

California STATE BUDGET 2012-13



EDMUND G. BROWN JR. GOVERNOR, STATE OF CALIFORNIA

INTRODUCTION

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. It builds upon important reforms enacted last year—public safety realignment and the elimination of redevelopment agencies. It reforms welfare to refocus the program on returning individuals to work, merges the delivery of services for those who are eligible for both Medi-Cal and Medicare to reduce costs and improve services, and overhauls California’s correctional system. The Budget also protects education and public safety programs, makes government more efficient and less costly, moves government closer to the people, and pays down debt.

While the state continues to face budget risks and pressures, the plan puts California on its most stable financial footing in years. Under current projections, the Budget would be balanced on an ongoing basis for the first time in over a decade. This fiscal stability will make California more attractive for business, investment, and the creation of jobs.

The Budget reinvests in schools and universities. Spending for K-14 schools increases by 14 percent—providing \$6.7 billion in additional funding, \$6.1 billion to schools and \$570 million to community colleges. The University of California and the California State University are provided increased funding in 2013-14, contingent upon the passage of The Schools and Local Public Safety Protection Act, to hold tuition level next year.

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General Fund spending outside of Proposition 98 is projected to decline by \$1.5 billion, or 2.8 percent, excluding a required repayment of \$2.1 billion the state borrowed from local government in 2009. At its peak in 2007-08, General Fund spending was \$103 billion. Given the deep spending cuts included in the 2011 Budget and the 2012 Budget, overall General Fund spending is now \$91.3 billion, \$11.6 billion lower than five years earlier. General Fund spending as a share of the economy is down to its lowest level since 1972-73. By the same measure, total state spending is at the same level as the mid-1990s.

CLOSING THE BUDGET GAP

In closing the \$15.7 billion gap, the Budget relies on deep spending reductions combined with temporary taxes and other actions. In total, as shown in Figure INT-01, the Budget reduces expenditures by \$8.1 billion. Temporary taxes assumed to be approved by the voters at the November election and other targeted revenue increases total \$6 billion. Other solutions of \$2.5 billion were also adopted. The total of \$16.6 billion in changes balances the Budget and leaves the state with a reserve of nearly \$1 billion.

Figure INT-01
Closing the Budget Gap
(Dollars in Millions)

	Two-year total	%
Expenditure Reductions	\$8,089	49
Revenues	6,033	36
Other	2,518	15
Total Solutions	\$16,640	

The Budget permanently reduces spending to a sustainable level, protects education and public safety to the greatest extent possible, and provides a basic safety net for the most vulnerable. Figure INT-02 details the reductions included in the Budget. While cutting spending, the Budget also restructures programs to improve outcomes and reduce spending:

- Reforms CalWORKs by establishing a 2-year time limit for parents who are not meeting federal work requirements. (Savings of \$469 million.)
- Merges the delivery of services for those who are eligible for both Medi-Cal and Medicare to reduce costs and improve the coordination of services. (Savings of \$612 million.)

- Eliminates the Healthy Families Program and transitions children to Medi-Cal to build a unified and simpler system that provides health care at a lower cost. (Savings of \$13 million.)
- Restructures funding for trial courts and makes funding for the Judiciary more transparent. The state assumed funding responsibility for trial courts in 1997. The Budget alters the funding structure for trial courts consistent with the goals of the reform legislation. (Savings of \$544 million.)

Figure INT-02
Budget Balancing Proposals
(Dollars in Millions)

Expenditure Reductions ^{1/}

Health and Human Services

Medi-Cal	\$1,234.0
CalWORKs	469.1
In-Home Supportive Services	52.2
Other Health and Human Services Programs	91.2

Education

Proposition 98	1,885.7
Child Care	294.3
Cal Grant Program	133.5
Other Education	35.7

All Other Reductions

Redevelopment Assets	1,479.0
State Mandates	828.3
Judiciary	544.0
Employee Compensation	528.6
Other Reductions	513.5

Expenditure Reductions

\$8,089.1 49%

Revenues

Temporary Taxes	\$5,579.8
Other Revenues	453.5

Revenues

\$6,033.3 36%

Other

Loan Repayment Extensions	\$1,158.3
Transfers and Loans from Special Funds	612.2
Additional Weight Fee Revenues	385.2
Unemployment Insurance Interest Payment	312.6
All Other	49.5

Other

\$2,517.8 15%

Total

\$16,640.2

^{1/} Includes Vetoes

INTRODUCTION

- Prohibits colleges and universities that are unable to meet minimum performance standards from participating in the Cal Grant Program. Phases in additional cost-containment measures over time. (Savings of \$134 million.)
- Reforms the state process for K-14 education mandates by providing a block grant as an alternative to the existing, inefficient claiming process. For nonschool mandates, provides a multiyear suspension of most mandates to provide greater flexibility to local governments. (Savings of \$729 million.)

The Budget also reflects the following spending reductions:

- Reduces the cost of state employee compensation by 5 percent. (Savings of \$402 million.)
- Implements various reductions to hospital and nursing home funding to lower Medi-Cal costs. (Savings of \$432 million.)
- Reduces funding for child care programs and eliminates 14,000 child care slots. (Savings of \$294 million.)
- Creates a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services. Assets transferred to schools will offset General Fund costs. (Savings of \$1.5 billion.)
- Makes various adjustments, including using a 2011-12 overappropriation of the minimum guarantee to prepay Proposition 98 funding required by a court settlement. (Savings at \$1.9 billion.)

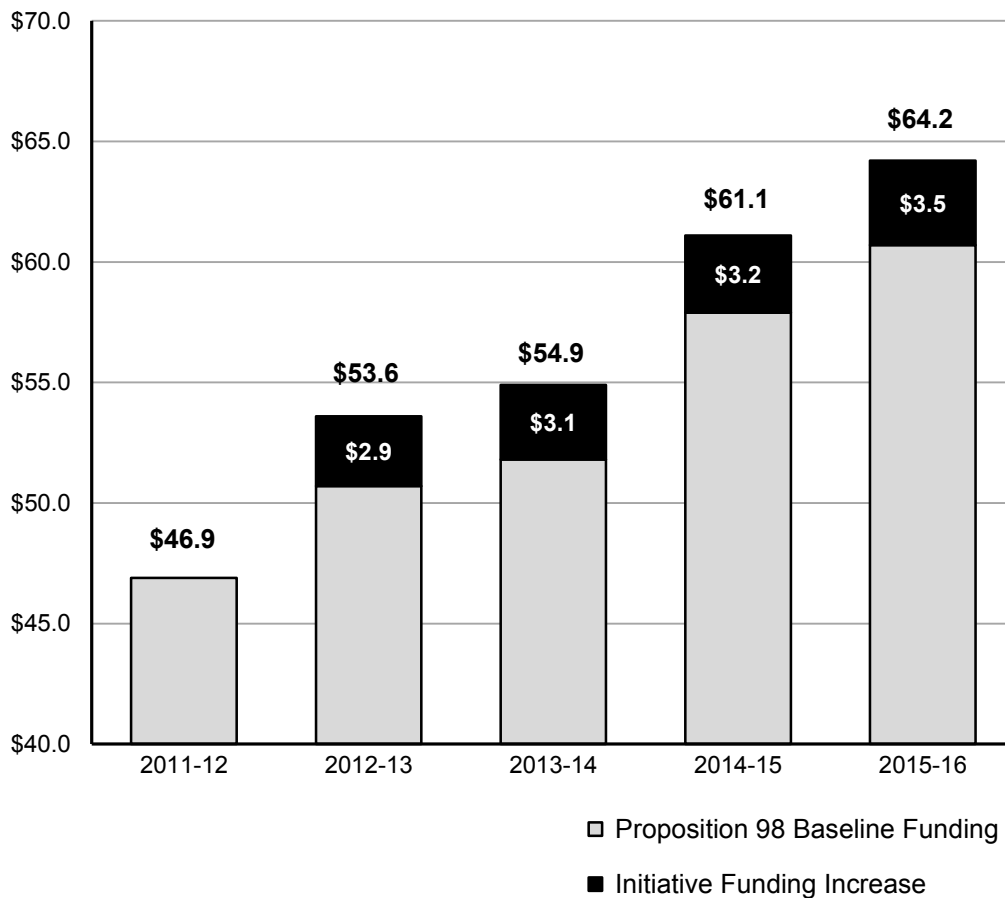
TEMPORARY TAXES TO PROTECT EDUCATION AND PUBLIC SAFETY

The Budget assumes the passage of The Schools and Local Public Safety Protection Act at the November election. The measure temporarily increases the personal income tax on the state's wealthiest taxpayers for seven years and increases the sales tax by one-quarter percent for four years. The measure guarantees these new revenues to schools. The measure will generate an estimated \$8.5 billion through 2012-13. These revenues will enable the state to meet its existing Proposition 98 obligation and to increase funding for schools and community colleges by an additional \$2.9 billion. The measure will provide a net benefit to the General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees the 2011 Realignment funds for local

public safety. The measure will prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the Budget.

The Budget reverses years of cuts in funding for schools and community colleges. As shown in Figure INT-03, K-14 education funding would increase by \$17.2 billion, or 37 percent, and per pupil funding would increase by over \$2,500 in the next four years. The measure will enable the state to reduce the payments to schools that are deferred each year from \$10.4 billion to \$8.2 billion.

Figure INT-03
K-14 Funding Increases by \$17 Billion Over 4 Years
 (Dollars in billions)



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The budget plan dedicates \$250 million in future funding to hold tuition at the state's universities level. Contingent upon the passage of the Governor's tax initiative, an adopted 9 percent tuition hike at the California State University would be rolled back and tuition at the University of California would remain flat for the upcoming academic year.

ALTERNATIVE TO REVENUES IS DEEPER CUTS

The California Constitution requires that the annual state budget be balanced. To pay the state's bills on time, the Budget must be credible and financeable. After more than a decade of putting off dealing with its budget problems, the state must restore a long-term balance between its revenues and spending. Consequently, the Budget includes a backup plan—trigger cuts—if the ballot measure is not approved.

To balance the Budget in an ongoing manner, the deep reductions enacted over the past two years must be maintained. Without additional revenues, deeper cuts will be required. As education spending accounts for more than 50 percent of General Fund spending and the Budget substantially increases K-14 spending and protects the University of California and California State University from deeper cuts, schools and universities would be most affected if the tax initiative fails in November.

The ballot trigger cuts totaling \$6 billion, as summarized in Figure INT-04, would go into effect on January 1, 2013 if The Schools and Local Public Safety Protection Act is not approved by voters in November:

Figure INT-04
Ballot Trigger Reductions
(Dollars in Millions)

Expenditure Reductions	2012-13
Proposition 98	\$5,353.8
University of California ^{1/}	250.0
California State University ^{1/}	250.0
Developmental Services	50.0
City Police Departments: Grants	20.0
Department of Forestry and Fire Protection	10.0
Flood Control	6.6
Local Water Safety Patrol	5.0
Fish and Game: Non-Warden Programs	2.5
Park Lifeguards	1.4
Fish and Game: Wardens	1.0
Department of Justice	1.0
Park Rangers	0.1
Total	<u>\$5,951.4</u>

^{1/} This level of savings may be offset by Cal Grant increases if the universities raise tuition.

