CALIFORNIA BUDGET PROJECT

Updated July 9, 2012

Governor Signs 2012-13 Spending Plan

On June 27, Governor Jerry Brown signed the 2012-13 budget bill and a package of legislation needed to implement the budget and close a projected $15.7 billion shortfall. The Governor used his line-item veto authority to eliminate $154 million in spending approved by the Legislature. These line-item vetoes include a $50 million reduction to child care and preschool for low-income families, which is in addition to the $110 million cut to child care already included in the budget package passed by the Legislature.

The spending plan closes the state's budget shortfall with $16.6 billion in "solutions," providing an estimated $948 million reserve in 2012-13. The spending plan reflects:

- $8.1 billion in state spending reductions, including $1.2 billion to Medi-Cal, $528.6 million to state employee compensation, $469.1 million to CalWORKs welfare-to-work services, and $52.2 million to the In-Home Supportive Services Program, which provides in-home care for seniors and people with disabilities;
- $6.0 billion in additional revenues, nearly all of which are attributable to temporary tax increases that voters will be asked to approve in November; and
- $2.5 billion in loan repayment extensions, transfers from special funds, and other one-time actions.

The temporary tax increases assumed in the budget agreement are included in the Governor's ballot initiative, which has qualified for the November 2012 ballot. This measure would increase personal income tax rates on very-high-income Californians for seven years and boost the sales tax rate by one-quarter cent for four years. The revenues raised by the measure would provide additional funding for public schools as well as help avoid deeper spending reductions. The budget package specifies approximately $6 billion in mid-year "trigger" cuts that would automatically take effect on January 1, 2013 if voters reject the Governor's initiative. Approximately 80 percent of these reductions – $4.8 billion – would target public schools, while most of the remaining cuts would target community colleges and universities.

The following update provides a summary of key provisions of the 2012-13 budget and significant line-item vetoes based on the best information available. The CBP will update this document as additional details become available.

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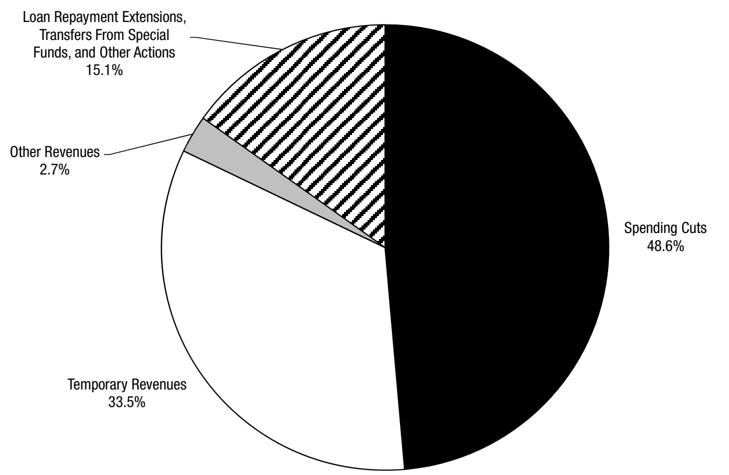
How Is the 2012-13 Budget Balanced?



Total 2012-13 "Solutions" = $16.6 Billion

Source: Department of Finance

The Budget Agreement Assumes Voters Approve the Governor's Ballot Measure in November

The budget agreement assumes that voters will approve the Governor's November ballot measure 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 and raising the state sales tax. 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.

These new tax rates would be in effect for seven years, from 2012 through 2018. The measure also 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.

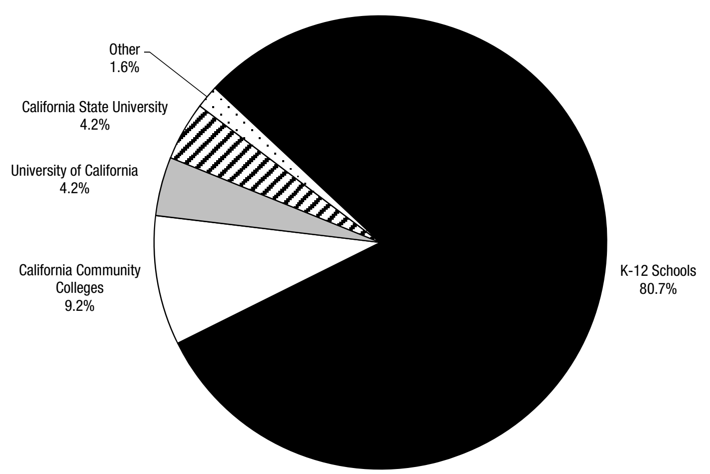
The Governor's ballot measure also would place key provisions of the recent "realignment" of public safety, health, and human services programs in the state Constitution. In 2011-12, policymakers transferred responsibility for certain programs from the state to counties and dedicated a portion of existing sales tax and Vehicle License Fee (VLF) revenues to fund the shift. The Governor's ballot measure would add this revenue shift to the state Constitution, thereby ensuring that counties have ongoing, dedicated funding to support the realigned programs. In addition, the measure would provide counties and the state with protections against certain unanticipated costs and would clarify that the revenues shifted to counties would not count toward the Proposition 98 school funding guarantee.

