Introduction

Proposition 58, approved by the voters in March of 2004, gives the Governor the authority to declare a fiscal emergency and call a Special Session of the Legislature if it is determined that the state budget is projected to go substantially out of balance within a given fiscal year. Based upon a determination that current-year revenues will be lower than levels reflected in the 2010 Budget Act, and that expenditures will be higher than budgeted levels – which the state’s Legislative Analyst has projected to result in a current-year shortfall of $6 billion – the Governor has issued a proclamation declaring a fiscal emergency. Pursuant to Proposition 58, the Governor has also sent to the Legislature a package of proposed solutions totaling $9.9 billion to address the fiscal emergency.

Failure to take expedited action to address an identified shortfall has been shown to result in reduced savings and require increasingly more difficult options to be pursued. Because the Legislature did not act on the Governor’s special session savings proposals by last March, the state lost $2.8 billion in savings by the time of the May Revision. The Governor urges the Legislature to begin to address these solutions immediately in the Special Session to achieve savings in both the current and coming fiscal years.
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Expenditure Reductions

A total of $7.4 billion or 74 percent of all solutions represent reductions in program costs. The significant expenditure reductions by agency are as follows:

Legislative, Judicial, and Executive

Judicial Branch

- A reduction of $6.5 million in 2010-11 and $13 million in 2011-12 to reflect the implementation of Electronic Court Reporting in the trial courts, effective January 1, 2011.

Natural Resources

Department of Fish and Game

- A decrease of $1.5 million in 2010-11 and 2011-12 from the Biodiversity Conservation Program. This reduction is an unallocated cut to the department’s programs related to the protection and management of fish and wildlife habitat.
**Health and Human Services**

**Healthy Families**

- A decrease of $2.3 million in 2010-11 and $11.3 million in 2011-12 by eliminating vision coverage. This proposal would take effect April 1, 2011, after appropriate provider and beneficiary notification.

- A decrease of $6.2 million in 2010-11 and $25 million in 2011-12 by increasing monthly premiums in families with incomes from 150 to 250 percent of the Federal Poverty Level (FPL). Premiums would increase for the income group from 150 to 200 percent of the FPL by $14 per child (from $16 to $30) and a family maximum for three or more children by $42 (from $48 to $90). Premiums would go up for the income group from 200 to 250 percent of the FPL by $18 per child (from $24 to $42) and a family maximum for three or more children by $54 (from $72 to $126). No increase would result for families with incomes under 150 percent of the FPL. This proposal is consistent with what other states have done and would take effect April 1, 2011, after appropriate provider and beneficiary notification.

- A decrease of $6.8 million in 2011-12 due to increasing co-payments for emergency room visits from $15 to $50 ($5.3 million) and adding co-payments on hospital inpatient services of $100 per day with a $200 maximum ($1.5 million) consistent with cost containment proposals in Medi-Cal. This proposal would take effect August 1, 2011, after appropriate provider and beneficiary notification.

**Medi-Cal**

- The Special Session proposes $3.2 million in 2010-11 and $980.3 million in 2011-12 in savings from various Medi-Cal Cost Containment proposals. The following specific savings proposals would contain costs in the Medi-Cal program (proposed policies require a state plan amendment or federal waiver):

  (1) Limit services and establish utilization controls for $2.9 million in 2010-11 and $281.7 million in 2011-12.

    - Eliminate certain over-the-counter drugs (such as cough and cold medicine) and nutritional supplements ($2.9 million in 2010-11 and $16.8 million in 2011-12). This proposal would take effect April 1, 2011, after appropriate provider and beneficiary notification.

    - Establish a maximum annual benefit dollar cap on hearing aids at $1,510, durable medical equipment at $1,604, incontinence supplies at $1,659, urological...
supplies at $6,435, and wound care supplies at $391 ($12.4 million in 2011-12). This proposal would take effect July 1, 2011, after appropriate provider and beneficiary notification.

- Limit prescriptions (except life-saving drugs) to six per month ($13.6 million in 2011-12). This proposal would take effect July 1, 2011, after appropriate provider and beneficiary notification.

- Limit the number of physician or clinic visits to 10 per year ($238.9 million in 2011-12). The proposed limits are consistent with the aggregate utilization of these services at the 90th percentile of Medi-Cal enrollees. This proposal would take effect June 1, 2011, after appropriate provider and beneficiary notification.