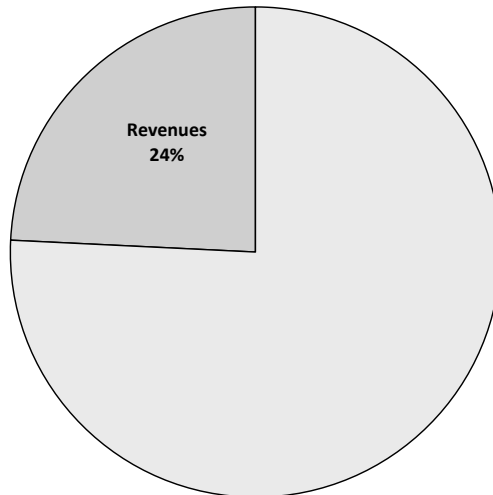
- Funding for schools and community colleges would be reduced by \$5.4 billion. A reduction of this magnitude would result in a funding decrease equivalent to the cost of three weeks of instruction. The cut would also continue to provide 20 percent of program funds a year in arrears.
- The University of California and California State University would each be reduced by \$250 million.

If the ballot measure is not approved, the state would reduce funding for a variety of public safety programs. Grants to local law enforcement for water safety patrol would be reduced, and grants for city police would be eliminated. The Department of Forestry and Fire Protection's firefighting capabilities would be reduced. The number of the state's public safety officers in the departments of Parks and Recreation (park rangers) and Fish and Game (wardens) would be reduced, and the state would no longer staff its beaches with lifeguards. Flood control programs in the Department of Water Resources would be cut, which would reduce channel and levee maintenance and floodplain mapping. The Department of Justice's law enforcement programs would be reduced. Services to individuals with developmental disabilities would be reduced.

RESTORING AND MAINTAINING FISCAL STABILITY

Over a year ago, the state faced estimated annual gaps between spending and revenues of roughly \$20 billion. The state's fiscal challenges were exacerbated by unprecedented levels of debts, deferrals, and budgetary obligations accumulated over the prior decade. The 2011 and 2012 budgets have rejected the past approach of over-relying on one-time solutions. As shown in Figure INT-05, the last two budgets addressed this deficit through three dollars of ongoing spending reductions for every dollar of tax increases. Specifically, 76 percent of the structural deficit has been addressed through spending cuts in health and human services, corrections, education, and other areas. Under current projections, and assuming voter approval of The Schools and Local Public Safety Protection Act, the Budget will be balanced in an ongoing manner. This represents the first time in over a decade that future spending is expected to stay within available revenues.

Figure INT-05
2011 and 2012 Actions Balance Budget on an Ongoing Basis



The two budgets reflect the following:

- Realigning public safety programs to bring government closer to the people. The 2012 Budget implements a permanent allocation structure for future realignment revenues.
- Implementing a downsizing plan for the California Department of Corrections and Rehabilitation. The plan is intended to satisfy the U.S. Supreme Court’s order requiring reduced crowding and end federal court oversight in health care and other areas. It will reverse the trend of prison spending consuming a growing percentage of the General Fund budget. Over time, spending will decline from 11 percent to 7.5 percent of the General Fund.
- Eliminating redevelopment agencies to increase funding for schools, police, fire, and other core local services.
- Refocusing the state’s welfare program on getting people back to work. The total number of months an adult can receive a monthly cash benefit has been reduced from 60 months to 48 months. Furthermore, the benefit is only provided to the adult for up to 24 months unless the individual is meeting federal work requirements.
- Making tough cuts across state government. Grants to low-income seniors and persons with disabilities (State Supplementary Payment) have been reduced

to 1983 levels. CalWORKs grants have been reduced to below 1987 levels. General Fund support for the state's universities was cut by nearly 25 percent. The Williamson Act subventions, the child care and dependent tax credit, and the Healthy Families Program were eliminated.

The Administration has focused on shrinking state government and making it more efficient. These changes will help the state keep its budget balanced for the long term. Progress includes:

- Reducing the state workforce by more than 30,000 positions on a permanent basis. The state workforce is at its lowest level as a share of the state's population in almost a decade. California already had the nation's fifth lowest level of government employment in 2010.
- Eliminating over 50 boards, commissions, task forces, offices, and departments.
- Reorganizing state government to improve the management and coordination of government activities, facilitate further efficiencies and reduce costs. The Administration's reorganization plan is scheduled to go into effect in July. The plan cuts the number of state agencies from 12 to 10 and consolidates and aligns related programs and departments.
- Reducing the wall of debt of budgetary deferrals and borrowing from \$35 billion a year ago to less than \$9 billion by the end of 2015-16 under the budget plan.
- Overall General Fund spending is down from its peak of \$103 billion in 2007-08 to \$91.3 billion, a decrease of \$11.6 billion, or 11.3 percent. As a share of the economy, General Fund spending is at its lowest level since 1972-73.
- Overall, as a share of the economy, total state spending is at the same level as in the mid-1990s. However, since 2007-08, spending has increased by \$4.4 billion, or 3.2 percent due to four programs—the imposition of the hospital fee, the payoff of borrowing from local governments authorized in 2009, the start of cap and trade revenue collections, and the expected construction of high speed rail. All other spending is down by nearly 5 percent over the period.

Even with this plan, risks to the budget remain. Potential cost increases associated with actions to reduce the federal deficit, federal government and court decisions, the pace of the economic recovery, an aging population, and rising health care costs all threaten the ability of the state to achieve and maintain a balanced budget over the long term. In addition, the exact level of capital gains and income growth for top earners remains uncertain. The scope of these risks and uncertainties underscores how important it is to hold the line on spending, both now and into the future.

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SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure SUM-01
General Fund Budget Summary
Adopted Budget
(Dollars in Millions)

	<u>2011-12</u>	<u>2012-13</u>
Prior Year Balance	-\$2,685	-\$2,882
Revenues and Transfers	<u>\$86,830</u>	<u>\$95,887</u>
Total Resources Available	\$84,145	\$93,005
Non-Proposition 98 Expenditures	\$53,938	\$54,534
Proposition 98 Expenditures	<u>\$33,089</u>	<u>\$36,804</u>
Total Expenditures	\$87,027	\$91,338
Fund Balance	-\$2,882	\$1,667
Reserve for Liquidation of Encumbrances	\$719	\$719
Special Fund for Economic Uncertainties	-\$3,601	\$948
Budget Stabilization Account	-	-
Total Available Reserve	-\$3,601	\$948

Figure SUM-02
General Fund Budget Summary
Problem Definition
(Dollars in Millions)

	<u>2011-12</u>	<u>2012-13</u>
Prior Year Balance	-\$2,508	-\$6,879
Revenues and Transfers	<u>\$83,238</u>	<u>\$88,137</u>
Total Resources Available	\$80,730	\$81,258
Non-Proposition 98 Expenditures	\$54,195	\$59,074
Proposition 98 Expenditures	<u>\$33,414</u>	<u>\$37,157</u>
Total Expenditures	\$87,609	\$96,231
Fund Balance	-\$6,879	-\$14,973
Reserve for Liquidation of Encumbrances	\$719	\$719
Special Fund for Economic Uncertainties	-\$7,598	-\$15,692
Budget Stabilization Account	-	-
Total Available Reserve	-\$7,598	-\$15,692

Figure-SUM-03
2012-13 Revenue Sources
(Dollars in Millions)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Total</u>	<u>Change From 2011-12</u>
Personal Income Tax	\$60,268	\$1,338	\$61,606	\$7,569
Sales and Use Tax	20,605	10,390	30,995	2,338
Corporation Tax	8,488	-	8,488	280
Highway Users Taxes	-	5,670	5,670	39
Motor Vehicle Fees	27	5,705	5,732	-158
Insurance Tax	2,089	436	2,525	112
Estate Tax	45	-	45	45
Liquor Tax	337	-	337	6
Tobacco Taxes	90	757	847	-29
Other	3,938	12,719	16,657	1,673
Total	\$95,887	\$37,015	\$132,902	\$11,875

Note: Numbers may not add due to rounding.

Figure-SUM-04
2012-13 Total Expenditures by Agency
(Dollars in Millions)

	<u>General Fund</u>	<u>Special Funds</u>	<u>Bond Funds</u>	<u>Totals</u>
Legislative, Judicial, Executive	\$2,056	\$3,081	\$220	\$5,357
State and Consumer Services	689	716	14	1,419
Business, Transportation & Housing	448	7,698	8,744	16,890
Natural Resources	1,900	2,459	876	5,235
Environmental Protection	46	1,043	213	1,302
Health and Human Services	26,695	18,639	159	45,493
Corrections and Rehabilitation	8,887	31	1	8,919
K-12 Education	37,848	88	949	38,885
Higher Education	9,432	41	495	9,968
Labor and Workforce Development	342	398	-	740
General Government				
Non-Agency Departments	487	1,669	3	2,159
Tax Relief/Local Government	2,531	1,716	-	4,247
Statewide Expenditures	-23	1,830	-	1,807
Total	\$91,338	\$39,409	\$11,674	\$142,421

Note: Numbers may not add due to rounding.

Figure SUM-05
2012-13 Vetoes by Agency
General, Special, and Bond Funds
(Dollars in Millions)

	Legislative Spending Plan	General Fund Vetoes	Special Fund and Bond Fund Vetoes	Totals
Legislative, Judicial, Executive	\$5,357	-	-	\$5,357
State and Consumer Services	1,419	-	-	1,419
Business, Transportation & Housing	16,894	-	-4	16,890
Natural Resources	5,256	-	-21	5,235
Environmental Protection	1,302	-	-	1,302
Health and Human Services	45,521	-28	-	45,493
Corrections and Rehabilitation	8,919	-	-	8,919
K-12 Education	38,969	-84	-	38,885
Higher Education	9,991	-23	-	9,968
Labor and Workforce Development	740	-	-	740
General Government				
Non-Agency Departments	2,161	-2	-	2,159
Tax Relief/Local Government	4,247	-	-	4,247
Statewide Expenditures	1,799	8	-	1,807
Total	\$142,575	-\$129	-\$25	\$142,421

Note: Numbers may not add due to rounding.

REVENUE ESTIMATES

The 2012 Budget Act General Fund revenue forecast is \$86.8 billion for 2011-12 and \$95.9 billion for 2012-13.

The Budget Act is based on the assumed passage of the Governor's tax initiative. The Governor's proposal temporarily increases income tax rates on the highest income Californians, and temporarily increases the Sales and Use Tax rate by 0.25 percent. These two provisions result in a revenue increase of \$8.5 billion for the Budget. The Governor's initiative will replace some of the revenues lost in the recession as the state's economy slowly recovers.

ADOPTED SOLUTIONS

The Budget includes the following new policy changes that will affect General Fund revenue:

- *Change Rules Regarding Franchise Tax Board (FTB) Wage Garnishment*—This provision will allow the FTB to issue a wage garnishment against delinquent income tax debt without requiring FTB to record a tax lien. This provision will allow FTB to more efficiently collect outstanding tax debt and provide a benefit to individuals with outstanding tax debts because it removes an incentive for FTB to record a lien. This change is expected to generate \$11 million General Fund revenue in 2011-12 and \$27 million General Fund revenue in 2012-13.