Additional "Trigger" Cuts Will Be Made if Voters Reject the Governor's Ballot Measure in November

The budget agreement would automatically trigger an additional $6.0 billion in midyear spending cuts if voters reject the Governor's November ballot initiative. These reductions would take effect on January 1, 2013 and would primarily affect public schools, colleges, and universities. If voters do not approve the Governor's measure, the following cuts would be triggered:

- $4.8 billion from public schools, with schools authorized to reduce the school year from the current minimum of 175 days of instruction to 160 days of instruction in each of 2012-13 and 2013-14;
- $550.0 million from the California Community Colleges (CCC), with the CCC chancellor authorized to reduce college enrollment proportionately;
- $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;
- $20.0 million in reduced funding for a new grant program for city police departments;
- $10.0 million from the Department of Forestry and Fire Protection;
- $6.6 million from flood control programs;
- $5.0 million in reduced grants to local law enforcement for water safety patrols;
- $3.5 million in reduced funding for Department of Fish and Game wardens and non-warden programs;
- $1.5 million in reduced funding for state park rangers and lifeguards at state beaches; and
- $1.0 million from the Department of Justice's law enforcement programs.

K-12 Schools Would Bear the Brunt of the Trigger Cuts if the Governor's Ballot Measure Fails



Total 2012-13 Trigger Cuts = $6.0 Billion

Source: Department of Finance

The Budget Agreement Adopts a Long-Term Statutory Framework for Realignment

Last year, the Legislature transferred responsibility for a number of public safety, health, and human services 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. The 2011 framework, however, was temporary and was adopted with the understanding that the Legislature would need to finalize the framework for 2012-13 and beyond. The Governor proposed a long-term statutory framework earlier this year, which a recent CBP report describes in detail.

The 2012-13 budget agreement adopts – with relatively minor changes – the Governor's proposal, which addresses several key issues, including the structure of the accounts and subaccounts into which realignment revenues will flow; the amount of funding that each program will receive in 2012-13 and subsequent years; how revenues will be allocated to counties; and the degree to which counties will be able to move dollars from one program to another. The budget agreement also adopts a number of legal protections for both the state and the counties regarding realignment revenues and unanticipated costs. These statutory protections appear to be substantially similar, if not identical, to those included in the Governor's ballot initiative. The ballot measure, however, would place these protections in the state Constitution. If the Governor's measure fails, all of the realignment provisions in state law – including the legal protections – would remain in force unless modified or repealed by future legislators and governors. Neither the state nor the counties, however, would have the kinds of robust and enduring protections regarding revenues, unanticipated cost increases, and mandate claims that they would have if the ballot measure were approved.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The budget agreement rejects the major structural changes to CalWORKs as well as the deep cuts to cash assistance proposed by the Governor. Instead, the budget agreement includes a number of alternative changes that result in a General Fund spending reduction of $469.1 million in 2012-13. Specifically, the budget agreement:

