CALIFORNIA BUDGET PROJECT

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Governor Releases May Revision: Tax Collections Down and Deeper Cuts Proposed, Highlighting Need for a Balanced Approach With Significant Additional Revenues

Governor Jerry Brown released the May Revision to his proposed 2012-13 budget on May 14. The May Revision updates policy proposals, revenue projections, and estimated expenditures for the current year as well as the upcoming budget year, which begins on July 1. The May Revision estimates a two-year budget gap of $15.7 billion, up from a $9.2 billion gap as estimated in January. The May Revision identifies lower-than-anticipated tax collections as the primary cause of the widening gap. The Governor outlines $16.7 billion in "solutions" to close the budget gap and provide a $1.0 billion reserve. Spending reductions make up nearly half ($8.3 billion) of the "solutions." In addition, the May Revision assumes that voters pass a tax measure that the Governor is attempting to place on the November 2012 ballot. The measure would temporarily increase personal income tax rates on very-high-income Californians and boost the sales tax rate by one-quarter cent, raising an estimated $8.5 billion in 2011-12 and 2012-13 combined. The May Revision specifies $6.1 billion in spending cuts – primarily to schools, colleges, and universities – that would automatically take effect in January 2013 if voters do not approve the proposed tax measure in November.

Regardless of whether voters pass the tax measure, the May Revision proposes deeper cuts to the Medi-Cal and In-Home Supportive Services (IHSS) programs than those proposed in January. The May Revision also includes new proposals to reduce spending on state employee compensation by more than $400 million and to use the "cash assets" of redevelopment agencies – entities that were eliminated in February of this year – in order to offset $1.4 billion in state spending for schools and community colleges in 2012-13.

The Governor's $16.7 billion in budget "solutions" include:

- $8.3 billion in spending reductions, including a $1.2 billion cut to Medi-Cal, an $879.9 million reduction to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program, and deep cuts to IHSS, child care, the courts, and the Cal Grant college financial aid program;
- $5.9 billion in additional revenues, nearly all of which is attributable to the proposed tax measure;
- $2.5 billion in fund shifts, loan payment deferrals, borrowing from special funds, and other one-time measures; and
- A $1.0 billion reserve.

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The following update provides a "quick and dirty" summary of key provisions of the May Revision. The CBP will update this document as additional details become available. The CBP also will prepare analyses of major proposals contained in the May Revision over the upcoming days and weeks. Please check the CBP website (www.cbp.org) for corrections and additions to this analysis as additional information becomes available. The Governor's budget documents are available online at http://www.ebudget.ca.gov/.

The May Revision Assumes Voters Approve a Ballot Measure in November

The Governor's May Revision assumes that voters will approve a ballot measure in November that would raise an estimated $8.5 billion in 2011-12 and 2012-13 by temporarily increasing personal income tax rates for very-high-income Californians, as well as temporarily increasing the state sales tax. This measure differs slightly from the original proposal put forth by the Governor in January, as it merges key features of the Governor's earlier proposal with those of a measure advanced by the California Federation of Teachers. The compromise initiative would create three new tax brackets for very-high-income Californians that would be in effect for seven years, from 2012 through 2018. Specifically, the measure would create:

- A 10.3 percent tax bracket for single taxpayers with incomes between $250,000 and $300,000 and married taxpayers with incomes between $500,000 and $600,000;
- An 11.3 percent tax bracket for single taxpayers with incomes between $300,000 and $500,000 and married taxpayers with incomes between $600,000 and $1 million; and
- A 12.3 percent tax bracket for single taxpayers with incomes above $500,000 and married taxpayers with incomes above $1 million.

In addition, the measure would increase the state sales tax rate by one-quarter cent for four years, from January 1, 2013 through December 31, 2016.

The new personal income tax brackets would raise an estimated $7.8 billion in 2011-12 and 2012-13, and the quarter-cent sales tax rate increase would raise approximately $700 million in 2012-13. The additional revenues would be earmarked for schools and community colleges and would increase the Proposition 98 school funding guarantee by an estimated $2.9 billion. Because the new dollars would count toward the Proposition 98 guarantee, the remainder of the new revenues – an estimated $5.6 billion – would be "freed up" to help close the budget gap.