REVENUE ESTIMATES

- *Expansion of Financial Institutions Record Match (FIRM)*—As part of the 2011-12 Budget, FTB was granted authority to use FIRM, which requires financial institutions to participate in a record match process between financial institution customer records and FTB debtor records. The Budget expands this authority to the Board of Equalization and Employment Development Department tax programs to facilitate the collection of delinquent tax debt. This change is expected to generate \$4 million General Fund revenue in 2011-12 and \$11 million General Fund revenue in 2012-13.

K THRU 12 EDUCATION

The Budget includes total funding of \$68.4 billion (\$37.9 billion General Fund and \$30.5 billion other funds) for all K-12 Education programs.

PROPOSITION 98

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

For 2012-13, the Proposition 98 guarantee is \$53.6 billion, of which \$36.8 billion is General Fund. This funding level assumes passage of the Governor's tax initiative, which increases Proposition 98 funding by \$2.9 billion in 2012-13. With the passage of the tax initiative, Proposition 98 funding for K-14 education will grow by more than \$17 billion over four years. This equates to an increase of over \$2,500 per K-12 pupil. This level of funding will allow the state to begin restoring significant reductions that have been imposed on K-12 schools and community colleges since 2007-08. For 2012-13, the Budget will maintain level Proposition 98 programmatic funding for every school district, pay off \$2.2 billion in the amount of payments to schools and community colleges that are deferred each year, and fund the Quality Education Investment Act (QEIA) program within the Proposition 98 guarantee.

The Budget outlines the reductions that would be necessary to restore balance if the Governor's tax initiative is not approved by the voters. Specifically, \$5.4 billion in reductions to schools and community colleges would be triggered in 2012-13. A reduction of this magnitude would result in a funding decrease equivalent to three weeks of instruction in K-12 schools. It will also eliminate the ability for the state to begin repaying funding deferrals, thus continuing the practice of providing 20 percent of annual school and community college program funds in arrears.

The sections that follow provide an overview of K-12 funding adjustments, while the Higher Education section contains the Proposition 98 adjustments for the Community Colleges.

K-12 BUDGET ADJUSTMENTS

ADOPTED SOLUTIONS:

- *Redevelopment Agency Asset Liquidation*—An increase of \$1.3 billion in local property taxes for 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies. The increase in local revenue reduces Proposition 98 General Fund by an identical amount.
- *Proposition 98 Adjustments*—A decrease of approximately \$630 million due to (1) eliminating the hold-harmless adjustment provided to schools from the elimination of the sales tax on gasoline in 2010-11, and (2) using a consistent current value methodology to rebench the guarantee for the exclusion of child care programs, the inclusion of special education mental health services, as well as new and existing property tax shifts. Additionally, the Budget reduces current year appropriations for a number of different programs by \$220.1 million, backfilling them with one-time Proposition 98 General Fund, which achieves General Fund savings of a like amount.
- *Quality Education Investment Act*—A decrease of \$450 million General Fund for 2012-13. The overappropriation in 2011-12 will be used to prepay the \$450 million required to be provided on top of the minimum guarantee in 2012-13 pursuant to the *California Teachers Association v. Schwarzenegger* settlement agreement. The program will be funded within the guarantee to achieve one-time savings of \$450 million for 2012-13. Additionally, savings of \$181 million in 2013-14 and \$40.8 million in 2014-15 are achieved by using the remainder of the current year overappropriation to prepay a portion of the 2013-14 and 2014-15 QEIA obligations.

OTHER CHANGES:

- *K-12 Deferrals*—An increase of \$2.1 billion Proposition 98 General Fund to reduce K-12 inter-year budgetary deferrals from \$9.5 billion to \$7.4 billion.
- *Charter Schools*—An increase of \$53.7 million Proposition 98 General Fund for charter school categorical programs to fund growth in charter school enrollment. In addition to funding growth, legislation expands the ability of school districts to convey surplus property to charter schools, while also increasing financial assistance to charters by allowing county treasurers to provide them with short-term cash loans, and by authorizing charter schools to participate in the temporary revenue anticipation note mechanism already available to schools and county offices of education.
- *Mandates Block Grant*—An increase of \$86.2 million over the 2011-12 funding level to provide a total of \$166.6 million for K-12 mandates through a new voluntary block grant. Participating school districts and county offices of education would receive \$28 per student, while participating charter schools would receive \$14 per student. Districts and county offices of education that choose not to participate in the block grant program would retain their right to submit claims for reimbursement, subject to audit by the State Controller.

CHILD CARE AND STATE PRESCHOOL

Subsidized child care includes a variety of programs that are designed to support low-income families. These programs are primarily administered by the State Department of Education through non-Proposition 98 General Fund and the annual federal Child Care and Development Fund grant.

The state also funds preschool programs for half of the day that are primarily designed as an educational program to help ensure children develop the skills needed for success in school. Families must be income eligible, but in contrast to the rest of the subsidized child care system are not required to demonstrate a need for care.

ADOPTED SOLUTIONS:

- *Reduce Child Care Costs*—The Budget reflects total child care savings of \$294.3 million in non-Proposition 98 General Fund, resulting in the elimination of 14,000 child care slots. The reductions consist of the following:
 - *Include Center-Based Services within the State Preschool Program*—A decrease of \$163.9 million General Fund by including part-day center-based services for 3- and 4 year-olds within the State Preschool Program funded through Proposition 98.
 - *Reduce Provider Contracts Across the Board*—A decrease of \$100 million to reduce child care provider contracts, consisting of the following: (1) \$80 million to reduce contracts across the board by 8.7 percent, excluding CalWORKs Stage 1 and Stage 2 Child Care, resulting in the elimination of 10,600 child care slots, and (2) \$20 million to further reduce voucher-based programs, except for those serving current and former CalWORKs families, eliminating an additional 3,400 slots.
 - *Suspend Statutory Cost-of-Living Adjustment*—A decrease of \$30.4 million in 2012-13 by not providing the statutory COLA for non-CalWORKs programs. In addition, the Budget suspends the COLA for these programs until 2015-16, which results in total savings of \$73.3 million through 2014-15.

OTHER CHANGES:

- *State Preschool Programs*—The Budget reflects the following major adjustments to state preschool programs:
 - *Funding for the State Preschool Program*—An increase of \$163.9 million in Proposition 98 General Fund to cover the cost of part-day preschool services for 44,100 3- and 4-year olds.
 - *Assess Family Fees*—An increase of \$3.4 million in fee revenues by assessing fees to families who are currently exempt from paying fees for State Preschool Program services. This action will offset a like amount of Proposition 98 General Fund.
 - *Reduce Provider Contracts*—A decrease of \$30 million in Proposition 98 General Fund to reflect the 8.7-percent across the board reduction to general child care programs. Both preschool and general child care programs are

administered by Title 5 centers that contract directly with the Department of Education. This reduction results in the elimination of 12,500 preschool slots.

- *Suspend Statutory Cost-of-Living Adjustment*—A decrease of \$11.9 million in Proposition 98 General Fund.

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HIGHER EDUCATION

Higher Education includes the University of California (UC), the California State University (CSU), the California Community Colleges, the California Student Aid Commission (CSAC), and the Hastings College of the Law.

The Budget includes total funding of \$23.1 billion (\$11.6 billion General Fund and \$11.5 billion other funds) for all programs included in these agencies.

UNIVERSITY OF CALIFORNIA

Drawing from the top 12.5 percent of the state's high school graduates, UC educates approximately 237,800 undergraduate and graduate students at its ten campuses and is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. UC manages one U.S. Department of Energy national laboratory and partners with private industry to manage two others. UC also operates five medical centers that support the clinical teaching programs of the UC's medical and health sciences schools that handle more than 3.8 million patient visits each year.

OTHER CHANGES:

- *Eliminate Restrictions in UC's Budget*—The Budget removes various set-asides for specific programs and purposes, such as the Drew Medical Program, AIDS research, UC Merced, the Institutes for Science and Innovation, and the Summer School for

HIGHER EDUCATION

Mathematics and Science. Also, the Budget does not contain enrollment targets. The removal of these set-asides provides UC with greater flexibility to manage its \$750 million ongoing 2011-12 budget reduction.

- *Maintain Systemwide Tuition and Fees at 2011-12 Levels*—The Budget includes an increase of \$125 million General Fund in 2013-14 if UC maintains systemwide tuition and fees at 2011-12 levels (\$12,192) for 2012-13 and if the Governor’s tax initiative is approved by the voters at the November 2012 statewide general election.
- *Trigger Reduction*—The Budget includes a decrease of \$250 million General Fund in 2012-13 for an unallocated reduction if the Governor’s tax initiative is not approved.
- *Retirement Funding*—The Budget includes an ongoing increase of \$89.1 million for retirement program contributions.

CALIFORNIA STATE UNIVERSITY

Drawing students from the top one-third of the state’s high school graduates, as well as transfer students who have successfully completed specified college work, CSU provides undergraduate degrees in a broad range of disciplines and graduate instruction through master’s degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. The CSU has 23 campuses and approximately 426,400 students. The CSU grants more than one-half of the state’s bachelor’s degrees and one-third of the state’s master’s degrees. It also produces over 50 percent of California’s teachers.

OTHER CHANGES:

- *Eliminate Set-Asides in CSU’s Budget*—The Budget removes various set-asides for specific programs and purposes, such as the Science and Math Teacher Initiative and nursing programs administered by CSU. Also, the Budget does not contain enrollment targets. The removal of these set-asides provides CSU with greater flexibility to manage its \$750 million ongoing 2011-12 budget reduction.
- *Maintain Systemwide Tuition and Fees at 2011-12 Levels*—The Budget includes an increase of \$125 million General Fund in 2013-14 if CSU maintains systemwide tuition and fees at 2011-12 levels (\$5,472) for 2012-13 and if the Governor’s tax initiative is approved by the voters at the November 2012 statewide general election.

- *Trigger Reduction*—The Budget includes a decrease of \$250 million General Fund in 2012-13 for an unallocated reduction if the Governor’s tax initiative is not approved.

CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges are publicly supported local agencies that provide educational and vocational programs to approximately 2.6 million students. The Community College system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 71 educational centers. By providing education, training, and services, the Community Colleges contribute to continuous workforce improvement. The Community Colleges also provide remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

OTHER CHANGES:

- *Apportionments*—The Budget includes an increase of \$159.9 million Proposition 98 General Fund in 2012-13 for apportionment funding that will retire apportionment deferrals. Also, \$50 million will be available for general apportionment growth. Both of these apportionment adjustments are contingent on voter approval of the Governor’s tax initiative at the November 2012 statewide general election.
- *Trigger Reduction*—The Budget includes a decrease of \$548.5 million Proposition 98 General Fund in 2012-13 for apportionment funding if the Governor’s tax initiative is not approved by the voters at the November 2012 statewide general election. Of this amount, \$159.9 million would continue apportionment deferrals and \$388.6 million would be for an unallocated apportionment reduction.
- *Mandates Block Grant*—An increase of \$23.8 million Proposition 98 General Fund over the 2011-12 funding level, to provide a total of \$33.3 million for community college mandates through a new voluntary block grant. Participating community colleges would receive \$28 per student. Community Colleges that choose not to participate in the block grant program would retain their right to submit claims for reimbursement, subject to audits by the State Controller.
- *Redevelopment Agency Revenue*—The Budget includes \$451.1 million in 2012-13 to reflect revenue from the elimination of redevelopment agencies. Of this amount, \$211.5 million is from the liquidation of cash assets. In the event that a portion

of these revenues does not materialize for Community Colleges, the state will supplement with Proposition 98 General Fund to ensure that no negative fiscal effect will be borne by the Community Colleges.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers state financial aid to students attending all institutions of public and private postsecondary education through a variety of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, and the Assumption Program of Loans for Education. Over 91,000 students received new Cal Grant awards, and over 144,000 students received renewal awards in 2010-11.

