



DRAFT FY 2012/13 Governor's Budget Overview May Revise

The Governor's (FY) 2012/13 State Budget Proposal, released on January 5, 2012 identified a budget problem of \$9.2 billion. The May Revision, however, estimates that the problem has increased to \$15.7 billion as a result of a reduced revenue outlook, higher costs to fund schools, and decisions by the federal government and courts to block budget cuts.

The \$6.5 billion increase in the size of the 2012-2013 budget problem is largely attributable to three factors.

- Prior Revenue Forecast Was Too High (\$4.3 billion)
- Proposition 98 Spending Increases (\$2.4 billion)
- Federal Government and Courts Blocked Budget Cuts (\$1.7 billion)

The cost increase are somewhat offset by a net reduction of \$1.9 billion from a variety of other factors, such as lower-than-expected caseloads.

With the larger budget gap, the May Revision proposes \$4.1 billion in additional spending reductions, for a total of \$8.3 billion in reductions.

These reductions include:

- Reducing In-Home Support Services hours by 7 percent creating a savings of \$99.2 million dollars. The May Revise provides a much lower decrease to IHSS than the proposed January budget but would still decrease General Fund spending on IHSS by \$99.2 million.
- Implementing various reductions to hospital and nursing home funding to lower Medi-Cal costs creating a savings of \$396 million dollars.
- Reducing the cost of state employee compensation by 5 percent through a reduced workweek or a commensurate reduction in work hours and pay creating a savings of \$402 million dollars.

The Governor's May Revise Summary continues his proposal to eliminate the department of Mental Health (DMH) and establish the Department of State Hospitals. The May Revise Summary does not include new or additional details about the state reorganization of mental health or substance use disorder administration

California Reducing Disparities Project — The Department of Public Health will receive an increase of \$15 million Mental Health Services Fund in 2012-13, with the intent of providing a total of \$60 million toward the project. This \$60 million over four years (\$15 million per year) is derived from the 3.5% MHSA state administrative funds. This funding continues statewide efforts to improve access to mental health services and quality of care, and increase positive outcomes for underserved communities.

Temporary Taxes

The May Revision assumes the passage of the Governor's proposed initiative in the November election. This measure temporarily increases the personal income tax of the state's wealthiest taxpayers for seven years and increases the sales tax by one-quarter percent for four years. According to the Governor's May Revise Summary, the measure guarantees these new revenues to schools and will generate an estimated \$8.5 billion through the budget year. The Governor states that revenues will enable the state to meet its existing Proposition 98 obligation and to increase funding for schools and community colleges by an additional \$2.9 billion. The measure will provide a net benefit to the General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees the 2011 Realignment funds for local public safety.

If the Governor's tax initiative does not pass, the budget details \$6.1 billion in trigger reductions, \$6.0 billion of which would come from K-12 and higher education.