- (2) Increase cost sharing for $0.3 million in 2010-11 and $698.6 million in 2011-12.
  - $5 co-payments on physician/clinic/dental/and pharmacy ($3 for the relatively lower cost preferred drugs and $5 for others) visits ($0.3 million in 2010-11 and $360 million in 2011-12). This proposal would take effect July 1, 2011, after appropriate provider and beneficiary notification.
  - $50 co-payment on emergency room visits ($142.1 million in 2011-12). This proposal would take effect July 1, 2011, after appropriate provider and beneficiary notification.
  - $100 per day co-payment and $200 maximum for hospital stays ($196.5 million in 2011-12). This proposal would take effect April 1, 2011, after appropriate provider and beneficiary notification.

- A decrease of $14.8 million in 2010-11 and $120.1 million in 2011-12 by eliminating Full-Scope Medi-Cal for Certain Immigrants. This proposal includes that elimination of full scope Medi-Cal for adult Newly Qualified Immigrants (legal immigrants who have been residing in the United States less than five years), immigrants Permanently Residing Under the Color of Law, and Amnesty Immigrants who are not defined as eligible Qualified Immigrants under federal law. Pregnant women would be excluded from this policy. This proposal would take effect June 1, 2011, after appropriate provider and beneficiary notification.

- A decrease of $20.5 million in 2010-11 and $188.9 in 2011-12 by eliminating Optional Adult Day Health Care Benefits. This proposal would take effect June 1, 2011, after appropriate provider and beneficiary notification.
• A decrease of $2.3 million in 2010-11 and $16.1 million in 2011-12 by rolling back the rate increase for Family Planning Services. This proposal would rescind substantial discretionary rate increase authorized by Chapter 636, Statutes of 2007, for family planning services. This proposal would take effect May 1, 2011, after appropriate provider notification.

**CalWORKs**

• A decrease of $110.1 million in 2010-11 and $646.3 million in 2011-12 from reducing CalWORKs grants by 15.7 percent and eliminating the Recent Noncitizen Entrants program, effective April 1, 2011.

• A decrease of $49.4 million in 2011-12 from reducing the level at which the state reimburses CalWORKs child care providers, effective March 1, 2011.

• A decrease of $1.4 billion from eliminating the CalWORKs program effective July 1, 2011. This General Fund savings is in addition to the savings resulting from the above CalWORKs reduction proposals, and net of General Fund to be provided to the various programs and departments outside of CalWORKs that currently receive federal Temporary Assistance for Needy Families Block Grant funds.

**SSI/SSP**

• A decrease of $43.9 million in 2010-11 and $177.1 million in 2011-12 from reducing monthly SSI/SSP grants for individuals to the federal minimum beginning April 1, 2011. These savings are net of increased General Fund costs assumed in the Department of Developmental Services.

• A decrease of $29.3 million in 2010-11 and $123.8 million in 2011-12 from eliminating the Cash Assistance Program for Immigrants, effective April 1, 2011.

**Various Social Services**

• A decrease of $301 million in 2010-11 and $602 million in 2011-12 to the Food Stamp and Child Welfare Services programs from shifting county mental health realignment funding to county social services programs. This adjustment eliminates the majority of funding for county mental health services and retains only the amount necessary to fund mandated mental health services.

• A decrease of $15 million in 2010-11 and $69.4 million in 2011-12 from eliminating the California Food Assistance Program effective April 1, 2011.
A decrease of $18.1 million in 2010-11 and $93.1 million in 2011-12 from eliminating all Drug Medi-Cal programs with the exception of the Perinatal; Early and Periodic Screening, Diagnosis, and Treatment; and Minor Consent Programs. This elimination of services is assumed to be effective April 1, 2011.

**Corrections and Rehabilitation**

A net decrease of $111.5 million General Fund in 2010-11 and $650 million in 2011-12. The state will provide a portion of prison incarceration savings to local jurisdictions for evidence-based treatment for probationers and inmates, alternatives to incarceration such as drug courts, and other expenditures that will reduce recidivism and relieve pressure on jail capacity. The savings are generated from non-sex offenders, non-serious, and non-violent offenders convicted with a felony sentence of three years or less serving their sentence in local jails.