- Generally reduces from 48 to 24 months the amount of time that CalWORKs parents may receive cash assistance while participating in the full array of welfare-to-work services and activities available under state law. After 24 months – which do not need to be consecutive – a parent would have to meet a narrower set of federal work participation requirements in order to continue receiving a grant on their own behalf, although cash assistance for their children would not be affected. This change takes effect on January 1, 2013 and is prospective, meaning that a parent's time on aid before the change is implemented will not count toward the new 24-month limit. As a result, current CalWORKs participants will be eligible for a full 24 months of cash assistance under the new policy unless they reach their 48-month lifetime limit on aid before the end of this two-year period.
- Generally requires counties to extend cash assistance for certain CalWORKs participants who reach the 24-month limit and are not meeting federal work participation requirements, but meet specified criteria. Extensions could be provided to up to 20 percent of a county's affected CalWORKs caseload. Criteria for an extension include nearing completion of a degree or job certification, actively searching for work in a county with a high unemployment rate, or having a learning disability. The Department of Social Services is required to consult with stakeholders and issue instructions on the extension criteria by November 1, 2013.
- Eliminates, effective January 1, 2013, the current "young child" exemption from work participation requirements for parents and guardians with one child under age 2 or two or more children under age 6. Counties must gradually transition these adults back into welfare-to-work activities starting in January. However, the budget agreement creates a new, one-time exemption for parents and guardians with a child under age 2 and excludes those months of assistance from the adult's time limit.
- Reduces state funding that counties use to provide services and child care by $205.7 million in 2012-13. This reduction reflects:

    - The extension of the current young-child exemption through December 31, 2012 and implementation of the new exemption for parents or guardians with a child under age 2, which reduces state spending by $136.2 million;

- Lower projections of the number of families enrolled in CalWORKs, which reduces state spending by $43.0 million; and
- A less frequent reporting interval of once per year for CalWORKs families in which the adult does not receive cash assistance – "child-only" families – which reduces state spending by $26.5 million. This change, however, does not apply to families in which the adult has been "sanctioned" – and therefore does not receive cash assistance – due to not complying with program rules. Instead, families with a sanctioned adult would continue to be subject to the more frequent reporting requirements that apply to other CalWORKs families.

- Effective October 1, 2013, restores the CalWORKs "earned income disregard" to the 2010-11 level of $225 plus 50 percent of additional income. This amount was reduced to $112 plus 50 percent of additional income in 2011-12. The earned income disregard excludes a portion of earnings when calculating a CalWORKs participant's monthly grant level.
- Restores full funding for the Cal-Learn Program for pregnant and parenting teenagers by April 1, 2013. State funding for Cal-Learn intensive case management services was suspended during 2011-12.
- Eliminates the distinction between "core" and "non-core" activities applicable to the CalWORKs Program and aligns the hours of participation required under CalWORKs with those required by the federal government:

  - 20 hours per week for a single parent with at least one child under age 6;
  - 30 hours per week for other single-parent families; and
  - 35 hours total for two-parent families.

Child Care and Development

The Legislature rejected the Governor's proposals to significantly reduce payments to child care and preschool providers, reduce the income eligibility limit for child care and preschool, impose new work requirements on parents seeking child care, and shift child care administration from the California Department of Education (CDE) to the counties. Instead, the budget agreement:

- Reduces child care contracts across the board – except CalWORKs Stages 1 and 2 – by 8.7 percent effective July 1, 2012, reducing state spending by an estimated $80 million and eliminating 10,600 child care slots in 2012-13. This cut affects several child care programs, including General Child Care, the Alternative Payment Program (APP), and CalWORKs Stage 3 child care. This reduction is in addition to the 11 percent cut to child care contracts implemented in July 2011 as part of the 2011-12 budget agreement.
- Suspends the cost-of-living adjustment (COLA) for child care programs for a spending reduction of $30.4 million in 2012-13. The budget package also suspends the COLAs for 2013-14 and 2014-15.
- Requires families with children enrolled in state preschool to begin paying the same fees applicable to child care programs.
- Freezes the income eligibility limit for child care and preschool at 70 percent of the 2005 state median income, or $3,518 per month for a family of three, in 2012-13.

In addition, the Governor used his line-item veto authority to:

- Reduce funding for APP child care by another $20.0 million, which will eliminate an additional 3,400 slots in 2012-13.
- Reduce funding for state preschool by $30.0 million in 2012-13. This cut will eliminate 12,500 preschool slots, reducing low-income children's access to high-quality early education.

In-Home Supportive Services (IHSS) Program

The budget agreement:

- Integrates IHSS – as well as other Medi-Cal long-term supports and services – into managed care plans in the eight counties that will participate in an expanded pilot project to deliver coordinated care to seniors and people with disabilities who qualify for both Medi-Cal and Medicare. In addition, the budget agreement requires, with some exceptions, that Medi-Cal enrollees in those eight counties access IHSS and other long-term supports and services through a managed care plan. This change will be implemented no earlier than March 1, 2013.
- Transfers authority to negotiate IHSS workers' wages and benefits from counties to the state in the eight counties that will participate in the Medi-Cal managed care pilot project.
- Stabilizes counties' share of IHSS spending by establishing a county-specific maintenance of effort (MOE) based on 2011-12 expenditures. The MOE level would generally be adjusted by 3.5 percent each year beginning on July 1, 2014. The state and federal governments would pay the remainder of IHSS costs.
- Extends the 3.6 percent across-the-board cut in IHSS participants' authorized hours, reducing General Fund spending by $52.2 million in 2012-13. This cut first took effect in February 2011.
- Rejects the Governor's proposal to eliminate domestic and related services, such as meal preparation, laundry, and errands, for IHSS participants in shared living arrangements. The Legislature also rejected a similar proposal last year.