As with the Governor's original proposal, the compromise measure addresses the "realignment" of public safety, mental health, and social service programs that were transferred to the counties in 2011-12, along with a portion of existing sales tax and Vehicle License Fee (VLF) revenues to fund the program shift. The compromise measure, for example, would add the realignment revenue transfer to the state Constitution in order to ensure that counties have a stable and ongoing source of funding to support realigned programs. In addition, the compromise measure clarifies that the revenues shifted to counties would not count toward the Proposition 98 school funding guarantee.

The Governor Proposes Deeper Cuts if Voters Reject the Proposed Tax Increase in November

The Governor proposes to automatically trigger an additional $6.1 billion in midyear spending reductions if voters reject the initiative that the Governor seeks to qualify for the November 2012 ballot. These cuts would take effect on January 1, 2013 and would primarily target K-12 and higher education. If voters do not approve the Governor's proposed tax increase, the following cuts would be triggered:

- $5.5 billion from public schools and community colleges;
- $250.0 million from the University of California;

- $250.0 million from the California State University;
- $50.0 million from the Department of Developmental Services;
- $10.6 million in reduced grants to local law enforcement for water safety patrols;
- $10.0 million from the Department of Forestry and Fire Protection;
- $6.6 million from flood control programs;
- $5.0 million in reduced funding for Department of Fish and Game wardens and non-warden programs, reduced funding for state park rangers, and eliminated funding for lifeguards at state beaches; and
- $1.0 million from the Department of Justice's law enforcement programs.

The Administration's Revised Economic Outlook Is Somewhat More Optimistic

California's economy continues to make slow but steady progress toward recovery. March marked the state's eighth month of job growth in a row – the longest period of consecutive gains since the recession ended – and California has now recovered more than one-quarter (28.4 percent) of the jobs it lost during the downturn. Yet the pace of recovery in the state's job market lags that of the US as a whole, which, as of March, had regained more than two out of five (40.7 percent) of the jobs lost nationwide during the downturn. California's slower rebound is not surprising because California was one of the states hit hardest by the downturn.

The Administration's revised economic outlook for 2012 is somewhat more optimistic than the one released in January, which brings it more in line with the forecast released by the Legislative Analyst's Office in February. The May Revision projects, for example, stronger economic growth this year than was forecast in January. National inflation-adjusted gross domestic product (GDP) – the value of all goods and services produced in the US – is projected to increase by 2.2 percent in 2012, up from a 1.7 percent increase projected in January. In addition, California's personal income – an indicator of statewide economic growth – is projected to rise by 4.9 percent in 2012, up from a 3.8 percent increase projected in January.

The Administration's updated outlook also anticipates a slightly more accelerated recovery in the job market than was projected in January. The May Revision forecasts that continued job gains will bring the nation's unemployment rate down to an average of 8.2 percent in 2012 and 7.9 percent in 2013 – 1.0 and 1.1 percentage points lower, respectively, than the rates projected in January. Additionally, the forecast projects that California's jobless rate will average 10.9 percent this year, falling only slightly to 10.4 percent in 2013. The January forecast projected considerably higher 2012 and 2013 unemployment rates for the state (12.0 percent and 11.7 percent, respectively).

Although the Administration's revised projections anticipate that unemployment will decline faster than originally expected, the May Revision acknowledges that full recovery in the job market remains many years off. The updated outlook projects that California will not regain all of the jobs it lost during the downturn until the fourth quarter of 2015 – more than six years after economists declared that the national recession ended. By way of comparison, it took fewer than three years for California's job market to fully recover from the deep downturn of the early 1990s, fewer than two years to recover from the bursting of the tech bubble in the early 2000s, and less than one year to recover from each of the four recessions that occurred during the 1970s and 1980s.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The May Revision includes most of the deep cuts proposed in January for the CalWORKs Program, which provides cash assistance for 1.1 million low-income children while helping parents to find jobs and overcome barriers to employment. The May Revision retains the Governor's proposed CalWORKs restructuring, while making modifications that reduce the 2012-13 cuts to $879.9 million, slightly less than the $946.2 million reduction proposed in January. Specifically, the May Revision:

