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GOVERNOR RELEASES PROPOSED 2008-09 BUDGET

The Governor released his Proposed Budget for the 2008-09 fiscal year on January 10. The budget addresses a shortfall estimated at \$14.5 billion. The gap would be closed by reducing spending in most state programs and departments by 10 percent. The Governor also proposes to sell an additional \$3.3 billion in Economic Recovery Bonds (ERBs) under the authority granted by Proposition 57 of 2004. This would exhaust the \$15 billion authority granted by the voters. The Proposed Budget also uses a \$2 billion accounting gimmick that would book receipts of income tax revenues in 2008-09 that would otherwise be recorded in 2009-10. This, of course, would reduce revenues available in 2009-10 by an equivalent amount.

The magnitude of the proposed reductions and the policy changes necessary to achieve them are significant, even as compared to the sizeable shortfalls of the early years of this decade and the early 1990s. In his budget press conference, the Governor reiterated his opposition to increasing taxes to help close the budget gap. He does, however, propose to close the \$21 million so-called "yacht tax loophole." The Governor's proposal would require purchasers to pay use on boats, planes, and vehicles brought into the state within a year of the date of purchase. In response to questions from the media, the Governor appeared to leave the door open to a larger tax increase as part of an eventual budget package. The Proposed Budget does include a number of significant fee increases, including surcharges on property insurance policies to pay for fire and other disaster-related services and an increase in vehicle registration fees to help fund the California Highway Patrol. Finally, the Governor assumes the state will receive \$430.4 million in revenues from tribal gaming activities in 2008-09. This amount includes \$396.8 million attributable to compacts approved in 2007. The Legislature's ratification of these compacts has been challenged by referenda and the voters will be asked whether the compacts should be allowed to take effect in Propositions 94, 95, 96, and 97 that will appear on the February 5, 2008 ballot.

The following update provides a "quick and dirty" summary of key provisions of the Governor's Proposed Budget. As additional details become available, the California Budget Project (CBP) will update this document. The CBP also will prepare in-depth analyses of major proposals contained in the budget 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 on-line at <http://www.ebudget.ca.gov/>.

The Proposed Budget Cuts 2008-09 Spending by \$10.7 Billion

The Governor's Budget would cut 2008-09 spending levels by \$10.7 billion and current year spending by \$283.2 million. The 2008-09 amount includes \$4.825 billion in reductions to programs covered by the Proposition 98 school funding guarantee, \$4.307 billion in reductions to General Fund-supported programs outside of the Proposition 98 guarantee, and \$1.535 billion in reductions to special fund-supported programs. A list of the proposed cuts is available on the web at: <http://www.ebudget.ca.gov/pdf/GovernorsBudget/8000/9944.pdf>. Selected significant reductions and policy proposals are described below. Large dollar reductions include:

- \$1.126 billion of reductions in state spending for Medi-Cal in the current and budget years. The proposed reduction would cost the state \$1.139 billion in lost federal matching funds as well. The largest share of the reductions would come from reducing payments to providers of health services – including doctors and some hospitals – by 10 percent.
- \$463 million of reductions to the CalWORKs Program over the two-year period. The largest share of the savings would come from terminating aid to certain children who receive assistance through the so-called “safety net” program after their parents have reached the CalWORKs Program’s time limits.
- \$323.5 million in savings from suspending the June 2008 and June 2009 state cost-of-living adjustments (COLAs) for cash assistance grants for low-income seniors and persons with disabilities in the SSI/SSP Program.
- \$372.2 million in combined 2007-08 and 2008-09 reductions to the Department of Corrections and Rehabilitation. These savings would be largely attributable to the Governor’s proposals that would expedite release of over 20,000 nonviolent offenders from state correctional facilities.
- \$2.607 billion in 2008-09 reductions to K-12 apportionments. Apportionments provide general operating support for local school districts. This translates into a loss of \$443 per student. Total proposed 2008-09 reductions to K-12 education, including the loss of federal matching funds, translate into a loss of \$787 per student.

The Governor would exempt some constitutionally protected spending from the 10 percent reduction, most notably transportation programs supported by the sales tax on gasoline pursuant to Proposition 42 and programs for which reductions are “impractical to implement,” including Medi-Cal payments to certain long-term care facilities, revenue-generating departments such as the Franchise Tax Board, CalGrant entitlement programs, health care for inmates subject to oversight by the federal court system, juvenile justice programs, and capital outlay.

The Governor also proposes to implement a number of “cash management solutions” that would delay payments to schools, local governments, providers of health and human services, and the State Teachers’ Retirement System (STRS). These delays would require schools, local governments, and providers to wait for the state to pay for programs and services, and could result in a loss of earnings that would have been generated by the delayed payments. The Governor argues that these steps are needed to avert a cash shortfall at the beginning of the 2008-09 fiscal year.