The Governor vetoed $4.7 million in General Fund support for county operation of the IHSS Program.

Child Support

The budget agreement:

- Reduces 2012-13 funding for Local Child Support Agencies by $14.7 million ($5 million General Fund).
- Withholds counties' share of child support collections and instead deposits these dollars – $31.9 million in 2012-13 – into the state's General Fund.

Medi-Cal

The budget package reduces state spending on Medi-Cal by $1.2 billion in 2012-13 through a number of actions. Specifically, the budget agreement:

- Expands, from four to eight counties, a pilot project that generally shifts seniors and people with disabilities who are enrolled in both Medi-Cal and Medicare into Medi-Cal managed care plans. Currently, most seniors and people with disabilities in California are enrolled in fee-for-service Medi-Cal, which pays providers directly for services. The pilot project also incorporates into Medi-Cal managed care many long-term care services, including IHSS. The pilot project would begin on or after March 1, 2013, and the budget package states the Legislature's intention to expand the project statewide within three years, subject to further legislative action. However, implementation is contingent on several factors, including reaching an agreement with the federal government regarding how Medicare savings would be shared between the state and federal governments. The budget agreement covers the up-front costs of this change by deferring payments to fee-for-service providers and managed care plans through the transition, resulting in a spending reduction of $611.5 million in 2012-13.
- Adopts the Governor's proposal to seek federal approval to impose two new copayments on Medi-Cal beneficiaries: $15 for each non-emergency use of the emergency room and $3.10 for each prescription for non-

preferred drugs. This proposal significantly scales back the copayments included in the 2011-12 budget agreement, which were rejected by the federal government. These new copayments would reduce state spending by an estimated $20.2 million in 2012-13, assuming implementation beginning January 1, 2013.

- Shifts half of an existing pool of unexpended federal funds intended for public hospitals to the General Fund for state savings of $100 million.
- Eliminates state reimbursement on fee-for-service claims at certain public hospitals. This payment method, which already applies to many public hospitals, requires that hospitals use their own expenditures to draw down federal Medicaid matching dollars for state savings of $94.4 million.
- Redirects hospital fee revenues intended to fund supplemental payments to private hospitals for state savings of $150 million.
- Expands Medi-Cal managed care to the 28 counties that currently do not have a Medi-Cal managed care plan for state savings of $2.7 million.
- Defers payments to skilled nursing facilities and postpones a scheduled nursing facility rate increase, resulting in reduced state spending of $87.8 million.
- Reduces Medi-Cal payment rates for laboratory services for state savings of $7.7 million.

Healthy Families

The budget agreement eliminates the Healthy Families Program by gradually shifting all of the children covered under Healthy Families to the Medi-Cal Program – generally Medi-Cal managed care. This transition reduces state spending by $13.1 million in 2012-13, rising to $72.9 million in 2014-15. The benefits covered by managed care plans participating in Healthy Families and Medi-Cal are broadly similar. The transition will take place in four stages beginning in January 2013. Specifically, approximately:

- 415,000 children will transfer into Medi-Cal managed care on or after January 1, 2013. These children are currently enrolled in Healthy Families plans that are also Medi-Cal managed care plans.
- 249,000 children will transfer into Medi-Cal on or after April 1, 2013. These children are currently in Healthy Families plans that subcontract with Medi-Cal managed care plans, and they will remain in their current plan "to the extent possible."
- 173,000 children will shift to Medi-Cal managed care on or after August 1, 2013. These children will transition to a new managed care plan because they are enrolled in a Healthy Families plan that does not contract or subcontract with a Medi-Cal managed care plan in their county.
- 43,000 children will shift to fee-for-service Medi-Cal on or after September 1, 2013 because they live in counties that do not have a Medi-Cal managed care plan.

