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State Board,

Attached is the summary of the Governor's proposed budget. This summary is all that was released today and therefore it is not possible to provide you with any detail as to how such proposals would be accomplished or enacted.

We anticipate the Legislature to begin dialog about this proposal next week some time, and CCPOA will be in contact with members of the Legislature expressing our concerns and providing alternatives to the attached proposal. Again, this is the Governors proposal and still has to go through the Legislative process before we know what will be enacted and what if any impact it has on Unit 6.

As we develop more information we will provide you with updates.

Happy New Year !?

Chuck Alexander

SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- An increase of \$3.5 million Technical Assistance Fund for the Department of Social Services Community Care Licensing Division to provide for investigations of Registered Sex Offenders and investigation of serious crime arrests of licensees. Licensing fees would be increased as needed to offset the General Fund impact of this proposal.

The major Non-General Fund policy adjustments are as follows:

- A shift of \$365.5 million from the General Fund to the newly created Drug and Alcohol Prevention and Treatment Fund to support existing alcohol and drug programs. Beginning July 1, 2009, these programs will be supported by a proposed increase to the existing alcohol excise tax, estimated to generate an additional \$585 million in General Fund revenues annually. A portion of these revenues will also offset \$219.5 million General Fund costs for alcohol and drug programs administered by the California Department of Corrections and Rehabilitation.

CORRECTIONS AND REHABILITATION

General Fund expenditures are proposed to decrease by \$841.9 million, or 8.7 percent.

The major General Fund workload adjustments are as follows:

- Full-Year Cost of Approved Programs—An increase of \$232.1 million to reflect the full-year cost of new and expanded programs, including increases to continue the previously approved rollout of substance abuse and other programs under AB 900 (\$56.7 million), contracted out-of-state beds (\$34.0 million), activation of the Northern California Reentry Facility (\$47.2 million), and rehabilitative programs for female offenders (\$94.2 million).
- Price Increase—An increase of \$88.3 million to adjust the California Department of Corrections and Rehabilitation (CDCR) operating budget for anticipated price increases.

The major General Fund policy adjustments are as follows:

- Substance Abuse Treatment Programs Fund Shift—A decrease of \$219.5 million to reflect a funding shift for correctional drug and alcohol treatment programs from the General Fund to a special fund with revenues to be derived from a new drink tax. Similar fund shifts, which provide General Fund relief while instituting a permanent

SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

and appropriate new fund source, are proposed in the Department of Drug and Alcohol Programs and the Department of Social Services.

- Prison and Parole Reforms—A decrease of \$598.4 million General Fund related to various prison and parole reforms, as proposed by the Administration in the Special Session. This savings would be generated through enhanced credit earnings for inmates, including providing continuous day-for-day credits for inmates who are in jail pending transfer to a state prison and providing program credits for each program successfully completed by an eligible inmate, eliminating parole for non-serious, non-violent, and non-sex offenders, and by adjusting the threshold value for property crimes to reflect inflation since 1982.
- Unallocated Reduction to Receiver's Budget—A decrease of \$180.8 million as a result of a 10-percent unallocated reduction to the Receiver's Medical Services Program budget.
- Reduction of Public Safety Grants—A reduction of \$181.2 million General Fund for local public safety grants administered by the Corrections Standards Authority. Specifically, the budget proposes to eliminate General Fund local assistance funding of \$151.8 million to support local juvenile probation activities and \$29.4 million to offset costs of operating juvenile camps and ranches. The reduction of General Fund resources for juvenile probation activities is largely offset by a backfill of Vehicle Licensing Fee funds of \$135.9 million.

Non-General Fund expenditures are proposed to increase by \$219.9 million, or 87.2 percent.

The major Non-General Fund policy adjustments are as follows:

- Substance Abuse Treatment Programs Fund Shift—An increase of \$219.5 million to reflect expenditures from a special fund with revenues to be derived from a proposed increase to the existing alcohol excise tax (See Revenues).