Proposed Changes to the Budget Process

In his January 8 “State of the State” address, the Governor announced that he would ask the Legislature to place a constitutional amendment on the ballot that would make a number of changes to the state’s budget process. Several elements of the Governor’s current proposal are similar to those contained in the ballot measure, Proposition 76, which he proposed in 2005. The current proposal would not, however, impose an additional cap on state spending or modify the Proposition 98 school funding guarantee. The Governor’s new proposal would:

- Transfer revenues that exceed the amount generated by the rate of long-term growth to a new Revenue Stabilization Fund.

- Require across-the-board reductions in state spending if the Department of Finance projects a year-end deficit. Agencies would be required to reduce spending by 2 percent or 5 percent based on the size of the projected shortfall. The Governor’s proposal would exempt constitutionally mandated spending – including that required by Proposition 98 – as well as debt service payments and contractually obligated amounts.
- Require the Legislature to pass measures to implement the required reductions. If the Legislature failed to do so, or if their actions produced insufficient savings, the Governor would be authorized to waive state law and regulations to achieve the specified level of reductions.
- Leave intact the vote requirements for passage of the budget or state tax increases.

The Roots of the Deficit

The Governor attributes the widening budget gap to increases in state spending since the late 1990s. The \$53.9 billion difference between 1998-99 spending and the \$111.8 billion that would be needed in 2008-09, absent the reductions proposed in the Governor’s budget, includes a number of items attributable to the Governor’s actions and/or measures strongly supported by the Governor, including:

- The \$6.147 billion cost of the Vehicle License Fee (VLF) tax cut. This cost results from the Governor’s 2003 action to lower the VLF rate. The VLF rate was first reduced in 1999 and then subsequently increased in mid-2003 in response to that year’s budget crisis.
- The “locking in” of \$1.485 billion in transportation spending supported by sales taxes on gasoline (the Proposition 42 transfer). The Governor backed Proposition 1A on the November 2006 ballot which severely limited the circumstances under which the transfer of these funds from the General Fund to transportation could be suspended.
- \$1.509 billion in supplemental debt service payments on the ERBs used to finance prior years’ deficits. The Governor proposes to sell an additional \$3.3 billion in bonds later this spring.

Medi-Cal

The Governor’s Proposed Budget allocates \$36 billion (\$13.6 billion General Fund) for the Medi-Cal Program. This reflects a decrease of \$915.9 million (\$678.7 million General Fund) from the 2007 Budget Act level. The Governor proposes to:

- Reduce payments to most Medi-Cal providers by 10 percent, for savings of \$33.4 million in 2007-08 and \$720.9 million in 2008-09. Physicians, other medical providers, certain hospitals, some long-term care facilities, and managed care plans would receive reduced payments. Reductions also would affect service providers in the California’s Children’s Services Program, the Child Health and Disability Prevention Program, and the Genetically Handicapped Persons Program as well as county mental health programs.
- Eliminate dental and other benefits for Medi-Cal recipients, for savings of \$10 million in 2007-08 and \$133.9 million in 2008-09. The elimination of dental benefits would affect only adult beneficiaries and would result in savings of \$115 million in 2008-09. Other benefits that would be eliminated include acupuncture, audiology, optometry, optical, chiropractic, podiatry, psychology, speech therapy, and incontinence creams and washes.
- Require eligibility for Medi-Cal services to be redetermined four times annually, for estimated savings of \$92.2 million in 2008-09. Currently, eligibility is reevaluated annually for children and semi-annually for adults. At the same time, the Governor proposes to reduce payments to counties to determine eligibility for and administer the Medi-Cal Program, for savings of \$75.8 million in 2008-09.
- Stop paying Medicare Part B premiums for certain beneficiaries who are enrolled in both Medi-Cal and Medicare, for savings of \$4.2 million in 2007-08 and \$50.1 million in 2008-09. The Governor proposes to

eliminate Part B premium assistance for Medi-Cal “share-of-cost” beneficiaries whose monthly medical expenses are not high enough to meet their “spend-down” requirement.

- Delay payments due to certain Medi-Cal providers, managed care plans, counties, and Regional Centers in June, July, or August by one or two months.

