

BUDGET LETTER

SUBJECT: 2010-11 PRICE LETTER	NUMBER: BL 09-32
REFERENCES: BUDGET LETTERS 09-12 AND BL 09-31 GOVERNMENT CODE SECTION 13308.05	DATE ISSUED: September 8, 2009
	SUPERSEDES: BL 08-18

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Section 13308.05 of the Government Code provides that the workload budget includes an adjustment for price increase in the budget year. Chapter 12 of the 2009-10 Fourth Extraordinary Session adds Section 11019.10 to the Government Code, which provides that "except as provided in the Budget Act and implementing statutes, no automatic increases shall be provided to the University of California, California State University, the state courts, or to state agency operations, including, but not limited to, annual price increases to state departments and agencies." For 2010-11, this statutory policy direction will be implemented in preparing the Governor's Budget by removing the amount of price increase baseline funding that is added to the workload budget.

The base that departments are to use for purposes of calculating the price increase adjustment is total operating expenses and equipment expenditures authorized in the amended 2009 Budget Act after removing major one-time expenditures, the amount budgeted for Statewide Cost Allocation Plan (SWCAP) recoveries, General Administrative Costs (Pro Rata), and any items that have price increases already built in--e.g., inflation factors incorporated into certain information technology projects. (A subsequent Budget Letter will be issued that addresses SWCAP and Pro Rata planning adjustments.) Departments may then apply the U.S. state and local government implicit deflator of 1.3 percent to this base amount. If a department can justify that another methodology may be more appropriate in calculating its budget year price increase, it should submit a Budget Change Proposal fully documenting the need.

In order for these adjustments to be included in the Planning Estimates as baseline adjustments on line 700, departments must provide the adjustment for price increase along with any necessary back-up information to their respective Finance Budget Analyst by October 9, 2009. The back-up information must also include a split of the price increase by item of appropriation. A separate Planning Estimate adjustment will back out these amounts as policy adjustments on line 1000.

Departments are expected to adjust their line item operating expense and equipment budgets to reflect the most realistic assessment of their own costs in 2010-11, using information provided in this Budget Letter and knowledge of their own contractual commitments and cost drivers. If the adjusted line item expenses cannot be funded with the total funding allowed, departments must make adjustments to their operations and expenditure plans to bring them in line with available funding. This may involve creating efficiencies, negotiating price reductions, or reducing activities and operations including changes in departmental program responsibilities. Departments are responsible for creating effective plans to do this while achieving the department's most important core missions and documenting the plans as part of the base budget development process.

The price adjustment factors included in Attachment 1 are provided for departments' planning and detailed budget-building purposes only. The population projections on Attachment 2 are based on May Revision estimates; updated population data will be available in November.

The Price Letter does not cover the prices of goods and services that are included in the Department of General Services' (DGS) annual **Price Book and Directory of Services**, which is available from the Office of Fiscal Services' website at <http://www.ofs.dgs.ca.gov/Price+Book/Default.htm>. The current Price Book and Directory of Services reflects 2008-09 actual rates and includes 2009-10 proposed rates, which are pending as they are currently being revised. The 2009-10 DGS's Price Book is expected to be available soon and will include proposed rates for 2010-11 which will only become effective upon the passage of the 2010 Budget Act, as they are subject to approval by the Legislature. DGS service rates are submitted annually to Finance for review and oversight through the Governor's Budget development process. Please note that the general price increase will also adjust the Statewide Surcharge funding initially allocated to departments in 2005-06 (as adjusted in 2006-07) that is collected by the DGS annually for centralized costs such as legislative printing. If your Statewide Surcharge allocation is not fully funded by the allocation received in 2005-06, as adjusted annually by the price increase, a department may submit a Budget Change Proposal, fully documenting the shortfall and need for additional funding. If you have any questions regarding the Price Book or the Statewide Surcharge, please contact DGS, Office of Fiscal Services, Budget and Planning Section, 707 3rd Street, West Sacramento, CA 95605, or call Mary Ann DeWitt at (916) 376-5133.

