-08 and 2010-11, UC core funding increases from $4.9 billion to $5.6 billion (15 percent) and CSU funding increases from $4.2 billion to $4.4 billion (5.5 percent).

Student Fees. For the 2010-11 academic year, UC's undergraduate fee is $10,302, which reflects a 15 percent increase from the prior level. The CSU initially adopted a 10 percent increase for 2010-11. However, prior to final enactment of the state budget, the Assembly added new General Fund augmentations to the universities' budgets to "buy out" their fee increases. The CSU responded by lowering its fee increase to 5 percent, which results in an undergraduate fee of $4,230. (The UC did not adjust its 15 percent fee increase.) Later, the budget conference committee deleted from the final budget the General Fund augmentation associated with the Assembly's fee buyout. The CSU has indicated that it will reconsider its fee levels before the spring semester.

Figure 10

Higher Education Programmatic Support[a]

(Selected Core Funds, in Millions)

					Change From 2009-10	
	2007-08	2008-09	2009-10	2010-11	Amount	Percent
University of California	$4,876	$4,837	$4,625	$5,612	$986.5	21.3%
California State University	4,205	4,320	3,989	4,438	448.7	11.2
California Community Colleges (CCCs)	6,718	6,805	6,422	6,563	140.6	2.2
Hastings College of the Law	37	43	47	56	8.1	17.1
Student Aid Commission	962	1,006	1,144	1,271	127.0	11.1
California Postsecondary Education Commission	2	2	2	2	0.2	11.3
Totals	**$16,800**	**$17,012**	**$16,230**	**$17,941**	**$1,711.2**	**10.5%**

[a] Includes General Fund, state lottery funds, federal stimulus funding, student fee revenues, and Student Loan Operating Fund. Funding "deferred" to subsequent years is reflected in the year spending commitments were made. Figures for CCC also reflect local property taxes counted toward Proposition 98.

The budget assumes UC's systemwide fee increase, combined with changes in other fees and annualized prior-year increases, will generate about $565 million in new fee revenue in 2010-11. The approved 5 percent fee increase at CSU is expected to generate $77 million. Both segments plan to direct about one-third of this new revenue to augment campus-based financial aid for their students.

Enrollment. The budget nominally includes funding for enrollment growth of 2.5 percent at the universities. Specifically, UC received $51.3 million and CSU received $60.6 million for enrollment "growth." Associated budget language directs UC and CSU to enroll a total of 209,977 full-time equivalent (FTE) students and 339,873 FTE students, respectively. However, these enrollment targets are lower than the universities' 2009-10 actual enrollment. (The *2009-10 Budget Act* did not set any enrollment targets for the universities, allowing them to enroll whatever number of students they felt could be served with available funding.) As a result, the enrollment growth funding will have the effect of increasing the amount of funding the state provides for each FTE student, rather than increasing the number of students funded.

Language included in the budget act (originally proposed by the Governor in January) also specifies General Fund per student "marginal cost" amounts for UC and CSU of $10,011 and $7,305, respectively. Because recent budgets did not set enrollment targets for the universities, these unit costs were based on targets and funding formulas in place in 2007-08, updated for inflation and fee increases. The methodology employed in the Governor's language departs from the methodology used in prior years when growth funding had been provided.

University of California Retirement Program (UCRP). The budget package removes a statutory provision (added in 2009-10) that declared the Legislature's intent that no new General Fund augmentations be made toward UCRP. As a companion to that action, the Legislature also adopted budget language directing UC to provide a proposal for the long-term funding of UCRP. The Governor vetoed this language.

California Community Colleges

Budget Provides Modest Programmatic Augmentation. Like K-12 education, community colleges' local property tax revenue and most of their General Fund support is included within Proposition 98's funding formulas. Figure 2 (in the "Proposition 98" section of this chapter) indicates that the 2010-11 budget provides the CCCs with $5.8 billion in Proposition 98 monies. This reflects an increase of $108 million (1.9 percent) over the 2009-10 level. This year-to-year comparison can be misleading, however, because the 2010-11 amount includes payments owed to community college districts in 2009-10 that were deferred until 2010-11. The budget package also includes new deferrals from 2010-11 to 2011-12, as well as considerable funding for CCC from non-Proposition 98 sources. (See the Proposition 98 section of this report for more detail.) Figure 10 shows that when all funding sources are considered and counted toward the year in which costs are incurred, CCC's 2010-11 programmatic funding totals $6.6 billion, which is about $200 million (3.1 percent) more than 2009-10. The largest single programmatic augmentation ($126 million) provides new funding for about 26,000 enrollment slots.

Budget Expands Funding to Be Deferred to Later Years. As discussed earlier in the Proposition 98 section, the Legislature added new CCC funding deferrals in 2003-04, 2008-09, and 2009-10. As shown in Figure 5, the 2010-11 budget defers an additional $129 million to 2011-12, thereby creating a total ongoing deferral of $832 million. (The Governor vetoed $60 million in additional deferrals.)

Additional Funding for Career Technical Education Pathways Initiative. The budget augments support for the Career Technical Education Pathways Initiative, which is a grant program jointly administered by CCC and the California Department of Education. Total support for the program increases from $48 million in 2009-10 to $68 million in 2010-11.

Money for Mandates. As discussed in the Proposition 98 section, the budget package suspends several CCC mandates. In addition, it provides a total of about $32 million in Proposition 98 "settle-up" funds to partially fund outstanding community college mandate claims. This is part of roughly $300 million the budget provides to K-14 education for outstanding mandate claims.

No Change in Fee Levels. The 2010-11 budget leaves student fees unchanged at $26 per unit. Fees were last increased in 2009-10, when they rose from $20 per unit to $26 per unit.

California Student Aid Commission

The budget provides $1.2 billion for the California Student Aid Commission (CSAC), including $1.1 billion from the General Fund, $100 million in one-time funds from the Student Loan Operating Fund, and $25.7 million in federal funds for Cal Grants and other financial aid programs. This reflects an increase in direct student financial aid of $133 million, or 12 percent, primarily to offset student fee increases at UC and CSU.

Preservation of Cal Grant Programs. The Legislature rejected the Governor's January proposal to phase out the Cal Grant Competitive Program, as it did in 2008 and 2009. The Governor withdrew this proposal in his May Revision, and the enacted budget preserves the Cal Grant programs unchanged.

Termination of Student Loan Guarantee Role. The federal Department of Education terminated CSAC's role as a guarantee agency for federal student loans effective October 31, 2010. That action put an end to the state's three-year effort to sell EdFund, the commission's auxiliary for administering loan programs. Contrary to earlier budget planning assumptions, the state will not receive any proceeds from the sale. However, the state is expected to receive $100 million from the balance of state funds in the loan programs, and the budget directs these funds to CSAC for Cal Grant costs.

The commission will assume responsibility for several core support services that EdFund has provided since its inception, including printing, mail room, warehouse, and information technology (IT) functions. The Governor vetoed $475,000 of the $1 million that the Legislature approved for these reclaimed services.

Capital Outlay

The 2010-11 spending plan authorizes the segments to spend $553 million in bond funds for a variety of capital outlay projects. The majority of the authorized spending comes from the approval of $419 million in new lease-revenue bonds to fund six construction projects at UC and CSU. The Legislature also approved most of the Governor's proposal to use the universities' remaining balance of general obligation bonds to fund the design phases of five projects at UC and CSU. The spending plan, however, does not include the Governor's proposal to fund the design of a new business school building at the UC Irvine campus. The community colleges received $111 million in general obligation bonds to complete 11 continuing projects and 2 new projects.

Health

The 2010-11 spending plan provides $17.6 billion from the General Fund for health programs. This is an increase of $2.4 billion (16 percent) compared to the revised prior-year spending level and a decrease of $830 million from the 2008-09 level, as shown in Figure 11. The net increase in General Fund spending from 2009-10 to 2010-11 largely reflects the phase-out of federal economic stimulus funds used to temporarily offset state General Fund costs. California will continue to receive an enhanced federal match through 2010-11 pursuant to federal legislation that extended assistance to the states, but at a lower federal match rate than it received in the prior year. Significant program reductions were made by the Legislature and the Governor to various health programs. These reductions, along with other health-related solutions are summarized in Figure 12 (see page 34), and discussed in more detail below. (The amounts shown in Figures 11 and 12 reflect about $116 million in gubernatorial vetoes.)

Medi-Cal

The spending plan provides about $12.2 billion from the General Fund ($49.4 billion all funds) for Medi-Cal local assistance expenditures administered by the Department of Health Care Services (DHCS). This is an increase of more than $2.1 billion, or 20 percent, in General Fund support for Medi-Cal local assistance compared to the revised prior-year spending level. This is due in part to greater caseloads and utilization of services. Also, as we discuss in more detail below, General Fund support for the program was increased (1) to offset the reduced level of federal funds available due to the phase-out of ARRA, the 2009 federal economic stimulus law, and (2) to backfill one-time support for Medi-Cal in 2009-10 from a local funding shift that will not continue in 2010-11. The spending plan includes few of the Governor's cost-containment proposals for the Medi-Cal Program. For example, the Legislature rejected proposals to eliminate the Adult Day Health Care Program and to impose co-payments for emergency room services and physician visits. We discuss the most significant spending changes that were adopted in the Medi-Cal Program budget below.

