



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR MARK LENO, CHAIR

MAY REVISION HIGHLIGHTS

May 13, 2014

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision. (More detailed program information follows these Highlights – please see the Table of Contents on page 9.)

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 19, 2014.

OVERVIEW OF GOVERNOR'S MAY REVISION

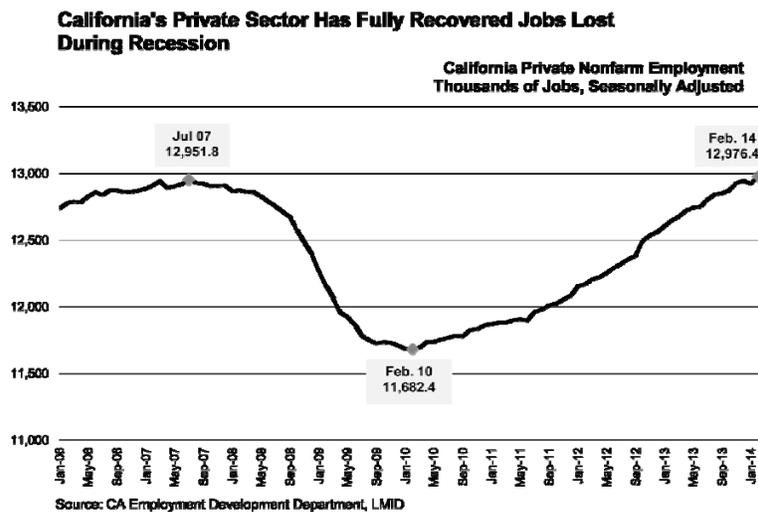
On May 13, the Governor released his May Revision for budget year 2014-15. The Governor now projects budget year expenditures of \$107.8 billion, revenues of \$109.3 billion, and a general reserve of \$528 million. The reserve level represents a decline from January, since there have been considerable adjustments made to the Governor's assumptions about revenues in the current year and budget year and additional expenditures in certain programs. The May Revision reflects a slight increase in the Proposition 98 guarantee, based on increased revenues and a somewhat greater General Fund cost. The Governor's overall budgetary framework continues to be balanced over the forecast period and the budget plan would continue to reduce the "wall-of-debt" and eliminate it by 2017-18. The proposal continues to include a deposit to the Budget Stabilization Account (BSA) of 3 percent of revenues, with a diversion of half that amount to retire certain long-term budget debt.

The General Fund budget summaries for January and May are listed below:

2013-14 and 2014-15 General Fund Summary (Dollars in Millions)

	January Budget		May Revision	
	2013-14	2014-15	2013-14	2014-15
Prior Year Balance	\$2,528	\$4,212	\$2,429	\$3,903
Revenues and Transfers	\$100,147	\$104,503	\$102,185	\$105,346
Total Resources	\$102,675	\$108,715	\$104,614	\$109,249
Non-Proposition 98	\$57,515	\$61,731	\$57,980	\$63,304
Proposition 98	\$40,948	\$45,062	\$42,731	\$44,462
Total Expenditures	\$98,463	\$106,763	\$100,711	\$107,766
Fund Balance	\$4,212	\$1,922	\$3,903	\$1,483
Encumbrances	\$955	\$955	\$955	\$955
Special Fund for Economic Uncertainties	\$3,257	\$967	\$2,948	\$528
Budget Stabilization Account	--	\$1,591	--	\$1,604

Economic Forecast Somewhat Revised. The Governor’s economic forecast is largely unchanged from January, with steady improvement over the near and medium term. This reflects national trends, which should see an increase in GDP of 2.4 percent in 2014 and 3.0 percent in 2015. Personal income in the state is expected to grow by 4.6 percent from 2013 to 2014 and 5.0 percent from 2014 to 2015. California’s economy has generally performed steadily with respect to job creation since the sharp downturn, and as of February had regained private sector jobs lost during the recession, as shown in the chart below. The March data has continued to show improvement.



Nevertheless, unemployment remains above the national average and higher than the state’s historical average. The average annual unemployment rate, which was 8.9 percent in 2013, is expected to drop to 7.6 percent through 2014 and down to 6.9 percent in 2015. While the unemployment rate for the first three months of this year was 8.1 percent, generally good job creation is expected to continue to reduce this throughout the year.

Continued Revenue Improvements. Revenues at the end of April were expected to be nearly \$2.4 billion above the Governor's January expectations for the three year period (2012-13, 2013-14 and 2014-15). Most of the increase—\$2.0 billion—is attributable to the current year. Revenue improvements are due largely to increases in personal income tax (PIT) revenue, and result from increased withholding. This revenue is assumed to be primarily related to bonuses, dividends, and other one-time increases based on timing of their receipt. Corporation taxes are also up slightly from January, reflecting the timing of tax refunds rather than an underlying improvement in base tax performance. Sales tax revenues are down slightly

from the January forecast. Forecasts of local property tax revenues (an important part of meeting the Proposition 98 guarantee) are generally flat, and actually are estimated to be slightly down from the January figure.