Other Health Programs

The Governor proposes to:

- Reduce state support for the Healthy Families Program by \$41.9 million in 2008-09. The reduction would be accomplished by:
 - Reducing payments to the managed care plans that enroll Healthy Families children by 5 percent, for savings of \$22.4 million.
 - Placing a \$1,000 annual limit on dental services, which is estimated to affect 5 percent of children enrolled in the program, for savings of \$6.3 million.
 - Increasing the family contributions for certain children, for savings of \$11.1 million. The premium cost for children with family incomes between 150 percent and 200 percent of the poverty line would increase from \$9 per month to \$16 per month. The cost for children with family incomes between 200 percent and 250 percent of the poverty line would increase from \$15 per month to \$19 per month.
 - Increasing copayments for non-preventive services from \$5 per visit to \$7.50 per visit for families with incomes above 150 percent of the poverty line.
- Reduce state support for Developmental Centers, which are direct-care facilities that serve persons with developmental disabilities, by \$21.2 million in 2008-09, primarily by delaying the expansion of the Porterville Developmental Center’s Secure Treatment Program (STP) and reducing operating and equipment expenses. The Administration estimates that the delayed expansion of the STP will require consumers to remain in county jails longer before entering the program.
- Reduce state support for Regional Centers, which purchase and coordinate services for persons with developmental disabilities, by \$235.1 million by extending policies intended to contain costs, such as freezing payment rates for specified program categories. In addition, the Governor proposes to freeze payment rates for all remaining providers with whom the Regional Centers negotiate, for savings of \$14.2 million in 2008-09, and reduce state support for the Supported Employment Program by \$7.7 million by reducing the reimbursement rate for job coaching services.
- Reduce state support for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program, which provides periodic health exams, screening, and treatment to certain children, by \$6.7 million in 2007-08 and \$46.3 million in 2008-09. Specifically, the Governor proposes to eliminate the cost-of-living increase, require that day treatment that exceeds six months be authorized by mental health providers, and reduce payments for non-inpatient services.
- Reduce funding for family health programs, such as case management services for at-risk teens and domestic violence prevention activities, by \$5.4 million.
- Reduce funding for AIDS programs by \$11 million in 2008-09. This reduction includes a \$7 million cut in the AIDS Drug Assistance Program by discontinuing the coverage of several classes of drugs and a \$1.6 million reduction in support for local programs that provide HIV education and prevention.
- Reduce support from Proposition 99 funds for the California Healthcare for Indigents Program by \$12.8 million; for the Major Risk Medical Insurance Program, which serves individuals who are medically uninsurable, by \$4.3 million; for the Breast Cancer Early Detection Program by \$4.2 million; and for the Expanded Access to Primary Care Program by \$1.2 million.
- Reduce state support for Alcohol and Other Drug Programs by \$2.5 million in 2007-08 and \$16.1 million in 2008-09, primarily by reducing the Medi-Cal payments to providers who participate in the Drug Medi-Cal program.

- Reduce state support by \$3.3 million in 2007-08 and \$10 million in 2008-09 for Proposition 36 (Substance Abuse and Crime Prevention Act), which funds substance abuse treatment for nonviolent offenders.
- Reduce funding for the Substance Abuse Offender Treatment Program, which provides treatment services for the population eligible for services under Proposition 36, by \$667,000 in 2007-08 and \$2 million in 2008-09.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The Governor proposes several changes to the CalWORKs Program that are similar to the proposals that he put forward – and that the Legislature rejected – in 2007. These changes are projected to reduce the average monthly number of families receiving CalWORKs cash assistance by approximately 74,000 (16.4 percent) in 2008-09. The Governor’s proposals depart from the state’s historic, bipartisan approach to CalWORKs, which aims to provide a strong work incentive for parents while ensuring the well-being of children. Specifically, the Governor proposes to:

- Restrict “safety net” cash assistance for children after a parent has reached the state’s 60-month time limit for state savings of \$253.4 million in 2008-09. Current state law limits adult recipients to 60 months of cash assistance, but children continue to receive cash aid as long as the family meets CalWORKs eligibility guidelines, regardless of how many hours their parents work after “timing out.” More than 110,000 children in more than 45,000 families received safety net benefits as of September 2007. The Governor proposes to provide safety net benefits to children only if their parents work sufficient hours to meet federal work participation requirements.
- Terminate cash assistance after 60 months for certain children whose parents or caretakers are ineligible for CalWORKs, including US citizen children of undocumented immigrants, for state savings of \$235.8 million in 2008-09. These children are currently eligible for CalWORKs, but their parents cannot receive aid due to their immigration status.
- Gradually eliminate cash assistance for children if their parents do not comply with CalWORKs requirements. The Governor’s proposal would reduce a family’s grant by 50 percent after six months and would eliminate the grant entirely after 12 months if the adult remains sanctioned for failure to meet program requirements. Currently, when an adult fails to meet CalWORKs requirements, counties reduce the family’s grant by the amount attributable to the adult, while cash aid is continued for the children. This policy is designed to provide a basic subsistence allowance to children, even if their parents have been sanctioned.