ADOPTED SOLUTIONS:

- *Restrict Cal Grant Program Participation to Institutions that Meet a New Graduation Rate Standard*—The Budget includes a decrease of \$55 million General Fund in 2012-13 to reflect: (1) a 30-percent minimum graduation rate standard for all participating Cal Grant institutions and (2) a reduction in the maximum student loan cohort default rate allowable by a participating Cal Grant institution from 30 percent to 15.5 percent. Loan cohort default rates measure the percentage of an institution's borrowers who, upon entering student loan repayment, default within three years. For 2012-13, any institution that drops below the graduation rate or exceeds the loan default rate will be prohibited from receiving Cal Grant program funds for new students and will receive 20 percent of the grant amount for continuing students for one academic year. Beginning in 2013-14, any institution that drops below the graduation rate or exceeds the loan default rate will be prohibited from receiving Cal Grant program funds for both new and continuing students for one academic year. These requirements will not apply to any institution with 40 percent or fewer of their students borrowing federal student loans to attend college, such as community colleges.
- *Across the Board Reduction of Cal Grant Awards by Five Percent*—The Budget includes a decrease of \$22.6 million General Fund in 2012-13 by reducing the private, for-profit and private, non-profit institution award from \$9,708 to \$9,223, the Cal Grant B access award from \$1,551 to \$1,473, the Cal Grant C tuition and fee award from \$2,592 to \$2,462, and the Cal Grant C book and supply award from \$576 to \$547.

- *Change Cal Grant Award Amount for Private, For-Profit Institutions*—The Budget includes statutory changes that will lower the award amount for students attending private, for-profit schools to \$4,000 in 2013-14. This is expected to save \$12 million General Fund in 2013-14.
- *Change Cal Grant Award Amount for Private, Non-Profit Institutions*—The Budget includes statutory changes that will lower the award amount for students attending private, non-profit schools to \$9,084 in 2013-14 and to \$8,056 in 2014-15. This is expected to save \$4 million General Fund in 2013-14 and \$15 million General Fund in 2014-15.
- *Phase Out Student Loan Assumption Programs for Teachers and Nurses*—The Budget eliminates all new awards while continuing to fund remaining renewal awards. This is expected to save \$5.6 million General Fund beginning in 2013-14.
- *Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements*—The Budget includes \$803.8 million reimbursements in 2012-13 to reflect TANF funds available through an interagency agreement with the Department of Social Services. The TANF funds offset Cal Grant General Fund costs.
- *Offset Cal Grant Costs with Student Loan Operating Fund*—The Budget includes \$84.7 million Student Loan Operating Fund to offset Cal Grant program General Fund costs.

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HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and other state entities such as boards, commissions, councils, and offices that provide health and social services to California’s vulnerable and at-risk residents.

The Budget includes total funding of \$105.1 billion (\$26.7 billion General Fund and \$78.4 billion other funds) for all programs overseen by this Agency.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California’s Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals including families with children, seniors, persons with disabilities, foster care children, and pregnant women.

ADOPTED SOLUTIONS:

- *Coordinated Care Initiative*—The Budget includes a Coordinated Care Initiative to integrate care for individuals who are enrolled in both Medi-Cal and Medicare. The Budget assumes that Medicare savings from this integration will be shared equally with the federal government. It also assumes decreased utilization of more expensive services, including nursing home stays and hospitalization. The Budget includes a payment deferral to accelerate the savings in 2012-13. This results in

approximately \$611.5 million in General Fund savings in 2012-13 and \$880.9 million when fully implemented.

- *Hospital Payment Changes*—The Budget includes a reduction in supplemental payments to private hospitals resulting in General Fund savings of \$150 million in 2012-13 and \$75 million in 2013-14. Direct grants and supplemental payments to designated public hospitals will also be reduced in 2013-14 for additional General Fund savings of \$41.5 million. Finally, the Budget assumes a delay in the transition to a new diagnosis-related group-based payment methodology for hospitals by six months and General Fund savings of \$75 million in 2013-14.
- *Unexpended Federal Waiver Funds*—The Budget assumes the state and designated public hospitals will use prior year waiver funds to access additional federal funding. The federal funds will be split equally between the state and designated public hospitals for General Fund savings of \$100 million in 2012-13 and \$9 million in 2013-14.
- *Non-Designated Public Hospital Payment Changes*—The Budget aligns the non-designated public hospital Medi-Cal funding with designated public hospitals funding methodology resulting in approximately \$94.5 million in ongoing General Fund savings. The Budget also authorizes additional funding to non-designated public hospitals to offset hospitals' uncompensated care costs—approximately \$85 million in 2012-13 and \$110 million in 2013-14.
- *Nursing Homes*—The Budget freezes nursing home rates during 2012-13 rather than providing a rate increase of up to 2.4 percent as authorized in prior law. The Budget also assumes a payment deferral to skilled nursing facilities in 2012-13 and ongoing. This results in \$87.8 million in General Fund savings in 2012-13.
- *Unpaid Stabilization Funding*—The Budget includes a one-time redirection of private and nondesignated public hospital stabilization funding to the General Fund for savings of \$42.9 million.
- *Proposition 10 Funding*—The Budget assumes that the First 5 California Children and Families Commission will provide \$40 million for programs serving children ages birth through five to achieve General Fund savings in 2012-13.
- *Preventable Hospital Admissions*—The Budget eliminates funding for services related to potentially preventable hospital admissions for Medi-Cal managed care as required by federal health care reform. This results in approximately \$30 million in General Fund savings in 2012-13.

- *Managed Health Care Expansion*—The Budget authorizes the expansion of Medi-Cal managed care health plan services to Medi-Cal beneficiaries living in 28 rural California counties who currently receive Medi-Cal services on a fee-for-service basis. This results in General Fund savings of \$2.7 million in 2012-13 and \$9 million in 2013-14.
- *Laboratory Services Rate Reduction*—The Budget reduces rates for laboratory services by 10 percent until the DHCS develops a new payment rate methodology that is comparable to the rates received from other payers for these services. This results in approximately \$7.7 million in General Fund savings in 2012-13.

OTHER CHANGE:

- *Implementing Copayments*—A decrease of \$20.2 million General Fund in 2012-13 from the implementation of copayments of \$15 for non-emergency, emergency room visits and \$1 and \$3 copayments for certain pharmacy services.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board administers five programs that provide health coverage through commercial health plans, local initiatives, and county organized health systems to certain persons who do not have health insurance. The five programs include the Access for Infants and Mothers Program, the Healthy Families Program, the County Health Initiative Matching Fund Program, the Major Risk Medical Insurance Program, and the Pre-Existing Conditions Insurance Plan Program. Only the Healthy Families Program is funded from the General Fund.

ADOPTED SOLUTION:

- *Healthy Families*—The Budget eliminates the Healthy Families Program, transferring beneficiaries to Medi-Cal over a 12-month period beginning in January 2013 for General Fund savings of \$13.1 million in 2012-13, \$58.4 million in 2013-14, and \$72.9 million ongoing. In addition to achieving General Fund savings, this transition benefits children, families, health plans, and providers, by: (1) simplifying eligibility and coverage for children and families; (2) improving coverage through retroactive benefits, increased access to vaccines, and expanded mental health coverage; and (3) eliminating premiums for lower income beneficiaries.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services administers programs that provide services and assistance payments to needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

ADOPTED SOLUTIONS:

- *CalWORKs Refocus*—The Budget restores the program’s focus on work. Specifically, it: (1) creates a prospective 24-month time limit on cash assistance and employment services for adults, and provides an additional 24 months to adults who meet federal work requirements; (2) provides counties some flexibility by allowing up to 20 percent of the adults to extend their time beyond 24 months to complete their educational goals or find a job; and (3) provides two years for clients to transition to the new program and be prepared with the skills necessary to find employment as the economy recovers. These changes result in General Fund savings of \$469.1 million in 2012-13.
- *Across the Board Reduction in IHSS Hours*—The Budget includes a decrease of \$52.2 million General Fund in 2012-13 from a 3.6-percent across the board decrease in authorized hours effective August 1, 2012. Similar to the 3.6-percent across the board reduction that sunsets under current law on July 1, 2012, recipients may direct the manner in which the reduction of authorized hours is applied to their previously authorized services.

DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services is designated as the single state agency responsible for administering the statewide child support program.

ADOPTED SOLUTIONS:

- *Reduce Funding for Local Child Support Agencies*—The Budget includes a one-time decrease of \$14.7 million (\$5 million General Fund) in 2012-13 to reflect reduced funding for Local Child Support Agencies.
- *Suspend County Share of Collections*—The Budget suspends the county share of child support collections in 2012-13 for one-time General Fund savings of \$31.9 million.

- *Reduce California Child Support Automation System Funding*—The Budget includes a decrease of \$5.5 million General Fund in 2011-12 and \$1 million General Fund in 2012-13 associated with the California Child Support Automation System (CCSAS). For 2011-12, the savings will result from an early reversion of remaining CCSAS reappropriation dollars. Beginning in 2012-13, the CCSAS project maintenance and operations budget will be reduced by \$2.9 million (\$1 million General Fund).

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health is charged with protecting and promoting the health status of Californians through programs and policies that use population-wide interventions.

ADOPTED SOLUTION:

- *Public Health Laboratory Training Program*—A decrease of \$2.2 million to eliminate the Public Health Laboratory Training Program. This program provided local assistance grants to subsidize training, support, outreach and education, and provided funding for doctoral candidate stipends and post doctoral fellowships for individuals training for public health laboratory directorships. Fifteen individuals participated in this program.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) serves approximately 250,000 individuals with developmental disabilities in the community and 1,760 individuals in state-operated facilities. The Budget includes \$4.7 billion (\$2.7 billion General Fund) for support of the department and community services. Services are provided through the developmental centers and one community facility and the regional center system.

ADOPTED SOLUTION:

- *Proposition 10 Funding*—The Budget assumes that the First 5 California Children and Families Commission will provide \$40 million for programs serving children ages birth through five. This funding will support the DDS Early Start Program and provide services to children from birth up to age three, decreasing General Fund costs by \$40 million.

OTHER CHANGE:

- *Developmental Services Systemwide Reductions*—The Budget reflects \$200 million in 2012-13 savings. Savings will be achieved by increasing eligibility for federal funding, increasing insurance billing for certain autism-related services, redesigning options for consumers who have been hard to serve in the community, and a 1.25-percent provider payment reduction.

CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates the most serious and violent felons, supervises them when they are released on parole, and provides rehabilitation programs to help them reintegrate into the community.

