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Where Are We? Where Are We Going?

On June 1, Governor Schwarzenegger released a document consolidating the three iterations of his May Revision proposals for closing the budget gap that has emerged since the February budget agreement. The first set of proposals was released on May 14, five days before the state's special election, and included a total of \$21.3 billion of "solutions," of which \$5.8 billion were "contingency" proposals that would be needed if voters rejected the "money measures" on the ballot – Propositions 1C, 1D, and 1E. On May 26, the Governor released a revision to his initial proposals that included an additional \$5.5 billion in spending reductions, which replaced his May 14 proposal to rely on external borrowing using registered reimbursement warrants to help close budget gap. Three days later, the Governor released another \$2.8 billion in "solutions," largely to boost the size of state's budget reserve. The Governor's May Revision proposals would modify both the current (2008-09) and budget (2009-10) years' spending plans. A comprehensive list of the Governor's proposals is available at www.dof.ca.gov.

On May 21, the two-house Budget Conference Committee convened to hear an overview of the Governor's initial May Revision proposals, then met through the end of May and early June to hear the Administration's additional May Revision proposals as well as receive public testimony. On June 3, the Committee began deliberations and taking actions on specific policy proposals. Committee hearings are scheduled through June 16. The hearing schedule is available here: www.assembly.ca.gov/acs/newcomframeset.asp?committee=4.

How Big Is the Problem?

The Governor's May Revision includes \$24.0 billion in "solutions" to close an estimated \$19.5 billion budget gap and to end 2009-10 with a substantial (\$4.5 billion) budget reserve. Most of the newly identified gap – \$12.4 billion – is attributable to deterioration in state and local tax collections due to the downturn in the economy; \$5.8 billion is due to voters' rejection of Propositions 1C, 1D, and 1E; and the remaining \$3.1 billion is due to higher-than-anticipated expenditures. The Governor's proposals include program reductions (\$15.0 billion); revenue accelerations or fees (\$2.8 billion); borrowing and/or redirecting a portion of local governments' property tax dollars (\$2.0 billion); fund shifts (\$1.9 billion); other proposals, primarily privatizing a portion of the State Compensation Insurance Fund (\$1.3 billion); cuts requiring waivers of federal laws or regulations (\$1.0 billion); and savings from reorganizing and consolidating state boards and departments (\$50 million).

K-12 Education

The Governor's proposals:

- Reflect a total 2008-09 funding level of \$49.1 billion for K-14 programs covered under the Proposition 98 guarantee – \$9.0 billion (15.5 percent) lower than the level assumed in the 2008-09 Budget as enacted in September 2008. This results in a \$1,339 decrease in 2008-09 Proposition 98 K-12 per pupil funding, from \$8,257 to \$6,918.
- Reduce revenue limit payments to school districts by \$1.3 billion in 2008-09 – a reduction of 6.4 percent compared to the budget enacted in September 2008. Revenue limit payments provide general purpose funds for schools.
- Eliminate 2008-09 funding for the High Priority Schools Program for savings of \$90.3 million.
- Reduce 2009-10 funding by \$4.5 billion for K-14 programs covered under the Proposition 98 guarantee compared to the funding level provided in the 2009-10 Budget enacted in February.
- Reduce 2009-10 revenue limit payments to school districts by \$2.2 billion.
- Defer \$1.7 billion of school district revenue limit payments from 2009-10 to 2010-11.
- Reduce funding for Home-to-School Transportation by \$404.3 million in 2009-10 – a 65 percent reduction. The Governor's proposals use Public Transportation Account and Mass Transportation Fund dollars to pay for debt service instead of paying for Home-to-School Transportation.
- Allow school districts to reduce the school year by up to seven and one-half days for no more than three years.
- Allow deferral of certain K-12 payments from the beginning of July to the end of the month and of a portion of July and August payments to October 2009 due to state cash flow shortfalls.