**Proposition 98**

**Subsidized Child Care Reductions**

A decrease of 200.2 million in current year to eliminate all remaining General Fund support of subsidized child care programs, except for the State Preschool Program and CalWORKs Stage 2, effective April 1, 2011. Additionally, cost containment reforms are proposed for all child care programs effective March 1, 2011, that include reductions to current income eligibility limits (from 75 percent of the State Median Income to 60 percent) and reductions to voucher-based provider reimbursement limits (from the 85th to the 75th percentile of the 2005 regional market rate survey data, and from 80 percent of the respective licensed limits to 70 percent for license-exempt providers). While remaining Proposition 98 funding is eliminated, federal funding remains as budgeted for the neediest families under a less generous subsidy program going forward. These reductions are estimated to result in $1.1 billion in annual savings beginning in 2011-12, including elimination of CalWORKs Stage 2 child care effective July 1, 2011, to conform to the elimination of the CalWORKs program as discussed in the Health and Human Services section.

Legislation is proposed to establish greater incentives for child care providers and administrative agents, including Alternative Payment agencies, to reduce administrative error rates, to establish sanctions for those agencies that do not meet federal error rate guidelines, and to deter fraud in child care programs by recipients.
and providers. This proposal will help reduce wasteful spending and, consequently, result in more needy families receiving services with remaining funding in the future.

**GENERAL GOVERNMENT AND STATEWIDE ISSUE**

**LOWER COST HEALTH CARE**

- A reduction of $143.9 million in health care costs beginning in January 2012 achieved by contracting for lower-cost health care coverage either directly from an insurer or through CalPERS.

**ALTERNATIVE FUNDING**

A total of $0.9 billion or 10 percent of all solutions represent alternative funding as follows:

- Automated Speed Enforcement—An increase in revenues of $412.2 million annually beginning in 2011-12, which will be used to offset General Fund support of the trial courts.

- Fund Department of Forestry and Fire Protection’s (CAL FIRE’s) Fire Protection Program from the Emergency Response Initiative—A General Fund reduction of $350 million in 2011-12 and replacement with revenue generated from a 4.8-percent statewide surcharge on all residential and commercial property insurance. Beginning in 2012-13, the Emergency Response Initiative will provide funding to enhance the state’s emergency response capabilities, including enhancements for CAL FIRE, the California Emergency Management Agency, the Military Department, and assistance to local first response agencies in support of the state’s mutual aid system.

- Basin Planning Fees—An ongoing reduction of $6.1 million General Fund beginning in 2010-11 and a corresponding increase in Waste Discharge Permit Fund resulting from proposed statutory changes to authorize the State Water Resources Control Board (Water Board) to assess a fee for basin planning activities. The federal Clean Water Act requires basin plans, and these plans facilitate the Water Board’s discharge permit development consistent with federal and state law.

- Hospital Fee (AB 1383)—A decrease of $160 million in 2010-11 for an extension of the Hospital Fee for an additional six months (from January through June of 2011) would conform to the ARRA extension. The “quality assurance fee” is assessed on hospitals and used to match federal funds at the enhanced rate. The funding
provides additional reimbursements for Medi-Cal hospital services and up to $80.0 million per quarter for providing health coverage for children.

- Office of Administrative Law—A reduction of $0.5 million in 2010-11 and $1.8 million in 2011-12 to reflect savings achieved by supporting regulatory activities through a fee-for-service model, creating the Regulatory Oversight Fund, and transferring the Office of Administrative Law to the State and Consumer Services Agency.

**Fund Shifts and Other Revenues**

A total of $1.6 billion or 16 percent of all solutions represent fund shifts and other revenues as follows:

- Transportation Weight Fees—A transfer of $850 million in 2010-11 and $726.7 million in 2011-12 in weight fee revenues from the State Highway Account to the General Fund is proposed for the payment of transportation-related debt service and for loans. These are costs currently funded from excise taxes on fuel, which may be prohibited under the provisions of the recently adopted Proposition 22. In accordance with that proposition, legislation will be proposed to use gasoline excise tax to replace the weight fees used in this proposal. This will effectively return the budget to what was enacted in October.

- Changeable Message Signs—Legislation is proposed to authorize advertising on changeable message signs for a fee. It is anticipated that along the state’s highway system new signs will be installed and existing signs will be upgraded.

- Emergency Housing Assistance—A transfer of $5.8 million from the Emergency Housing Assistance Fund to the General Fund is proposed.
### December 2010 Special Session Solutions
(Dollars in Millions)

<table>
<thead>
<tr>
<th>Solutions By Category</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2-year Total</th>
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<tr>
<td>Expenditure Reductions</td>
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<td><strong>Total Solutions</strong></td>
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<td><strong>$9,870.4</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
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