The Budget includes total funding of \$9 billion (\$8.8 billion General Fund and \$201.6 million other funds) for the CDCR in 2012-13.

STATE PRISONS

The Budget includes approval of the Administration's comprehensive plan to save billions of dollars, end federal court oversight, and improve the prison system. This plan, which was released in April 2012, builds upon the changes brought by public safety realignment and provides a clear path for the Department to save \$1 billion in 2012-13, growing to \$1.5 billion in 2015-16, and satisfy court orders related to reducing overcrowding and providing a constitutionally required level of health care. The primary components of the plan include the following:

- *Updating Inmate Classification Score System*—As a result of research produced by a panel of correctional experts and input from seasoned professionals, the CDCR is modifying its inmate classification score system. The modified system will enable the Department to safely shift approximately 17,000 inmates to less costly housing where they can benefit from access to rehabilitative programs.

CORRECTIONS AND REHABILITATION

- *Returning Out-of-State Inmates to California*—Currently, California is paying to incarcerate approximately 10,000 inmates in private, out-of-state prisons. The approved plan enables the CDCR to return these inmates as the in-state prison population continues to drop, classification changes are made, and additional housing units are added at existing prisons. Returning these inmates to California will stop the flow of taxpayer dollars to other states and is expected to save the state \$318 million annually upon full implementation.
- *Restructuring Rehabilitation Programs*—The approved plan will help lower the long-term prison population and save the state money by efficiently providing targeted rehabilitation programs. The plan allows at least 70 percent of the Department’s target population to participate in academic and rehabilitation programs consistent with their needs. Programming yards will also be established to encourage positive behavior. The CDCR will also establish reentry hubs with concentrated programming resources at existing prisons to better prepare inmates as they near release. Within their first year of release, approximately 70 percent of parolees who need substance abuse treatment, employment services, or education will have access to these programs.
- *Standardizing Staffing Levels*—The approved plan establishes new, efficient, and uniform staffing standards for each prison. Correctional experts reviewed the custody and non-custody positions in each prison with the objective of achieving savings by reducing staff to the minimum amount necessary to operate safely, while also facilitating appropriate out-of-cell time and access to programming and health care.
- *Reducing the Budget for Adult Parole Operations*—As a result of public safety realignment, the active adult parolee population is projected to decline to approximately 30,000 offenders by 2015-16. The approved plan includes a complete restructuring of the Division of Adult Parole Operations budget to ensure that it downsizes at a rate commensurate with the decline in population.
- *Eliminating Unnecessary Lease Revenue Bond Authority*—The approved plan eliminates approximately \$4.1 billion of previously authorized AB 900 lease revenue bond authority. Eliminating this bond authority and no longer needing to build new stand-alone prisons will avoid \$2.2 billion annually in new operating costs and facility debt service costs.
- *Closing and Replacing Facilities*—The approved plan closes the California Rehabilitation Center (CRC), repurposes the DeWitt Nelson Youth Correctional

Facility as an annex to the California Health Care Facility, reactivates the Folsom Transitional Treatment Facility for female offenders, and replaces capacity lost by the closure of CRC with three efficient and flexible dorm facilities at existing prisons. The approved plan also includes the renovation of medical care facilities at existing institutions.

- *Returning Control of Health Care to the State*—In recent years, numerous measures have been implemented that significantly improved the quality of the Department’s health care system. The Inspector General regularly reviews and scores the Department’s medical care system, and these scores have been steadily rising. The approved plan provides for increased health care capacity through the activation of the California Health Care Facility in Stockton, and its annex the DeWitt Nelson Youth Correctional Facility. These projects will create a unified health care complex allowing both facilities to efficiently transition inmate-patients between the two, while avoiding transportation and security costs as well as the need for expensive services in community hospitals and clinics. In addition, existing mental health office and treatment space and dental projects will continue. All of these projects, along with new plans to increase medical clinical capacity at existing prisons, will satisfy court-imposed requirements.
- *Satisfying the Supreme Court’s Order to Reduce Prison Crowding*—As outlined in the approved plan, the newly released spring population projections suggest that the Department may fall a few percentage points short of meeting the final court-ordered crowding-reduction benchmark even with realignment. In June 2013, the Department’s prison population is projected to be at 141 percent of design capacity rather than the 137.5-percent goal identified by the Supreme Court. The additional measures approved in the Department’s plan will allow the state to seek and obtain from the court a modification to raise the final benchmark to 145 percent of design capacity.
- *Increasing Fiscal Oversight and Accountability*—The Department of Finance’s Office of State Audits and Evaluations and the Office of the Inspector General will monitor CDCR’s implementation of this plan and provide annual reports to the Governor and the Legislature.

OTHER CHANGES:

- *Ending the Receivership*—In 2006, the federal courts in the *Plata v. Brown* case appointed a Receiver with full authority over prison medical care. The Receiver was

empowered to spend whatever he deemed necessary to bring California prison medical care up to a Constitutional level. In May of 2012, the court ordered the Receiver to work with CDCR on transitioning the inmate medical program back to the state. Ending the Receivership will return oversight and accountability of medical care to the state.

- *Funding for the Inmate Medical Services Program*—The Budget includes an increase of \$128.4 million General Fund in 2012-13 to fund court-required inmate medical costs. These augmentations align the medical care budget with the Receiver’s projected expenditures and include resources to operate the California Health Care Facility opening in the summer of 2013.

DIVISION OF JUVENILE JUSTICE

The Budget includes efficiencies and other policy changes to reduce the state’s costs of housing and supervising wards under the jurisdiction of the Division of Juvenile Justice (DJJ). Net savings to the state of \$24.8 million General Fund in 2012-13 is comprised of the following components:

- Reduce administrative staff within headquarters and DJJ facilities. The *Farrell* court requires specific staffing levels within DJJ. This reduction does not impact any positions tied to the *Farrell* lawsuit. However, the CDCR plans to continue working with the *Farrell* court to achieve further staffing reductions to help decrease the high cost of housing offenders in DJJ.
- End juvenile parole on January 1, 2013 instead of July 1, 2014.
- Reduce DJJ’s age of jurisdiction from 25 to 23.
- Implement a new fee structure to charge counties \$24,000 per year for each offender committed by a juvenile court to the DJJ on or after July 1, 2012.

BOARD OF STATE AND COMMUNITY CORRECTIONS

Legislation associated with the 2011 Budget Act abolished the Corrections Standards Authority and established the Board of State and Community Corrections as an independent entity, effective July 1, 2012. The Board will assume the previous functions of the Authority as well as other public safety programs previously administered by the California Emergency Management Agency. The Board will provide statewide leadership,

coordination, and technical assistance to promote effective state and local efforts and partnerships in California’s adult and juvenile criminal justice system. The Budget includes total funding of \$129.9 million (\$37.7 million General Fund and \$92.2 million other funds) for the state operations and local assistance programs included under this Board.

OTHER CHANGE:

- *Local Jail Construction Financing Program*—Legislation authorizes \$500 million of additional lease revenue bond financing authority for the acquisition, design, and construction of local facilities to help counties manage their offender population. This authority would be in addition to the \$1.2 billion lease revenue bond financing authority authorized in AB 900 for two phases of the Local Jail Construction Financing Program.

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JUDICIARY

The Budget includes total funding of \$3.9 billion (\$730 million General Fund) for the Judiciary.

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, and the Judicial Council. The trial courts are funded with a combination of funding from the General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. The state-level judiciary receives most of its funding from the General Fund.

ADOPTED SOLUTIONS:

The Budget restructures funding for trial courts and makes funding for the Judiciary more transparent. The state assumed funding responsibility for trial courts in 1997. The Budget alters the funding structure for trial courts consistent with the goals of the reform legislation.

- *Trial Court Funding Offsets*—A one-time decrease of \$486 million General Fund, which is offset as follows:
 - The use of \$235 million of trial court reserves based on each court's available reserve.
 - A redirection of \$11 million from the Administrative Office of the Courts.
 - A reduction of \$240 million from court construction funds to support trial court operations. The savings in court construction funds is achieved by pausing

the design activities for approximately 38 court projects for up to one year. The pause will coincide with a full review of the court construction program and court construction standards to ensure operational efficiencies can be reflected in the design of new trial courts. Six court projects that are near design completion will proceed to construction in 2012-13 once the Judicial Council reviews the cost and scope of these projects. The construction phase of these projects will be funded with lease revenue bonds.

- *Trial Court Funding*—A \$50 million reduction to all trial courts on a proportional basis. The ongoing reduction to the trial courts is \$111 million, of which \$50 million will be offset by redirecting funds from court construction to support trial court operations.
- *Judicial Branch State-Level Operations*—A reduction of \$8 million General Fund and a redirection of \$11 million other funds to the trial courts. The Judicial Council will identify reductions and efficiencies implemented to achieve this level of savings.
- *Court Fees*—An increase of \$50 million Trial Court Trust Fund as a result of civil court fee increases to offset ongoing reductions to the trial courts.

OTHER CHANGE:

- *Trial Court Reserves*—A reserve equal to two percent of the statewide allocation to trial courts will be held at the state level, and local reserves will be reduced to one percent of the courts operating budget by June 30, 2014. The Judicial Council will be authorized to allocate funds from the statewide reserve to individual courts as necessary to address emergencies and unavoidable budget shortfalls.

NATURAL RESOURCES

As currently structured, the Natural Resources Agency consists of 27 departments, boards, commissions, and conservancies responsible for administering programs to conserve, protect, restore, and enhance the natural, historical, and cultural resources of California.

The Budget includes total funding of \$8.4 billion (\$1.9 billion General Fund and \$6.5 billion other funds) for all programs included in the Agency.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

The Energy Resources Conservation and Development Commission (Energy Commission) is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment.

OTHER CHANGE:

- *Electricity Program Investment Charge Program*—The Budget includes an increase of \$1.1 million in 2012-13 for the Energy Commission to begin the administration and development of the Electricity Program Investment Charge program that was adopted by the Public Utilities Commission. The Electricity Program Investment Charge is intended to support cost-effective energy efficiency and conservation

activities, renewable energy resources, and public interest research and development within the operating area of the investor-owned utilities.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources protects, conserves, and manages California’s water. The Department evaluates existing water resources, forecasts water needs, and explores potential solutions to meet growing needs. The Department also works to prevent and minimize flood damage, ensure the safety of dams, and educate the public about the importance of water and its efficient use.

OTHER CHANGES:

- *Davis-Dolwig Resolution*—The Budget includes a \$10 million continuous appropriation from the Harbors and Watercraft Revolving Fund to fund the state’s obligations under the Davis-Dolwig Act. The Davis-Dolwig Act, passed by the voters in 1961, describes how recreation, fish, and wildlife enhancements are funded in association with the California State Water Project. This proposal will resolve a long-standing problem and provide a reliable source of funding for the Department and state water contractors as they continue to manage and improve the state’s water delivery system.
- *Delta Habitat and Conveyance*—The Budget includes 75 new positions to perform preliminary engineering and design work for the Delta Habitat Conservation and Conveyance Program.

ENVIRONMENTAL PROTECTION

The Environmental Protection Agency works to restore, protect and enhance environmental quality. The agency coordinates state environmental regulatory programs and ensures fair and consistent enforcement of environmental law.