The General Fund revenue forecasts for the May Revision and the January budget are compared in the following table:

**2013-14 and 2014-15
General Fund Revenue Sources
(Dollars in Millions)**

	January Budget		May Revision	
	2013-14	2014-15	2013-14	2014-15
Source				
Personal Income Tax	\$64,287	\$69,764	\$66,522	\$70,238
Sales and Use Tax	\$22,920	\$24,071	\$22,759	\$23,823
Corporation Tax	\$7,971	\$8,682	\$8,107	\$8,910
Other Revenues	\$4,969	\$3,577	\$4,797	\$3,979
Total	\$100,147	\$106,094	\$102,185	\$106,950

Major May Revision Components

- Proposition 98 Guarantee and Education Plan Largely Unchanged.** The May Revision forecasts small changes in the Proposition 98 minimum guarantee, with an increase of \$242 million over the three year period. Due to anticipated reductions in property taxes, which constitute an important component of the guarantee, General Fund costs will increase by a somewhat greater amount, totaling \$659 million over the three-year period. This is comprised of decreases in the guarantee for 2012-13 and the budget year, combined with a substantial increase in the current year. The overall funding plan for education, including the elimination of all budgetary deferrals, remains unchanged from the January proposal. The budget plan includes \$50 million Proposition 98 General Fund, on a one-time basis, to support the existing Economic and Workforce Development program at the California Community Colleges Chancellor’s Office. There are some minor additional proposals for K-12 education.

- **Unfunded Pension Liabilities Payment Plan Proposed.** The May Revision proposes to put in place a plan to work-down the current unfunded pension liabilities of the California State Teachers Retirement System (CalSTRs). The plan involves proportionate shared responsibility for the \$74.4 billion liability among the state, school districts, and teachers. Payments to the fund would ‘ramp-up’ over three years for the state and teachers. For school districts, which would bear most of the cost, the payments would be phased-in over seven years. The state costs in the budget approximately \$450 million (\$73.2 million, non-Proposition 98 General Fund). Total contributions from all three sources would increase, over a number of years, to 35.7 percent of teacher payroll (they currently total 19.3 percent), reaching more than \$5 billion annually. The plan, as proposed, would fully fund (100 percent funding) the CalSTRS retirement plan in 33 years.
- **Medi-Cal Caseload Increase Adds Costs.** The May Revision incorporates a significant increase in caseload for Medi-Cal and proposes an increase of \$1.2 billion General Fund, compared to the Governor’s January Budget. Total Medi-Cal enrollment is now projected to be 11.5 million in 2014-15, which represents an increase of about 1.4 million beneficiaries from the January budget. The increase in caseload is primarily a result of the federal Affordable Care Act’s mandatory expansion of Medi-Cal and the increased program awareness for individuals who were previously eligible to receive Medi-Cal benefits, but not enrolled in the program.
- **Refinements Made to Drought Package.** In February of this year, the Legislature passed a package of legislation for drought relief, including \$687 million (various funds). The legislation was intended to provide emergency water supply assistance, housing and food assistance, and funds for immediate drought relief. The May Revision includes a number of proposals in addition to the February allocations, mainly for fire protection, water supply, and fish and wildlife.
- **Increased State Employee Retirement Contributions.** The May Revision reflects an increase to state retirement contributions of \$576.7 million (\$342.7 million General Fund). The projected increase is due to: 1) a February 20, 2014 action by the California Public Employees' Retirement System Board of Administration to adopt new assumptions as part of a review of demographic trends, and 2)

retirement rates that are higher than originally projected in the Governor’s budget because of normal changes due to differences in actual versus projected employer contributions, payroll growth, retirement dates, and benefit payments.

- **Governor Makes Additional Small Investments Outside of Proposition 98.** Outside of the Proposition 98 Guarantee and the increase in expenditures for a greater than anticipated Medi-Cal caseload, the Governor has made a few small investments. These General Fund investments include an additional \$60 million to stabilize trial court funding, an additional \$47 million to provide a greater level of resources for the administration of the Unemployment Insurance program, and an increase of \$10.5 million to provide a state-funded energy assistance subsidy for CalFresh recipients.

