



DRAFT
Floor Report
of the
2009-10 State Budget
As Modified by AB/SB 4X 1

JULY 22, 2009

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SUMMARY

This Floor Report summarizes the contents of a majority vote package of bills that provides \$24 billion in budgetary savings and achieves a \$921 million reserve.

California's budget reflects the harsh reality of diminished resources forced by the recession and mirrors the difficult decisions millions of our residents must make in these lean times. However, this budget is shaped by several guiding principles that resonate throughout the actions that have been taken:

- ◆ **Bridges the Deficit:** The Legislature's plan bridges the projected \$23.1 billion deficit for 2009-10.
- ◆ **Reflects the Latest Revenue Projections:** Assumes \$3.5 billion less revenue than the May Revision level—reflecting net revenue loss in May and June combined with lower revenues expected throughout the 2009-2010 budget year projections.
- ◆ **Protects Institutions Californians Depend Upon:** Does not eliminate CalGrants, Healthy Families, State Parks, CalWORKs, Poison Control and long term care programs (Adult Day Health Care, Linkages, MSSP, Caregiver Resource Centers) targeted by the Governor.
- ◆ **Makes Deep Cuts in Every Area:** Over sixty percent of the total solution (\$15.3 billion) is through program reductions and savings in every policy area of state government.
- ◆ **Protects Education Funding, Now and In the Future:** Does not suspend Proposition 98 in 2009-10 and includes language to guarantee a maintenance factor—which guarantees that Proposition 98 spending will be \$11.3 billion higher annually in better fiscal years.
- ◆ **Protects California's Access to Federal Funds:** Targets cuts to avoid losing \$3.7 billion of TANF block grant funding, as well as millions of dollars from hundreds of other funds including enhanced Medi-caid matching funds, Ryan White Act funding, and other federal grants and revenues that would have been lost if the Governor's proposal had been adopted.
- ◆ **Provides a Healthy Reserve:** The budget provides a reserve of \$921 million in the budget year.
- ◆ **Contains Major Policy Changes Requested by the Governor:** The budget package includes provisions to make major changes to: CalWORKs, In Home Supportive Services program integrity, Medi-Cal Managed Care, asset sale and

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leaseback, IT procurement, the centralization of eligibility program, and boards and commissions consolidations.

- ◆ **Ends the Issuance of IOU's.** Allows the state to pay its obligations without IOUs by presenting a fiscal plan that will access to routine cash management borrowing mechanisms.

How the gap is bridged:

The Governor's original May Revision included \$24 billion of solutions, which targeted an expected \$21.3 billion deficit for FY 2009-10 (\$19.5 billion after accounting for the \$2 billion reserve). This deficit is the result of an additional projected shortfall of \$15.7 billion combined with the need to make up for \$5.8 billion of solutions that voters rejected during the May 19, 2009 special election. The Governor proposed a \$4.5 billion budget reserve.

As the budget deliberations ensued, the Governor updated the May Revision at several points in the process and also issued two revisions to his proposal in July. The July revisions reflected the Governor's belief that 2009-2010 revenues would be \$3 billion less than what was projected in the May Revision. In addition, the revision reflected actual May and June 2009 revenue numbers, which accounted for an additional shortfall of \$536 million.

The Legislature's budget provides \$24.1 billion of solutions to address the same deficit addressed by the Governor, resulting in a \$921 million reserve.

	\$ Billions
Starting Reserve	2.0
Reduced May Revision Revenues	-12.3
Increased May Revision Expenditures	-3.1
Loss of Special Election Solutions	-5.8
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May Revision Projected Shortfall	-19.2
Less \$3 billion in Projected Revenue Loss	-3.1
Less \$536 million Net 2008-2009 Loss	-.5
Lost 2008-09 RDA Cut	.4
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Projected Budget Shortfall	-23.1
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Legislature's Solutions	24.0
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Final Reserve	.9

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How the package's \$24 billion of solutions are constructed:

- ◆ \$15.3 billion in program reductions and cuts. These solutions are detailed by policy area and reflect the targeted cuts to achieve efficiency and provide leaner levels of services in order to preserve California's public infrastructure.
- ◆ \$4 billion in revenue accelerations and fees, including the Governor's proposals to accelerate Personal Income Tax withholdings and Corporate Estimated Payments. Also includes the Governor's proposal to sell a portion of the State Compensation Insurance Fund's book of business.
- ◆ \$1.5 billion in fund shifts, including the shift of the Highway User Tax Account (HUTA), and \$100 million in savings from offshore drilling.
- ◆ \$2.1 billion in borrowing, mostly from local governments due to the suspension of Proposition 1A.
- ◆ \$1.2 billion of other one-time savings by deferring the June 30th State employee paycheck to July 1st.

The chart below compares the Governor's May Revision proposal and the Conference Committee actions with the Final Budget Package:

Summary of Solutions by Area (in billions)

Area	Governor's May Revision	Conference Version	Final Version
Education	\$5.2	\$4.5	\$5.7
Higher Education	3.1	2.7	2.8
Human Services	3.3	0.9	1.2
Health	2.4	2.0	2.0
Transportation	1.6	2.1	2.0
Resources	0.4	0.5	0.5
Public Safety	1.4	1.0	1.1
General/Local Government	3.1	3.5	5.2
Taxes	0.0	1.9	0.0
Accelerations/SCIF/Other Revenues	3.4	4.5	3.5
Total	\$23.9	\$23.6	\$24.0
Reserve (w/ updated revenues)	0.8	0.3	0.9

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Major Policy Changes Contained in Budget Package.