Enhanced Federal Funding Is Phased Out. Under ARRA, California benefits from an enhanced federal medical assistance percentage (FMAP) through December 2010, which adjusts the federal share from 50 percent minimum FMAP for most Medi-Cal services to 61.59 percent. Recent federal legislation extended the enhanced FMAP to California and other states for an additional six months, but reduced the level of federal funding available during this

Figure 11

Major Health Programs and Departments—Spending Trend

(General Fund, Dollars in Millions)

				Change 2009-10 to 2010-11	
	2008-09	2009-10	2010-11	Amount	Percent
Medi-Cal—Local Assistance	$12,648	$10,136	$12,199	$2,063	20.4%
Department of Developmental Services	2,513	2,443	2,555	112	4.6
Department of Mental Health	1,919	1,722	1,890	168	9.8
Healthy Families Program—Local Assistance	387	225	136	-89	-39.6
Department of Public Health	345	192	274	81	42.2
Department of Alcohol and Drug Programs	278	184	186	2	1.2
Other Department of Health Care Services Programs	183	106	190	84	79.3
Emergency Medical Services Authority	11	8	9	—	1.7
All other health programs (including state support)	137	134	153	19	14.2
Totals	**$18,421**	**$15,151**	**$17,592**	**$2,441**	**16.1%**
Health program spending temporarily paid from:					
General Fund offset due to FMAP changes	$2,380	$3,995	$3,491[a]		
Local government finance shift	—	1,561	—		

[a] LAO estimate.
FMAP = federal medical assistance percentage.

phase-out period in comparison to ARRA. As shown in Figure 13, the budget assumes that the six-month extension of the enhanced FMAP will provide $1.2 billion in federal relief for these programs in 2010-11. Thus, the total amount of enhanced FMAP funding available to support Medi-Cal is projected to decline from about $4 billion overall in 2009-10 to $3.1 billion in 2010-11. No enhanced funding will be available in 2011-12 under current federal law. The 2010-11 budget increases General Fund support for these programs to reflect the phase-out of this enhanced federal match for Medi-Cal benefits provided by DHCS and other health departments.

Figure 12

Major Changes—State Health Programs
2010-11 General Fund Effect

February and October Budget Actions (In Millions)

Program	Amount
Various Health Departments	
Adjust for additional six months enhanced FMAP recently authorized by Congress	-$1,233
Medi-Cal—Department of Health Care Services	
Dedicate revenues from hospital provider fee to pay for Medi-Cal children's coverage	-$560
Delay checkwrite related to mandatory enrollment of seniors/disabled into managed care	-187
Adopt additional checkwrite delay for institutional providers	-120
Freeze hospital rates at January 2010 levels	-85
Redirect Proposition 99 funds to Medi-Cal from various health programs	-47
Reduce county funding for eligibility processing	-44
Extend existing 1115 Waiver for two months	-29
Expand anti-fraud efforts	-26
Reduce fee-for-service radiology rates	-14
Public Health	
Restore eligibility for Every Woman Counts program	$20
Eliminate funding for local immunization programs	-18
Department of Mental Health	
Eliminate funding for mental health mandate for special education children	-$52
Require mental hospitals to contain costs for outside medical care	-10
Department of Developmental Services	
Extend regional center 3 percent provider payment reduction	-$61
Enact additional 1.25 percent regional center provider payment reduction	-25
Department of Alcohol and Drug Programs	
Veto of Legislature's restoration of Offender Treatment Program	-$18

FMAP = federal medical assistance percentage.

General Fund Backfill for One-Time Shift of Local Funding. In 2009-10, pursuant to a provision of the Budget Act for that year, approximately $1.6 billion in General Fund costs in the Medi-Cal Program were offset through a shift of certain local government funding for the benefit of the state. No such funding shift to the Medi-Cal Program is budgeted in 2010-11. Accordingly, the 2010-11 budget plan reflects the restoration of this General Fund support to Medi-Cal.

Hospital Fee Revenues Spent for Children's Coverage. The spending plan includes $560 million in hospital fee revenues to help pay the cost of children's coverage in the Medi-Cal Program. Chapter 645, Statutes of 2009 (AB 1383, Jones) authorized the imposition of a hospital fee on certain general acute care hospitals from April 2009 through December 2010 and allocates $80 million per quarter of these revenues for children's health care coverage. In order to achieve an extra $240 million in General Fund savings in 2010-11, the budget assumes that all seven quarters of revenues from these fees are spent in 2010-11 on Medi-Cal children's coverage in lieu of General Fund support.

Figure 13

Health-Related Savings From FMAP Extension

(In Millions)

Department	2010-11
Health Care Services (Medi-Cal)	$1,028.4
Alcohol and Drug Programs	8.8
Developmental Services	128.2
Mental Health	67.1
Total	**$1,232.5**

FMAP = federal medical assistance percentage.

Mandatory Enrollment Into Managed Care. Under budget-related legislation, seniors and persons with disabilities who reside in certain counties which have managed care plans, and who are not also eligible to enroll in Medicare, will be required to enroll in a managed care plan under a phased-in process. This transition will require the state to initially incur some costs. The budget plan offsets these costs, and results in net General Fund savings of $187 million, by deferring payments to certain managed care plans.

Changes Related to Medi-Cal 1115 Waiver Renewal. The budget assumes $29 million in additional General Fund savings due to a two-month extension of the existing Medi-Cal 1115 demonstration waiver. Under budget-related legislation, the state would be permitted to use the first $500 million in federal funds annually received under the new demonstration project for health programs that are now supported only with state funds. The budget also funds a total of 39 new state positions for implementation of the waiver, including 26 new positions at DHCS.

Payment Deferral for Institutional Providers. Since 2004-05, the last check-write of the year to reimburse institutional providers (such as nursing homes and hospitals) for Medi-Cal services has been delayed into the following fiscal year to achieve General Fund savings. The 2010-11 spending plan assumes a second payment deferral to institutional providers, for additional one-time savings of $120 million.

Freeze on Hospital Rates and Reduction in Radiology Rates. The budget plan includes $85 million in General Fund savings due to a temporary freeze on private and certain public hospital rates. (In the future, the legislation also requires a shift to a new payment methodology for these hospitals that generally groups patients based on diagnosis and other factors.) The spending plan also achieves estimated General Fund savings of $14 million by reducing a portion of the rates paid for radiology services.

Reduced County Funding for Eligibility Processing. The spending plan includes almost $44 million in General Fund savings in payments to counties for processing applications for Medi-Cal. The Legislature budgeted about $22 million in savings and the Governor vetoed an additional $22 million in spending for Medi-Cal county eligibility administration.

Expansion of Anti-Fraud Efforts. The budget plan assumes that efforts to reduce fraud, waste, and abuse in such areas as pharmaceuticals, physician services, transportation, and durable medical equipment will achieve General Fund savings of $26 million.

Redirection of Proposition 99 Funds. The spending plan redirects $47 million in tobacco tax revenues from the Proposition 99 ballot measure approved by voters in November 1998 from various health programs to support Medi-Cal. This includes redirections of $10 million from the Expanded Access to Primary Care clinic program and $1.2 million from state asthma programs.

Reauthorization of Nursing Home Quality Assurance Fee. Budget-related legislation reauthorizes a fee the state imposes on nursing homes to improve the quality of care and makes several changes to the reimbursement methodology and payments. These changes include (1) rate increases for skilled nursing facilities, (2) assessments on previously excluded Multi-Level Retirement Communities, (3) supplemental payments to facilities that meet certain quality benchmarks, and (4) penalties for non-compliance with required staffing ratios. The budget provides 46 additional state staff to implement the program.

California Medi-Cal Management Information System. In March 2010, the DHCS entered into a ten-year, $1.4 billion contract with a fiscal intermediary to take over maintenance and operation of the state's information system that is used to pay claims by Medi-Cal providers. The budget plan includes funding for 34 positions to perform management and oversight activities related to the system and requires increased state oversight of the contract.

Other DHCS Programs

Reduced Funding for Community Clinics Will Continue. The Governor vetoed the Legislature's attempt to restore $10 million in General Fund support to various community clinic programs.

Department of Public Health

In total, the spending plan provides about $274 million from the General Fund ($2.9 billion from all fund sources) for the Department of Public Health. This is an increase of about $81 million, or 42 percent, from the General Fund, while total spending is flat compared to the revised prior-year spending level. The General Fund increase is largely comprised of augmentations for the AIDS Drug Assistance Program (ADAP) and the Breast Cancer Early Detection (Every Woman Counts) program.

Immunization Programs. The budget plan eliminates $18 million in support from the General Fund for local immunization programs. This funding had provided for vaccine purchase, collaborative projects focusing on immunizing children under age two, grants to community clinics, and immunization registry functions.

Breast Cancer Screening. The budget plan adopts new payment policies for case management services in the Every Woman Counts program in order to reduce costs by nearly $14 million. The budget plan also augments funding for the program by approximately $20 million from the General Fund in order to fund expected caseload and to keep the program open to all women 40 and older.

AIDS Drug Assistance Program (ADAP). The budget plan provides an additional $55 million in General Fund support to ADAP compared to prior-year levels. The plan reflects reduced costs from discontinuing ADAP services to county jails, modifying and re-procuring ADAP's pharmaceutical vendor contract, settlement of a pharmaceutical lawsuit, and changes in how ADAP payments are counted towards out-of-pocket costs for joint Medicare and ADAP beneficiaries. General Fund costs increased for ADAP in 2010-11 in spite of these cost reductions due to increased caseload, rising per-client costs, and the lack of sufficient ADAP Rebate Fund revenues to offset cost increases. In addition, the legislative budget package augmented ADAP by $7.6 million in order to maintain a prudent reserve in the program. The Governor vetoed this augmentation.