HIGHER EDUCATION-NON PROPOSITION 98 PROGRAMS

General Fund expenditures for Higher Education agencies, including the University of California (UC), California State University (CSU), Hastings College of Law (HCL), California Postsecondary Education Commission (CPEC), the Student Aid Commission (CSAC), and the California Community Colleges (CCC) are proposed at approximately

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- A decrease of \$18.5 million by eliminating state funding for the Small/Rural Sheriffs program. The program provides \$500,000 grants to 37 specified smaller county sheriffs departments. The funds were used for discretionary law enforcement purposes.
- A decrease of \$34.7 million for the Williamson Act in both 2008-09 and 2009-10. This represents elimination of reimbursements to local governments that defray the property tax revenues lost due to contracts with landowners who agree to only use of their land for agricultural or open space purposes in exchange for reduced property taxes.
- A decrease of \$32 million by suspending new property tax deferrals under the Senior Citizen's Property Tax Deferral program beginning February 1, 2009. Savings of \$6.5 million are estimated for 2008-09. Year over year expenditures are reduced by \$25.5 million. Under specified conditions, this program pays the property tax for eligible senior and blind/disabled citizens. The state is repaid after the recipient relinquishes ownership through death or sale of the property.

GENERAL GOVERNMENT: STATEWIDE EXPENDITURES

The major General Fund workload adjustments are as follows:

- An increase of \$95.7 million to restart state employer contributions to the University of California Retirement System.

The major General Fund policy adjustments are as follows:

- A decrease of \$6.143 billion in 2009-10 to reflect expenditure offsets provided by the securitization of future lottery revenues, including \$5.0 billion in bond proceeds and \$1.143 billion in lottery revenues. A corresponding increase of \$6.143 billion from the Debt Retirement Fund is proposed to reflect the above General Fund offset.
- A decrease of \$4.7 billion in 2008-09 to reflect expenditure offsets provided by the issuance of Revenue Anticipation Warrants in 2009-10 for costs incurred in 2008-09.
- A decrease of \$414.6 million in state employee compensation costs in 2008-09 resulting from: two days furlough per month beginning February 1, 2009 (\$375.8 million); elimination of two state holidays and premium pay for hours worked on holidays (\$26.3 million); and computation of overtime pay based on actual time worked (\$12.5 million).

SUMMARY OF MAJOR CHANGES BY MAJOR PROGRAM AREAS

- A decrease of \$1.006 billion in state employee compensation costs in 2009-10 resulting from: two days furlough per month (one-time, \$901.8 million); elimination of two state holidays and premium pay for hours worked on holidays (\$74.5 million); and the computation of overtime pay based on actual time worked (\$30 million).
- A decrease of \$150 million through layoff of current state employees as well as efficiencies and other savings.
- A decrease of \$132.2 million in health care costs beginning in January 2010 by contracting for lower cost health care coverage directly from an insurer rather than through CalPERS. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit costs.
- A decrease of \$75.7 million to restart state employer contributions to the University of California Retirement System at \$20 million.

The major Non-General Fund policy adjustments are as follows:

- A decrease of \$283.1 million from various special funds in state employee compensation costs in 2008-09 resulting from: two days furlough per month beginning February 1, 2009 (\$282.4 million); and elimination of two state holidays and premium pay for hours worked on holidays (\$0.8 million).
- A decrease of \$679.9 million from various special funds in state employee compensation costs in 2009-10 resulting from: two days furlough (one-time, \$677.8 million); and elimination of two state holidays and premium pay for hours worked on holidays (\$2.1 million).
- A decrease of \$47.9 million from various special funds in health care costs by contracting for lower cost health care coverage directly from an insurer rather than through CalPERS. Savings beginning in 2010-11 will prefund Other Post-Employment Benefit costs.

DEBT SERVICE

General Fund expenditures for debt service will increase by \$1.410 billion, or 30.9 percent, due to the projected sale of bonds to pay for infrastructure projects, the complete erosion of debt service offsets provided from the Transportation Debt Service Fund (Spillover), and higher short-term borrowing costs (RANs/RAWs).