/s/ Mark Hill

Mark Hill
Program Budget Manager

Attachment

PRICE LETTER STANDARDS
2010-11

PRICE ADJUSTMENT FACTOR SUMMARY
(See following text for specific instructions)

UCM Code	Line-Item Object	2009-10 ^a	2010-11 ^a
Personal Services			
103103	OASDI	6.2% on wage ceiling of \$106,800 ^b	6.2% on wage ceiling of \$106,800 ^b
103137	Medicare	1.45% no wage ceiling	1.45% no wage ceiling
103105	Health Benefits-Public Employees	CalPERS average rates will increase by 2.9% on January 1, 2010.	
103107	Retirement-Public Employees	-1.715%	-1.715%
This is the average change for all plans. Budget instructions for this item will be provided in a forthcoming Budget Letter.			
Operating Expenses			
311223	Library Purchases		
	Monographs	-0.5%	0.3%
	Subscriptions	-0.7%	4.1%
	Serial Services	-0.6%	4.1%
313257	Telephone	c, d	d
314261	Postage	d	d
317292	In-State Travel Per Diem	d	d
324362	Electricity	d	d
324363	Natural Gas ^d	14.5%	23.6%
324364	Liquid Petroleum Gas ^d	3.7%	16.4%
325396	Attorney General Services		
	Attorney Services	d	d
	Paralegal Services	d	d

^a Percentage change over 2008-09 unless specified otherwise.

^b The tax base for the calendar year 2009 is \$106,800. While official wage bases for the coming years were not finalized by the Social Security Administration at the time this letter was prepared, estimated wage bases of \$106,800 and \$106,800 are used for calendar years 2010 and 2011, respectively, for planning purposes.

^c Budget at current rates.

^d See following text.

UCM Code	Line-Item Object	2009-10 ^a	2010-11 ^a
Operating Expenses			
328428	Consolidated Data Center	d	d
333503	Clothing and Personal Supplies ^d	-1.1%	1.7%
333504	Medical Care ^d	4.2%	8.6%
333506	Foodstuffs ^d	3.7%	5.8%
333513	Laundry ^e		
	General Linen	37¢/lb.	d
	Personal Clothing	40¢/lb.	d
	California Consumer Price Index - All Urban Consumers	1.2%	3.6%

OPERATING EXPENSES

TELEPHONE

The Department of Technology Services completed its transition from CALNET I to CALNET 2 services on December 3, 2008. CALNET 2 offers most of the CALNET I services while also offering new services. Pricing under CALNET 2 is competitive, allowing customers the choice of low cost basic services or more sophisticated feature rich services.

POSTAGE

The latest postal rates, which went into effect on May 11, 2009, are available at most post office branches, as well as the United States Postal Service's own website at <http://www.usps.com/>.

Current major postage rates, effective since May 11, 2009, are as follows:

First-Class letter: 1 oz.	44 cents
Postcard	28 cents
Priority Mail (Flat Rate Envelope):	\$4.95
Express Mail (Flat Rate Envelope):	\$17.50

The United State Postal Service has indicated that, consistent with the Postal Accountability and Enhancement Act of 2006, the prices for mailing services will be adjusted annually each May after providing 90 days' notice.

^a Percentage change over 2008-09, unless specified otherwise.

^d See following text.

^e Prices do not include transportation charges, which are based on mileage. See following text for detail.

IN-STATE TRAVEL PER DIEM

For 2009-10 and 2010-11, the reimbursement for lodging, meals and incidentals, and mileage should be budgeted as follows:

Lodging – For each 24-hour period

- Alameda, San Francisco, Santa Clara, and San Mateo
Santa Clara
 - With receipt up to \$140.00 plus tax
 - Without receipt \$0.00

Lodging –

- Los Angeles and San Diego County
 - With receipt up to \$110.00 plus tax
 - Without receipt \$0.00

Lodging –

- All other counties
 - With receipt up to \$84.00 plus tax
 - Without receipt \$0.00

Lodging –

- Conference/Conventions
 - Non-State sponsored, with prior written approval of appointing power, with receipt no maximum
 - State-sponsored, with prior written approval of appointing power, with receipt up to \$110.00 plus tax

Meals and Incidentals

up to \$6.00 for breakfast
up to \$10.00 for lunch
up to \$18.00 for dinner
up to \$6.00 for incidentals

Mileage

\$0.55 per mile

The aforementioned amounts reflect the current reimbursement rates for excluded and represented state employees.