In addition, the Governor proposes to:

- Provide the statutory COLA for CalWORKs cash assistance at a cost of \$131 million in 2008-09. This change would increase the maximum monthly grant for a family of three in a high-cost county from \$723 to \$754 starting in July 2008, and would represent the first such increase for CalWORKs families since July 2004.
- Eliminate \$40 million in “Pay for Performance” incentive funds for counties in 2007-08. These funds were intended to reward counties that meet certain goals, including increasing the share of former CalWORKs families who have earnings in the quarter after leaving cash assistance.
- Provide supplemental food stamp benefits of \$40 per month to low-income working families who do not receive CalWORKs cash assistance if they work sufficient hours to meet federal Temporary Assistance for Needy Families work participation requirements.

Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program

The Governor proposes to:

- Suspend the state's June 2008 and June 2009 COLAs for SSI/SSP grants for savings of \$23.3 million in 2007-08 and \$300.3 million in 2008-09. SSI/SSP grants will help an estimated 1.3 million low-income seniors and people with disabilities meet basic living expenses in 2008-09.
- "Pass through" the federal January 2009 COLA for SSI/SSP grants, which would increase the monthly grant for individuals from \$870 to an estimated \$881 and for couples from \$1,524 to an estimated \$1,540.

In-Home Supportive Services (IHSS) Program

The Governor proposes to:

- Reduce the number of hours provided for certain non-medical domestic services – including meal preparation, laundry, and errands – for state savings of \$109.4 million in 2008-09. The average IHSS recipient receives 37 hours of domestic services per month, which would decline to an estimated 30.4 hours per month under the Governor's proposal. More than nine out of 10 of the state's approximately 390,000 IHSS recipients (96 percent) receive domestic services.
- Reduce funding for county operation of the IHSS Program by 10 percent for state savings of \$10.2 million in 2008-09. In addition, this proposal would increase from 12 months to 18 months the period in which counties must reassess the condition of IHSS recipients.

Other Human Services

The Governor proposes to:

- Reduce the Child Welfare Services Program allocation provided to counties, for state savings of \$83.7 million in 2008-09. State funding helps counties provide services to abused and neglected children, children in foster care, and their families.
- Reduce, by 10 percent, payments to families and facilities that provide shelter and services primarily to abused and neglected children – including foster care group homes, placements for emotionally disturbed youth, and certain adoptive families – for state savings of \$81.5 million in 2008-09.
- Reduce the free and reduced price meal reimbursement rate for child nutrition programs, for state savings of \$14.2 million in 2008-09.
- Reduce funding for the Naturalization Services Program (NSP) by 10 percent, for state savings of \$300,000 in 2008-09. The NSP assists legal permanent residents in obtaining citizenship.
- Reduce funding for the Adult Protective Services (APS) Program by 10 percent, for state savings of \$6.1 million in 2008-09. The APS Program assists elderly and dependent adults who are functionally impaired, unable to meet their own needs, or are victims of abuse, neglect, or exploitation.
- Reduce California Food Assistance Program (CFAP) benefits by 10 percent, for state savings of \$2.5 million in 2008-09. CFAP provides food assistance to certain legal noncitizens who are ineligible for the Food Stamp Program solely due to their immigration status.
- Reduce funding for county administration of the Food Stamp Program, for state savings of \$14.4 million in 2008-09.

- Reduce random visits to certain care facilities, including child care centers and elderly day support facilities, for state savings of \$2.3 million in 2008-09. Each facility would be randomly visited approximately once every seven years under this proposal, compared to the current policy of random visits approximately once every three years.

Child Care and Development Programs

The Governor proposes to:

- Reduce funding for certain child care and development programs by \$198.9 million in 2008-09. This reduction includes the proposed elimination of the 2008-09 COLA and "growth" funding. The Administration estimates that approximately 8,000 state preschool and child care slots would be reduced "after accounting for normal program savings."
- Reduce state funding for before and after school programs, for savings of \$59.6 million in 2008-09. Budget documents indicate that the Administration will propose a ballot measure to amend Proposition 49 in order to achieve these savings. Proposition 49, which the voters approved in 2002, required the state to substantially increase funding for after school programs. Governor Schwarzenegger was a chief proponent of Proposition 49 before he took office.
- Freeze the income eligibility limit for child care services at the 2007-08 level in 2008-09. Currently, a family of three is eligible for child care if their income does not exceed \$3,769 per month. Freezing the income limit means that working families receiving child care services lose eligibility at a lower income level than if the income limit were increased.

K-12 Education

The Governor's Proposed Budget reflects a total 2008-09 funding level of \$55.7 billion for K-14 education programs covered by the Proposition 98 school funding guarantee, 1.8 percent below the 2007-08 level of \$56.7 billion. The Governor's Proposed Budget estimates that Proposition 98 would require a total of \$59.7 billion in combined state and local spending in 2008-09. However, the Governor proposes to suspend the 2008-09 Proposition 98 guarantee and reduce funding for K-14 education by \$4 billion. The Governor's Proposed Budget allocates \$39.6 billion as the state's share of 2008-09 Proposition 98 funding, 9.2 percent less than would be required by the Proposition 98 guarantee. The Governor's proposal translates into K-12 Proposition 98 per pupil spending of \$8,458 in 2008-09, down from \$8,558 in 2007-08, a 1.2 percent decrease.