- Modifies the Governor's January proposal that would have required parents to work in an unsubsidized job for a minimum number of hours per week in order to remain in CalWORKs for a full 48 months. Instead, the May Revision lets parents meet work participation requirements through state-allowable work activities during the first 24 months and through federally allowable work activities for up to 48 months.
- Eliminates the Governor's January proposal to retroactively count previously exempt and sanctioned months toward adult CalWORKs participants' 48-month time limit.
- Allows parents who have young children and who have received temporary exemptions from work participation requirements to gradually re-engage with CalWORKs work activities over a one-year period. These temporary work participation exemptions are scheduled to expire on June 30, 2012.

Child Care and Development Programs

The May Revision reduces non-Proposition 98 state spending on child care for low-income working families by $452.5 million, equivalent to the level of cuts proposed in January. The Governor's revised budget, however, includes several significant changes. Specifically, the May Revision:

- Modifies the Governor's January proposal that would have required all families to meet a narrow set of work requirements in order to receive child care assistance. Instead, under the May Revision, parents who are enrolled in an education or training program could receive child care for up to two years, a change that would increase state spending by $180.1 million. Budget documents suggest that this revised proposal would reduce the number of child care slots by 29,600 in 2012-13.
- Proposes to reduce reimbursement rates for child care providers who receive vouchers from the 85th percentile to the 40th percentile of 2005 Regional Market Rates. In a related change, "license-exempt" child care providers, typically friends or relatives, would be reimbursed at 71 percent of the maximum rate for licensed providers. This proposal would reduce state spending by $184.2 million.
- Rescinds the 10 percent reduction to the Standard Reimbursement Rate for part-day preschool providers that the Governor proposed in January, a change that would increase state spending by $34.1 million. Budget documents indicate that this cost would be funded with a portion of state savings from the Governor's proposed elimination of transitional kindergarten.
- Maintains the Governor's January proposal to shift child care administration to the counties, but proposes a number of modifications, including establishing a separate county-level child care block grant, shifting some funding to the Department of Social Services (DSS) to assist with the transition, and requiring the DSS to consult with the California Department of Education in developing a quality-improvement plan for child care services.

In-Home Supportive Services (IHSS) Program

IHSS helps low-income seniors and people with disabilities live safely in their own homes, preventing their placement in more costly out-of-home care. The Governor's May Revision includes spending reductions of $224.5 million to IHSS in 2012-13, a deeper cut than the $163.8 million reduction proposed in January. Specifically, the May Revision:

- Makes a 7 percent across-the-board cut in authorized IHSS worker hours, effective August 1, 2012, for a spending reduction of $99.2 million in 2012-13.
- Retains the Governor's proposal from January to eliminate domestic and related services – including housework, food shopping and other errands, meal preparation, and laundry – for most IHSS participants living with others. This change would result in reduced state spending of $125.3 million in 2012-13.

Child Support

The May Revision:

- Reduces by $14.7 million ($5 million General Fund) 2012-13 funding for Local Child Support Agencies (LCSAs). To help LCSAs manage this cut, the Governor proposes that these agencies no longer be required to prepare cases for state hearings.
- Maintains the Governor's January proposal to not provide counties with their share of child support collections and instead deposit these dollars in the state's General Fund, for additional state revenues of $31.9 million in 2012-13.

Medi-Cal Program

The May Revision maintains the Governor's substantial reductions to Medi-Cal proposed in January, including the proposal to shift more than 1 million seniors and people with disabilities who currently qualify for both Medi-Cal and Medicare – so-called "dual eligibles" – from fee-for-service Medi-Cal into managed care. However, the May Revision modifies or clarifies this proposal in a number of ways, including phasing in the integration of long-term care services as each county transitions into managed care, delaying the implementation date from January 1 to March 1, 2013, and specifying that IHSS participants would continue to "select and direct" their home care provider. The proposal, as modified by the May Revision, is estimated to reduce state spending by $663.3 million in 2012-13 and by $887 million per year when fully implemented. Budget documents indicate, however, that implementation would depend on achieving a "six-month stable enrollment period," as well as on securing an agreement with the federal government that would allow the state to share 50 percent of the Medicare savings that result from this proposal.