Departments are advised to use the above rates for budgeting purposes until the Department of Personnel Administration provides notification of any changes that result from collective bargaining. Actual rates are determined by collective bargaining agreements and may vary by bargaining unit.

HEAT, LIGHT, AND POWER

Electricity

All the major electric utilities have several rate schedules, which are based upon the customer's maximum kilowatt demand and tend to increase costs to the customer as maximum demand increases. Departments should verify that they are being billed on the correct schedule and make every reasonable effort to reduce their maximum demand. The utilities are willing and able to offer advice in this area.

The overall electrical rates charged by major investor-owned and municipal utilities are expected to change over 2008-09 as follows:

	2009-10	2010-11
Pacific Gas & Electric Company	0.9%	2.7%
Southern California Edison	-2.2%	0.1%
San Diego Gas and Electric Company	6.4%	7.7%
Los Angeles Dept. of Water & Power	2.7%	2.7%
Sacramento Municipal Utility District	6.5%	12.6%

Natural Gas

Natural gas should be budgeted for 2009-10 and 2010-11 at 14.5 percent and 23.6 percent, respectively, above 2008-09 actual expenditures.

Fuel Oil and Liquefied Petroleum Gas

Departments are advised to budget liquefied petroleum gas 2009-10 and 2010-11 at 3.7 percent and 16.4 percent above 2008-09 actual expenditures, respectively. Departments should budget fuel oil at current market rates.

ATTORNEY GENERAL'S LEGAL SERVICES RATE

Effective July 1, 2009, departments have been advised to budget Attorney Services and Paralegal Services at \$170 per hour and \$120 per hour, respectively, for 2009-10. State departments receiving services from the Department of Justice are subject to these rates. At the time this Budget Letter was prepared, the Attorney General's legal services rates for 2010-11 have not been finalized but are not expected to change from the 2009-10 rates. If rate changes are needed for 2010-11, departments will be notified of the increases in a subsequent Budget Letter.

DATA CENTER SERVICES

The Department of Technology Services is now the Office of Technology Services (OTech), a division within the Office of the Chief Information Officer (OCIO). While OTech will continue to provide data center services, OCIO is committed to offer even better service for data center customers. On May 22, 2009, the Technology Services Board approved a six-month billing rate package for 2009-10 to recover sufficient funds from services that were substantially under-billing to keep the Office's fund solvent. The published rates charged for various services continue to be reviewed by OCIO and OTech in order to incorporate projected costs savings into a subsequent rate package expected to be adopted this winter for the second half of 2009-10. Because of this timing, however, adjustments to department budgets will not be reflected in the January Governor's Budget. Given the anticipated reductions, it is expected that most departments will be able to absorb any net increases.

The OTech billing rates schedule can be found on the OTech website at www.dts.ca.gov, by navigating to “Customer Resources” and then “Rates”. OTech Rates and Cost Recovery Unit personnel are also available to discuss a customer’s utilization and whether changes can be made to mitigate changes
Note: Departments that have significant changes in data center utilization need to submit budget change proposals to address their needs.

For departments that use CALSTARS running on OTech’s data processing systems, suggested amounts for their 2009-10 interagency agreements have been developed and are available to those departments. As a whole, CALSTARS departments can expect a 2-percent increase in CALSTARS interagency agreement amounts in 2009-10, although changes in interagency agreement amounts for individual departments may vary. For additional information, departments may contact Ms. Elizabeth Fong of OTech at (916) 739-7509 (or e-mail at: Elizabeth.Fong@state.ca.gov).

CLOTHING

Clothing and personal supplies should be budgeted for 2009-10 and 2010-11 at 1.1 percent below and 1.7 percent above 2008-09 actual expenditures, respectively.