Community Colleges

The Governor's proposals:

- Reduce funding for community college categorical programs by \$85.0 million in 2008-09 and by \$333.1 million in 2009-10.
- Eliminate funding for enrollment growth, for savings of \$175.2 million. These funds were appropriated in the February Budget Act to support the enrollment of approximately 36,000 additional students.
- Reduce the funding rate for credit physical education and recreational courses to the non-credit rate for savings of \$120.0 million.
- Defer payment of \$115.0 million in community college apportionments from 2008-09 to 2009-10.
- Expect a reduction in community college funding of \$37.3 million in 2008-09 and \$58.4 million in 2009-10 due to projected property tax shortfalls.
- Consolidate funding for most categorical programs into a block grant that would allow community colleges to use these funds for any purpose. In 2008-09, the proposal does not apply to Financial Aid Administration, Foster Care Education, Telecommunications and Technology Services, and Special Services to CalWORKs Recipients.

Higher Education

The Governor's proposals:

- Make \$1.4 billion in unallocated 2008-09 reductions to higher education – reflecting a \$717.5 million cut to the University of California (UC) and an equivalent reduction to the California State University (CSU).

- Make \$485.0 million in unallocated 2009-10 reductions to higher education – \$267.5 million to the CSU and \$217.5 million to the UC.
- Eliminate \$49.9 million in funding for academic preparation and education programs in 2009-10 – a \$31.3 million reduction to the UC and an \$18.6 million reduction to the CSU.
- Eliminate virtually all funding for the Hastings College of Law for savings of \$10.3 million in 2009-10. The Governor’s May proposals provide the minimum level of funding prescribed in statute “without having to pay back to the heirs of S.C. Hastings, with accumulated interest, the original \$100,000 bequest.”

Student Aid Commission

The Governor’s proposals:

- Eliminate new awards for the High School Entitlement, Community College Transfer Entitlement, and Cal Grant C programs for savings of \$173.0 million.
- Eliminate new awards for the Competitive Cal Grant program for savings of \$52.9 million.
- Freeze Cal Grant award amounts for UC and CSU students at the 2008-09 level for savings of \$28.0 million.
- Propose to pay for only two-thirds of UC and CSU fee increases for students who receive Cal Grant awards for savings of \$16.6 million.
- Reduce the maximum Cal Grant award for students attending private colleges, from \$9,708 to \$8,322, for savings of \$11.0 million.
- Freeze Cal Grant income eligibility at the 2008-09 level for savings of \$7.0 million.
- Consolidate the California Student Aid Commission and the California Postsecondary Education Commission.

Health

The Governor’s proposals:

- Cut \$1.0 billion from the Medi-Cal Program in 2009-10 through unspecified reductions that could include cuts to eligibility, provider payments, and benefits. California would have to seek permission from the federal government to make these cuts due to restrictions included in the federal economic recovery bill and other federal requirements.
- Eliminate the Healthy Families Program as well as state funding for contractors who enroll eligible children in public health coverage programs for savings of \$368.8 million in 2009-10.
- Limit Medi-Cal benefits provided to certain immigrants – including legal immigrant adults in the US for less than five years – to emergency services for savings of \$125.5 million in 2009-10. This change would take effect October 1, 2009.
- Implement new federal and state drug pricing policies in the Medi-Cal Program aimed at lowering costs and retaining quality care effective October 1, 2009 for savings of \$66.0 million in 2009-10. One proposed change would require the state to review prescriptions for antipsychotic drugs before they could be dispensed.
- Shift \$60.0 million in Proposition 99 cigarette tax revenues to the Medi-Cal Program in 2009-10, generating an equivalent amount of General Fund savings. A number of programs would lose Proposition 99 funding under this proposal, including the Access for Infants and Mothers Program, the Breast Cancer Early Detection Program, and county health programs.
- Eliminate certain state-only Medi-Cal programs, including non-emergency services for undocumented immigrants, for savings of \$34.4 million in 2009-10.
- Eliminate Medi-Cal Adult Day Health Care benefits for savings of \$135.3 million in 2009-10.