Legislative Augmentations to Public Health Programs Vetoed. The legislative budget package restored $52 million for HIV/AIDS care and prevention programs, as well as $5 million for maternal, child, and adolescent health programs, that had been vetoed by the Governor from the 2009-10 budget.

The Legislature also increased funding for prostate cancer treatment by $1 million. All of these 2010-11 augmentations were vetoed by the Governor.

Healthy Families Program

In total, the budget package provided $136 million from the General Fund ($1.2 billion from all fund sources) for the Healthy Families Program (HFP), which is administered by the Managed Risk Medical Insurance Board. This is a net General Fund decrease of about $90 million, or 40 percent, compared to the revised prior-year spending level, due mainly to the continued availability of alternative funding sources (discussed below).

Several proposals by the Governor to contain HFP costs were rejected by the Legislature this year, including a proposed rollback in eligibility from 250 percent of the federal poverty level to 200 percent, elimination of vision coverage, and increased premiums and copayments.

Alternate Funding Sources Continue to Fund Majority of State Share. The federal government generally provides about 65 percent of funding for the HFP (about $775 million in 2010-11), while the remaining 35 percent is the state share (about $424 million). In prior years, the state share of costs was generally funded exclusively through the General Fund. Beginning in 2009-10, two alternate funding sources were used to offset General Fund spending for the HFP, allowing the state to achieve significant General Fund savings. In 2010-11, the budget plan projects a continuation of support from these two sources, specifically: (1) a contribution of $83 million from the California Children and Families Commission (also known as First 5 California) for coverage of children up to age five, and (2) estimated funding of $197 million from a temporary gross premiums tax on Medi-Cal managed care plans.

Department of Mental Health

The spending plan provides about $1.9 billion from the General Fund ($3 billion from all fund sources) for the Department of Mental Health (DMH). This is a net increase of $168 million from the General Fund, or about 10 percent, compared to the revised prior-year level of spending. This reflects the phase-out of federal funds and the use of state General Fund monies to backfill these program costs. The budget provides total spending from all fund sources that is $17 million below the prior-year spending level.

Early and Periodic, Screening, Diagnosis and Treatment Program (EPSDT). The spending plan provides about $436 million General Fund for support of behavioral health services provided under the EPSDT program for children enrolled in Medi-Cal, an increase of $87 million compared to the prior-year funding level. This fully funds the state share of projected caseload, costs, and utilization of services, and offsets the loss of some federal funds.

Mental Health Managed Care. The Mental Health Managed Care program administered by DMH provides funding to counties to manage the specialty mental health services of Medi-Cal enrollees. The spending plan provides $131 million from the General Fund for the Mental Health Managed Care program, an increase of $17 million compared to prior-year funding. The increase reflects adjustments for utilization of services and Medi-Cal enrollment in 2010-11, as well as the loss of some General Fund savings associated with federal funds assistance.

Mental Health Program Shifts Rejected. In January, the Governor proposed a ballot measure to shift $452 million annually in state costs (for two years) for certain mental health programs from the General Fund to the Mental Health Services Fund created by Proposition 63 in November 2004. At the time of the May Revision, the administration proposed instead to reduce county obligations to provide mental health services for indigent persons as part of a plan to shift $602 million in other social services costs now borne by the state General Fund to counties. Both proposals to achieve General Fund savings were rejected by the Legislature.

State Hospital Reductions for Caseload and Cost Containment. The spending plan provides about $1.2 billion from the General Fund for state hospital operations and long-term care services for the mentally ill, a net increase of $92 million from the General Fund compared to revised prior-year spending levels. The increase is largely related to adjustments in employee compensation, in particular the restoration of funds related to the prior-year employee furloughs. This increase in costs is partially offset by reductions of $10 million for cost containment in outside medical services and $20 million for adjustments for a lower-than-estimated hospital census and related workload.

Elimination of Funding for Mental Health Mandate. The budget plan adopted by the Legislature did not include $52 million in the DMH budget for mental health services for special education children and instead budgeted funds to pay certain past claims to counties for carrying out this mandate. However, the Governor vetoed this funding and declared that the mandate was suspended. The legal effect of this action is still unclear. (Please refer to the "Non-Education Mandates" section of this report for a further discussion of these actions.)

Department of Developmental Services

The budget provides $2.6 billion from the General Fund ($4.7 billion from all fund sources) for services for individuals with developmental disabilities who are clients of developmental centers (DCs) and regional centers (RCs). This amounts to a net increase of about $112 million, or 4.6 percent, in General Fund support compared to the revised prior-year spending level. This net increase reflects increased costs for employee compensation, as well as caseload, cost, and utilization adjustments. The spending plan provides full funding for projected DC and RC caseloads.

Community Programs—Reduced RC Provider Payments. The spending plan provides $2.2 billion from the General Fund for community services for the developmentally disabled, a net increase of $61 million, or 3 percent, compared to the adjusted prior-year spending level. This net increase reflects growth in caseload, cost, and utilization of services, as well as the loss of General Fund savings associated with the lower level of federal assistance compared to the prior year. The 2010-11 spending plan extends a 3 percent provider payment reduction that was enacted in the 2009-10 budget (for savings of $61 million), and further reduces provider payments by 1.25 percent—a total reduction of 4.25 percent—for additional General Fund savings of $25 million.

DCs—Closure of Lanterman DC. The spending plan provides $312 million from the General Fund for the DCs, an increase of $53 million, or about 21 percent, compared to the revised prior-year spending level. This increase mostly reflects the restoration of employee compensation reductions made in the prior year. While there are no related savings in the spending plan, the Legislature adopted the Governor's proposal to close the Lanterman DC.

Department of Alcohol and Drug Programs

The budget provides $186 million from the General Fund ($606 million all funds) for the Department of Alcohol and Drug Programs. This net increase of $2 million from the General Fund, or 1 percent, compared to the revised prior-year spending level is due mainly to the replacement of limited-term federal funds with General Fund support. The budget continues funding for drug court programs at prior-year levels, as well as fully funds projected Drug Medi-Cal Program caseload. The Legislature rejected the Governor's proposal to eliminate certain kinds of treatment available under the Drug Medi-Cal Program and restored the program funding ($53 million).

Offender Treatment Program Vetoed. The Governor vetoed $18 million the Legislature had budgeted to continue the Offender Treatment Program. In addition, the Governor vetoed a provision in the budget of the California Emergency Management Agency that would have allocated additional federal funds for drug treatment for drug offenders.

Social Services

Overview of General Fund Spending. General Fund support for social services programs in 2010-11 totals $8.7 billion, a decrease of about $540 million, or 5.9 percent, compared to the revised prior-year level. Most of this decrease is attributable to increased federal funding in 2010-11, in CalWORKs and

In-Home Supportive Services (IHSS), which will be used to offset General Fund costs of these programs. Figure 14 shows the change in General Fund spending in each major social services program and department.

Overview of Total Spending. Although General Fund spending in 2010-11 is budgeted to decline by about $540 million, total spending for social services (comprised of the General Fund, federal funds, special funds, and county funds) is slightly higher than in 2009-10. Figure 15 (see next page) shows the change in total spending in social services programs and departments. As the figure shows, reductions in some programs were offset by cost increases in others.

Summary of Major Changes. Figure 16 (see page 43) shows the major General Fund changes adopted by the Legislature for social services programs and departments, including savings from a number of budget solutions. Most of the savings is assumed to come from increased federal funds to support these programs, some of which have yet to be authorized by Congress. Absent these changes, total General Fund spending in 2010-11 would have exceeded the totals shown in Figure 15 by $1.2 billion. The Legislature rejected the Governor's January proposal to ask the voters to authorize the redirection of up to $550 million in state and local First 5 funds to offset General Fund costs. Below, we discuss the major changes in each program area.

Figure 14

Major Social Services Programs and Departments General Fund

(Dollars in Millions)

			Change	
	2009-10	2010-11	Amount	Percent
Supplemental Security Income/State Supplementary Program	$2,950.8	$2,953.7	$2.9	0.1%
California Work Opportunity and Responsibility to Kids	2,031.4	1,717.1	-314.2	-15.5
In-Home Supportive Services	1,487.9	1,214.8	-273.1	-18.4
Child Welfare Services/Foster Care/Adoptions Assistance	1,448.8	1,444.2	-4.6	-0.3
County Administration/Automation	605.4	628.6	23.2	3.8
Department of Child Support Services	296.1	310.2	14.1	4.8
Department of Rehabilitation	52.9	56.5	3.6	6.8
Department of Aging	33.0	33.1	0.1	0.4
All other social services (including state support)	304.2	309.8	5.6	1.8
Totals	**$9,210.4**	**$8,668.1**	**-$542.3**	**-5.9%**

SSI/SSP

For 2010-11, General Fund support for Supplemental Security Income/State Supplementary Program (SSI/SSP) remains flat at just less than $3 billion. The budget rejected the Governor's proposals to (1) reduce SSI/SSP grants for individuals down to the minimum required by federal law and (2) eliminate the state-only funded Cash Assistance Program for Immigrants, which provides SSI/SSP-like benefits to certain legal noncitizens. For 2010-11, SSI/SSP grants will remain at the levels established in October 2009.

CalWORKs

In January the Governor proposed to reduce CalWORKs grants by 16 percent and later proposed to eliminate the entire program. The Legislature rejected both of these proposals, and the 2010-11 budget provides $1.7 billion from the General Fund for the CalWORKs program. This is a reduction of about $300 million (almost 16 percent) compared to the prior year. Most of the savings are attributable to assumptions of increased federal funding, as described below.