On June 28, 2009 the Governor unveiled a series of policy proposals deemed as "reforms" that were part of the budgetary negotiation. The following policy changes were adopted as part of the Budget Package from this effort:

CalWORKs

Makes significant changes, effective July 1, 2011, to the CalWORKs program including:

- ◆ **Increases Sanctions for Noncompliance.** Allows for deeper grant reductions for noncompliant families than provided in current law. Establishes that if a sanctioned family continues to be noncompliant after a county intervention, the families grant would be reduced by 25 percent. If a family remained noncompliant, this sanction would grow to 50 percent of the total grant.
- ◆ **Self Sufficiency Reviews.** Requires counties to conduct a self-sufficiency review six months after the determination of eligibility and after each annual re-determination.
- ◆ **Time Limit Changes.** Limits continuous eligibility for CalWORKs to 48 months, after this period the adult grant and CalWORKs services may not be provided for at least 12 months. Maintains current lifetime limit of 60 months of benefits.
- ◆ **Cases on Aid for more than Sixty Months.** All families that have been on aid for more than sixty months will see their child portion of the grant reduced by 25 percent, unless the family can demonstrate that they have met work requirements or are exempt from them. Counties would be required to conduct an intensive assessment of families entering the safety net.

In Home Supportive Services

Adopts major policy changes to enhance program integrity, including:

- ◆ **Fingerprinting and Criminal Background Checks Requirements.** Requires that all providers go through a criminal background check process, including fingerprinting. Recipients will be required to submit a fingerprint to the county. Both the provider and recipient will be required to submit fingerprints as part of the timecard submission process.
- ◆ **Unannounced Visits.** Requires county social workers conduct unannounced visits for certain high risk IHSS cases.
- ◆ **Timesheet Changes.** Establishes a civil penalty for time-sheet fraud. Requires providers sign to an acknowledgement of eligible recipient services. Requires in-

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person verification of Provider Employment Documents by a county worker.

- ◆ **Enhanced Fraud Detection and Prevention Changes.** Provides \$10 million for local anti-fraud investigations and activities. Provides additional positions at DSS and DHCS for anti-fraud activities. Requires counties to train staff in additional fraud-prevention efforts. Requires the county to issue targeted mailings in certain circumstances. Limits the ability of providers to receive a check at a Post Office Box.

Centralized Eligibility.

Allows the Department of Health Care Services (DHCS) and the Department of Social Services to develop a request for proposal to centralize and contract various eligibility program processing functions currently performed by counties. This proposal sets specific deliverables that must be provided in the report and requires a stakeholder process. Requires additional legislative authorization to begin the contracting process.

Cost of Livings Adjustments.

Eliminates automatic cost of living adjustments (COLA) for CalWORKs and SSI/SSP grants. Also eliminates COLA's for the budgets of UC, CSU, and other state departments. This does not impact Proposition 98 funding.

Managed Care Changes.

Requires the Department of Health Care Services to submit a waiver to the federal government in order to achieve the following: strengthen California's health care safety net, including disproportionate share hospitals; reduce the number of uninsured Californians; increase federal financial participation; improve health care quality and outcomes; and promote home and community based care.

Requires the waiver to include Medi-Cal restructuring proposals in order for the program to better serve the most vulnerable beneficiaries, including seniors, people with disabilities, children with significant medical needs, and people with behavioral health conditions. The goals of restructuring care for these populations include: increase access to better coordinated and integrated care for these populations, improve health outcomes, and slow long-term growth of the Medi-Cal program. Restructuring will also seek to improve coordination between Medicare and Medi-Cal, improve integration of physical and behavioral health care, and use medical homes and specialty centers for children with significant medical needs. SB 6 X3 authorizes the waiver to seek authority to enroll beneficiaries into specified organized delivery systems, such as managed care, enhanced primary care case management, or a medical home model. This is subject to federal approval and may only occur after funds for this purpose have been appropriated by the Legislature. SB 6 X3 requires Department of Health Care Services to convene and consult with a stakeholder advisory group in developing the waiver and an implementation plan. Finally, it requires DHCS to submit an implementation plan to

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legislative policy and fiscal committees, prior to implementation of this waiver, and at least 60 days prior to an appropriation being made by the Legislature for this purpose.

Asset Management

The following proposals change the way the state holds, leases, and sells property as well as the way the state procures goods and services.

- ◆ **Long-Term Lease.** This proposal authorizes the Department of General Services (DGS) to lease property under control of a state agency, department or district agricultural association if the Director of DGS determines that the property is of no immediate need to the state. However, it prohibits the Director of DGS from leasing any property under the jurisdiction of: the State Lands Commission; the State Coastal Conservancy or any other state conservancy; Department of Fish and game, Department of Parks and Recreation, and lands under the jurisdiction of the Department of Transportation, California State University System, or Regents of the University of California. Authorizes the Director of Finance to provide a loan from the General Fund of up to \$10 million dollars to support the management of these provisions.
- ◆ **Orange County Fair Sale.** This proposal authorizes DGS to sell all or any portion of the Orange County Fairgrounds pursuant to a public bidding process that is designed to obtain the highest and most certain return for the state, as specified, and authorizes the Director of Finance to provide a loan from the General Fund of up to \$10 million dollars to support the management of these provisions.
- ◆ **Surplus Reporting.** This proposal requires the state's annual report on its inventory of surplus property to include additional information relative to the programmatic uses of the property, to what extent the property is utilized, leasing information, if applicable, and projected uses over the next 5 years, as specified, and authorizes the Director of Finance to provide a loan from the General Fund of up to \$10 million dollars to support the management of these provisions.
- ◆ **Sale Lease-Back.** This proposal authorizes DGS to enter into a sale or long-term lease of 17 specified state office buildings or properties. The Director of DGS is authorized to determine the terms and conditions for each sale and lease, and requires that each property sold pursuant to this authorization be for no less than fair market value and authorizes the Director of Finance to provide a loan from the General Fund of up to \$10 million dollars to support the management of these provisions.
- ◆ **Procurement.** Certain state contracts require the winning bidder to meet specific statewide participation goals for disabled veteran business enterprises. This proposal requires the awarding department to award the contract to the lowest responsible bidder meeting specific participation goals, unless there is no

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bidder meeting those requirements, in which case the awarding department shall award the contract to the next lowest bidder making a good faith effort to meet participation goals. Current law allows the awarding department to simultaneously consider awarding the contract to the lowest bidder meeting the participation goals or the lowest bidder making a good faith effort to meet those goals.