The budget agreement requires the DHCS to develop implementation plans, monitor the transition, meet with stakeholders, and regularly report to the Legislature in an effort to ensure continuity of health care coverage for the transitioning children. Additionally, the DHCS may stop the transition if the director determines that any aspect of the shift violates the requirements of the federal Affordable Care Act or jeopardizes any federal funding that the director and the Department of Finance conclude would be "advantageous to the state."

Public Health

The budget agreement rejects the Governor's proposal to increase costs imposed on Californians participating in the AIDS Drug Assistance Program, which provides medication to uninsured or underinsured individuals living with HIV and AIDS.

Behavioral Health Programs

Behavioral health programs include mental health and substance abuse treatment services formerly overseen by the Department of Mental Health (DMH) and the Department of Alcohol and Drug Programs (DADP). The 2011-12 budget agreement began the process of eliminating the DMH and DADP by transferring their functions to other departments. The budget agreement completes the elimination of DMH and DADP by transferring remaining responsibilities to other departments, including:

- Oversight of major community health programs to the DHCS;
- Licensing and quality improvement efforts for many mental health facilities to the DSS; and
- The Workforce Education and Training component of the Mental Health Services Act to the Office of Statewide Health Planning and Development.

The budget agreement also establishes a new Department of State Hospitals to oversee long-term care and services provided in the state's five mental health hospitals and other psychiatric facilities.

Proposition 98

The budget agreement reflects a 2012-13 base funding level of $53.6 billion for K-14 education programs covered by the Proposition 98 guarantee. This funding level is contingent upon voter approval of the Governor's ballot measure. The budget agreement provides approximately $2.3 billion in 2012-13 to repay schools and community colleges for payments the state deferred in previous years. If voters do not approve the Governor's ballot measure, the budget agreement requires $5.4 billion in midyear Proposition 98 trigger cuts, including elimination of the $2.3 billion repayment of prior-year deferrals and approximately $3.1 billion in cuts to programmatic funding for schools and community colleges. The budget agreement assumes that some of the trigger reductions in Proposition 98 spending would result from shifting General Obligation bond debt service and funding for the Early Start Program within the Proposition 98 guarantee, which would reduce state spending on other Proposition 98 obligations. The budget agreement adopts trailer bill language that would allow K-12 schools, county offices of education (COE), and charter schools to reduce the school year to 160 days in 2012-13 and 2013-14 – 15 days fewer than the current minimum number of instructional days – if voters do not approve the Governor's ballot measure.

The budget agreement provides approximately $900 million on top of the assumed Proposition 98 minimum funding level of $46.9 billion in 2011-12, and designates $671.8 million of this amount as payments owed to schools under the *California Teachers Association v. Schwarzenegger* settlement agreement. Of this $671.8 million, $450 million would pay for 2012-13 obligations, $181 million would pay for 2013-14 obligations, and $40.8 million would pay for 2014-15 obligations, resulting in equivalent amounts of General Fund savings in each of these years. The budget agreement also offsets 2011-12 K-12 program spending with $220.1 million in unspent Proposition 98 funds from previous years, producing an equivalent amount of General Fund savings in 2011-12.

K-12 Education

The budget agreement:

- Provides $2.1 billion to partially restore previously deferred revenue limit payments to school districts and COEs contingent upon voter approval of the Governor's ballot measure.
- Assumes an increase of $1.3 billion in local property tax revenue available for school districts in 2012-13 due to the elimination of redevelopment agencies. Increased property tax revenue for school districts reduces the state's Proposition 98 obligation, which results in an equivalent amount of General Fund savings.