In addition, the May Revision includes several new proposals affecting hospitals and nursing homes. For example, the May Revision:

- Reduces supplemental payments to private hospitals, eliminates public hospital grants, and ends increases to managed care plans for supplemental payments to "designated" public hospitals for a spending reduction of $150 million in 2012-13 and $75 million in 2013-14.
- Aligns "non-designated" public hospital Medi-Cal funding with the "designated" public hospital funding methodology for inpatient Medi-Cal fee-for-service for an ongoing annual spending reduction of $75 million.
- Rescinds the 2012-13 rate increase for nursing homes, but continues to collect the fee used to fund the rate increase and shifts the fee revenues – $47.6 million – to the General Fund.
- Reflects $40 million expected to be provided by the First 5 California Children and Families Commission to fund health services for children from birth through age 5, reducing state General Fund spending by an equivalent amount.

The May Revision also includes a new proposal to require Medi-Cal beneficiaries to pay $15 for non-emergency use of emergency rooms and $1 or $3 for prescription drugs, which would reduce state spending by $20.2 million in 2012-13. This proposal significantly scales back the mandatory copayments included in the 2011-12 budget agreement, which were subsequently rejected by the federal government. Those copayments ranged from $3 to $100 and would have reduced state spending for Medi-Cal by more than $550 million in 2012-13, according to budget documents.

Proposition 98

The May Revision assumes a 2012-13 Proposition 98 funding level of $53.7 billion for K-14 education programs, $1.2 billion more than the level assumed by the Governor's January proposal. The increase in the Proposition 98 guarantee is contingent upon voter approval of the compromise tax measure in November and reflects a larger year-over-year increase in projected tax revenue between 2011-12 and 2012-13 than was assumed in the budget proposed by the Governor in January. The May Revision provides $2.8 billion in 2012-13 to repay schools and community colleges for payments the state deferred in previous years. If voters do not approve the proposed tax measure, the May Revision assumes $5.5 billion in midyear Proposition 98 trigger cuts, including elimination of the $2.8 billion repayment of prior-year deferrals and $2.7 billion in cuts to programmatic funding for schools and community colleges. The May Revision assumes the state will provide $785.3 million more than the $47.0 billion required in 2011-12 Proposition 98 funding and, of this amount, designates $450 million toward 2012-13 Quality Education Investment Act (QEIA) payments and $335 million as "settle up" payments. The $450 million in QEIA payments, which are owed to schools due to the *California Teachers Association v. Schwarzenegger* settlement agreement, would produce an equal amount of 2012-13 General Fund savings.

K-12 Education

The May Revision:

- Assumes an increase of $1.2 billion in 2012-13 school district property tax revenue due to the Administration's proposed reallocation of "cash assets" held by redevelopment agencies, which were eliminated in February 2012. Increased property tax revenue for school districts reduces the state's Proposition 98 obligation, which results in an equivalent amount of General Fund savings. The May Revision also estimates $90.9 million in additional property tax revenue will be retained by K-12 school districts and county offices of education (COE).
- Restores $496 million in 2012-13 funding for the Home-to-School Transportation Program. The Governor proposed to eliminate state funding for home-to-school transportation in January.
- Increases revenue limit payments to school districts and COEs by $459 million in 2011-12 and by $398 million in 2012-13 due to lower-than-anticipated local property tax revenues. Revenue limits provide general purpose funding for schools.
- Provides an additional $392.9 million to reduce the deferral of revenue limit payments for school districts and COEs. As a result, the Governor has proposed a total of $2.6 billion in payments to partially restore previously deferred funding to school districts and COEs, but would not repay these previously deferred funds unless voters approve the compromise tax measure.
- Increases revenue limit funding for school districts and COEs by $122 million in 2011-12 and by $169 million in 2012-13 due to projected increases in average daily attendance.
- Reflects $91.5 million in projected savings associated with the proposed elimination of transitional kindergarten in 2012-13, $132.2 million less than the $223.7 million in projected savings assumed in the January proposed budget. The May Revision proposes to use the revised level of savings to partially restore a reduction to part-day preschool and expand preschool enrollment.
- Modifies the weighted pupil funding formula proposed by the Governor in January. Implementation of the modified formula, which would be phased in during a period of seven years as opposed to the five years originally proposed, would "be contingent on school funding being at the levels proposed in the May Revision." Compared to the Governor's original proposal, the May Revision increases the weighted pupil formula base grant from $4,920 to $5,421, reduces supplemental grants for English-language learners and students from low-income families from 37 percent of the base funding grant to 20 percent, and reduces grants for concentrations of low-income students accordingly. The modified formula would include adjustments to base grants, supplemental grants, and concentration grants to reflect the cost of educating students at different grade levels. Current allocations for the Home-to-School Transportation and Targeted Instructional Improvement Block Grant programs would be included in the modified formula. Implementation and phase-in of the modified proposal would be contingent on changes to accountability systems and on legislation that identifies indicators of district and school success.