- ◆ This proposal also makes two reforms related to Information Technology procurement. First, it authorizes DGS to make exceptions to a prohibition on contractors being awarded contracts for procurement of goods or services that result from advice they give under a contract with the state for consulting services, when related to IT projects, found to be in the best interest of the state and pose no conflicts of interest. It also allows DGS to withhold less from contractors when awaiting the complete delivery and acceptance of goods or services, based on a risk evaluation.

Boards and Commissions

The following provisions were enacted in an effort to streamline particular industry-specific oversight boards and commissions. The proposals do not result in any General Fund savings because industry-specific oversight state entities are funded by special funds which collect revenue through licensing fees. The idea is that professionals become licensed and simultaneously allow for a regulated professional field. The language proposes to:

- 1) Abolishes the Bureau of Naturopathic Medicine, creates the Naturopathic Medicine Committee, and requires the governor to appoint 2 additional members, for a total of 9 members to the Board of Osteopathic Examiners which must be Naturopathic doctors.
- 2) Consolidates the Structural Pest Control Board within the Department of Pesticide Regulation, keeping the board and its licensing and regulatory functions intact.
- 3) Consolidates the Bureau of Electronic Appliance Repair and the Bureau of Home Furnishings and Thermal Insulation into the Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation.
- 4) Consolidates the Board for Geologists and Geophysicists under the Board for Professional Engineers and Land Surveyors and transfers two PY's to the Board for Professional Engineers and Land Surveyors to handle issues relating to geologists and geophysicists

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Education (Proposition 98)

- ◆ Provides approximately \$49.1 billion for the 2008-09 fiscal year and approximately \$50.4 billion for the 2009-10 fiscal year in total Proposition 98 funding and funds at the minimum guarantee in both years.
- ◆ Captures \$1.6 billion in unallocated categorical program funds in 2008-09 in order to reduce K-14 funding to the minimum guarantee under Proposition 98.
- ◆ Reduces school district and county office of education revenue limits by \$2.2 billion in 2009-10, including a commensurate categorical reduction for Basic Aid Districts and a partial backfill of \$282 million for Home to School Transportation.
- ◆ Defers \$1.7 billion in revenue limit payments from 2009-10 to 2010-11.
- ◆ Provides several additional program and funding flexibility options, beyond what was provided in February, as follows:
 - Suspends the High School Exit Exam as a requirement for graduation for students with disabilities beginning in 2009-10;
 - Authorizes local education agencies (LEAs) to reduce the number of instructional days to 175 per year through 2012-13;
 - Suspends the requirement to purchase newly adopted instructional materials and suspends regular State Board of Education adoptions through 2012-13;
 - Allows school districts to sell surplus property not purchased with state funds and use proceeds for general fund purposes for nearly three years;
 - Suspends the remaining routine maintenance reserve requirement of one percent through 2012-13 for school districts that meet the facility requirements of the Williams settlement;
 - Provides LEAs with access to additional, prior-year fund balances in 2009-10 beyond those provided in February. Additions include: Targeted Instructional Improvement Grants, Instructional Materials, California High School Exit Exam, Adult Education, ROC/P Facilities, and Deferred Maintenance.
- ◆ Changes the Charter School Facility Grant Program from a reimbursement program to a grant program.
- ◆ Lowers the minimum reserves for economic uncertainty to one-third of the currently required level for 2009-10 provided that LEAs make annual progress in fully restoring these reserves by 2011-12.

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- ◆ Prohibits the assignment of a negative or qualified fiscal certification due to a substantial loss of federal Stabilization Funds in 2011-12 and 2012-13.
- ◆ Funds the Quality Education Investment Act (QEIA) in 2009-10 with ongoing, rather than one-time, Proposition 98 funds for a General Fund savings of \$450 million. Eligible districts may apply for federal Title I funds to backfill the redirection of ongoing Proposition 98 funds. Extends the QEIA program for an addition year, though 2014-15.
- ◆ Certifies the amounts of the Proposition 98 minimum guarantees and outstanding balances for the 2005-06 through 2008-09 fiscal years, including that the maintenance factor for 2008-09 year is \$11.2 billion and provides that this amount will be restored to the Proposition 98 base as otherwise provided in the Constitution.

Child Care & Development (Proposition 98)

- ◆ Restores Child Care Services for CalWORKs families and families transitioning off CalWORKs.
- ◆ Rejects the Governor's proposal to increase family fees, which would have doubled fees for low income families.
- ◆ Denies the Governor's proposal to eliminate funding for ROC/P and Adult Education CalWORKs Services.
- ◆ Eliminates the Extended Day Care (Latchkey) program, but retains funding for services from July 1 until the start of school to ensure no children are immediately displaced, and adopts language to ensure that children receive priority placement in other subsidized programs.
- ◆ Holds the Regional Market Reimbursement rates constant at the 2005 levels, reimbursing up to a maximum of the 85th percentile.
- ◆ Appropriates \$110 million in American Recovery and Reinvestment Act (ARRA) federal stimulus funds in order to both hold program levels constant and increase child care slots in the voucher program.
- ◆ Clarifies that reimbursements to child care service providers based on a daily rate may only be authorized under specified circumstances.

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Higher Education

- ◆ Includes \$2 billion in cuts to UC and CSU, which is the same level as proposed by the Governor and reimbursement authority of \$1.2 billion in federal ARRA funds. However, this proposal treats the UC and CSU equally and retains academic preparation programs.
- ◆ Achieves about \$700 million in savings from Community Colleges, but offsets the reduction with an additional \$130 million in federal funds and \$80 million from restoring the fee increase to \$26 per unit.
- ◆ Provides the Community Colleges Categorical Program "flexibility" by allowing funding from selected programs to be moved to better meet the needs of the districts.
- ◆ Rejects the Governor's cuts to Cal Grants, but shifts \$32 million of General Fund costs to the student aid fund.
- ◆ Revises the Quality Education Investments Act (QEIA) allocation of \$48 million for the Community Colleges Career Technical Education program from 2010-11 through 2013-14.