- Eliminates the COLA for K-12 education programs in 2012-13 which, if provided, would have been 3.24 percent. The budget agreement establishes a total deficit factor for revenue limit payments of 22.27 percent for school districts and 22.55 percent for COEs. A deficit factor is the difference between revenue limit payments, which provide general-purpose funding for school districts and COEs, and the revenue limit funding level specified by state law.
- Reduces 2012-13 funding for Basic Aid school districts' categorical programs proportionate to non-Basic Aid districts' revenue limit reductions.
- Adopts the Governor's May Revision proposal to restore $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.
- Provides $313.0 million in 2012-13 Proposition 98 funding to pay for Quality Education Investment Act (QEIA) obligations owed to schools due to the *California Teachers Association v. Schwarzenegger* settlement agreement, a reduction of $89 million in QEIA funding for K-12 school districts compared to previous payments.
- Modifies the Governor's mandate block grant proposal, but adopts the proposed funding level of $166.6 million, which would provide $28 per student for school districts and COEs and $14 per student for charter schools. The budget agreement establishes a block grant for the majority of K-14 mandates, suspends mandates in 2012-13 that were suspended in 2011-12, and rejects the Governor's May Revision proposal to eliminate the existing mandate claims process. Instead, the budget agreement requires school districts, COEs, and charter schools to choose each year either to use the existing claims process or to accept block grant dollars.
- Shifts to Proposition 98 $163.9 million in General Fund spending for "wraparound" child care services that are provided as part of the state preschool program. This transfer consolidates within Proposition 98 all of the state funding used to support children through the California State Preschool Program. The shift results in General Fund savings, but means that fewer dollars are available for other Proposition 98 spending.
- Increases funding for charter school categorical programs by $53.7 million to reflect charter school enrollment growth.
- Provides $15.0 million in ongoing Proposition 98 funding for the Early Mental Health Initiative and shifts administration of the program from the Department of Mental Health, which has been eliminated, to the CDE.
- Rejects the Governor's January budget proposal to eliminate $8.1 million for the Advancement Via Individual Determination (AVID) Program.
- Rejects the Governor's proposal to eliminate funding for transitional kindergarten in 2012-13.
- Rejects the Governor's weighted pupil funding formula proposal.

The Governor vetoed $15.0 million in General Fund support for the Early Mental Health Initiative and $8.1 million in General Fund support for the AVID Program.

California Community Colleges

The budget agreement:

- Reduces state funding for apportionments – the largest portion of community college funding – by $116.1 million in 2011-12 and $451.1 million in 2012-13. These reductions reflect estimated increases in local property tax revenues available to be redirected to community colleges due to the elimination of redevelopment agencies. However, if property tax revenues fall short of projections and other funding sources, such as student fees, do not offset the loss, then the state would be required to backfill the shortfall, resulting in increased General Fund costs.
- Provides $159.9 million to partially restore $961.0 million of previously deferred apportionment funding, contingent upon voter approval of the Governor's ballot measure.

- Provides $50.0 million for "general apportionment growth" contingent upon voter approval of the Governor's ballot measure.
- Modifies the mandate block grant proposal included in the Governor's May Revision, but adopts the proposed funding level of $33.3 million based on funded full-time equivalent students, or approximately $28 per student. The budget agreement establishes a block grant for the majority of K-14 mandates and adopts the Governor's May Revision proposal to include the Minimum Conditions for State Aid, Community College Construction, and Discrimination Complaint Procedures mandates within the block grant. The budget agreement suspends mandates in 2012-13 that were suspended in 2011-12 and rejects the Governor's May Revision proposal to eliminate the existing mandate claims process. Instead, the budget agreement requires community colleges to choose each year either to use the existing claims process or to accept block grant dollars.
- Increases community college fees for certain students who are not California residents to twice the fees required of California residents through June 30, 2013 and to three times California resident fees beginning July 1, 2013. Community college fees are currently $46 per unit for California residents.

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

The budget agreement:

- Provides $125.0 million each to the UC and the CSU in 2013-14 contingent upon two conditions: that the UC and CSU maintain their 2011-12 mandatory systemwide tuition and fee levels for the 2012-13 academic year and that voters approve the Governor's ballot measure in November.
- Adopts the Governor's January budget proposal to increase UC funding by $90.0 million to pay for cost increases in the University of California Retirement Plan (UCRP) attributable to state General Fund- and tuition-funded employees. Budget bill language states that 2012-13 UCRP funding "does not constitute an obligation on behalf of the state to provide funding after the 2012-13 fiscal year for any UCRP costs."
- Rejects the Governor's January budget proposal to eliminate enrollment targets at the UC and the CSU.
- Rejects the Governor's January budget proposal to eliminate "set-asides" that earmarked funds for several UC programs, including the Drew Medical Program, AIDS research, and the Institutes for Science and Innovation.

The Governor vetoed provisions in the budget that established enrollment targets at the UC and CSU as well as provisions that earmarked funds for several UC programs, including the Drew Medical Program, AIDS research, and the Institutes for Science and Innovation.