- Modifies the mandate block grant proposal included in the Governor's January budget, which proposed to eliminate nearly half of existing school district mandates and make remaining mandates optional. The modified proposal provides school districts, COEs, and charter schools with a total of $166.6 million based on their average daily attendance. The modified proposal would eliminate the existing mandate claiming process, repeal six mandates, and suspend the remaining mandates slated for elimination in 2012-13 until legislation is introduced to permanently repeal them.

California Community Colleges

The May Revision:

- Increases state funding for apportionments by $30.8 million in 2011-12, but reduces state funding for apportionments by $238.9 million in 2012-13. Apportionments are the largest portion of community college funding and are used for general educational costs. The state funding increase in 2011-12 reflects the fact that property tax revenues redirected to community colleges due to the elimination of redevelopment agencies are estimated to be $30.8 million lower than the January forecast. (In general, the state's Proposition 98 obligation for community colleges increases when local property tax revenues decline, and vice versa.) The $238.9 million reduction in 2012-13 state funding for apportionments is attributable to a number of offsetting factors. The May Revision increases 2012-13 apportionments by $95.1 million to partially restore previously deferred funding, but reduces apportionments:

    - By $191.2 million to reflect an increase in estimated local property tax revenue largely due to the Administration's proposed reallocation of "cash assets" held by redevelopment agencies, entities that were eliminated in February 2012.
    - By $125.4 million to reflect an increase in revenues estimated to be raised by the compromise tax ballot measure.
    - By $15 million to reflect an increase in estimated student fee revenues due to recent changes made to eligibility thresholds for Part C of the Board of Governors fee waiver program. The policy change means individuals are eligible for full fee coverage if their cost of attendance exceeds their expected family contribution by $1,104 or more, up from the current threshold of $1 or more.
    - By $2.4 million to reflect an increase in estimated oil and mineral revenues.

- Modifies the mandate block grant proposal included in the Governor's January proposal, to eliminate nearly half of the existing K-12 school district and community college mandates. The modified proposal would eliminate the existing mandate claiming process and provide community colleges $33.4 million based on funded full-time equivalent students, or approximately $28 per student. The May Revision would add the Minimum Conditions for State Aid and Community College Construction mandates to the list of eligible mandates to be funded from the mandate block grant and suspend the Discrimination Complaint Procedures mandate. Budget documents state that these "actions would save millions of dollars in Proposition 98 General Fund."

California State University (CSU) and University of California (UC)

The May Revision:

- Increases funding for the UC base operating costs by $52 million – $38 million less than the increase proposed in January. The May Revision proposes to delay the remaining $38 million increase until 2013-14. According to budget documents, this increased funding could be used to pay for employer contributions to retirement programs on behalf of UC employees.

- Proposes to grant the CSU the authority to "negotiate or set" employee health benefits. Currently, those rates are set by statute.