Health

Department of Health Care Services

- ◆ Adopts the May Revise proposal to reduce funding for Medi-Cal by \$323.2 million General Fund in an unallocated cut.
- ◆ Adopts Budget Bill Language to reduce up to \$1 billion in General Fund upon receipt of increased federal funds for Medi-Cal.
- ◆ Adopts the May Revise proposal to reduce payments to private Disproportionate Share Hospitals by 10 percent (\$18.4 million General Fund savings) and also reduces the Distressed Hospital Fund by \$23.9 million (General Fund).
- ◆ Adopts several Medi-Cal pharmacy reforms included in the May Revise for a savings of approximately \$109 million General Fund.
- ◆ Adopts the May Revise proposal to expand long-term care fees for an additional \$18 million in revenue and reduced long-term care rates for a savings of \$75.7 million General Fund.
- ◆ Rejects the May Revise proposal to eliminate Adult Day Health Care (ADHC) benefits and adopts reforms to ADHC programs including a temporary 3-day cap, workgroup and minimum standards on medical necessity, on-site Treatment Authorization Requests, and anti-fraud measures for approximately \$25 million in

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General Fund savings.

- ◆ Rejects the May Revise proposal to eliminate all General Fund support for community clinic programs and reduces General Fund support for these programs by approximately 30 percent – specifically: Rural Health Services (\$2.2 million); Seasonal Migratory Worker Program (\$1.9 million); Indian Health Program (\$1.5 million); and Expanded Access to Primary Care Program (\$4.5 million General Fund and \$3.9 million Proposition 99 funds).
- ◆ Adopts the Governor's proposal to require the department to apply to the federal government for a Medi-Cal waiver in order to implement reforms to the Medi-Cal program including utilizing managed care or other specialized delivery systems of care for vulnerable populations including seniors, people with disabilities, children with significant medical needs, and people with behavioral health problems.
- ◆ Adopts the Governor's proposal to, subject to the approval of the Legislature, require the Department of Health Care Services and the Department of Social Services to develop a plan to centralize eligibility functions of the Medi-Cal, CalWORKs, and Food Stamps programs at the state-level.
- ◆ Authorizes DHCS to maximize federal claiming by claiming federal reimbursement for: 1) expenditures in programs funded by realignment funds including, but not limited to, the County Medical Services Program; 2) expenditures in programs funded by the County Mental Health Services Act; 3) other public expenditures; and, 4) state-only funded programs.

Department of Public Health

- ◆ Eliminates, on a one time basis, all \$18 million in General Fund dollars for the Immunization Program.
- ◆ Rejects the May Revise proposal to eliminate all General Fund support for domestic violence shelter programs but reduces General Fund support by 20 percent, from \$20.4 million to \$16.3 million.
- ◆ Rejects the May Revise proposal to eliminate all General Fund support for Maternal, Child and Adolescent Health (MCAH) programs but makes the following reductions: Black Infant Health Program (\$900,000), Adolescent Family Life Program (\$1.75 million), Local County Maternal and Child Health Grants (\$2.1 million) and MCH state support (\$3.5 million).
- ◆ Adopts the May Revise proposal to suspend the Children's Dental Disease Prevention Program for a General Fund savings of \$2.9 million.
- ◆ Adopts the May Revise proposal to eliminate Proposition 99 funds for County Health Services for a savings of \$25.6 million.

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- ◆ Adopts the May Revise proposal to reduce \$438,000 in Proposition 99 funds from the Asthma Program.
- ◆ Reduces General Fund support for the Alzheimer's Research Centers of California by 50 percent, from \$6.2 million to \$3.1 million.
- ◆ Rejects the May Revise proposal to reduce the AIDS Drug Assistance Program and other Office of AIDS Programs by \$80 million but reduces these programs achieving \$35 million General Fund savings.

Emergency Medical Services Authority

- ◆ Rejects the May Revise proposal to eliminate all General Fund support for the California Poison Control System but reduces General Fund support by 50 percent, from \$5.9 million to \$2.95 million.

Managed Risk Medical Insurance Board

- ◆ Rejects the May Revise proposal to eliminate the Healthy Families Program and to reduce program eligibility from 250 to 200 percent of federal poverty.
- ◆ Reduces \$124 million in General Fund support for the Healthy Families Program and adopts intent language that outside sources of funding support the program.
- ◆ Adopts the May Revise proposal to eliminate \$2.7 million in General Fund support for Certified Application Assistance for the Medi-Cal/Healthy Families joint application.
- ◆ Adopts the May Revise proposal to reduce \$4.9 million in Proposition 99 funding for the AIM program.
- ◆ Adopts the May Revise proposal to reduce \$6.6 million in Proposition 99 funding for the MRMIP program.

Human Services

- ◆ Rejects the Governor's May Revision proposal to eliminate the CalWORKs program and instead cuts roughly \$528 million from the program (\$375 million of which is from the county single allocation), primarily from allowing local control to streamline services to meet current economic realities. Rejects the grant reduction, safety net elimination, and child-only elimination.
- ◆ Commencing July 1, 2011, requires counties to conduct a self-sufficiency review with individuals in CalWORKs who are required to participate in welfare-to-work activities. Requires the county to provide the department with an evaluation of

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the implementation of the self-sufficiency reviews and would require those evaluations to be sent to the Legislature upon receipt from all counties.