Reauthorization of Emergency Contingency Fund (ECF). From October 2008 through September 2010, ARRA authorized the Temporary Assistance for Needy Families ECF (TANF ECF) which provided states with 80 percent federal participation in grant, subsidized employment, and certain other one-time costs which exceed a state's base cost in 2007. For 2010-11, the

Figure 15

Major Social Services Programs and Departments
All Funds

(Dollars in Millions)

	2009-10	2010-11	Change: Amount	Change: Percent
Supplemental Security Income/State Supplementary Program	$9,044.8	$9,199.0	$154.2	1.7%
California Work Opportunity and Responsibility to Kids	6,079.8	6,342.9	263.1	4.3
In-Home Supportive Services	5,718.0	5,417.6	-300.4	-5.3
Child Welfare Services/Foster Care/Adoptions Assistance	5,094.3	5,240.0	145.7	2.9
County Administration/Automation	1,664.1	1,787.3	123.2	7.4
Department of Child Support Services	898.3	912.6	14.3	1.6
Department of Rehabilitation	424.4	407.9	-16.4	-3.9
Department of Aging	199.0	193.4	-5.6	-2.8
Department of Community Serivces and Development	474.6	259.7	-214.9	-45.3
Children and Families Commissions (First 5)	492.6	484.4[a]	-8.2	-1.7
All other social services (including state support)	878.6	902.1	23.6	2.7
Totals	**$30,968.6**	**$31,147.2**	**$178.6**	**0.6%**

[a] LAO estimate.

budget assumes California will receive $507 million in TANF ECF, which will be used to offset General Fund costs in CalWORKs. Of this amount, $112 million is pursuant to current law, but $395 million is contingent upon Congress reauthorizing the TANF ECF.

Advance Draw-Down of Federal Block Grant Funds. Each year California receives a federal TANF block grant of approximately $3.7 billion, which is used, along with other state and local funds, to support the CalWORKs program. Federal rules allow for an advance draw-down of about 10 percent of block grant funds. The budget assumes that California will draw down an additional $366 million in TANF funds in the quarter ending in June 2011. This advance will allow for a one-time General Fund savings of an identical amount. This General Fund reduction was achieved through a veto by the Governor of funding from the *2010-11 Budget Act*.

Figure 16

Major Changes—Social Services Programs 2010-11 General Fund Effect

(In Millions)

Program	Amount[a]
CalWORKs	
Assume Congress will reauthorize TANF ECF	-$395.4
Replace General Fund with one-time advance of federal TANF funds	-365.9
Reduce reimbursements for license-exempt child care providers	-12.4
In-Home Supportive Services	
Use provider-tax to draw down additional federal funds which replace General Fund	-$190.0
Additional six months of enhanced federal participation recently authorized by Congress	-105.4
Reduce authorized service hours by 3.6 percent	-35.0
Relfect slower-than-anticipated caseload growth	-75.0
Child Welfare Services and Foster Care	
Eliminate state funding for residential placement of seriously emotionally disturbed children	-$70.0
Pay full-year cost of court-imposed group home rate increase	69.6
Account for additional six months of enhanced federal participation	-9.9
Department of Child Support Services	
Assume Congress extends state ability to use incentive funds for federal match	-$18.9
Revert prior funds provided for statewide automation project	-9.9
Community Care Licensing	
Replace General Fund with federal child care quality funds	-$4.3
Total	**-$1,222.5**

[a] Includes Temporary Assistance for Needy Families (TANF) block grant funds which are fungible to the General Fund.

ECF = Emergency Contingency Fund.

Reduction to Child Care Reimbursement Rates. Some child care providers for CalWORKs recipients (who care for only one child or for only one family) are exempt from licensing requirements. Budget-related legislation reduces the reimbursement rate for licensed-exempt providers from 90 percent to 80 percent of the licensed regional rate, resulting in savings of $12.4 million.

In-Home Supportive Services

The budget decreases General Fund support for IHSS by $273 million (18 percent) in 2010-11 compared to the revised 2009-10 spending level. This net reduction is due to several factors, discussed below.

IHSS Provider Tax and Supplemental Payment. The 2010-11 budget makes program changes to draw down additional federal funding to offset an estimated $190 million in IHSS General Fund costs. To achieve these savings, the state sales tax will be applied to IHSS services. The tax will be paid by the providers and deposited into a new special fund (the Personal Care IHSS Quality Assurance Revenue Fund). The revenue in the fund will then be used to pay for IHSS program costs, which will draw down additional federal matching funds. The legislation requires that the fund make a supplemental payment to IHSS providers to compensate them for the cost of the sales tax. Because the cost of this supplemental payment will be shared by the state and the federal government, net General Fund savings will be achieved. These changes require federal approval.

Across-the-Board Reduction in Authorized Hours. The budget reduces authorized hours for all IHSS recipients by 3.6 percent effective January 2011. Recipients will be allowed to decide how to apply the 3.6 percent reduction to their services. This reduction is estimated to save $35 million in 2010-11 (increasing to $57 million in 2011-12). This 3.6 percent reduction expires in July 2012.

Provider Exclusions. Existing law excludes persons from being IHSS providers who were convicted during the last ten years of child abuse, elder abuse, or fraud related to a health care or supportive services program. Effective January 2011, for prospective providers, budget legislation adds to the list of crimes that prevent a person from being an IHSS provider certain violent and serious felonies, fraud to receive government assistance, and certain sex crimes. Recipients may hire a provider who has been convicted of one of these crimes by submitting a waiver to their county. Providers with these new convictions on their record may also seek a waiver from the Department of Social Services (DSS) that would allow them to work in the program. No specific level of savings is assumed from these changes.

Modification to Previously Enacted Reductions. In 2009-10, the Legislature reduced state participation in IHSS provider wages, targeted domestic and related services to the most impaired recipients, and eliminated all IHSS services for the least impaired IHSS recipients. (For more information on these actions, please see *The Budget Package: 2009-10 California Spending Plan*.) A federal judge issued injunctions that have prevented these reductions from being implemented. To allow a period for the current litigation to be completed, the 2010-11 budget package temporarily suspends these reductions until at least July 2012 or until court challenges to them are resolved.

Additional Federal Funds. As discussed in the "Health" section of this report, enhanced federal funding for various state services associated with the Medi-Cal Program was scheduled to expire on December 31, 2010. However, in August 2010, the federal government authorized some additional enhanced federal funding through June 2011 that can be used in lieu of General Fund support for these programs. This six-month extension is estimated to save $105 million in IHSS in 2010-11.

Slower-Than-Anticipated Caseload Growth. The budget reflects estimated savings of $75 million in 2010-11 based on more recent data which show slower caseload growth than had been estimated in the Governor's May Revision.

Foster Care and Child Welfare Services

The budget provides $1.4 billion in General Fund support for children's programs in 2010-11, which include Child Welfare Services (CWS), Foster Care, and Adoption Assistance. Although total General Fund support for this combination of programs is unchanged from 2009-10, the Legislature made some significant budgetary changes, as discussed below.

Elimination of Funding for Seriously Emotionally Disturbed (SED) Children. The budget plan adopted by the Legislature did not include $70 million in state funding for the room and board of SED children and instead budgeted funds to pay certain past claims to counties for carrying out this mandate. However, the Governor vetoed this funding and declared that the mandate was suspended. The legal effect of this action is still unclear. (Please refer to the "Non-Education Mandates" section of this report for a further discussion of these actions.)

Court-Ordered Group Home Rate Increase. In February 2010, the U.S. District Court ordered DSS to adjust group home rates to reflect California Necessities Index increases from 1990-01 through 2009-10. This change, which was retroactive to December 2009, raised group home rates by about 32 percent. The 2010-11 budget reflects the first full-year impact of the rate increase, which resulted in state costs of $69.6 million. About $49 million of these costs was paid from the General Fund, with the remainder covered by Title XX Social Services Block Grant funds.

Additional Federal Funds. Similar to the IHSS discussion above, Congress authorized a six-month extension of enhanced federal funding for Foster Care. This resulted in General Fund savings of $9.9 million in 2010-11.

CWS Funding Vetoed Again. For the 2009-10 budget, the Governor vetoed $80 million General Fund intended for county CWS. The Legislature restored the funding in its 2010-11 budget; however, the Governor vetoed the funding again. The $80 million veto reflects a 10 percent reduction from 2008-09 funding levels.

Department of Child Support Services

Reversion of Unspent Automation Funds. The 2010-11 budget reflects a General Fund savings of $9.9 million in the Department of Child Support Services (DCSS). These savings are achieved by reverting unspent automation funds from 2006-07, 2007-08, and 2008-09 to the General Fund. Prior to this reversion, DCSS had the authority to use these unspent funds from previous years to support changes to the child support automation system.

Continuation of Match for Incentive Payments. A provision in federal law allowing states to obtain federal matching funds for the reinvestment of their federal incentive funds expired at the end of September 2010. The budget assumes that Congress will reauthorize this practice, resulting in savings of $18.9 million in 2010-11.

Department of Aging

In 2009-10, the Governor vetoed funding for certain community-based services programs, effectively eliminating General Fund support as of October 1, 2009. The Legislature restored about two-thirds of this funding in its version of the 2010-11 budget. However, the Governor vetoed this $6.4 million partial restoration.