- Reduce rates for Medi-Cal family planning services to the pre-January 2008 level for savings of \$14.1 million in 2009-10.
- Suspend an estimated 5 percent cost-of-living increase for skilled nursing facilities that is scheduled to take effect on August 1, 2009 for savings of \$75.8 million in 2009-10.
- Reduce payments for private safety-net hospitals by 10 percent for savings of \$23.9 million in 2009-10. The February 2009 budget agreement included a 10 percent rate cut for public safety-net hospitals.
- Eliminate state funding for various community clinic programs for savings of \$34.2 million in 2009-10.
- Reduce state funding for Regional Centers, which coordinate services for people with developmental disabilities, by \$234.0 million in 2009-10 – a cut that would be in addition to the \$100 million reduction included in the February budget agreement.
- Reduce state funding for the AIDS Drug Assistance Program and for other Office of AIDS programs for savings of \$55.5 million in 2009-10.
- Eliminate state funding for HIV education and prevention efforts provided by local health jurisdictions for state savings of \$24.6 million in 2009-10.
- Reduce Mental Health Managed Care and Early and Periodic Screening, Diagnosis and Treatment services for savings of \$92.0 million in 2009-10.
- Cut state funding for Maternal, Child and Adolescent Health for savings of \$20.2 million in 2009-10.
- Eliminate state funding for the Children’s Dental Disease Program for savings of \$2.9 million in 2009-10.
- Eliminate state funding for the Substance Abuse and Crime Prevention Act (Proposition 36 of 2000) and the Substance Abuse Offender Treatment Program for combined savings of \$108 million in 2009-10.
- Reduce rates for substance abuse treatment services for individuals who are eligible for Medi-Cal by 10 percent for savings of \$8.8 million in 2009-10.
- Eliminate state funding for the California Poison Control System for savings of \$5.9 million in 2009-10.

Human Services

The Governor’s proposals:

- Eliminate the California Work Opportunity and Responsibility to Kids (CalWORKs) Program, effective October 1, 2009, for savings \$1.4 billion in 2009-10, rising to \$2.4 billion in 2010-11.
- Eliminate In-Home Supportive Services (IHSS) for individuals with less severe impairments, effective October 1, 2009, for savings of \$615.9 million in 2009-10.
- Cap the amount at which the state will share in the cost of wages for IHSS providers at \$8.00 per hour plus \$0.60 per hour for health benefits, effective October 1, 2009, for savings of \$124.2 million in 2009-10.
- Permanently increase counties’ share of the non-federal costs for the Child Welfare Services and Foster Care programs for state savings of \$550 million in 2009-10. Counties would fund these increased costs with ongoing savings resulting from the proposed cuts to CalWORKs, IHSS, and other programs.
- Reduce grants for Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients, effective October 1, 2009, to the minimum allowed by federal law for savings of \$316.6 million in 2009-10.
- Eliminate the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program (CFAP), effective October 1, 2009, for savings of \$119.6 million in 2009-10.
- Cut funding for the Child Welfare Services Program by 10 percent for savings of \$70.6 million in 2009-10.
- Reduce foster care group home, foster family agency, and specialized care and clothing allowance rates by 10 percent for savings of \$26.8 million in 2009-10.
- Reduce state funding for the Domestic Violence Program, which supports 94 domestic violence shelters and centers, for savings of \$20.4 million in 2009-10.

- Eliminate the Multipurpose Senior Services Program and community-based service programs overseen by the Department of Aging for savings of \$25.2 million in 2009-10.
- Eliminate state funding for Community Care Licensing for savings of \$19.5 million in 2009-10.

Child Care and Development

The Governor's proposals:

- Eliminate CalWORKs child care services to reflect the proposed elimination of the CalWORKs Program. In addition, the Governor proposes to use 75 percent of estimated CalWORKs Stage 2 and 3 child care funding to provide child care in 2009-10 to some former CalWORKs families who meet eligibility requirements on a first-come, first-served basis. These changes would result in state savings of \$211.6 million in 2009-10.
- Cut state funding for child care by \$36.0 million in 2009-10 to account for estimated overpayments to child care providers.

Borrowing From Local Governments

The Governor proposes to borrow and/or redirect \$1.982 billion in city, county, and special district property tax revenue in order to reduce state costs. The Governor's May 26 proposal would reallocate property tax dollars to support the Medi-Cal Program. No details of this proposal are available and it is unclear whether it would require a suspension of Proposition 1A of 2004. This proposal substitutes for an earlier version, which would have shifted property taxes from local governments to schools, thereby enabling the state to reduce the amount it spends to fulfill the Proposition 98 school funding guarantee. The change in proposals reflects a concern that further reductions in state education spending could endanger receipt of funds from the American Recovery and Reinvestment Act (ARRA). The Governor's proposal would shift or redirect \$960 million in county property taxes, \$692 million in city property taxes, and \$330 million in special district property taxes.