- ◆ Commencing July 1, 2011, revises the CalWORKs procedures for imposing sanctions on specified families receiving cash assistance and other services under the CalWORKs program, by including reductions, at specified intervals, in the grant amount of a family that includes a noncompliant individual, in some cases with the maximum grant reduction of 50 percent after the noncompliance has persisted for nine months.
- ◆ Commencing July 1, 2011, revises the CalWORKs time limits applicable for receipt of aid with respect to adults in assistance units to provide that the adult may not receive aid for more than 48 months in any 60-month period. The bill would authorize the adult's return to the assistance unit 12 months after receiving aid for 48 months. In the absence of a sanction, the bill would require the assistance unit's full grant to be restored when the adult returns to the assistance unit.
- ◆ Rejects the May Revision proposals to eliminate virtually all funding for the In-Home Supportive Services (IHSS) Program and to reduce state participation in wages to the minimum wage, but includes savings of over \$100 million for various changes to the program. Effective October 1, 2009, eliminates the Share of Cost state buyout program for those who received it after July 1, 2009. Effective September 1, 2009, limits domestic and related services for recipients with FI rankings in these services below 4, with critical exemptions for high-need recipients, and eliminates services for those with FI scores below 2, again with critical exemptions for high-need and medically fragile recipients.
- ◆ Makes various changes in IHSS to prevent and combat fraud in the program, including requirements of unannounced visits, fingerprinting clients, background checks of providers, making timecard changes, additional provider training, and providing additional resources to the Department of Health Care Services, the Department of Social Services, and to counties to bolster fraud investigation and quality assurance efforts.
- ◆ Makes the cost-of-living adjustments in CalWORKs and SSI/SSP inoperative unless the Legislature takes action in a future year to change this.
- ◆ Starts the process toward the development of a centralized eligibility process, convening as an inclusive stakeholder steering committee to advise on this as a comprehensive plan is developed by the administration. Requires that procurement steps only be taken once the comprehensive plan is approved by the Legislature. This plan must be received 45 days prior to a request from the administration on an appropriation for this purpose.
- ◆ Reduces SSI/SSP grants for couples to the federal minimum, pursuant to the

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Governor's proposal, and reduces grants for individuals by \$5 per month to save \$155 million on an annual basis. This reduction is effective October 1, 2009.

- ◆ Rejects the Governor's elimination of all General Fund support for the Multipurpose Senior Services Program and the Brown Bag program. Approves smaller reductions than proposed by the May Revision for the Linkages Program, or \$2.5 million General Fund from a local assistance budget of \$6 million, and the Alzheimer's Day Care Resource Centers, or \$1.2 million General Fund from a local assistance budget of \$2.84 million.
- ◆ Rejects the Governor's proposal to eliminate the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program. CAPI recipients' grants are aligned with those in SSI/SSP, so the CAPI share of this reduction is approximately \$1 million General Fund.
- ◆ Approves the May Revision proposed reduction of Drug Medi-Cal rates by 10 percent for a General Fund savings of \$8.8 million.
- ◆ Approves the May Revision proposal to eliminate General Fund, or \$90 million, for the Prop. 36 Substance Abuse and Crime Prevention Act and rejects the reduction proposal for the Offender Treatment Program, maintaining \$18 million General Fund. Federal funds are expected to be used to provide similar services to make up about half of the reduction that is sustained here.
- ◆ Approves the May Revision proposal to reduce rates by 10 percent for Group Homes, Foster Family Agencies, and Seriously Emotionally Disturbed for a savings of \$26.6 million General Fund without federal stimulus funds taken into account. Rejects the 10 percent reduction to the Supplemental Clothing Allowance and the Specialized Care Increment rates. Additionally, rejects the May Revision proposed reduction to Child Welfare Services of \$70.7 million General Fund.
- ◆ Approves a reform for the Adoption Assistance Program to tie benefit levels to need, rather than automatically increase them by age, scoring savings of \$900,000 General Fund. Additionally, adopts a \$5 million General Fund reduction to the Transitional Housing Program-Plus programs on a one-time basis.
- ◆ Rejects the May Revision proposal to overhaul Community Care Licensing and eliminate all General Fund support, allowing for Family Child Care Homes to self-certify. Instead rescinds Subcommittees' previous action to approve positions for specific activities and retains a 10% fee increase to raise \$2.1 million in revenue to offset General Fund spending. Takes additional General Fund savings of \$5.3 million as a result of additional federal stimulus funds.

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Natural Resources and Environmental Protection

- ◆ Reduces the Department of Parks and Recreation's operations budget by \$8 million (General Fund). This reduction will be partnered with a combination of special fund loans and reversions of prior year unexpended funds that, together, will have a total General Fund savings of \$70 million. This proposal will result in the closure of roughly 50 state parks. The Department will determine through a cost benefit analysis which parks will be closed and when.
- ◆ Abolishes the California Integrated Waste Management Board, and transfers its duties and responsibilities as well as the California Beverage Recycling Program to the new Department of Resources, Recycling, and Recovery.
- ◆ Approves an \$8 increase in fees for the optional Environmental License Plate and rejects cuts to various resources programs proposed by the Governor.
- ◆ Shifts \$4.4 million in baseline funding for the Department of Fish and Game to implement the Marine Life Protection Act from General Fund to Proposition 84 bond funds.
- ◆ Shifts on a one time basis \$30 million from the Fish and Game Preservation Fund to replace General Fund funded activities at the Department of Fish and Game.
- ◆ Rejects \$40 million (Special Funds) in the California Energy Commission's budget for hydrogen vehicle infrastructure.
- ◆ Approves 15 positions on a 2-year limited term basis to support the Department of Water Resources' Delta Habitat and Conveyance Program with budget bill language stating that no funding can be used for the construction of an alternative conveyance facility.
- ◆ Approves \$100 million in budget year revenue that will be generated with the enactment of a lease to drill for oil in the Tranquillion Ridge Field from an existing platform in federal waters. In exchange for the approval of the lease, the Plains Exploration and Production Company will decommission 3 existing platforms by 2017, shut down and convey Gaviota and Lompoc processing facilities, offset all greenhouse gas emissions from the project and donate 3900 acres of land on the Gaviota coast and in Lompoc Valley to the public.
- ◆ Maintains current levels of funding for the Office of Health Hazard Assessment but shifts \$4.1 million from the General Fund to Special Funds.