California Student Aid Commission

The May Revision:

- Shifts an additional $67.4 million in federal Temporary Assistance to Needy Families funds to support Cal Grants in 2012-13, which would result in an equivalent amount of General Fund savings.
- Reduces 2012-13 Cal Grant funding by $38.4 million to reflect a new graduation rate standard and a proposed change to the maximum default rate standard for Cal Grant-eligible institutions. As part of the 2011-12 budget agreement, higher education institutions where 24.6 percent of students or more defaulted on student loans were excluded from Cal Grant Program participation. The May Revision would reduce the maximum student loan default rate to 15 percent in 2012-13 and would also institute a new minimum graduation rate requirement of 30 percent. Any institution that exceeds the maximum student loan default rate or drops below the minimum graduation rate, except for those with 40 percent or fewer students receiving federal student loans, would be prohibited from participating in the Cal Grant Program for one academic year.
- Increases 2012-13 Cal Grant funding by $31.2 million to reflect a 9.1 percent tuition increase at the CSU.
- Shifts an additional $30 million from the General Fund to the Student Loan Operating Fund to pay for Cal Grant costs.
- Increases Cal Grant funding by $27.7 million in 2011-12 and by $26.5 million in 2012-13 to allow students who receive Cal Grant B awards to switch to the Cal Grant A program when renewing their awards.
- Proposes to modify the methodology used to determine Cal Grant award levels to reduce awards for students with lower costs of attendance or those who come from families with higher incomes. Budget documents state that the Governor will propose trailer bill language to change the methodology used to determine Cal Grant award levels to reflect those used to determine federal Pell Grants.

State Employees

The May Revision reduces state employee compensation spending by $839.1 million ($401.7 million General Fund), the equivalent of a 5 percent reduction in pay. According to budget documents, the Administration proposes to achieve these savings by implementing a four-day, 38-hour workweek for the majority of state workers, as well as commensurate reductions in work hours and pay for other employees. The Administration plans to negotiate these changes through the state's collective bargaining process. Budget documents also indicate that the Administration will continue pursuing changes to state employee and retiree health coverage benefits in order to reduce state costs and will permanently eliminate 11,000 vacant positions.

Realignment

The 2011-12 budget agreement transferred responsibility for a number of public safety, mental health, and social service programs to the counties, along with dedicated funding intended to cover the counties' new costs. This shift, known as "realignment," aims to control costs and improve outcomes by providing counties with some flexibility to tailor programs to meet the needs of their communities. Funding for realignment comes from two existing revenue sources that were redirected to counties: 1.0625 cents of the state's sales tax rate, which will provide an estimated $5.4 billion in 2012-13, and a portion of Vehicle License Fee revenues, which will total approximately $455.1 million in 2012-13. As noted above, the compromise ballot measure advanced by the Governor and the California Federation of Teachers would place this revenue shift in the state Constitution in order to ensure that counties have a stable and ongoing source of funding to support realigned programs.

While the realignment framework adopted in 2011 is intended to be permanent, the implementing legislation allocated funds among counties and programs only for 2011-12, primarily based on historical funding allocations. In January, the Governor proposed a permanent allocation structure, negotiated with county officials, for 2012-13 and beyond. The May Revision largely retains this plan, which simplifies the 2011-12 realignment structure and allows funds to be transferred between accounts under limited circumstances.

Adult Corrections

The May Revision reflects the impact of significant steps the state has taken to reduce prison overcrowding. These changes were prompted by rising corrections expenditures as a share of state spending, the costly cycling of low-level parole violators thorough state prisons, and a US Supreme Court order requiring the state to significantly reduce its prison population by mid-2013. In particular, the state shifted – or "realigned" – responsibility for certain low-level felony offenders and parolees to the counties effective October 1, 2011. Requiring counties to manage and supervise individuals convicted of nonserious, nonviolent, and nonsexual crimes is intended to both reduce the state prison population and – to the extent that counties focus on providing rehabilitative services – improve outcomes for offenders by reducing recidivism. With realignment in its eighth month, the Administration has assessed the initial impact of the shift and now estimates that realignment will reduce state General Fund spending on corrections by more than $30 billion over a 10-year period.