The Budget includes total funding of \$1.6 billion (\$42.4 million General Fund and \$1.5 billion other funds) for all programs included in this Agency.

AIR RESOURCES BOARD

The Air Resources Board has primary responsibility for protecting air quality in California as well as implementation of the California Global Warming Solutions Act of 2006 (AB 32).

OTHER CHANGE:

- Investing in Greenhouse Gas Emission Reductions—The Cap and Trade program is a key element in the state climate plan. It sets a statewide limit on the sources of greenhouse gases (GHG) responsible for 85 percent of California GHG emissions. In 2012-13, through the Cap and Trade program, the Air Resources Board will begin auctioning GHG emission allowances as a market-based compliance mechanism authorized by AB 32. The auctions will generate substantial funds to support existing and new efforts to address the causes of GHG emissions. Proceeds from the Cap and Trade auctions are expected to be \$1 billion in the first year of the program.

ENVIRONMENTAL PROTECTION

The Budget includes authority for the state to expend at least \$500 million in Cap and Trade auction proceeds consistent with AB 32.

DEPARTMENT OF TOXICS SUBSTANCES CONTROL

The Department of Toxic Substances Control protects California residents and the environment from the harmful effects of toxic substances through restoring contaminated resources, enforcement, regulation, and pollution prevention.

OTHER CHANGE:

- *Toxic Substances Control Account Reductions*—The Budget includes a decrease of \$9.1 million and 24 positions in 2012-13 and \$12.6 million and 59.8 positions ongoing to align expenditure authority with projected revenues. These actions will bring the account into structural balance while providing resources to implement high-priority activities under the Safer Consumer Products Program.

BUSINESS, TRANSPORTATION, AND HOUSING

The programs within the Business, Transportation, and Housing Agency include transportation, affordable housing, and public safety programs. Funding for all programs is derived largely from special fund revenues, federal funds, and bond proceeds.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Caltrans) has almost 20,000 employees and a budget of \$13.2 billion. Caltrans designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and oversees funding for local mass transit projects. Approximately 50,000 road and highway lane miles and 12,910 state bridges are maintained. The largest sources of funding for transportation projects are excise taxes paid on fuel consumption, federal funds also derived from fuel taxes, and weight fees on trucks. Bond funds currently provide approximately 30 percent of the total funding available.

ADOPTED SOLUTIONS:

- *Weight Fee Revenue Transfer*—A transfer of \$374.4 million in weight fee revenues to the General Fund in 2012-13. The state collects a fee on commercial trucks based on the weight of the vehicle, which represents compensation for wear and tear on the State's roads and highways. The Budget will transfer existing weight fee revenue above the level needed to offset current debt service on specified general obligation

BUSINESS, TRANSPORTATION, AND HOUSING

transportation bonds to the General Fund. These funds will be used to offset debt service costs in the future.

- *Special Fund Transfers to the General Fund*—A transfer of \$184 million in 2011-12 and \$128.2 million annually starting in 2012-13 from several special funds to the General Fund. The fuel tax swap enacted in the 2010 Budget Act eliminated the state sales tax on gasoline and increased the gasoline excise tax by a like amount. The Budget continues the structural components of the fuel tax swap, including funding related to the backfill of Proposition 42 sales tax dollars. Specifically, the Budget includes \$708.5 million for local roads and \$901.7 million for Caltrans highway projects associated with former Proposition 42 funding.

VARIOUS DEPARTMENTS AND ISSUES

This section provides budget information for various departments, statewide expenditures, and regarding local governments.

REDEVELOPMENT AGENCIES

Chapter 5, Statutes of 2011 (ABx1 26), eliminated redevelopment agencies (RDAs) and replaced them with locally organized successor agencies tasked with retiring the former RDAs' outstanding debts and other legal obligations.

The California Redevelopment Association, cities, and other entities challenged ABx1 26 and ABx1 27 before the California Supreme Court in the case *California Redevelopment Association et al. v. Matosantos et al.* In a ruling released on December 29, 2011, the Court overturned ABx1 27 and upheld ABx1 26. In accordance with the Court's order, RDAs were dissolved on February 1, 2012. Revenues that would have been directed to the former RDAs are now provided to the successor agencies to retire obligations, including "pass through" payments to taxing entities (i.e. the cities, counties, special districts, and K-14 schools in which the project areas of the RDAs were located). The remaining revenues are distributed as property taxes.

Elimination of RDAs will provide additional property tax funding for education, yielding a General Fund savings by reducing the state's General Fund contribution to Proposition 98.

VARIOUS DEPARTMENTS AND ISSUES

ABx1 26 requires that former RDA cash and real property assets that are not otherwise encumbered or reserved for legally authorized purposes must be liquidated, and the resultant funds are distributed to the affected taxing entities in the same manner as property tax revenues. ABx1 26 does not, however, provide deadlines for liquidation and distribution.

The Budget creates a process for determining the liquid assets that RDAs should have shifted to their successor agencies when they were dissolved, and the amount that should be available for distribution to the affected taxing entities as of July 1, 2012.

For successor agencies that promptly pay the determined amount, the following benefits are provided:

- Loans from cities and counties to their RDAs currently ineligible for repayment would be deemed eligible for repayment beginning in 2013-14. Over time, the repayment mechanism established in legislation could provide as much as \$4 billion in principal repayments to cities and counties.
- Bond proceeds that were not contractually encumbered prior to June 28, 2011 can only be used to defease the bonds. The Budget would allow successor agencies to use these proceeds from bonds sold before January 1, 2011 to execute new contracts consistent with the requirements of the bond covenants.
- Land and other physical assets not needed for enforceable obligations of the former RDAs may be transferred by the successor agency to the city or county that created the RDA and used for economic development, without compensation to the affected taxing entities. Before effectuating transfers, successor agencies must submit an asset management plan to Finance that identifies the properties chosen for transfer.

The Budget provides a variety of possible collection tools if successor agencies fail to provide the assets identified for distribution to the affected taxing entities, or if cities or counties that improperly received assets from their former RDAs fail to return those assets.

STRENGTHENING THE MECHANISMS FOR ONGOING REVENUE DISTRIBUTION TO TAXING AGENCIES:

The Budget creates a longer and more comprehensive review process for Recognized Obligation Payment Schedules (ROPS). The revised timeline provides Finance 45 days to review the ROPS and ensures county auditor-controller will be notified of the

amount payable to each successor agency 15 days before the associated property tax distributions must be made. The updated review process also creates a mechanism for successor agencies to meet and confer with Finance to discuss concerns. To discourage late ROPS submissions, the Budget also provides financial penalties and a reduced meet-and-confer timeline for late submissions, and provides affected taxing entities and Finance with the right to request a writ of mandate to require the ROPS be submitted.

RECAPTURING THE 2011-12 REVENUE BENEFITS NOT ACHIEVED:

Finance estimated in the May Revision that K-14 schools would receive \$818 million of Proposition 98 General Fund-offsetting property tax revenues in June of the 2011-12 fiscal year, and another \$991 million of such revenues in 2012-13. The 2011-12 estimate was based on very early estimates of 2011-12 enforceable obligations, together with estimates from county auditor-controllers on the property tax available to the successor agencies.

The full amounts of 2011-12 payments were not made, however, due to the timing of the Supreme Court ruling and inconsistent interpretations of the law at the local level.

The Budget creates a one-time process to recapture the property tax revenue that taxing entities should have received in 2011-12. By July 9, 2012, the legislation requires county auditor-controllers to bill successor agencies for the amounts that should have been distributed to the affected taxing entities. The successor agencies must remit these amounts to the county auditor-controller by July 12, 2012. The county auditor-controller has until July 16, 2012 to distribute the remitted amounts to the affected taxing entities. The Budget reflects revised assumptions regarding the General Fund benefit of the elimination of redevelopment agencies. Specifically, it reflects a shift of \$685 million in General Fund benefit from 2011-12 to 2012-13.

STATE WORKFORCE

A reduction of \$839.1 million (\$401.7 million General Fund) in employee compensation, equivalent to a 5-percent reduction in pay. To achieve these reductions, the Administration negotiated agreements with most of the state's 21 bargaining units for a one day per month, unpaid Personal Leave Program (PLP). Bargaining units without negotiated agreements will be subject to a corresponding level of savings through either a negotiated agreement including PLP provisions or furlough.

GOVERNOR’S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor’s Office of Business and Economic Development (GO-Biz) serves as the lead state entity for economic strategy and marketing of California on issues relating to business development, private sector investment, and economic growth.

OTHER CHANGE:

- The Budget expands the authority of local governments to attract businesses by targeted property tax rebates. Previously, state law allowed local governments to provide property tax rebates for large manufacturing facilities, those with capital investments greater than \$150 million. This change in law will allow local governments to provide those rebates for research and development facilities with capital investments greater than \$250 million. This expansion does not impact school district taxes and is at the discretion of local officials who can best gauge the community economic impact.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department administers the Unemployment Insurance (UI), Disability Insurance, and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax.

ADOPTED SOLUTION:

- *Unemployment Interest Payment*—The Budget includes a loan of \$312.6 million from the Unemployment Compensation Disability Fund to pay for the UI interest to the federal government.

DEPARTMENT OF JUSTICE

The Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ).

ADOPTED SOLUTIONS:

- *National Mortgage Settlement Proceeds*—The National Mortgage Settlement stipulates that California will receive \$410.6 million in discretionary funds for administrative costs and to support programs that benefit California homeowners affected by the mortgage and foreclosure crisis and other consumers. The Budget includes legislation to support the following programs funded by these proceeds:
 - \$41.1 million paid as a civil penalty into the Unfair Competition Law Fund to offset the costs of various DOJ programs.
 - \$44.9 million for the DOJ’s Public Rights and Law Enforcement programs relating to public protection and consumer fraud enforcement and litigation.
 - \$8.2 million for the Department of Fair Employment and Housing’s ongoing efforts to prevent and eliminate unlawful discrimination in housing and the prosecution of violations under the Fair Employment and Housing Act.
 - \$298 million to offset General Fund costs for housing bond debt service for those programs funded with Proposition 46 and Proposition 1C housing bonds that provide homeowners’ assistance.
 - An increase of \$18.4 million for the DOJ to support homeowner counseling services and the Office of the California Monitor for enforcement activities to oversee compliance with the settlement.
- *DNA Identification Fund*—A decrease of \$10 million General Fund through the elimination of the General Fund transfer to the DNA Identification Fund. The Budget replaces this funding by increasing the penalty assessment by \$1 for every \$10 of base fine to ensure the DNA and regional forensic laboratories are able to continue performing critical public safety work.

COMMISSION ON STATE MANDATES

The Commission on State Mandates is a quasi-judicial agency that hears test claims to determine whether local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Constitution requires the Legislature to either fund or suspend specified mandates in the annual Budget Act.

ADOPTED SOLUTIONS:

- *Suspension of Mandates*—The Budget suspends various mandates, except for most mandates related to law enforcement or property taxes, resulting in General Fund savings of \$728.8 million. These mandates will also be suspended in 2013-14 and 2014-15.
- *Deferral of Pre-2004 Mandate Obligations*—A decrease of \$99.5 million in 2012-13 as a result of deferring the 2012-13 payment for mandate costs incurred prior to 2004-05. These payments will also be deferred in 2013-14 and 2014-15.