The Governor proposes to seek legislation to reduce 2007-08 Proposition 98 spending by \$400 million. The Governor's proposal is motivated by the fact that current fund allocations from combined state and local sources exceed the level required by the Proposition 98 guarantee. This reflects the fact that, because of changing economic conditions, the Proposition 98 guarantee is now estimated to be lower than the level assumed by the 2007-08 Budget. The Governor also proposes to delay \$1.3 billion in payments to K-14 education from July 2008 to September 2008.

To achieve the \$4.4 billion in proposed 2008-09 General Fund reductions to K-12 education, the Governor proposes to:

- Reduce general purpose funds for school districts and county offices of education by \$142.4 million due to a projected enrollment decline of 0.52 percent.
- Reduce revenue limit funding by \$2.6 billion by eliminating the 4.94 percent COLA for school district and county offices of education. In addition, the Governor proposes to change the formula used to calculate the COLA for K-12 education programs. The Governor's proposal would reduce the 2008-09 COLA from 4.94 percent to 3.65 percent. Revenue limits provide general purpose funding for schools.

- Reduce the state’s contribution to the STRS for retiree purchasing power protection from 2.5 percent to 2.2 percent of teacher payroll, for savings of \$80 million, based on an actuarial study which found the benefit to be adequately funded.
- Reduce funding for a number of categorical programs by \$1.1 billion. In order to achieve these savings, the Governor proposes to eliminate COLAs and reduce rate allocations. Categorical programs include class size reduction, instructional materials, home-to-school transportation, and various career technical education programs.
- Reduce special education funding by \$357.9 million. The Governor proposes to eliminate COLAs and reduce existing state funding for special education. The Governor’s Proposed Budget states that schools may have to “backfill” these reductions since special education programs are federally mandated.

The Governor also proposes to:

- Increase funding for the Deferred Maintenance Program, the High Priority School Grants Program, and the Charter School Facilities Block Grant Program so that these programs are fully funded in 2008-09.
- Use General Fund dollars to support home-to-school transportation. The 2007-08 Budget allocated \$99.1 million in Public Transportation Account (PTA) funds toward home-to-school transportation costs. Historically, PTA funds have been allocated to local transit programs.
- Allocate \$80 million in 2008-09 as the first payment towards the \$210 million in interest owed as a result of a 2007 court decision in the STRS lawsuit. The court awarded STRS interest payments based on \$500 million the state withheld from the STRS inflation protection program in 2003-04.

California Community Colleges

The Governor proposes to:

- Reduce funding for the Community College Chancellor’s Office state operations administration budget by \$1 million and reduce local assistance to community colleges by \$483.5 million, including reductions in funding for regular enrollment and special categorical programs. The Governor’s Proposed Budget, with the proposed funding reductions, reflects a 1.6 percent total funding increase for the California Community Colleges (CCC) over the revised 2007-08 Budget and a 2.2 percent General Fund increase.
- Change the statutory COLA factor to 3.65 percent to bring it in conformance with K-12 education. The Governor’s Proposed Budget eliminates the 2008-09 COLA for the CCC, which otherwise would have been 4.94 percent (\$291.7 million).
- Implement a \$40 million one-time reduction in CCC baseline funding (“apportionment” funding). The Governor’s Proposed Budget also delays \$200 million in payments to the CCC for the 2007-08 deferral of apportionments from July 2008 to September 2008.
- Reduce funding for both the Career Technical Education Initiative and Community College Student Success Initiative by 10 percent. The Career Technical Education Initiative is aimed at improving and expanding vocationally oriented career preparation programs. The goal of the Community College Student Success Initiative is to improve outcomes for at-risk students.

University of California

The Governor proposes to:

- Reduce total funding for the University of California (UC) by \$331.9 million. Just under 10 percent of this reduction (\$32.3 million) would be made to the Institutional Support Program, which includes UC administration;

the remainder is unallocated. The Governor's Proposed Budget, including this reduction, reflects a 1.5 percent increase in total funding for the UC over the revised 2007-08 Budget, but a 3.0 percent reduction in General Fund expenditures.

- Increase fees for undergraduate, graduate, and professional students by 7.4 percent, which is below the 10 percent annual fee increase allowed by the 2004 Higher Education Compact. However, the Administration suggests that the UC may consider higher fee increases in response to the proposed funding reductions. One-third of the undergraduate fee increase would be set aside for financial aid.
- Increase funding by \$5 million for the multi-campus Institute for Transportation Studies (ITS).
- Provide \$1.1 million for the Science and Math Teacher Initiative and \$1.7 million for the Nursing Initiative, but assumes both will be cut by 10 percent. These initiatives are aimed at increasing the labor supply in high-demand occupations.