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Public Safety

- ◆ Approves \$169 million reduction to the Judicial Branch, which will be absorbed (along with previous cuts to the Judicial Branch's budget that total approximately \$414 million) by such measures as one-day per month court closures, redirection of funds designated for court initiatives such as IT projects and construction, utilizing trial court reserves, and various increases to court fees.
- ◆ Approves total solutions for the Department of Corrections and Rehabilitation (CDCR) of \$1.2 billion (which includes plan to deal with \$400 million vetoed from the budget passed in February).
- ◆ Reduces \$50 million by capping the amount that the CDCR can reimburse providers for outside contract medical services.
- ◆ Restores \$20 million to the Department of Justice's (DOJ) budget to support forensic lab services.
- ◆ Restores \$20 million to DOJ's budget to support the DOJ's Bureau of Narcotics Enforcement.

General Government

- ◆ Accepts the Governor's proposal to sell a portion of the State Compensation Insurance Fund (SCIF), which is expected to generate about \$1 billion in revenues.
- ◆ Rejects the Governor's proposal to cut state employee compensation by another 5 percent (state employees are already experiencing a pay reduction of over 9 percent), but instead defers the June 30 pay check until July 1 to generate a one-time savings estimated to be \$1.2 billion. This would be similar to the roughly \$4 billion of deferrals included in the Proposition 98 budget.
- ◆ Sweeps the Workforce Development Fund for \$6 million in General Fund revenue.
- ◆ Eliminates the Rural Health Care Equity Program for \$17.2 million in savings in 2009-10, with ongoing savings of approximately \$15 million.
- ◆ Scores \$100 million in savings from a 2 month holiday in PPO premiums for the state.
- ◆ Shifts \$40 million in General Fund costs for the Department of Industrial Relations to Special Funds funded through fees for 4 years.
- ◆ Suspends funding of Capitol repairs for a one time savings of \$5 million.

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- ◆ Scores \$100 million to recognize savings from the Governors IT Reorganization Plan.
- ◆ Scores \$50 million in savings from lower than expected health premium rates for state employees.
- ◆ Approves a \$6.8 million General Fund loan, to be repaid within the 2009-10 fiscal year out of American Recovery and Reinvestment Act (ARRA) funding, to establish an ARRA Task Force and Inspector General within the Department of Finance.
- ◆ Approved \$3 million to provide funding necessary to meet the requirements of the Citizens Redistricting Initiative (Proposition 11).
- ◆ Approves \$450,000 of Proposition 63 funding to support mental health needs of the California National Guard.
- ◆ Prohibits automatic increases in funding for the UC, CSU, judiciary, and state operations unless otherwise provided for in the budget act.
- ◆ Establishes the California National Guard Education Assistance Award Program to enhance retention within the California National Guard, contingent upon appropriation by the Legislature.
- ◆ Generates \$2.8 million by removing the income caps on member fees for all levels of care at California Veterans Homes, establishing a separate fee structure for the Residential Care for the Elderly level-of-care in which the member income contribution percentage is set to 55 percent, as well as setting a new level of member fees for non-veteran spouses who enter veteran's homes on or after July 1, 2009.

State Controller

- ◆ Approves the May Revision increase of \$22.4 million (\$7.2 million General Fund) and 7 positions to implement the first year of a re-procurement of the Human Resources Management System (21st Century Project). This amount is in addition to \$9.6 million (General Fund) and 80.6 positions included as a placeholder in the 2009-10 enacted budget. The former primary contractor for this information technology project was terminated for non-performance. Continuation of the project will make use of work already done and protect the state's claims against the former contractor.

California Tax Credit Allocation Committee

- ◆ Approves May Revision increase of \$517 million of federal funds provided by the American Recovery and Reinvestment Act (ARRA) for tax credit programs to stimulate the production of affordable rental housing for low-income families and

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households. This amount is in addition to \$550 million in the current year, which was the subject of a recent Section 28.00 notification to the Legislature—making a total of \$1.1 billion of new tax credit financing available for low-income housing.

Franchise Tax Board

- ◆ Reduces by \$4.8 million and 69 positions to reflect the suspension of the Senior Citizens' and Disabled Homeowners and Renters Assistance Program. Funding for payments under the program was vetoed in the current year and was not included in the 2009 Budget Act. This reduction recognizes administrative savings due to program suspension.
- ◆ Approves \$5.2 million, as requested in an April Finance Letter, for the Enterprise Data to Revenue (EDR) Project. This cost will be offset by \$7 million of additional revenue in 2009-10. More significantly, this multiyear information technology project will generate an estimated \$2.8 billion of revenue over the project timeline. The budget also includes reporting language.
- ◆ Adds \$354,000 to implement backup withholding to conform to federal practice (see discussion in the Revenue section of this report).

State Board of Equalization

- ◆ Rejects a May Revision proposal to redirect \$965,000 (\$454,000 General Fund) savings resulting from increased e-filing to implement the Return Process Efficiencies information technology project because the return on this expenditure is relatively low in the context of the current budget shortfall.
- ◆ Rejects an April Finance Letter request to reallocate \$6.4 million of sales tax administrative costs from local governments to the state General Fund and \$880,000 for additional staff. These requests were related to implementation of the temporary 1-cent increase in the state sales and use tax rate adopted in February. Although, the normal cost allocation methodology would have shifted the cost to the state due to temporary increase in state revenues, there was no actual increase in costs. Trailer bill language provides an exception to the usual cost allocation methodology for this temporary sales tax increase.
- ◆ Reduces by \$285,000 (\$129,000 General Fund) to correct over budgeting for workstations.
- ◆ Adds \$9.6 million (General Fund) to register non-retail businesses in order to increase compliance by businesses with the use tax (see discussion in the Revenue section of this report).