Community Care Licensing

The budget continues a $5.3 million federal fund shift from the 2009-10 budget and increases the total amount of federal funds used to offset General Fund costs by an additional $4.3 million. The federal funds pay the costs of licensing and inspecting family child care homes.

Judiciary and Criminal Justice

The 2010-11 budget provides $10.9 billion from the General Fund for judicial and criminal justice programs, including support for ongoing programs and capital outlay projects (see Figure 17). This is an increase of almost $2 billion, or 22 percent, above the revised 2009-10 General Fund spending level. This increase results largely from the use of General Fund to replace about $2.1 billion in local government funding that was used on a one-time basis in 2009-10 to offset General Fund costs for prisons ($588 million) and trial courts ($1.5 billion). Only about $350 million in such local government funding will be used to support trial courts under the 2010-11 budget plan.

Judicial Branch

The budget provides about $3.9 billion for support of the judicial branch—an increase of $220 million (or 6 percent) from the revised 2009-10 level. This amount includes almost $1.7 billion from the General Fund and $499 million from the counties, with most of the remaining balance of about $1.8 billion derived from fine, penalty, and court fee revenues. The General Fund amount is a net increase of about $1.2 billion or triple the revised 2009-10 amount, primarily to reflect the backfill (noted above) of one-time local government funds used in the prior year to support trial courts. Funding for trial court operations is the single largest component of the judicial branch budget, accounting for 84 percent of total spending.

Court Operations. The budget package reduces General Fund support for the trial courts in 2010-11 by $405 million. This reduction is accomplished through a one-time shift of $350 million in redevelopment funding to the courts, as well as a shift of $55 million from the Trial Court Trust Fund and reserves held by individual trial courts. In addition, the budget reflects additional revenue of roughly $100 million from increased court fees (such as civil filing fees, court security fees, and fees charged to criminal offenders) and the redirection of about $158 million from various special funds (such as court construction funds) to offset trial court costs. In adopting the final budget, the Legislature rejected the Governor's proposal to authorize local governments to use automated speed enforcement systems and direct a portion of the fine revenue collected from such systems to support the trial court operations.

Figure 17

Judicial and Criminal Justice Budget Summary

(General Fund, Dollars in Millions)

Program/Department	2008-09	2009-10	2010-11	Change From 2009-10 Amount	Change From 2009-10 Percent
Department of Corrections and Rehabilitation	$9,633	$8,060	$8,829	$769	9.5%
Judicial Branch	2,207	423	1,655	1,232	291.3
Department of Justice	324	321	300	-21	-6.5
Other criminal justice programs[a]	286	156	166	10	6.4
Totals	**$12,449**	**$8,960**	**$10,949**	**$1,990**	**22.2%**
Criminal Justice program funding temporarily paid from:					
Federal American Recovery and Reinvestment Act Funds	$727	$358	—	—	—
Local government finance shift	—	$2,099	$350	—	—

[a] Includes debt service on general obligation bonds, Office of Inspector General, State Public Defender, and other programs.

Detail may not add due to rounding.

Courts Capital Outlay. The budget provides $919 million for various court projects. This amount includes $868 million in lease-revenue bond authority for the construction of eight previously approved courthouse projects. In addition, the budget plan allocates $51 million to construct a new courthouse in Alameda County and to obtain working drawings for the renovation of a courthouse in Solano County.

Corrections and Rehabilitation

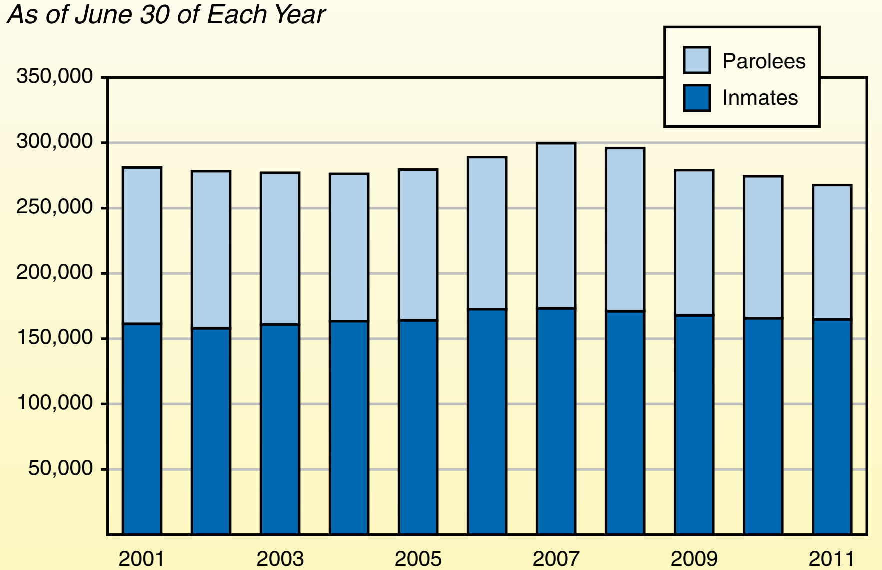
The budget contains $8.8 billion from the General Fund for support of the California Department of Corrections and Rehabilitation (CDCR). This is a net increase of $769 million, or 9.5 percent, above the revised 2009-10 level. Major changes to the CDCR budget are discussed below.

Adult Correctional Population. Figure 18 shows the recent and projected declines in the inmate and parolee populations. The projected declines shown in the figure for 2010-11 are due largely to the effect of certain policy changes enacted as part of the 2009-10 budget package, such as increases in the credits that inmates can earn to reduce their stay in prison. The decline in the prison population due to the 2009-10 actions is partially offset by a projected increase in prison admissions from the criminal courts. The decline in the parole population is partially offset by an increase in time served by parole violators. The net result is a projected reduction of about 1,000 inmates and 5,500 parolees, for a combined 2.5 percent reduction in the inmate and parolee populations by the end of 2010-11. (This number does not reflect

Figure 18

Inmate and Parolee Populations Projected to Decline Slightly in 2010-11

As of June 30 of Each Year



possible changes to the inmate and parolee populations that could result from a $219 million reduction discussed below.)

The Legislature considered several proposals to further reduce the inmate and parolee populations. In January 2010, the Governor proposed that certain felonies that are now eligible for incarceration in state prison be punishable by not more than 366 days in county jail. This was intended to reduce the inmate population by 13,000 inmates and reduce state correctional costs by $292 million in 2010-11. The administration withdrew this proposal at the May Revision and instead offered a similar proposal to have certain offenders who are sentenced to three years or less in state prison serve their sentence in a county jail. This was estimated to reduce the prison population by 10,600 inmates in 2010-11 and result in $244 million in savings. (The main difference between the two proposals was that the January proposal would shift offenders to county jails based on their commitment offense while the May proposal would shift them based on sentence length. The May proposal also would provide counties with a portion of the state savings starting in 2011-12.)

In adopting the final budget, the Legislature approved $219 million in population-related savings. Specific policy changes necessary to achieve most of these savings were not adopted as part of the budget package. (It is possible that some sentencing law changes enacted by the Legislature that were unrelated to the budget could result in some of these savings.) The enacted budget does include provisional language authorizing the Department of Finance to augment the budget for CDCR by up to $200 million for population-related expenditures

Inmate Medical Care Services. The budget reflects a net reduction of about $780 million (or about 45 percent) in the federal court-appointed Receiver's inmate medical services program from the revised 2009-10 level. First, the budget includes an $820 million unallocated reduction to the program. The Receiver intends to achieve the assumed savings by releasing certain infirm inmates early from prison and placing them on parole (as authorized by Chapter 405, Statutes of 2010 [SB 1399, Leno]), seeking federal reimbursement for inpatient health care delivered to eligible inmates in community hospitals, and carrying out other unspecified operational and policy changes. The budget also includes a $197 million decrease to reflect a reduction in projected contract medical expenditures.

The above funding decreases are partially offset by various funding increases in inmate medical care. For example, the budget includes a $132.5 million increase to support the Receiver's 19 planned IT projects. The budget also provides a $33.6 million increase for about 347 additional nursing positions to reduce the reliance on registry nurses in meeting existing workload needs and to distribute medication to inmates in a more timely and efficient manner.

Juvenile Justice and Other Programs. The budget assumes $15.6 million in savings from three proposals to reduce the ward and parolee populations under the jurisdiction of the Division of Juvenile Facilities (DJF). Specifically, the Legislature approved the Governor's proposals to (1) transfer some eligible wards in DJF to adult prison, (2) limit the ability for DJF staff to delay the parole consideration date of a ward for disciplinary reasons, and (3) shift the responsibility of supervising offenders released from a DJF facility to county probation departments. The Legislature, however, rejected an additional administration proposal to limit the age of jurisdiction to 21 for all wards committed to DJF. In addition, the budget reflects $46 million in one-time savings from having CDCR reimburse local governments in arrears for costs associated with detaining parole violators in county jails. Thus, payments to local governments for incurred costs in 2010-11 would be made in 2011-12.

Corrections Capital Outlay. The budget includes $22.2 million from the General Fund for two previously approved mental health projects implemented in response to the *Coleman* court ($18.7 million) and for planning and minor projects ($2.5 million). The budget also reverts to the General Fund $22.2 million of the $300 million General Fund appropriation initially provided in Chapter 7, Statutes of 2007 (AB 900, Solorio), a measure authorizing additional prison construction. As part of the budget package, the Legislature also approved budget trailer legislation to provide $200 million in lease-revenue bond authority for the construction and renovation of local juvenile facilities.