California Student Aid Commission

The budget agreement:

- Shifts $803.8 million in federal Temporary Assistance for Needy Families funds to support Cal Grants in 2012-13, which results in an equivalent reduction in General Fund spending.
- Reduces maximum Cal Grant award levels for students attending private, for-profit colleges and universities and independent, non-profit colleges and universities beginning in 2013-14, reducing General Fund spending by $103 million.
- Shifts $84.6 million from the state's General Fund to the Student Loan Operating Fund to pay for Cal Grant costs.
- Reduces 2012-13 Cal Grant funding by $55 million to reflect a new graduation rate standard and a change to the maximum default rate standard for Cal Grant-eligible institutions. The 2011-12 budget agreement prohibited new Cal Grant awards for higher education institutions where 24.6 percent of students or more defaulted on student loans. The budget agreement reduces the maximum student loan default rate to 15.5 percent in 2012-13 and also

institutes a new minimum graduation rate requirement of 30 percent. The budget agreement prohibits new Cal Grant awards and reduces renewal awards by 20 percent for institutions that exceed the maximum student loan default rate or fall below the minimum graduation threshold in 2012-13. Beginning in 2013-14, the budget agreement prohibits institutions that exceed the maximum student loan default rate or drop below the minimum graduation rate from participating in the Cal Grant Program for one academic year. The new graduation rate and maximum default rate standards would not apply to institutions where up to 40 percent of students receive federal student loans.

- Adopts the Governor's proposal to increase 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, if eligible, when renewing their awards.
- Rejects the Governor's proposal to phase out funding for Assumption Program of Loans for Education (APLE) and the State Nursing Assumption Program of Loans for Education for Nursing Faculty (SNAPLE NF).

The Governor vetoed $22.6 million in General Fund support for Cal Grants, which reflects a 5 percent reduction to the 2012-13 maximum private, for-profit and private, non-profit institution awards; Cal Grant B access award; Cal Grant C tuition and fee award; and Cal Grant C book and supply award. The Governor also vetoed a provision of the budget that would have provided new awards for the APLE and the SNAPLE NF, but maintained funding for renewal awards. This action is expected to reduce General Fund spending by $5.6 million beginning in 2013-14.

State Employees

The budget agreement reduces state employee compensation spending by $839.1 million ($401.7 million General Fund), the equivalent of a 5 percent reduction in pay. As part of the budget package, the Legislature ratified agreements to reduce state worker compensation that the Administration recently reached with 16 of the state's 21 bargaining units. Press reports indicate that the Administration reached an agreement with one additional bargaining unit. If agreements with the remaining four units cannot be reached by July 1, the budget package authorizes the Governor to impose a one-day-per-month furlough on the workers represented by those units. The budget agreement also requires certain state employees who are not represented by bargaining units to take one day of unpaid leave per month.

State Operations

The budget agreement:

- Rejects the Governor's proposal to eliminate the Commission on the Status of Women. Instead, the budget package renames the commission the "Commission on the Status of Women and Girls" and modifies the policy areas to be studied by the commission. The budget agreement also requires the commission to develop a strategy to attract financial support from private donors so as to reduce state funding for its work.
- Rejects the Governor's proposal to eliminate the Unemployment Insurance Appeals Board. Instead, the budget package reduces the number of members serving on the board from seven to five. In addition, the budget agreement establishes stricter qualifications for board members, including requiring that all members be attorneys admitted to practice in the US.

The Governor used his line-item veto authority to eliminate $246,000 in General Fund support for the Office of Privacy Protection.

Adult Corrections

The Legislature adopted many of the proposals outlined by the Governor to restructure the state's prison system in response to last year's realignment, which transferred responsibility for low-level offenders from the state to the counties. Realignment is expected to significantly reduce the state prison population as well as the number of parolees subject to state supervision, providing the state with an opportunity to reduce spending on corrections and make operational changes to state prisons.

The budget agreement makes a number of changes to prison construction funding. Specifically, it:

- Cancels $4.1 billion in lease revenue bond authority provided by AB 900 (Solorio, Chapter 7 of 2007) for the design and construction of new state prisons, allowing the state to avoid $2.2 billion in annual debt service payments and operating costs.
- Provides up to $500 million in new lease revenue bond authority for the design and construction of local jails. This is in addition to $1.2 billion previously authorized through the AB 900 Local Jail Construction Financing Program. To access the new bond dollars, counties must fund at least 10 percent of the total project costs.
- Shifts $171 million in AB 900 bond funding from Phase I to Phase II. To access the Phase II dollars, counties must fund at least 10 percent of total project costs, compared to a 25 percent share of total costs under Phase I.
- Authorizes up to $810 million in new lease revenue bond authority to build three new "Level II security" dorm complexes at existing prisons. In addition, the budget agreement closes the California Rehabilitation Center in Norco by December 31, 2016 or six months after the construction of the new dorm facilities, whichever is earlier.