Corrections

The Governor's proposals:

- Make a number of reductions to the Department of Corrections and Rehabilitation, including cutting rehabilitative services for prisoners – such as substance abuse counseling, vocational training, and educational programs – for savings of \$787.1 million in 2009-10.
- Include the targeted release of undocumented immigrants from state prisons into federal custody for deportation for savings of \$182.1 million. The Governor suggests that this action could be avoided if the federal government were to increase funding for California to help offset the costs associated with these prisoners.
- Include commuting the sentences of certain nonviolent, non-serious, non-sex offenders one year early for savings of \$120.5 million in 2009-10.
- Make certain "wobbler" crimes – those that can be treated as felonies or misdemeanors – punishable with a county jail term rather than with a state prison sentence for savings of \$99.9 million in 2009-10.

State Employees

The Governor's proposals:

- Included sending layoff notices to 4,625 state employees and eliminated an additional 400 positions – 5 percent of state jobs supported by the General Fund – in May. There are no publicly available estimates of the savings from these layoffs.
- Reflect savings of \$132.2 million in 2009-10 from replacing state employees' current health coverage with lower-cost plans.
- Require new state employees to work for at least 25 years before becoming eligible for lifetime health benefits.
- Reduce all state workers' salaries by 5 percent, except employees of the courts, the Legislature, the CSU, and the UC, for savings of \$470.0 million in both 2009-10 and 2010-11.
- Assume that the Legislature will not ratify proposed labor agreements with the Service Employees International Union Local 1000 and that a two-day-per-month furlough will be continued for most employees, for savings of \$60.0 million in 2008-09 and \$150.0 million in 2010-2011.
- Reflect CalPERS' plan to use excess reserves from its self-funded preferred maintenance organization (PPO) plans to fund two months of premiums and employer contributions for savings of \$100.0 million in 2009-10.

Transportation

The Governor's proposals:

- Shift \$336.0 million in "spillover" revenues that have traditionally gone to support public transit operating expenses to cover debt service costs on transit bonds.
- Redirect \$744.0 million in 2009-10 and \$745.0 million in 2010-11 of the local share of gas tax proceeds to cover General Fund highway bond debt service.
- Allow \$242.0 million in commercial motor vehicle weight fees to be used for transportation debt service in 2009-10.

Revenue Accelerations and Fees

The Governor's proposals:

- Change the payment schedule for personal and corporate income tax estimated payments, increasing 2009-10 tax collections by \$610.0 million. This proposal would change when payments are made, but would not change the total amount of taxes paid.
- Adjust personal income tax withholding tables so that taxpayers pay a larger share of their payments during the first half of the calendar year. This would have the effect of changing when payments are made, but not the total amount that would be paid. The Governor assumes that 2009-10 collections would increase by \$1.7 billion due to this proposal.
- Increase the proposed surcharge on all residential and commercial property insurance policies to 4.8 percent in order to raise \$76.0 million to partially fund CalFIRE and local first response agencies. In his 2009-10 proposed budget, the Governor proposed establishing a 2.8 percent surcharge to increase funding for the Emergency Response Initiative; however, this proposal was not included in the February budget package.

Other

The Governor's proposals:

- Would sell a portion of the State Compensation Insurance Fund's (SCIF) "book of business" to a private entity. The SCIF is a state agency that sells workers' compensation insurance. The Governor assumes revenues of \$1.0 billion from the sale of SCIF assets and notes that SCIF would remain "as the insurer of last resort."
- Assume that the state receives \$100.0 million from the sale of leases that would allow drilling for oil off the Santa Barbara coast.
- Reduce funding for courts by 10 percent and require courts to implement electronic reporting for combined savings of \$181.6 million.
- Eliminate General Fund support for state parks over a two-year period for savings of \$70.0 million in 2009-10 and \$143.4 million in 2010-11. This reduction would result in the closure of approximately 80 percent of the state's parks.
- Suspend selected state-mandated local expenditures and defer payments for current mandate claims for savings of \$100.3 million in 2009-10 and \$79.3 million in 2010-11.