Department of Justice

The budget includes $300 million from the General Fund for support of the Department of Justice (DOJ), a reduction of about $21 million, or 6.5 percent, from the revised 2009-10 level. This primarily reflects the use of additional penalty revenues to offset General Fund costs to operate DOJ's non-DNA forensic laboratories. As part of the special session on the budget, the Legislature approved statutory changes to increase the criminal penalty assessment used to fund DOJ's DNA laboratory (from $1 for every $10 in fines, to $3) and to allow the revenues from the assessment to be used to support all of DOJ's laboratories—not just the DNA laboratory.

Resources and Environmental Protection

The 2010-11 budget provides about $7.3 billion from various fund sources for programs administered by the Natural Resources and California Environmental Protection Agencies. This is a decrease of $4.1 billion, or 36 percent, when compared to revised 2009-10 expenditures. Most of this decrease reflects lower bond expenditures in 2010-11, although the budget still includes a major infusion (around $1.2 billion) of available bond funds from various resources-related measures. The budgets also include a combined $2.2 billion from the General Fund.

Figures 19 and 20 (see next page) compare expenditure totals for resources and environmental protection programs in 2008-09, 2009-10, and 2010-11. As the figures show, General Fund expenditures are somewhat higher in 2010-11, largely reflecting increased general obligation bond debt-service costs as more bond funds have been spent in recent years. In fact, debt-service has now surpassed wildland fire protection as the largest single General Fund expenditure in the resources and environmental protection areas. The significant decrease in local assistance and capital outlay for resources and environmental protection programs is largely due to reduced bond expenditures.

Resources and Environmental Protection Expenditures

Bond Expenditure Summary. The budget includes about $1.2 billion from a number of bond funds (mainly Propositions 50, 84, 1B, and 1E) for various resources and environmental protection programs. Selected highlights of these bond expenditures are displayed in Figure 21 (see next page). As shown in the figure, the largest set of bond expenditures in 2010-11 are for water-related projects and programs.

CALFED-Related Expenditures. Since the 1990s, a consortium of federal and state agencies commonly referred to as "CALFED" has been addressing a number of interrelated water problems in the state's Bay-Delta region. The main objectives of CALFED have been to: (1) provide good water quality for

Figure 19

Resources Programs: Expenditures and Funding

(Dollars in Millions)

	2008-09	2009-10	2010-11	Change From 2009-10 to 2010-11: Amount	Percent
Expenditures					
State operations	$3,984.6	$5,316.2	$4,939.5	-$376.7	-7.1%
Local assistance	406.1	2,137.3	370.3	-1,767.0	-82.7
Capital outlay	450.1	1,997.9	342.3	-1,655.6	-82.9
Totals	**$4,840.8**	**$9,451.4**	**$5,652.1**	**-$3,799.3**	**-40.2%**
Funding					
General Fund	$1,773.1	$1,872.9	$2,107.5	$234.6	12.5%
Special funds	1,989.3	2,460.3	2,427.3	-33.0	-1.3
Bond funds	955.9	4,562.1	849.2	-3,712.9	-81.4
Federal funds	122.5	556.1	268.1	-288.0	-51.8
Totals	**$4,840.8**	**$9,451.4**	**$5,652.1**	**-$3,799.3**	**-40.2%**

all uses; (2) improve fish and wildlife habitat; (3) reduce the gap between water supplies and projected demand; and (4) reduce the risks from deteriorating levees. The budget provides a total of $293 million in state funds (mainly bond funds) across seven state agencies for CALFED-related expenditures. These expenditures are coordinated and overseen by the new Delta Stewardship Council, which was established pursuant to Chapter 5, Statutes of 2009 (SBX7 1, Simitian), to manage the state's interests in the Delta. The largest program expenditures are for the existing conveyance system ($97 million) and ecosystem restoration ($92 million).

Figure 20

Environmental Protection Programs: Expenditures and Funding

(Dollars in Millions)

				Change From 2009-10 to 2010-11	
	2008-09	2009-10	2010-11	Amount	Percent
Expenditures					
State operations	$1,048.5	$1,603.2	$1,470.9	-$132.3	-8.3%
Local assistance	189.8	325.7	202.2	-123.5	-37.9
Capital outlay	3.8	—	—	—	—
Totals	**$1,242.1**	**$1,928.9**	**$1,673.1**	**-$255.8**	**-13.3%**
Funding					
General Fund	$76.3	$71.3	$76.7	$5.4	7.6%
Special funds	957.6	1,000.5	1,100.9	100.4	10.0
Bond funds	75.7	660.8	294.6	-366.2	-55.4
Federal funds	132.5	196.3	200.9	4.6	2.3
Totals	**$1,242.1**	**$1,928.9**	**$1,673.1**	**-$255.8**	**-13.3%**

Figure 21

Resources and Environmental Protection Bond Expenditures

(In Millions)

Program Area	Budgeted Expenditures
Water management and quality (including flood control projects)	$544
Conservation, restoration, and land acquisition (including sustainable communities programs)	232
Air quality improvements in transportation corridors	230
State and local parks	123

Climate Change. The budget includes about $38 million (mostly special funds) across nine state agencies for implementation of the California Global Warming Solutions Act of 2006 (Chapter 488, Statutes of 2006 [AB 32, Núñez]), to reduce the state's emission of greenhouse gases (GHGs) to 1990 levels by 2020. Figure 22 lists the expenditures, number of positions, funding sources, and activities funded on an agency-by-agency basis for the implementation of AB 32 in 2010-11. These activities include the development of the regulations to implement various source-specific measures to reduce GHGs, as well as programmatic oversight and interdepartmental coordination. As shown in the figure, the primary funding source for AB 32 implementation is the "AB 32 fee" that will be assessed by the Air Resources Board (ARB) on major GHG emitters subject to state regulation beginning in 2010-11. Over the next several years, revenues from this new fee will also be used to repay loans made from various special funds that were the major means of support for AB 32 implementation from 2007-08 through 2009-10.

Figure 22

AB 32 Implementation

2010-11 (Dollars in Thousands)

Agency	Positions	Expenditures	Fund Source	Activity
Air Resources Board	155	$32,932	AB 32 fee revenue in Air Pollution Control Fund	Develop and implement greenhouse gas (GHG) emission reduction measures such as cap-and-trade, the Low Carbon Fuel Standard, and the Renewable Energy Standard.
Secretary for Environmental Protection	6	1,821	AB 32 fee revenue in Air Pollution Control Fund	Climate Action Team activities, including program oversight and coordination.
California Energy Commission	5	590	Energy Resources Programs Account	Develop GHG emission reduction measures.
Department of Water Resources	3	562	AB 32 fee revenue in Air Pollution Control Fund, State Water Project (SWP) funds	Evaluate impact of climate change on state's water supply and flood control systems; SWP climate change/energy program activities.
State Water Resources Control Board	2	535	AB 32 fee revenue in Air Pollution Control Fund	Develop GHG emission reduction measures.
Department of Resources Recycling and Recovery[a]	6	501	AB 32 fee revenue in Air Pollution Control Fund	Develop and implement GHG emission reduction measures.
Department of General Services	5	416	Service Revolving Fund	Implement Green Building Initiative and Sustainability Program.
Department of Public Health	—	299	AB 32 fee revenue in Air Pollution Control Fund	Conduct health impact assessment of select regulations.
Department of Housing and Community Development	0.5	54	AB 32 fee revenue in Air Pollution Control Fund	Develop GHG emission reduction measures.
Totals	**182.5**	**$37,710**		

[a] Includes activities of former Integrated Waste Management Board.

AB 118-Funded Programs. The budget includes (1) $111 million (plus $40 million of reappropriated monies) for financial incentives administered by the Energy Commission to advance alternative and renewable fuel vehicle technologies and (2) $44 million for the ARB to provide grants and loans to owners of heavy-duty diesel vehicles to retrofit vehicles to achieve early compliance with regulations requiring reductions in emissions of air pollutants and GHGs. These expenditures are funded from fee revenues (smog abatement, vehicle registration, and vessel registration fees) raised pursuant to Chapter 750, Statutes of 2007 (AB 118, Núñez). The budget also includes $2 million of AB 118 funding for the California Department of Forestry and Fire Protection (CalFire) to comply with ARB diesel regulations.

Hydrogen Highway. The Energy Commission has allocated $22 million of its appropriation of AB 118 monies discussed above to the development of hydrogen refueling stations.

Emergency Wildland Fire Suppression. The budget act includes $121 million from the General Fund that is designated specifically for emergency fire protection. As has been the case in previous years, the budget act allows the Director of Finance to augment this amount to pay for additional fire protection expenses, as needed.

Rejection of Proposed New Funding Source for CalFire. The budget does not include any new sources of funding for CalFire. The administration's proposal for a 4.8 percent statewide surcharge on property insurance premiums to generate as much as $480 million annually was ultimately rejected.

State Parks General Fund Support. The budget provides $133 million from the General Fund for state park operations, reflecting a $7 million reduction in support. The Legislature rejected the administration's January budget proposal (which was ultimately withdrawn by the administration) to use lease revenues from the proposed Tranquillon Ridge offshore oil drilling project to replace General Fund support for state park operations.