California State University

The Governor proposes to:

- Reduce total funding for the California State University (CSU) by \$312.9 million. Nearly 14 percent (\$43.2 million) of this reduction would be made in the Institutional Support Program, which includes CSU administration; the remainder is unallocated. The Governor's Proposed Budget, with this reduction, reflects a 0.8 percent increase in total funding for the CSU over the revised 2007-08 Budget, but a 3.3 percent General Fund reduction.
- Increase fees for undergraduates, credential candidates, and other graduate students by 10 percent. One-third of the fee increase would be set aside for financial aid. The Administration anticipates that the CSU may impose greater fee increases in response to the proposed budget reductions. Any increase over 10 percent would exceed the annual fee increase allowed by the Higher Education Compact.
- Provide \$2.7 million for the Science and Math Teacher Initiative and \$6.3 million for the Nursing Initiative, but assumes both will be cut by 10 percent.

Student Aid Commission

The Governor proposes to:

- Reduce funding for the Student Aid Commission by \$2.2 million, including \$1.6 million in funding for state administrative functions and \$637,000 for the California Student Opportunity and Access Program.
- Eliminate all new awards for the Cal Grant Competitive program, a reduction of \$57.4 million. Renewal awards would not be affected.
- Complete the sale of California's student loan guarantee program, EdFund, authorized as part of last year's budget agreement. The Governor's Proposed Budget anticipates that this sale will generate approximately \$500 million in revenue, considerably below the \$1 billion in revenue projected when the sale was authorized.

Housing

The Governor proposes to:

- Spend \$771 million in Proposition 1C bond proceeds in 2008-09. Proposition 1C of 2006 authorized \$2.85 billion in general obligation (GO) bond proceeds for various housing-related programs.
- Spend the remaining \$36.8 million in Proposition 46 bond proceeds in 2008-09. Proposition 46 of 2002 provided \$2.1 billion in GO bond proceeds primarily to develop affordable housing and promote homeownership.

Transportation

The Governor proposes to:

- Fully fund Proposition 42 at \$1.5 billion. Proposition 42 allocates proceeds from the state sales tax on gasoline for transportation purposes. This transfer has been suspended in prior years, but Proposition 1A of 2006 severely limits the conditions under which this can occur, leading the Governor to note, “the state cannot achieve budgetary savings from Proposition 42 and therefore no budget balancing reduction to Proposition 42 is proposed.”
- Increase vehicle registration fees by \$11 per vehicle to support the California Highway Patrol, to generate an expected \$385 million in 2008-09 and \$522 million at full implementation in 2009-10.
- Use PTA funds to support certain activities traditionally funded from the General Fund. This proposal would continue policy established as part of the 2007-08 budget agreement. The Governor’s proposal would allocate \$372 million from the PTA for debt service on transportation-related GO bonds, \$83 million to fund the minimum payment due on outstanding Proposition 42 loans, and \$141 million in transportation costs incurred by Regional Centers funded by the Department of Developmental Services.
- Appropriate \$4.7 billion to support projects funded by Proposition 1B, the bond authorized by the voters in November 2006.

State Employees and State Operations

The Governor proposes across-the-board reductions to a number of General Government programs in 2008-09. In particular, the Governor proposes to:

- Reduce state support for veterans homes by \$18.7 million. This reduction would be accomplished in part by capping the number of veterans served by the skilled nursing care unit at the veterans home in Yountville and delaying staffing increases at veterans homes in Redding and Fresno.
- Reduce property tax assistance and renters tax assistance programs for senior citizens by decreasing the level of assistance available by 10 percent per applicant. In addition, the income limit for the Senior Citizens’ Property Tax Deferral Tax Relief Program would be lowered from its current level of \$35,500. The total state savings from these reductions would be \$21.7 million.
- Reduce state support for animal health and food safety by \$1.3 million.

In addition, the Governor outlines different options – but does make a specific proposal – to modify the current pay-as-you-go method for funding retiree health care and dental costs. The Public Employee Post-Employment Benefits Commission recently proposed that California begin to pre-pay the estimated \$47.9 billion in unfunded future health and dental costs for state retirees.

Local Government

The Governor proposes to:

- Reduce funding for non-Health and Human Services local government programs by \$35 million, including a combined reduction in funding of \$23.8 million for the Citizens Option for Public Safety and Juvenile Justice Crime Prevention Act programs.

- Reduce state payments to local governments for revenues lost because of Williamson Act contracts by \$3.9 million. The Williamson Act lowers property taxes paid by agricultural landowners that agree not to develop their land. Last year the Governor proposed eliminating such payments; however, the Legislature rejected his proposal.
- Allocate \$193 million to pay local governments for costs mandated by the state (so-called “state mandates”). The Governor’s Proposed Budget assumes a one-time saving of \$75 million related to estimated reimbursement claims. The state is not required to pay local governments for their costs until a claim has been submitted.