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Business Transportation and Housing Agency

- ◆ Eliminates authority from the Business Transportation and Housing Agency to make new loans and investments from the California Small Business Expansion Fund and Trust Fund. Additionally, allows the Department of Finance to transfer funds to the General Fund that is not needed to guarantee existing loans. This transfer will provide \$10 million in General Fund savings.
- ◆ Transfers all unencumbered funds and proceeds from future loan repayments from the Chrome Plating Pollution Prevention Fund to the General Fund. This transfer will provide \$3.5 million to the General Fund in 2009-10.

Local Government

- ◆ **Proposition 1A Suspension.** Approves the Governor's proposal to borrow \$1.935 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension will divert an amount equal to 8 percent of the total property tax revenues received by cities, counties and special districts in 2008-09 (excluding debt levies). This amount will be redirected from local agencies to a Supplemental Revenue Augmentation Fund (SRAF) in each county to be used by the County Offices of Education during 2009-10, as directed by the Department of Finance, to reimburse the state for a portion of the cost of Medi-Cal and other state services provided within each county and for additional property tax allocations to K-12 school districts in each county in an amount that will reduce state General Fund Proposition 98 obligations to the maintenance of effort level required by the federal American Recovery and Reinvestment Act.
 - **Securitization.** The state will repay the suspension amounts with interest no later than June 30, 2013, as required by the constitution. However, the trailer bill includes a securitization mechanism that is intended to avoid any actual reduction in local revenues. Under this mechanism, a joint powers authority will issue notes backed by the state's repayment obligation and use the proceeds to replace the diverted property taxes of all of the local agencies that choose to participate in the securitization. Moreover, the state will pay all of the costs of the securitization; including payment of an interest rate of up to 8 percent for an issuance amount of up to \$2.25 billion (the principal amount cap includes the potential cost of credit enhancements and issuance in addition to the \$1.935 billion suspension amount). The trailer legislation appropriates money from the General Fund to make the Proposition 1A repayments or pay off the securitization borrowing. As an alternative to participating in the joint securitization, local agencies may choose to take their property tax reduction in 2009-10, and then be repaid by the state directly at an interest rate that will be set by the Department of Finance, subject to a cap of 6 percent. This option is intended to provide an incentive for local agencies

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that have adequate resources of their own or that have better credit than the state to finance their suspension amount on their own, rather than as part of the joint securitization, which essentially will be a state credit and probably will be expensive given the state's poor credit rating.

- ***Hardship and Special Provisions.*** The trailer bill includes an extreme hardship provision that allows local agencies in or in danger of bankruptcy or unable to provide core services to apply to the Department of Finance for a reduction or elimination of their property tax suspension. The department may grant hardship suspension reductions or eliminations totaling up to 10 percent of the total suspension amount in any county. Any hardship amounts will be reallocated to all of the other local agencies in the county, so the total suspension amount remains unchanged. However, hardship reallocations should not be necessary, assuming that the securitization takes place since there would not be any (or only a brief temporary) loss of revenue to the participating local agencies in that case. The legislation also includes provisions allowing the City of Long Beach to borrow from its tideland trust subsidence fund and for counties to borrow from their redevelopment agencies to cover the suspension amounts if they choose to do so.
- ◆ **Redevelopment Payments.** Provides \$1.7 billion of General Fund savings in 2009-10, and \$350 million in 2010-11 by requiring payments by redevelopment agencies (RDAs) to counties for allocation to K-12 schools and county offices of education to help support schools and programs that serve residents of the redevelopment areas or that live in redevelopment-financed housing. Redevelopment agencies may suspend their contributions to their Low and Moderate Income Housing Funds in 2009-10 in order to help finance their payments or they may use other available funds or borrow from their parent city or county. Any RDA that fails to restore their Low and Moderate Income Housing Funds by June 30, 2015 will be subject to a 5 percent increase in their required annual housing set-aside (generally increasing the set-aside from 20 percent to 25 percent). RDAs may extend their time limits for plan effectiveness and for receipt of tax increment revenues by one year after they meet their payment obligation for 2009-10. County auditors will reduce AB 8 property tax allocations to school districts in an amount equal to the additional property tax payments to schools financed from the RDA payments, and, instead, deposit these amounts into the Supplemental Revenue Augmentation Fund (SRAF) in each county, to be used to offset state General Fund costs in the same manner as the Proposition 1A suspension funds discussed above.
- ◆ **Securitization of Redevelopment Extension Revenues.** Includes trailer bill legislation to extend for 35 or 40 years (pre-1994 projects) redevelopment projects for which RDAs do not exercise an opt-out option. This would be done without a new finding of blight. Existing limits on redevelopment debt and limits on the amount of tax increment property tax that they can receive would be

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eliminated. RDAs that do not opt-out would be required to pay 10 percent of the their tax increment revenues to their county Educational Revenue Augmentation Fund (ERAF) and these funds subsequently would be transferred to a state ERAF administered by the state Infrastructure and Economic Development Bank. The bank would sell its right to these payments to a nonprofit special purpose entity, which would, sell bonds backed by that stream of revenue to pay the bank. The bond proceeds paid to the bank would be available for General Fund purposes. These provisions would not take effect until January 1, 2010, and then, only if the bank determines that at least \$7.4 billion can be raised through this mechanism and there is a court determination that these provisions are constitutional (both occurring by December 1, 2009). The first use of any proceeds would be to eliminate or repay the Proposition 1A suspension amounts and the transfers of Highway Users Tax Account (HUTA) funds that are part of this budget.