Beverage Container Recycling Program. Since mid-2009, the state's Beverage Container Recycling Program (administered by the Department of Resource Recovery and Recycling) has faced a structural deficit in its primary funding source—the Beverage Container Recycling Fund (BCRF). The Legislature passed and the Governor signed Chapter 5, Statutes of 2010 (ABX8 7, Evans) during the early 2010 special session to address current- and budget-year shortfalls in the BCRF. Chapter 5, among other provisions, suspended $38 million in expenditures that otherwise would have been required for market development grants, grants to non-profits, and funding for public education related to beverage recycling. With these and other program changes, BCRF-funded program spending is estimated to be about $257 million in 2010-11. (This spending total does not include the California Redemption Value ["CRV"] payments made from BCRF monies when containers are returned to certified recyclers.)

Williamson Act Subventions. Although not reflected in a budget of a resources or environmental protection department, recently enacted legislation—Chapter 391, Statutes of 2010 (SB 863, Committee on Budget and Fiscal Review)—provides $10 million from the General Fund for payments to counties in 2010-11 to partially defray their loss of property tax revenues from entering into Williamson Act open space contracts with landowners. In 2009-10, Williamson Act subvention payments to counties from the state were essentially zero.

Energy Expenditures

Energy Research and Renewable Energy Incentives. The budget includes $99 million for energy-related research and development (both electricity and natural gas) that was funded through the Energy Commission's Public Interest Energy Research Program. The spending plan also provides about $73 million for production-based incentives and purchaser rebates to promote renewable energy under the Energy Commission's Renewable Energy Program. This program is funded from the Renewable Resource Trust Fund, which is supported from utility ratepayers.

Transportation

The 2010-11 spending plan provides $17.2 billion from various fund sources for transportation programs. This is somewhat less than the overall level of spending in the prior year, as shown in Figure 23.

Figure 23

Transportation Program Expenditures

(Various Fund Sources, in Millions)

Program/Department	2008-09	2009-10	2010-11
Department of Transportation	$9,081	$13,759	$12,544
California Highway Patrol	1,802	1,810	1,909
Department of Motor Vehicles	875	933	979
Transit Capital	255	514	1,500
State Transit Assistance	153	400	—
High-Speed Rail Authority	43	139	221
Other Expenditures	4	402	29
Totals	**$12,213**	**$17,957**	**$17,182**

Department of Transportation

The 2010-11 budget plan includes total expenditures of $12.5 billion from various fund sources for the Department of Transportation (Caltrans). This level of expenditures is lower than in 2009-10—by about $1.2 billion (or almost 9 percent). The lower spending level in part reflects a drop in federal stimulus funds which were used for many projects in the prior year. The 2010-11 budget provides approximately $5.6 billion for transportation capital outlay, $2.2 billion for local assistance, $1.9 billion for capital outlay support, and about $1.7 billion for highway operations and maintenance. The budget also provides $813 million for Caltrans' mass transportation and rail program and $175 million for transportation planning. The balance of funding goes for program development, legal services, and other purposes.

Fuel Tax Swap. In March 2010, California enacted legislation commonly known as the "fuel tax swap" as part of the budget special session. This legislation makes significant changes to how the state taxes motor vehicle fuels and provides the state more flexibility in using these revenues to benefit the General Fund. Specifically, beginning in 2010-11, the state sales tax on gasoline was eliminated. The state will instead charge a higher per gallon excise tax on gasoline to raise the same amount of revenue that would have been received from the sales tax. The new excise tax will be adjusted annually to ensure that it generates a level of revenue that is equal to the loss in sales tax. Beginning in 2011-12, the legislation also increases the state sales tax on diesel to 6.75 percent (an increase of 1.75 percent). To fully offset this increase, the excise tax on each gallon of diesel will be reduced. The excise tax on diesel will be adjusted annually to ensure that the shift from excise to sales tax generates approximately the same amount of revenue.

The fuel tax swap, along with provisions in the *2010-11 Budget Act*, provide the following relief to the General Fund:

- ***Highway Debt Service.*** Transportation funds will be used on an ongoing basis to pay debt service on highway and road bonds. This amounts to $491 million in 2010-11, and will reach about $1 billion in future years.
- ***Transit and Rail Debt Service.*** Various transportation funds will be used to pay $508 million in debt service on certain transit and rail bonds in 2009-10 ($221 million) and 2010-11 ($287 million).
- ***Loans to the General Fund.*** Under the budget plan, $762 million from the Highway Users Tax Account, $80 million from the State Highway Account, and $29 million from the Public Transportation Account has been loaned to the General Fund. All of these loans must be repaid in future years.

After certain debt-service costs are paid each year (as discussed above), the remaining revenues from the new gas excise tax will be split as follows:

- 44 percent for highway improvements under the State Transportation Improvement Program.
- 44 percent to cities and counties for local streets and roads.
- 12 percent for highway repairs under the State Highway Operation and Protection Program.

Repayment of Past Proposition 42 Suspensions. Proposition 42, a ballot measure approved by voters in March 2002, generally requires that certain revenue from the sales tax on gasoline be transferred to the Transportation Investment Fund (TIF). Proposition 42 allows these transfers to be temporarily suspended and used for other budgetary purposes. However, under Proposition 1A (November 2006), the monies must be repaid with interest to the TIF. Proposition 42 transfers were suspended in 2003-04 and 2004-05 to help address state budget problems in those years. Accordingly, these monies must be repaid with interest to TIF no later than June 2016. The budget includes $83 million from the General Fund to partially repay the outstanding amount. Following this year's payment, a balance of about $420 million in Proposition 42 loans (not including interest) will remain outstanding.

Continued Appropriations of Proposition 1B Bond Funds. Proposition 1B, a ballot measure approved by voters in November 2006, authorized the issuance of $20 billion in general obligation bonds for state and local transportation improvements. All Proposition 1B funds are subject to appropriation by the Legislature. As shown in Figure 24, the 2010-11 budget appropriates a total of nearly $4 billion for various programs. The funding will mainly be used for capital outlay and local assistance purposes.

Figure 24

2010-11 Appropriation of Proposition 1B Funds

(In Millions)

Program	Total
Public Transportation Modernization	$1,500
Corridor Mobility Improvement	579
State Transportation Improvement	525
Trade Corridor Improvement	294
State Local Partnership	241
Air Quality	230
Railroad Crossing Safety	217
State Highway Operations and Protection	201
Transit Security	102
Highway 99 Improvement	74
Local Bridge Seismic	8
School Bus Retrofit	4
Total	**$3,975**

Funding for Doyle Drive Project. The budget provides

$1.1 billion for the Doyle Drive project in San Francisco. This project is a public-private partnership in which, under a lease agreement, the private partner initially funds construction of a highway project and then operates and maintains the facility. In return, the state will pay its private partner fixed payments over many years.

Special Transportation Programs

Substantial Public Transportation Funds Provided to Local Operators. As part of the fuel tax swap, the Legislature provided $400 million for the State Transit Assistance (STA) program in June 2010. This is the second-largest amount of STA funding ever provided by the state in a single year. Under the fuel tax swap law, no new STA funding allocation has been made for 2010-11 but new allocations would resume in 2011-12. In addition, as shown in Figure 24, the 2010-11 budget provides $1.5 billion in Proposition 1B funding to local transit operators for capital projects.

High-Speed Rail Authority

Federal Stimulus Funds Supplement State Bond Funding. In January 2010, the federal government awarded the High-Speed Rail Authority $2.25 billion toward the development of the high-speed rail system. This award will supplement funding made available through a statewide bond measure (Proposition 1A on the November 2008 ballot) that authorizes the state to sell $9 billion in general obligation bonds to partially fund the development and construction of the system. The 2010-11 budget appropriates $221 million to the California High-Speed Rail Authority, including $144 million in Proposition 1A bond funds and $77 million in federal funds, for system planning, development, and preparation for right-of-way acquisition. These funds are budgeted for the following uses:

- ***Project-Level Planning and Design.*** About $111 million will be spent for contract services to perform preliminary design and environmental review for the eight segments of the rail system. This includes $59 million in state bond funds and $52 million in federal funding.
- ***Preparation for Right-of-Way Acquisition.*** About $53 million will be spent for contract services to prepare to purchase right-of way or the land upon which the train will eventually operate. This includes $28 million in state bond funds and $25 million in federal funding. Statutory language in the *2010-11 Budget Act* enables this amount to be increased up to $243 million, split evenly between bond and federal funds.
- ***Contract Services and State Administrative Costs.*** About $39 million will be spent for contract services for overall program management, as well as roughly $12 million for various other contracts, including

communications and financial consulting services. An additional $6 million is authorized for state administrative costs and support of the authority.

California Highway Patrol and Department of Motor Vehicles

The 2010-11 budget provides $1.9 billion to fund California Highway Patrol operations, about $100 million (or 5.5 percent) more than in 2009-10. The funding includes support for 180 new highway patrol officers ($18 million), a new computer-aided dispatch system ($29 million), and various capital outlay projects ($13 million). Also, funding includes about $60 million for the additional costs in 2010-11 of prior-year budget augmentations, the bulk of which is related to 240 additional patrol officers and other expenditures ($60 million). For the Department of Motor Vehicles, the budget provides $979 million for departmental operations, about $46 million (or 5 percent) more than in 2009-10, mostly due to the expiration of furloughs.

Motor Vehicle Account (MVA). To help address the General Fund condition, the 2010-11 budget provides a one-time transfer of $72 million from the MVA to the General Fund. Unlike other MVA revenues, these funds are not restricted by Article XIX of the State Constitution and thus are available for general state purposes. The budget also provides a loan of up to $180 million to the General Fund. These funds, which are Article XIX monies, must be repaid to the MVA within three years.