Labor and Workforce Development

The Governor proposes to reduce funding for the Labor and Workforce Development Agency by \$150,000 in 2007-08 and \$2.1 million in 2008-09. Major funding reductions include \$1.3 million in 2008-09 for programs operated by the Department of Industrial Relations, such as the Division of Labor Statistics Research, the Division of Occupational Safety and Health, and Mediation and Conciliation.

Legislative, Judicial, and Executive

The Governor proposes to:

- Reduce funding for the legislative and judicial branches as well as the Governor’s Office by 10 percent. Savings would be achieved by applying a 10 percent unallocated reduction to the budgets of the Legislature, the Legislative Council Bureau, the Judicial Branch, the Commission on Judicial Performance, the Lieutenant Governor’s Office, the Department of Justice, the State Controller’s Office, the Secretary of State, and the State Treasurer’s Office. Although the Governor does not specify how funding reductions for the Judicial Branch would be allocated, the proposed 10 percent cut would likely impact trial court operations, which make up approximately 86 percent of the Judicial Branch’s budget. However, cuts to trial court operations would likely require legislation to suspend the statute that increases trial court funding by an annual growth factor based on the State Appropriations Limit.
- Reduce funding for a variety of Office of Emergency Services (OES) programs, including \$2.4 million in 2007-08 and \$9 million in 2008-09 for the Disaster Assistance Program and \$3.1 million in 2007-08 and \$8.1 million in 2008-09 for local criminal justice grant programs, such as War on Methamphetamine, Vertical Prosecution Block Grant, and High-Tech Theft Apprehension.
- Exempt debt service on lease revenue bonds, the Office of the Inspector General’s Bureau of Independent Review, and the Judges’ Retirement System from the across-the-board 10 percent reduction.
- Create the Wildland Firefighting Initiative to purchase additional firefighting equipment and increase firefighting staff and emergency services personnel. The Governor proposes to fund this initiative through a 1.25 percent surcharge on all residential and commercial property insurance, which is expected to generate \$104.9 million in 2008-09. These funds would be allocated to the Department of Forestry and Fire Protection (\$77.8 million), OES (\$12.1 million), and California National Guard (\$9.2 million). The property insurance levy would offset the Governor’s proposed reductions in funding for certain OES programs, such as the Fire and Rescue Mutual Aid Response Program and the Warning Center/Information Technology/Telecommunications Program.
- Increase funding for the Board of Equalization by \$9 million, including \$7.5 million for the Statewide Compliance and Outreach Program, to boost tax compliance. The Governor expects this additional funding to generate \$20 million in General Fund revenues in 2008-09 and \$38.4 million in General Fund revenues in 2009-10.
- Allocate \$46.5 million in 2008-09 to support new judgeships. This amount would fully fund trial court judgeships that were established in 2007-08 and would also cover one-time costs and the first month of funding for 50 new judgeships that the Governor proposes to establish in 2008-09. The establishment of these new judgeships would require legislation.

Corrections

The Governor proposes to reduce state support for the Corrections and Rehabilitation Agency by \$17.9 million in 2007-08 and \$378.9 million in 2008-09. These savings would be achieved by:

- Releasing certain inmates 20 months early, for savings of \$4.3 million in 2007-08 and \$256.4 million in 2008-09. Eligible inmates would include non-violent, non-serious, non-sex offenders who have no serious or violent prior offense. The Administration estimates that this proposal would reduce the average number of inmates by 22,159 in 2008-09.
- Placing certain inmates and parolees on "summary parole," for savings of \$13.6 million in 2007-08 and \$97.9 million in 2008-09. Summary parolees would have no active supervision, but would be subject to searches and drug testing. The Administration estimates that summary parole would reduce the average number of parolees by 18,522 and the number of inmates by 6,249.
- Reducing state support for the Juvenile Probation and Camps Program by \$20.1 million and for the Mentally Ill Offender Crime Reduction Grant Program, which supports local programs intended to reduce recidivism among the mentally ill, by \$4.5 million.

In addition, the Governor proposes to:

- Provide \$35.4 million in 2008-09 to implement AB 900, the Public Safety and Offender Rehabilitation Services Act of 2007, primarily by expanding substance abuse services, assessing inmates' risks and needs, increasing services for mentally ill parolees, and training staff on rehabilitation principles.
- Make \$2.5 billion available to the federal receiver in charge of overseeing inmate medical care for capital outlay projects. These funds were previously appropriated for additional beds, reentry facilities, and other projects related to AB 900.
- Reduce compensation costs for correctional employees represented by Bargaining Unit 6 by \$30.2 million.

