



To the California Legislature

Regular Session 2009-10

The significant year-over-year growth in these offsets is discussed in the Federal Funds section of the Health and Human Services and Corrections and Rehabilitation major program area sections.

PROTECTION OF LOCAL GOVERNMENT REVENUES OF 2004— PROPOSITION 1A (2004) AND RDA OFFSETS

As part of the Amended 2009 Budget Act, the Legislature enacted General Fund offsets in 2009-10 from the proceeds of the Proposition 1A (2004) securitization (\$1.9 billion) and funds shifted from redevelopment agencies to schools serving project areas and housing aided by redevelopment funds (\$1.7 billion in 2009-10 and \$350 million in 2010-11). This allows base property tax for schools to be shifted to county offices of education to offset a variety of state program costs in each county as noted below. These offsets are available only in 2009-10, except for \$350 million that will be available in 2010-11 to offset costs of the trial courts. Thus, the budget reflects an increase of \$2.5 billion in 2010-11 for non-Proposition 98 costs and \$850 million in Proposition 98 costs. These offsets are removed from the affected non-Proposition 98 agency spending to provide a better program cost comparison.

These savings are budgeted in the following program areas as an offset to non-Proposition 98 General Fund costs in 2009-10:

- \$1.5 billion for Courts
- \$0.6 billion for Corrections and Rehabilitation
- \$0.6 billion for Medi-Cal Program
- \$0.1 billion for Debt Service

EMPLOYEE COMPENSATION REDUCTIONS

The furloughs in 2009-10 were implemented under the Governor's emergency authority and resulted in one-time savings of \$1.1 billion General Fund. Funding is restored to department budgets in 2010-11 consistent with the anticipated end of the furlough program adopted as part of the 2008 and 2009 revised Budgets.

SUMMARY OF SIGNIFICANT CHANGES BY MAJOR PROGRAM AREAS

Employee compensation reductions in 2010-11, as outlined below, result in a savings of \$1.6 billion General Fund. These moneys will be removed from department budgets going forward.

With the restoration of \$1.1 billion General Fund to department budgets and the reduction of \$1.6 billion General Fund, a net additional decrease of \$489.9 million General Fund is reflected in 2010-11.

The significant General Fund budget solutions are as follows:

- Reductions
 - Workforce Cap—A reduction of \$449.6 million achieved through a five-percent increase in salary savings. An Executive Order will require that Agency Secretaries and Department Directors immediately act to achieve the five-percent reduction by July 1, 2010. It is expected that attrition will be the primary factor in achieving the increased salary savings. The constitutional offices are not included in the workforce cap because the fiscal year 2009-2010 budget for each of those officers included a permanent reduction that achieves savings to the level of the workforce cap or a higher amount.
 - Five-Percent Salary Reduction—A reduction of \$529.6 million achieved through an across-the-board reduction in salaries by five percent.
 - Increased Employee Retirement Contribution—A reduction of \$405.8 million achieved by increasing employees' retirement contribution by 5 percent and reducing the employer contribution accordingly.
 - Lower Cost Health Care—A reduction of \$152.8 million in health care costs beginning in January 2011 achieved by contracting for lower-cost health care coverage either directly from an insurer or through CalPERS. Savings beginning in 2011-12 will pre-fund other post-employment benefit costs.
 - Pre-funding for Health and Dental Benefits for Annuitants—A decrease of \$98.1 million for pre-funding other post-employment benefits.