Other Major Provisions

Employee Compensation

Savings From a 5 Percent Workforce Cap. In January, the Governor ordered all executive branch departments, except tax agencies, to reduce personnel costs by 5 percent. The spending plan assumes $450 million General Fund savings in 2010-11 from continuation of this administrative policy. The budget also assumes $130 million of General Fund operating expenses and equipment savings related to this reduction in departmental personnel costs.

Savings From Collective Bargaining and Administrative Actions. The spending plan also assumes $896 million in General Fund savings resulting from the implementation of new collective bargaining agreements and administrative actions affecting executive branch employees. Figure 25 (see next page) shows the major new employee compensation policies established pursuant to legislative action, collective bargaining, and/or executive order. Figure 26 (see page 61) shows the status of employee collective bargaining agreements. (Some of the policies summarized in Figure 25 could be modified as additional bargaining units reach agreements or through future legislative, administrative, or judicial actions.)

The major new employee compensation policies include:

- ***Unpaid Leave.*** Nearly all state employees will experience reduced wages resulting from reduced hours worked under the Personal Leave Program or administratively established furlough program. This unpaid leave does not affect employees' benefits or pension calculations.

- ***Increased Employee Contributions for Pensions.*** Most state employees—those agreeing to Memoranda of Understanding (MOUs), managers, and supervisors—will make larger contributions to their retirement, usually in the range of 2 percent to 5 percent of income. Employees working under expired MOUs are not required to make these contributions.

- ***Pay Increase in 2012 or 2013.*** Executive branch employees (except those in the six units with expired MOUs) will see the top pay step in their salary ranges increased by 2 percent to 5 percent in 2012 or 2013—with the increase equal to their increased pension contribution.

Figure 25

Major Employee Compensation Policies Resulting From Collective Bargaining and Administrative Actions

(Excludes Legislative, Judicial, and University Employees)

		Employees in Bargaining Units[a]	
	Managers and Supervisors	With Current Collective Bargaining Agreements	With Expired Collective Bargaining Agreements
Unpaid Leave Days			
One per month for 12 months, Personal Leave Program	Yes	Yes, except Units 5 and 8	No
Three per month furlough pursuant to executive orders	No	No	Yes, with limited exceptions
Retirement			
Increased employee contributions	Yes	Yes	No
New formula for new state employees	Yes	Yes	Yes
Other			
Two floating paid leave days annually	Yes	Yes, except Units 5, 8, 12, 16, 18, and 19	No
Employees at top step get a pay increase in 2012 or 2013	Yes	Yes	No
Salaries continuously appropriated during late budgets	No	Yes	No

[a] See Figure 26 for status of units.

- ***New Pension Formula for New Hires.*** Future state employees will be enrolled in a new pension formula that generally reduces pension benefits to pre-1999 levels. (We provide more detail on this policy in Chapter 1.)

State-Mandated Local Programs (Non-Education)

Legislative Actions. The 2010-11 budget approved by the Legislature provided $216 million for mandates. The budget bill suspended many non-education mandates, but funded the "AB 3632" and Background Check mandates (discussed in a box on the next page) and other mandates relating to open meeting requirements, law enforcement, election procedures, and

Figure 26

Status of State Employee Collective Bargaining Agreements

	Percent of Workforce	MOU Ratification Bill
Bargaining Units With New Contracts		AB 1625 (J. Pérez)
1-Administrative, Financial, and Staff Services	22.1%	AB 1625 (J. Pérez)
3-Educators and Librarians (Institutional)	1.0	AB 1625 (J. Pérez)
4-Office and Allied	12.9	AB 1625 (J. Pérez)
5-Highway Patrol	3.1	SB 846 (Correa)
8-Firefighters	1.9	AB 1592 (Buchanan)
11-Engineering and Scientific Technicians	1.2	AB 1625 (J. Pérez)
12-Craft and Maintenance	4.9	SB 846 (Correa)
14-Printing Trades	0.2	AB 1625 (J. Pérez)
15-Allied Services (Custodial, Food, Laundry)	2.1	AB 1625 (J. Pérez)
16-Physicians, Dentists, and Podiatrists	0.8	AB 1592 (Buchanan)
17-Registered Nurses	2.3	AB 1625 (J. Pérez)
18-Psychiatric Technicians	2.8	SB 846 (Correa)
19-Health and Social Services/Professional	2.3	AB 1592 (Buchanan)
20-Medical and Social Services	1.6	AB 1625 (J. Pérez)
21-Education and Libraries (Noninstitutional)	0.3	AB 1625 (J. Pérez)
Percentage of Workforce With New Contracts	**59.6%**	
Bargaining Units With Expired Contracts		
2-Attorneys	1.7%	Expired
6-Correctional Peace Officers	13.9	Expired
7-Protective Services and Public Safety	3.1	Expired
9-Professional Engineers	5.1	Expired
10-Professional Scientific	1.2	Expired
13-Stationary Engineer	0.5	Expired
Percentage of Workforce With Expired Contracts	**25.4%**	
Supervisors and Managers	**15.0%**	Not applicable

tax collection. When the Legislature suspends a mandate, for one year (1) local governments are not required to implement its requirements and (2) the state may postpone its obligations to pay the accumulated mandate bills.

The budget plan defers a scheduled payment (about $100 million) towards retiring the state's pre-2004 non-education mandate debt (approximately $1 billion). The Legislature created a mechanism, however, whereby a joint powers authority could issue "mandate receivable" notes (backed by the state's repayment obligation) and use the proceeds to replace the revenues owed to each local agency.

Governor's Vetoes. The Governor vetoed the appropriations for the AB 3632 and Background Check mandates and declared that the mandates were suspended. As described in the nearby box, the effect of this action is not clear because the California Constitution and other statutes do not explicitly

Governor Vetoes Two Mandate Appropriations and Declares Mandates "Suspended"

AB 3632 Mental Health Mandate

State law commonly known as the "AB 3632 mandate" requires county mental health departments to provide mental health services to special education students. Approximately 20,000 special education pupils receive mental health services through the AB 3632 program, including mental health assessments, case management, individual and group therapy, and residential placements.

Legislature's Budget Provided Minimum Amount of Funding Necessary to Continue State Mandate. The Legislature rejected the administration's May Revision proposal to suspend the AB 3632 mandate and instead provided $133 million (General Fund) to pay post-2003 claims for the mandate. (The California Constitution generally requires the Legislature to include in the state budget funds to pay post-2003 claims for each mandate that is in effect during the fiscal year.) In addition, the Legislature increased federal special education support (using one-time funds) for schools to pass through to counties for student mental health services from $69 million to $76 million. Unlike prior years, however, the Legislature did not provide funding directly to the Department of Mental Health ($52 million) to pay for current and recent expenses or to the Department of Social Services ($70 million) to pay for associated residential costs.

Governor Eliminates All Funding for AB 3632 and Declares Mandate Suspended. The Governor vetoed the $133 million in state funding as well as the provision directing the use of $76 million in federal special education funding—leaving no funding designated for AB 3632. The Governor declared in his veto message that "this mandate is suspended." The effect of the Governor's actions is unclear because the Constitution and other statutes do not explicitly authorize the Governor to suspend

(Continued)

authorize the Governor to suspend mandates. The Governor also vetoed the legislation establishing the process whereby a joint powers authority could issue mandate receivable notes and distribute the proceeds to local agencies.

Financial Information System for California (FI$Cal)

The budget plan provides spending authority of $43 million in 2010-11 to continue FI$Cal project activities. This will allow the completion of the multi-stage procurement process in which three vendors are competing for the contract to build the FI$Cal system. Additionally, budget legislation requires that project staff submit a report to the Legislature no less than 90 days prior to executing the contract with the selected prime vendor. The report will include details about each vendor's proposal on the development of the FI$Cal system, possible scaled-back versions of the system, and the FI$Cal Project Office's rationale for selecting the winning vendor. The legislation provides the Legislature an additional opportunity to determine whether to proceed to the much more costly design and development stages of FI$Cal.

Governor Vetoes Two Mandate Appropriations and Declares Mandates "Suspended"

(Continued)

mandates. Nor does the law, however, permit the state to keep a mandate in effect without paying prior-year claims in the budget. The Governor did not veto $500,000 in federal special education funds for a study evaluating the state's approach to providing mental health-related services to students with disabilities.

If Mandate Is Suspended, School Districts Must Assume Responsibility for Services. Under federal law, K-12 districts ultimately are responsible for ensuring that special education pupils receive educationally necessary mental health services. That is, if the state mandate were to be suspended, federal law would require that schools assume responsibility for providing (or contracting for) these services. The budget does not provide additional special education funding to schools.

Local Recreational Agency Background Checks

Chapter 777, Statutes of 2001 (AB 351, La Suer), requires local agencies to inquire on certain job/volunteer forms as to an applicant's criminal history and submit the applicant's fingerprints to the Department of Justice. In developing the 2010-11 budget, the Legislature included funds to pay the prior-year costs of this mandate ($3 million), but approved legislation authorizing local agencies to offset any future costs from applicant fees. Under this approach, local agencies would continue to be required to check applicants, but the state would not incur future mandate costs.

Governor Eliminates Funding and Declares Mandate Suspended. The Governor vetoed the funding for mandate and declared that it was suspended. As discussed above, the effect of the Governor's actions is not clear because state law does not authorize the Governor to suspend mandates. If a mandate is suspended, however, state law specifies that its requirements are no longer binding upon local agencies. The Governor did not veto the fee authority for local governments.