- ◆ **State Mandated Local Programs.** Adopts most of the Legislative Analyst's recommended revisions to the May Revision proposal to defer payments by suspending 31 local mandates. The budget package suspends 25 mandates and defers \$65.6 million of payments. The budget package retains mandates requiring consistent voting procedures, including making absentee ballots available to all voters. It recasts one victims' rights mandate to reflect recent voter-approved measures (thereby eliminating future state payment obligations), retains the Open Meetings Act mandate and suspends the enhanced holding period under the animal adoption mandate (while retaining the prior 3-day holding requirement). Deferred payments will continue to be state obligations to local governments but will be deferred to a future time. Proposition 1A (of 2004) generally requires the Legislature to suspend mandates if valid claims from prior years are unpaid. For suspended mandates, local governments would not be required to comply with them in 2009-10 and would not be entitled to future reimbursements for any costs that they choose to undertake that year. The \$76.4 million of funding that would remain is the amount needed to pay for essential law-enforcement, tax administration and voting process mandates in order to avoid suspension of those mandates in 2009-10.
- ◆ **Williamson Act.** Reduces state subventions to local governments (primarily counties) under the Williamson Act Program by 20 percent from the amount provided in the 2009-10 Budget Act. This results in a General Fund savings of \$6.9 million. Under this longstanding program, the state backfills a portion of the revenue lost by local governments when they enter into contracts with land owners to limit property tax assessments for lands that are maintained as open space or agriculture lands.

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Revenue

General Fund Tax Enforcement and Acceleration Provisions

- ◆ Adopts Governor's May Revision proposal to accelerate \$610 million of Personal Income Tax and Corporation Tax revenues into 2009-10 by increasing the June (second) quarterly estimated payment from the current 30 percent of annual tax liability to 40 percent, beginning June 2010. The percentage due with the first quarterly estimated tax payment (due in April) is 30 percent, so the total amount due in the first half of the year would be 70 percent. However, the proposal would eliminate the third quarterly estimated payment (now 20 percent of annual liability) and increase the final quarterly payment (due in December) from the current 20 percent to 30 percent of annual tax liability.
- ◆ Adopts the Governor's May Revision proposal to increase payroll withholding schedules by 10 percent, effective January 2010, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10.
- ◆ Requires non-retailers with receipts over \$100,000 annually to register with Board of Equalization. Businesses that provide services will be required to register with the board and file annual use tax returns by April 15. The annual use tax return and payment applies to purchases on which sales tax was not collected (generally from out-of-state sellers), excluding vehicles, vessels and aircraft. This provision increases compliance, but does not change tax liabilities. Provisions reflect AB 711 (Calderon). The estimated General Fund revenue gain is \$26 million in 2009-10, \$122 million in 2010-11, and potentially larger amounts in future years as compliance improves. There will also be increased local sales and use tax revenues.
- ◆ Requires backup withholding. This generally conforms California to federal income tax backup-withholding rules related to various non-wage payments. Requires a business to withhold 7 percent of reportable payments of interest, dividends, compensation for services, and other forms of income if the IRS determines a condition for withholding exists (such as significant underreporting of non-wage payments by the recipient on tax returns). Provisions reflect AB 1848 (Ma) of 2008. The requirement of improved compliance results in an annual revenue gain of \$26 million.

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Transportation

- ◆ Accepts the Governor's proposal to shift approximately \$1 billion of transportation revenues from local governments and instead use the funds to pay debt service on transportation bonds. The shift will be in place for two years instead of the Governor's permanent proposal. Proposition 1B funds will be accelerated to mitigate the impact of this cut on local governments. Exemptions will be provided to small cities, and further exemptions may be granted by the department of finance for locals demonstrating hardship. This proposal could be eliminated if RDA funds are able to be securitized to provide these savings instead, as discussed under local government above.
- ◆ Accepts the Governor's proposal to shift approximately \$300 million of public transit funds from home-to-school transportation to repay public transportation bonds. Most of the funds for home-to-school transportation will be made up through Proposition 98 funds.
- ◆ Recognizes the updated revenue estimates of the February budget cut to public transportation, which provides over \$300 million in General Fund savings.
- ◆ Includes the LAO proposals to borrow \$134 million from the State Highway Account, which will be repaid within three fiscal years, and transfer \$70 million from the Motor Vehicle Account to the General Fund.
- ◆ Suspends local airport grants for \$4 million in savings.
- ◆ Provides full funding to the High Speed Rail Authority (\$139 million) from Proposition 1A bond funds.

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**General Fund Budget Package Summary
With Solutions
(Dollars in Millions)**

	2008-09	2009-10
Prior Year Balance	\$4,070	-\$3,493
Revenues and Transfers	<u>\$84,098</u>	<u>\$89,586</u>
Total Resources Available	\$88,168	\$86,093
Non-98 Expenditures	\$57,609	\$49,061
Prop-98 Expenditures	\$34,052	\$35,032
	<u> </u>	<u> </u>
Total Expenditures	\$91,661	\$84,093
Fund Balance	-\$3,493	\$2,000
Budget Reserves:		
<i>Reserve for Liquidation of Encumbrances</i>	\$1,079	\$1,079
Final Reserve	-\$4,572	\$921

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Budget Package Bill List

Bill #	Description
	4th Extraordinary Session
SB 1/AB 1	Changes to 2009-10 Budget
SB 2/AB 2	Education / Higher Education
SB 3/AB 3	Education: 2008-09 Reversion, Certification
SB 4/AB 4	Human Services
SB 5/AB 5	Health
SB 6/AB 6	Medi-Cal Managed Care
SB 7/AB 7	Centralized Eligibility
SB 8/AB 8	CalWORKs Policy, IHSS Fraud, COLA Changes
SB 9/AB 9	Developmental Disabilities
SB 10/AB 10	Transportation
SB 11/AB 11	Resources
SB 12/AB 12	General Government
SB 13/AB 13	Public Safety / Judicial
SB 14/AB 14	Prop 1A / RDAs
SB 15/AB 15	Prop 1A Payback
SB 16/AB 16	Cash Deferrals
SB 17/AB 17	Revenues #1
SB 18/AB 18	Revenues #2
SB 20/AB 20	Boards Consolidations and Eliminations
SB 21/AB 21	Procurement
SB 22/AB 22	Asset Management
SB 23/AB 23	Tranquillon Ridge
SB 25/AB 25	Cash Management
SB 26/AB 26	RDA Shift
SB 27/AB 27	RDA Securitization
SB 30/AB 30	HUTA
	Regular Session
SB 63/AB 181	Integrated Waste Management Board
SB 90	Supplemental Appropriations