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State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 1464.

Item 0510-001-0001—For support of Secretary of State and Consumer Services. I reduce this item from \$246,000 to \$0 by reducing:

(1) Support from \$1,530,000 to \$1,094,000,

and by deleting:

(3) Amount payable from the Central Service Cost Recovery Fund (Item 0510-001-9740) of (-\$190,000).

I am reducing this item by \$246,000 and 3.5 positions for the Office of Privacy Protection. While I am supportive of efforts in this area, I do not believe this program is of sufficient priority to justify the use of limited state resources.

I am revising this item to conform to the action taken in Item 0510-001-9740.

Item 0510-001-9740—For support of Secretary of State and Consumer Services. I delete this item.

I am deleting this item to conform to the action taken in Item 0510-001-0001.

Item 2660-001-0042—For support of Department of Transportation. I reduce this item from \$2,387,730,000 to \$2,383,185,000 by reducing:

(9) 40-Transportation Planning from \$118,242,000 to \$113,697,000,

and delete Provision 3.

I am reducing this item by \$4,545,000 and 23.0 positions to reserve state funds to fund state projects and not to subsidize the development and review of project initiation documents for locally funded projects on the state highway system. I am sustaining \$3,890,000 and 28.0 positions to complete work on projects where local agencies executed cooperative agreements with Caltrans to provide reimbursements.

I am also vetoing Provision 3 because the requirements contained in this provision to expend Capital Outlay Support funds on state staff, external contracts, and operating expenses and equipment create unnecessary cost pressures and limit Caltrans' flexibility to utilize the most cost-effective portfolio of resources to meet its workload needs. Caltrans needs the flexibility to choose a staffing mix that allows it to complete the workload without resulting in unnecessary costs associated with hiring additional state staff and incur training expenses for short-term workload.

Item 3360-011-3117—For transfer by the Controller, upon order of the Director of Finance, from the Alternative and Renewable Fuel and Vehicle Technology Fund to the State Parks and Recreation Fund. I reduce this item from (\$10,000,000) to (\$3,000,000).

I am reducing this item by \$7,000,000 to conform to the action I have taken in Item 3790-001-0392.

Item 3600-001-0200—For Support, the Department of Fish and Game. I revise this item by deleting Provisions 3 and 4.

I am deleting Provision 3 because the requirement contained in this provision to expend funds on a plan to redirect Fish and Game Preservation Fund to other priorities increases overall cost pressures within this item. The Fish and Game Preservation Fund is structurally imbalanced with expenditures exceeding revenues by approximately \$17 million. While the intent of this provision is to identify a plan that could reduce the imbalance, any activities that would be redirected to the Greenhouse Gas Reduction Fund would not result in Fish and Game Preservation Fund savings as permit fees currently cover the Department's renewable energy activities.

I am also deleting Provision 4 because it would require up to \$2 million to be appropriated from the Salton Sea Restoration Fund to the Salton Sea Authority to update previous analyses of restoration planning efforts for the Salton Sea. I am vetoing the provision because the Salton Sea Restoration Fund has a reserve of \$675,000 for the 2012-13 fiscal year, and using other departmental funds would result in an unallocated reduction to other Fish and Game programs. I will be directing the Department of Fish and Game to continue conversations with the Salton Sea Authority and environmental stakeholders in an effort to identify other options for conducting the proposed feasibility study and enhancing restoration efforts.

Item 3790-001-0392—For support of Department of Parks and Recreation. I reduce this item from \$147,946,000 to \$126,946,000 by reducing:

(1) Support of Department of Parks and Recreation from \$430,099,000 to \$399,099,000,

and by deleting:

(9.5) Amount payable from State Water Pollution Control Revolving Fund (Item 3790-001-0617) (-\$10,000,000).

The Department has readied the closure of 70 state parks based on criteria included in the 2011 Budget Act. As of today, the state has signed its 32nd agreement with a local partner to continue to operate a park slated for closure. This achievement is a testament to the work and dedication of the Department, nonprofit organizations, local governments, and others—along with the state Legislature—to keep state parks available to the public.

The Budget includes one-time funding to attempt to resolve an ongoing structural imbalance by using funds that were intended for other important uses to support state parks. While a portion of these funds will help ensure a successful transition as the state develops a long-range vision for state parks, I cannot fully support this action because proposed funding either takes from other important purposes or may violate the state's agreement with the federal government regarding the State Water Pollution Control Revolving Fund.

Therefore, I am reducing this item by \$31 million and sustaining \$10 million in new funding to support the needs of the state's parks system. These funds will allow, among other purposes a transition window for park operating agreements that are currently being negotiated, but are not yet final. I am also sustaining \$13 million in redirected bond expenditures, which will now be used for projects that can aid the Department to increase park revenues.

Item 3790-001-0617—For support of Department of Parks and Recreation. I delete this item and Provision 1.

I am deleting this item to conform to the action I have taken in Item 3790-001-0392.

Item 3940-001-0439—For support of State Water Resources Control Board. I revise this item by deleting Provision 3.

I am deleting Provision 3 because the requirement contained in this provision to expend funds on a proposal increases overall cost pressure with this item. This provision requires the State Water Resources Control Board to submit a proposal to increase program efficiencies through reduction of the number of regional water quality control boards by January of 2013. This provision is unnecessary.

Item 4265-001-0001—For support of Department of Public Health. I revise this item by deleting Provision 4.

I am deleting Provision 4 because the requirement contained in this provision to expend funds on an annual work plan for the Nursing Home Administrator's Program creates unnecessary cost pressures. Elimination of this report is consistent with my plan to eliminate unnecessary reports and reporting requirements.

Item 4265-111-0001—For local assistance, Department of Public Health. I reduce this item from \$49,332,000 to \$48,832,000 by reducing:

(3) 20.20—Infectious Diseases from \$258,897,000 to \$258,397,000.

I am reducing this item by \$500,000, which eliminates funding for the Public Health Laboratory Director Training Program. This reduction is necessary to help bring ongoing expenditures in line with existing resources and to build a prudent reserve.

Item 4440-011-0001—For support of Department of State Hospitals. I revise this item by deleting Provisions 5 and 13.

I am deleting Provision 5 because the requirement contained in this provision to expend funds by providing quarterly progress reports on the hiring plan related to federal court monitoring of compliance with the Civil Rights of Institutionalized Persons Act (CRIPA) creates unnecessary cost pressures. This provision would require the Department to continue reporting on a hiring plan when facilities have achieved substantial compliance with CRIPA and are in the process of being released from further court monitoring. Elimination of these reports is consistent with my plan to eliminate unnecessary reports and reporting requirements.

I am also deleting Provision 13, which permits up to \$3,600,000 to be used for the Adult Education program, and eliminating 37.6 unfunded positions added separately by the Legislature for this program, because the requirement creates unnecessary cost pressures and

restricts the Department's efforts to achieve planned General Fund cost savings. The Budget reflects my Administration's efforts to close a structural gap in the Department's budget. Authorizing this program without providing the necessary resources would undermine these efforts.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$34,505,000 to \$34,420,000 by reducing:

- (2) 20-Instructional Support from \$140,134,000 to \$139,944,000,
- (9) Amount payable from the Federal Trust Fund (Item 6110-001-0890) from -\$162,299,000 to -\$162,194,000,

and by deleting Provision 19.

I am reducing this item by \$85,000 and 1.0 position at the State Department of Education to conform to my veto of local assistance funding for the Early Mental Health Initiative in Item 6110-162-0001.

I am deleting Provision 19 to conform to this action.

I am also revising these schedules to conform to the actions I have taken in Item 6110-001-0890.

Item 6110-162-0001—For support of Department of Education (Proposition 98), Early Mental Health Services. I delete this item.

I am eliminating the \$15,000,000 appropriation for the Early Mental Health Initiative. While I appreciate the importance of prevention and early intervention services, I believe that school districts are in the best position to determine whether these services should be funded at the local level.

Item 6110-196-0001—For local assistance, Department of Education (Proposition 98). I reduce this item from \$510,975,000 to \$481,003,000 by reducing:

- (1) 30.10.010-Special Program, Child Development, Preschool Education from \$510,975,000 to \$481,003,000.

I am reducing \$29,972,000 from preschool programs, which are administered by Title 5 centers that contract directly with the Department of Education. While I would have preferred to restructure rates and reform the program to achieve savings, this across the board reduction in slots is necessary to help bring ongoing expenditures in line with existing resources.

Item 6110-202-0001—For local assistance, Department of Education. I delete this item and Provisions 1, 2, and 3.

I am eliminating the \$10,100,000 legislative augmentation which would provide a supplemental child nutrition reimbursement to private schools, private child care centers, and other meal sponsors that are not eligible for Proposition 98 funding. This reduction is necessary to bring ongoing expenditures in line with available General Fund resources.

I am also deleting Provisions 1, 2, and 3 to conform to this action.

Item 6440-004-0001—For support of University of California. I delete Provisions 1, 2, and 3.

I am deleting Provisions 1, 2, and 3 because the requirements contained in these provisions to expend funds on the University of California, Merced campus create unnecessary cost pressures and are unnecessarily restrictive. Eliminating these provisions will give the University greater flexibility to manage the \$750 million permanent reduction in state funding enacted in 2011-12.

Item 6440-005-0001—For support of University of California. I delete Provision 1.

I am deleting Provision 1 because the requirement contained in this provision to expend funds on the California Institutes for Science and Innovation creates unnecessary cost pressures and is unnecessarily restrictive. Eliminating this provision will give the University greater flexibility to manage the \$750 million permanent reduction in state funding enacted in fiscal year 2011-12.

Item 6600-001-0001—For support of Hastings College of the Law. I delete Provision 3.

I am deleting Provision 3 because the requirement contained in this provision to expend funds on retired annuitant health and dental benefits creates unnecessary cost pressures and is unnecessarily restrictive.

Item 8885-295-0001—For local assistance, Commission on State Mandates. I reduce this item from \$50,586,000 to \$48,786,000 by reducing:

- (1) For payment of the following mandate claims for costs incurred in the 2004–05 through 2010–11 fiscal years from \$50,586,000 to \$48,786,000,

and by deleting:

(1)(n) Crime Statistics Reports for the Department of Justice, Homicide Reports: Ch. 1338, Stats. 1992 Hate Crime Reports: Ch. 1172, Stats. 1989; Ch. 933, Stats. 1998; Ch. 626, Stats. 2000; Ch. 700, Stats. 2004) (02- TC-04, 02-TC-11, and 07-TC-10). (1,800,000)

and by deleting Provision 4.

The activities related to this mandate should already be standard procedure as they provide information to the federal government that ultimately enables local agency receipt of federal grant funds. Therefore, the existence of the mandate is unnecessary as an incentive to collect and report this information.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1464.

/s/ Edmund G. Brown Jr.

EDMUND G. BROWN JR.

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State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 1497.

Item 0250-101-0932—For local assistance, Judicial Branch. I revise this item by deleting a portion of Provision 15.

I am revising this item by deleting the last sentence of Provision 15, which would permit the Judicial Council to offset General Fund reductions to the trial courts by redirecting additional funds from within the Judicial Branch's budget. I believe this language is unnecessary as the Budget already provides the appropriate level of funding, given available resources, for each segment of the Judiciary.