In addition, the budget agreement:

- Returns approximately 10,000 inmates housed in out-of-state facilities to state prisons as beds become available. Bringing these prisoners back to California will result in projected annual savings of $318 million upon completion of the transfer.
- Adopts various staffing changes that are estimated to eliminate more than 5,500 positions in 2012-13, rising to more than 6,600 positions in 2015-16.
- Implements a new 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.
- Increases General Fund expenditures for inmate health care by $295.4 million in 2011-12 and $128.4 million in 2012-13 largely due to greater-than-expected court-mandated medical costs.

Juvenile Justice

The budget agreement also makes a number of changes to the juvenile justice system that reduce counties' ability and incentive to send juveniles to state custody. Specifically, it:

- Charges counties $24,000 per year for every youth sent to a state juvenile facility on or after July 1, 2012.
- Reduces the maximum age up to which youths can be housed in state juvenile facilities from 25 to 23.
- Ends juvenile parole as of January 1, 2013, 18 months earlier than the deadline imposed by previous legislation.

Judiciary

The budget agreement reduces General Fund support for trial courts by $486 million and assumes this reduction will be offset by redirecting $240 million from court construction projects, resulting in the suspension of "approximately

38 court projects for up to one year"; using $235 million from the trial court reserves; and redirecting $11 million from the Administrative Office of the Courts. The budget agreement also approves the Governor's proposal to increase certain court fees, resulting in approximately $57 million in additional revenue.

The Governor vetoed a provision in the budget that would have allowed the Judicial Council to offset up to $350 million in General Fund reductions to trial courts with funds dedicated to other purposes within the Judiciary.

Unemployment Insurance

The budget agreement borrows $312.6 million from the Unemployment Compensation Disability Fund to pay for interest owed to the federal government on amounts loaned to the state to cover the cost of Unemployment Insurance benefits, for an equivalent amount of General Fund savings.

Transportation

The budget agreement:

- Permanently transfers to the General Fund gasoline excise tax revenues attributable to aviation, boats, agricultural vehicles, and off-highway vehicles, resulting in increased General Fund revenue of $184.0 million in 2011-12 and $128.2 million per year beginning in 2012-13.
- Transfers "excess" truck weight fee revenues to the General Fund to "pre-fund" certain transportation-related debt service costs for savings of roughly $380 million in 2012-13.

Housing

The budget agreement uses $392 million in proceeds from the recent National Mortgage Settlement to offset an equivalent amount of General Fund spending in 2011-12, 2012-13, and 2014-15, including spending for various Department of Justice programs and housing bond debt service. In addition, $18.4 million in settlement proceeds will be used to enforce the provisions of the National Mortgage Settlement as well as provide counseling to help homeowners avoid foreclosure.

Local Government

The budget agreement suspends dozens of state mandates and defers payments to local governments for pre-2004 mandate claims in 2012-13, 2013-14, and 2014-15. Together, these suspensions and deferrals reduce spending by $828.3 million. The Legislature rejected the Governor's proposal to repeal nearly three dozen mandates.

The Governor vetoed $1.8 million in General Fund spending related to a crime statistics reporting mandate.

Legislation Included in the Budget Agreement

AB 1464:	Budget Bill
AB 1465:	Transportation
AB 1467:	Health
AB 1470:	Mental Health/State Hospitals
AB 1472:	Developmental Services
AB 1484:	Redevelopment

AB 1485:	2011-12 Supplemental Appropriations Bill
AB 1494:	Healthy Families Program
AB 1497:	Changes to the Budget Bill ("Budget Bill, Jr.")
AB 1499:	Order of Statewide Ballot Measures
AB 1502:	UC and CSU
SB 1006:	General Government
SB 1008:	Health: Coordinated Care Initiative
SB 1009:	Mental Health Realignment
SB 1013:	Child Welfare Services Realignment
SB 1014:	Alcohol and Drug Programs Realignment
SB 1015:	Tax Compliance
SB 1016:	Education
SB 1018:	Resources and Environmental Protection
SB 1020:	Realignment: Establishing Permanent Finance Structure
SB 1021:	Public Safety and Judicial
SB 1022:	Public Safety: Capital Outlay
SB 1023:	Public Safety Realignment
SB 1033:	Cash Management
SB 1036:	In-Home Supportive Services
SB 1038:	Boards and Commissions
SB 1041:	Human Services