The May Revision:

- Cancels $4.1 billion in lease revenue bond authority provided by AB 900 (Solorio, Chapter 7 of 2007), allowing the state to avoid an estimated $7.4 billion in future debt service payments according to budget documents published by the California Department of Corrections and Rehabilitation (CDCR). The remaining bond authority of $1.9 billion will be used to finish current construction projects and improve prison health care facilities to comply with recent court orders.
- Closes the California Rehabilitation Center in Norco by June 2016 "due to its age, dilapidated condition, and high operating costs," according to the CDCR. This change will reduce annual corrections expenditures by $160 million beginning in 2015-16.
- Requests $810 million in new lease revenue bond authority for state prison construction, according to the CDCR. The funds would be used to build three dorm facilities at existing prisons to replace the capacity lost by the closure of the California Rehabilitation Center.
- Proposes $500 million in lease revenue bond authority for the construction of local jails. This is in addition to $1.2 billion previously authorized through the AB 900 Local Jail Construction Financing Program.
- Adopts various staffing changes that will eliminate 5,500 positions in 2012-13 and a total of 6,600 positions by 2015-16, according to CDCR budget documents.
- Updates the inmate classification score system based on recommendations from a panel of correctional experts. This update will allow the state to move roughly 17,000 prisoners into less costly housing facilities.
- Returns 9,500 inmates housed in out-of-state facilities to California by 2015-16, for state savings of $81.8 million in 2012-13, rising to $302.7 million in 2015-16, according to CDCR budget documents.
- Increases General Fund expenditures for inmate health care by $295.4 million in 2011-12 and $128.4 million in 2012-13 due to greater-than-expected court-mandated medical costs.
- Maintains the Governor's January proposal to convert the Valley State Prison for Women to a facility for men by June 27, 2013. The Governor also intends to create a women's facility at Folsom State Prison to house up to 400 female prisoners, according to the CDCR. All other female inmates will be housed at the California Institution for Women and the California Central Women's Facility.

Juvenile Justice

The May Revision reverses the Governor's January proposal to realign all juvenile offenders to county jurisdiction and close the Department of Juvenile Justice (DJJ) by June 2015. The Governor's revised budget assumes DJJ facilities will continue to house serious and violent juvenile offenders, but includes a number of proposals intended to reduce state costs by $24.8 million in 2012-13. These proposals include charging counties $24,000 per year for each offender committed to a DJJ facility; ending juvenile parole in January 2013 rather than in mid-2014; reducing DJJ's age of jurisdiction from 25 to 23; and reducing DJJ administrative staff.

Judiciary

The May Revision reduces General Fund support for trial courts by $544 million in 2012-13. The Governor's proposal assumes that $300 million of this cut would be offset by local trial court reserves. The Governor proposes to replace another $240 million of this cut by redirecting funds from court construction projects to trial court operations, resulting in the postponement of up to 38 court construction projects. The remaining $4 million in General Fund savings would result from permanently increasing state court employees' retirement contributions from 5 percent to 8 percent. Budget documents also assume that "the practice of paying the employee retirement contribution will be discontinued."

Transportation

The May Revision:

- Transfers gasoline excise tax revenues totaling $184.0 million in 2011-12 and $128.2 million in 2012-13 and each year thereafter from the Highway User Tax Account to the General Fund.
- Borrows $300 million in 2012-13 from the Motor Vehicle Account, which includes revenues from vehicle registrations. Budget documents suggest that this loan would be repaid by June 30, 2016.

Housing

The May Revision proposes to use $410.6 million in proceeds from the recent "National Mortgage Settlement" to offset an equivalent amount of General Fund spending, including for various Department of Justice programs and housing bond debt service. The settlement, which reflects an agreement between state attorneys general, the federal government, and five major loan servicers accused of illegal foreclosure practices, specifies that approximately $2.5 billion will be paid to states that signed the settlement. These funds are intended to be used for "foreclosure relief and housing programs, including housing counseling, legal assistance, foreclosure prevention hotlines, foreclosure mediation, and community blight remediation," according to a summary of the agreement.