~~"15. Notwithstanding any other provision of law, during the 2012-13 fiscal year, the Judicial Council shall allocate \$385,000,000 of reductions in funding contained in Schedule (1) as follows: (a) no more than \$235,000,000 shall be allocated to each trial court based on each court's proportionate share of total statewide trial court reserves, and (b) no more than \$150,000,000 shall be allocated based on each trial court's proportionate share of the 2011-12 fiscal year Trial Court Trust Fund allocation. Upon approval of the Director of Finance and no sooner than 30 days after notification in writing to the committees of each house of the Legislature that consider the State Budget, the Judicial Council may offset either of these reductions through transfers from any other item within the Judicial Branch's budget, with the exception of funding scheduled for the Supreme Court, Courts of Appeal, and Habeas Corpus Resource Center."~~

Item 5180-111-0001—For local assistance, Department of Social Services. I reduce this item from \$4,443,230,000 to \$4,438,530,000 by reducing:

(2) 25.15-IHSS from \$6,239,606,000 to \$6,234,906,000.

I am reducing this item by \$4,700,000 to eliminate an augmentation to support administration of the In-Home Supportive Services (IHSS) program. This would align funding with the level I included in the May Revision. This reduction is necessary to provide for a prudent General Fund reserve. With this reduction, \$134,223,000 General Fund still remains for IHSS administration.

Item 5180-141-0001—For local assistance, Department of Social Services. I reduce this item from \$717,265,000 to \$694,265,000 by reducing:

(1) 16.75-County Administration and Automation Projects from \$1,833,498,000 to \$1,779,498,000.

(3) Amount payable from the Federal Trust Fund (Item 5180-141-0890) from -\$1,068,900,000 to -\$1,037,900,000.

I am reducing this item by \$54,000,000 (\$23,000,000 General Fund) on a one-time basis in the County Administration and Automation Projects program for administration of the CalFresh

program. This reduction is necessary to provide for a prudent General Fund reserve. With this reduction, total funding of \$1,464,752,000 still remains budgeted to support CalFresh administrative costs. This level of funding for county administration is greater than what I proposed in the May Revision.

Item 5180-141-0890—For local assistance, Department of Social Services. I reduce this item from \$1,068,900,000 to \$1,037,900,000.

I am reducing this item by \$31,000,000 to conform to the action I have taken in Item 5180-141-0001.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$162,299,000 to \$162,194,000 and by revising Provision 35.

I am reducing this item by \$105,000 federal Migrant Education Funds to eliminate indirect cost funding associated with the Bureau of State Audits audit of the Migrant Education Program. This amount duplicates state operations funding already included in the Department of Education's budget and is unnecessary. With this reduction, \$600,000 remains to fund the audit.

I am revising Provision 35 to conform to this action as follows:

“35. Of the funds appropriated in this item, up to ~~\$705,000~~ \$600,000 is provided in one-time federal Title I, Part C, carryover funds for transfer to the State Audit Fund for the purpose of the Bureau of State Audits to conduct an independent audit of state and local implementation of the federally funded Migrant Education Program. The audit report shall be submitted to the appropriate fiscal and policy committees of each house of the Legislature and to the State Department of Education (SDE) no later than March 1, 2013.

(a) The audit report shall include all of the following:

- (1) A detailed audit of expenditures, fiscal practices, and fiscal oversight at the SDE and in a sample of local Migrant Education Program regions to determine whether there is compliance with applicable state and federal laws, regulations, and administrative policies.
- (2) A detailed audit of the State Parent Advisory Council (SPAC) makeup and activities at the state level and in a sample of local Migrant Education Program regions to determine whether there is compliance with applicable state and federal laws, regulations, and administrative policies, and to assess whether the state appropriately supports and engages migrant parents.
- (3) A detailed review of how effectively the state organizes and implements migrant education services at both the state and local levels, which includes alignment between program goals and program activities, outcomes from state-level contracts, effectiveness of data collection structures and internal operations, and the efficacy of the existing regional service delivery structure.
- (4) Recommendations for how the state may address audit findings related to the topics described in paragraphs (1), (2), and (3).
- (5) A review of the extent to which any relevant findings raised in recent federal reviews (since 2006) of the state's Migrant Education Program pertaining to these and other topics have been addressed. If these findings have not been adequately addressed, provide recommendations on how the state should address them to ensure the delivery of services in the Migrant Education Program are efficient and effective.

- (b) The regions selected for the sample shall be sufficient in number to reflect the diversity of local regions and program structures.”

Item 6110-140-0001—For local assistance, Department of Education (Proposition 98). I reduce this item from \$886,000 to \$0 by reducing:

- (2) 20.90.001.020-California School Information Services Administration from \$2,184,000 to \$1,298,000.

I am reducing this item by \$886,000 to reflect the decrease in workload at the California School Information System (CSIS) associated with the completion of the California Longitudinal Pupil Achievement Data System (CALPADS) project. The Budget acknowledges the continued workload associated with CSIS’s support of the CALPADS maintenance phase, and therefore, continues to provide \$7,136,000 to ensure that CSIS is successful in meeting this objective.

Item 6110-194-0001—For local assistance, Department of Education. I reduce this item from \$770,603,000 to \$750,603,000 by reducing:

- (1.5) 30.10.020-Child Care Services from \$1,329,885,000 to \$1,309,885,000, and
(d) 30.10.020.007-Special Program, Child Development, Alternative Payment Program from \$194,031,000 to \$174,031,000.

I am reducing \$20,000,000 from voucher-based child care programs, except for those serving current and former CalWORKs families. While I would have preferred to restructure rates and reform the program to achieve savings, this across the board reduction in child care slots is necessary to help bring ongoing expenditures in line with existing resources. With this reduction, a total of \$1.3 billion in non-Proposition 98 General Fund and federal funds remain to support child care programs administered by the Department of Education.

Item 6110-488—Reappropriation, Department of Education. I revise this item by deleting Provision 8.

I am deleting Provision 8 which contains an augmentation of \$8,100,000 for the Advancement Via Individualized Determination program because it creates additional cost pressures within Proposition 98 and school districts are in the best position to determine whether this program should be funded at the local level.

Item 6440-001-0001—For support of University of California. I reduce this item from \$2,053,750,000 to \$2,053,749,000 by reducing:

- (1) Support from \$2,053,750,000 to \$2,053,749,000,

and by deleting Provisions 5, 7, 8, 9, 10, 11, 12, 14, 15, and 17.

I am deleting Provisions 5, 7, 8, 9, 10, 11, and 12, because the requirements contained in these provisions to expend funds on various programs create unnecessary cost pressures within this item and are unnecessarily restrictive. Specifically, these provisions earmark funding levels for the following programs administered by the University of California (University): the Charles R. Drew Medical Program, the California State Summer School for Mathematics and Science, the Science and Math Teacher Initiative, the Program in Medical Education, nursing programs,

Acquired Immune Deficiency Syndrome research, and the California Subject Matter Projects. Eliminating these earmarks will give the University greater flexibility to manage the \$750 million permanent reduction in state funding enacted in fiscal year 2011-12.

I am deleting Provision 14 because the requirement contained in this provision to expend funds on retired annuitant health and dental benefits creates unnecessary cost pressures and is unnecessarily restrictive.

I am deleting Provision 15 because the requirement contained in this provision that the University achieve an enrollment target of 209,977 resident full-time equivalent students creates unnecessary cost pressures on this item and is unnecessarily restrictive.

Finally, I am reducing this item by \$1,000 and deleting Provision 17 which would restrict the University's ability to contract out for services rather than using in-house personnel, under specified terms. While I encourage the University to review the overall cost effectiveness of its contracting out, this provision would unnecessarily limit the University's ability to effectively manage its operations.

Item 6610-001-0001—For support of California State University. I delete Provisions 5, 6, 9, and 10.

I am deleting Provisions 5 and 6 because the requirements contained in these provisions to expend funds on various programs creates unnecessary cost pressures and are unnecessarily restrictive. Specifically, these provisions earmark funding levels for the Science and Math Teacher Initiative and nursing programs administered by the California State University (CSU). Eliminating these earmarks will give CSU greater flexibility to manage the \$750 million permanent reduction in state funding enacted in 2011-12.

I am deleting Provision 9 because the requirement contained in this provision to expend funds on retired annuitant dental benefits creates unnecessary cost pressures and is unnecessarily restrictive.

Finally, I am deleting Provision 10 because the requirement contained in this provision that the CSU achieve an enrollment target of 331,716 resident full-time equivalent students creates unnecessary cost pressures and is unnecessarily restrictive.

Item 7980-101-0001—For local assistance, Student Aid Commission. I reduce this item from \$721,452,000 to \$698,852,000 by reducing:

(1) 15-Financial Aid Grants Program from \$1,638,628,000 to \$1,616,028,000,

and by revising Provisions 1 and 3.

I am reducing this item by \$22,600,000 and amending subsections which establish the maximum Cal Grant awards. The amounts of these awards are statutorily required to be in the Budget. Specifically, I am reducing the private institution award from \$9,708 to \$9,223, the independent institution award from \$9,708 to \$9,223, the Cal Grant B access award from \$1,551 to \$1,473, the Cal Grant C tuition and fee award from \$2,592 to \$2,462, and the Cal Grant C book and supply award from \$576 to \$547. Each of these represent a 5-percent reduction. This action is necessary to align ongoing program expenditures with existing resources. This action will not eliminate eligibility for any Cal Grant student.

I am revising subsections (a), (b), (c), (d), and (e) of Provision 3 to conform to this action as follows:

- “(a) New and renewal recipients attending private institutions shall be ~~\$9,708~~\$9,223.
- (b) New and renewal recipients attending independent institutions shall be ~~\$9,708~~\$9,223.
- (c) All recipients receiving Cal Grant B access awards shall be ~~\$1,554~~\$1,473.
- (d) All recipients receiving Cal Grant C tuition and fee awards shall be ~~\$2,592~~\$2,462.
- (e) All recipients receiving Cal Grant C book and supply awards shall be ~~\$576~~\$547.”

I am further revising subsections to eliminate costs resulting from the Student Aid Commission’s authority to issue new warrants for the Assumption Program of Loans for Education and the State Nursing Assumption Program of Loans for Education. The number of awards are statutorily required to be in the Budget. The General Fund savings that will begin in 2013-14 will help align ongoing program expenditures with available resources into the future.

I am revising subsection (c) of Provision 1 to conform to this action as follows:

“(c) The purchase of loan assumptions under Article 5 (commencing with Section 69612) of Chapter 2 of Part 42 of Division 5 of Title 3 of the Education Code. ~~The Student Aid Commission shall issue 7,200 new warrants.~~”

I am revising subsection (f) of Provision 1 to conform to this action as follows:

“(f) The purchase of loan assumptions under the State Nursing Assumption Program of Loans for Education (SNAPLE) pursuant to Article 1 (commencing with Section 70100) of Chapter 3 of Part 42 of Division 5 of Title 3 of the Education Code. ~~The Student Aid Commission shall issue 400 new warrants.~~”

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1497.

/s/ Edmund G. Brown Jr.

EDMUND G. BROWN JR.