MEDICAL CARE SUPPLIES

Departments should budget contract items at current prices. Budget the remaining items for 2009-10 and 2010-11 at 4.2 percent and 8.6 percent, respectively, above 2008-09 actual expenditures.

FOODSTUFFS (FEEDING)

Budget feeding costs for 2009-10 and 2010-11 at 3.7 percent and 5.8 percent, respectively, above 2008-09 actual expenditures.

LAUNDRY

Laundry prices for departments served by state correctional institutions should be budgeted as follows:

Service	2009-10
General Linen	37¢/lb.
Personal Clothing	40¢/lb.
Special Handling	46¢/lb.

These prices do not include mileage-based transportation costs, which are as follows:

Round Trip Mileage	Charge Per Trip
1-25	\$125.00
26-50	235.00
51-75	330.00
76-100	450.00
101-125	465.00
126-150	515.00
151-175	600.00
176-200	680.00
201-225	755.00
226-250	820.00
251-300	990.00
301-350	1,150.00

At the time this letter was prepared, the Prison Industry Authority did not have the estimated increases for 2010-11 available.

OVERALL CONSUMER PRICE INFLATION

The Economic Research Unit of Finance forecasts the California Consumer Price Index for all urban consumers (CPI-U) and several other price indexes in May and December. The most current California CPI-U forecast predicts that overall consumer prices will rise by 1.2 percent and 3.6 percent in 2009-10 and 2010-11, respectively, over 2008-09. However, departments are advised that while the CPI-U is believed to represent overall consumer prices, this index may be inappropriate for use in predicting the inflation trends for certain types of purchases. Furthermore, it is suggested that departments wishing to use CPIs to help forecast their expenditures contact the Economic Research Unit at (916) 322-2263 for the most recent available forecast.

POPULATION

California's total population on July 1, 2009 is projected at 38,495,000—an increase of 398,000 over the number residing in the state on the same date last year. Civilian population on July 1, 2009, the essential figure for most budget computations, is 38,344,000. This represents a growth of 407,000 over the past 12 months. Current projections for mid-2010 place the total population at 38,858,000—an increase of approximately 0.9 percent for total population from the preceding July 1. The total population as of July 1, 2011 is expected to be 39,229,000, of which 39,078,000 would be civilians. These data are summarized in Table 1.

Table 1. ESTIMATED POPULATION OF CALIFORNIA, 2007-2011
(in thousands)

<u>July 1</u>	<u>Total Population</u>	<u>Civilian Population</u>	<u>One-year change</u>	
			<u>Total</u>	<u>Civilian</u>
2007	37,671	37,516	---	---
2008	38,097	37,937	426	421
2009	38,495	38,344	398	407
2010	38,858	38,707	363	363
2011	39,229	39,078	371	371

Table 2 shows the civilian population for the years 2007-2011 distributed by five-year age groups. This distribution is based upon the results of the April 1, 2000, decennial census, Department of Finance estimates, and the most recent Department of Finance projection series.

Table 2. ESTIMATES OF CALIFORNIA'S CIVILIAN POPULATION BY AGE
(in thousands)

Age in Years	7/1/2007	7/1/2008	7/1/2009	7/1/2010	7/1/2011
0-4	2,751	2,784	2,820	2,855	2,892
5-9	2,613	2,655	2,700	2,743	2,757
10-14	2,751	2,705	2,662	2,626	2,634
15-19	2,894	2,924	2,925	2,891	2,842
20-24	2,637	2,670	2,727	2,792	2,858
25-29	2,654	2,689	2,708	2,708	2,709
30-34	2,653	2,649	2,660	2,669	2,695
35-39	2,856	2,849	2,817	2,761	2,718
40-44	2,839	2,823	2,816	2,839	2,870
45-49	2,812	2,845	2,879	2,881	2,864
50-54	2,499	2,569	2,626	2,690	2,742
55-59	2,108	2,158	2,220	2,285	2,356
60-64	1,592	1,684	1,774	1,876	1,955
65+	3,857	3,933	4,010	4,091	4,186
Total	37,516	37,937	38,344	38,707	39,078