The Governor exempts \$2.4 billion in corrections-related spending from the across-the-board reduction, including medical costs under the control of the federal receiver, costs related to juvenile offenders, and debt service on lease revenue bonds.

Strategic Growth Plan

The Governor proposes to:

- Place \$48.1 billion in GO bonds before voters in the 2008 and 2010 general elections for the following purposes:
 - \$11.6 billion for K-12 education, including \$6.8 billion for new construction, \$0.8 billion for modernization, and \$2 billion each for charter schools and career technical education facilities;
 - \$12.3 billion for higher education, including \$3.2 billion each for the UC and CSU systems, and \$6 billion for the CCC system;
 - \$11.9 billion for water supply and management, including \$3.5 billion for water storage, \$2.4 billion for Bay Delta management, \$1.1 billion for restoration projects, \$3.1 billion for conservation and watershed management, and \$1.8 billion for other projects;
 - \$10 billion for high-speed rail;
 - \$2 billion for court facilities; and
 - \$0.3 billion for other public infrastructure.

Debt service on infrastructure bonds, not counting the proposed new bonds, is already projected to be the fastest-growing component of the state budget in the next five years. The new bonds could add more than \$3 billion in annual costs to the state's budget.

The Governor also proposes to:

- Create a Strategic Growth Council to coordinate state agency activities and investments related to air and water quality, natural resource protection, affordable housing, transportation, climate change, and sustainable land use.
- Establish PBI California, a performance based infrastructure initiative, to manage and implement public-private partnerships for delivering infrastructure.

Resources

The Governor proposes to reduce funding for the Resources Agency by \$4.2 million in 2007-08 and \$89.3 million in 2008-09. Savings would be achieved in part by:

- Shifting \$44.7 million in 2008-09 costs associated with Department of Forestry and Fire Protection's Fire Protection Program from the General Fund to the Insurance Fund, which the Governor proposes to augment with a levy on property insurance.
- Reducing funding for the Department of Water Resources' Flood Management Program by \$5.4 million in 2008-09. This reduction would be partially offset by GO bond funds made available by Proposition 1E and Proposition 84, both of which were approved by voters in 2006.
- Closing 48 state parks and reducing the number of lifeguards at certain state beaches by at least half, for savings of \$13.3 million in 2008-09. Among the state parks that would be closed are the Salton Sea, Topanga, San Simeon, Montana de Oro, Tomales Bay, Del Norte Redwoods, and Great Valley Grasslands state parks; Morro Strand, Manchester, and William Randolph Hearst Memorial state beaches; and Sutter's Fort, Will Rogers, and Malakoff Diggins state historic parks.

In addition, the Governor proposes to:

- Revert \$30 million in unspent funds that had originally been allocated in the 2006-07 Budget for state park maintenance back to the General Fund. This funding reduction would be backfilled by Proposition 84 bond funds.
- Increase funding for the Fire Protection Program by \$33.1 million to increase the number of firefighters available during peak fire season and install GPS tracking devices on firefighting equipment.
- Use \$598.3 million in GO bond funds from Propositions 1E and 84 for flood control programs, including \$461.1 million for the Flood SAFE California Program, \$126.5 million for levee evaluation and repair, and \$10.7 million for five flood control capital projects.
- Allocate \$2 million to establish a new Central Valley Flood Protection Board within the Department of Water Resources, which will assume the responsibilities of the former State Reclamation Board.
- Use \$1 billion in Proposition 84 bond funds for several natural resources programs, including \$350 million for regional water conservation and water quality projects and \$89.1 million to restore coastal wetlands and watersheds.
- Allocate \$100.9 million to the California Energy Commission to encourage the development of alternative fuels and related technologies.

Environmental Protection Agency

The Governor proposes to:

- Reduce funding for the Environmental Protection Agency by \$1.6 million in 2007-08 and \$8.3 million in 2008-09, including a \$4.3 million reduction in funds for the State Water Resources Control Board in 2008-09.
- Allocate \$5.6 million to programs to reduce greenhouse gas emissions as part of the ongoing implementation of the Global Warming Solutions Act (GWSA) of 2006, which outlines a plan for the state to address climate change. The Governor proposes to fund the first three years of GWSA implementation activities with loans that would eventually be repaid by funds generated by the Air Resources Board consistent with the board's policy actions.
- Allocate \$8.5 million to the Air Resources Board to control toxic diesel particulates.
- Use \$100.5 million in Proposition 84 bond funds for the State Water Resources Control Board to maintain water quality programs, including the Clean Beaches Grant Program and the Urban Stormwater Grant Program.
- Implement the California Education and the Environment Initiative to incorporate environmental principles and concepts into K-12 curricula with one-time funding of \$1.2 million in 2008-09 and \$917,000 in 2009-10.