The overall General Fund expenditures by program area as proposed in January, and revised in May, are presented below:

**Expenditures by Agency
General Fund
(Dollars in Millions)**

	January Budget		May Revision	
	2013-14	2014-15	2013-14	2014-15
Agency				
Legislative, Judicial, Executive	\$2,694	\$2,844	\$2,696	\$2,919
Business, Consumer, Housing	646	745	643	750
Transportation	151	212	73	216
Natural Resources	2,127	2,175	2,234	2,258
Environmental Protection	47	54	51	63
Health and Human Services	28,330	28,793	28,858	29,633
Corrections and Rehabilitation	9,361	9,560	9,332	9,600
K-12 Education	41,333	45,251	42,892	44,743
Higher Education	11,173	12,377	11,373	12,495
Labor and Workforce	298	268	300	303
Government Operations	753	685	754	692
General Government	1,550	2,238	1,505	2,490
Supplemental Payment to ERBs	0	1,591	0	1,604
Total	\$98,463	\$106,793	\$100,711	\$107,766

Long-Term Plan Incorporates New Reserve. The longer-term plan for the state budget includes a new reserve policy which would require the deposit of 1.5 percent of General Fund revenues (coupled with excess capital gains revenue if, and when, that occurs). The fund could not exceed 10 percent of General Fund revenues and would also incorporate a Proposition 98 reserve to ease school budgeting. Withdrawals from the fund would require a finding of fiscal emergency by the Governor. For the first fifteen years of the establishment of the fund, half the revenues would pay off long-term liabilities. The constitutional amendment to establish this policy would go on the ballot in November 2014.

Continues Commitment to Debt Buy-Down. As in the Governor’s Budget, the May Revision continues the Governor's commitment to pay down budgetary debt over the next four years. The May Revision would increase slightly the pay-down of the “wall of debt” in the budget year by about \$100 million, compared to the Governor’s budget. The plan would reduce the “wall of debt” by \$11.0 billion this year, and fully eliminate it by 2017-18. The plan continues to incorporate the payoff of all remaining deferrals to schools and the retirement of the Economic Recovery Bonds (ERBs) one year earlier than scheduled. It will also make early payments to the transportation funds and the Cap and Trade program. The next table shows changes to the debt repayment plan in 2014-15 from the January Budget.

**2014-15 Wall of Debt Payments
General Fund
(Dollars in Millions)**

Source of Borrowing	January Budget	May Revision
Deferred Payments to K-14 Education	\$2,474	\$1,654
Economic Recovery Bonds	3,165	3,142
Loans from Special Funds	927	946
Unpaid Mandate Costs	0	100
Underfunding Proposition 98	0	0
Deferred Medi-Cal Costs	60	97
Deferral of State Payroll Costs	0	0
Deferred Payments to CalPERS	0	0
Borrowing from Transportation Funds	83	83
Total	\$6,709	\$6,022

Risks Inherent in Budget Plan and Underlying Economics. The economy has continued its slow recovery and the Administration has taken a conservative approach in its revenue forecasting. Nevertheless, the May Revision notes continued economic risks as a result of global tensions that could affect Europe—and indirectly the United States—especially related to energy supplies. The May Revision also notes the slow pace of recovery and growing income inequality that could slow consumption and make it more difficult for people to save and invest. In addition, the Administration notes that although there are few signs of inflation or tight supply conditions that could curtail growth, the nation is already five years into a recovery—about the historic average. On the budget side, the Administration notes several risks to the budget plan, including the overhang of fiscal debts, growing long-term liabilities, and lingering concerns with the Affordable Care Act and associated costs. The drought represents an ongoing concern, as well.

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CORRECTIONS AND PUBLIC SAFETY

REALIGNMENT/COMMUNITY CORRECTIONS

- **Post-Release Community Supervision (PRCS).** The May Revision includes an increase of \$11.3 million General Fund to be allocated to county probation departments for the temporary increase in the PRCS caseload due to the federal court-ordered changes in the calculation of credit earnings for individuals who are serving terms for non-violent, non-sex offense second strikes. The May Revision assumes an increase in the PRCS caseload of 216 in 2013-14, and 819 in 2014-15, due to this change in policy.
- **Trial Court Security.** The May Revision includes an increase of \$1 million General Fund to address potential increased court security costs associated with new courthouse construction. In order to receive additional funding, counties will be required to demonstrate that they have an increased need for security staff.
- **City Law Enforcement Grants.** The May Revision includes \$12.5 million General Fund augmentation to the existing law enforcement grant program. This increase brings the funding total to \$40 million. The grants are administered by the Board of State and Community Corrections and are intended for frontline law enforcement activities.

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

The May Revision includes \$9.8 billion (\$9.5 billion General Fund and \$329.1 million other funds) for the California Department of Corrections and Rehabilitation (CDCR). This represents approximately the same level of funding as the Governor's January budget proposal.

- **Adult Offender Population Adjustment.** The May Revision includes an increase of \$5.3 million General Fund in 2013-14 and \$4.2 million General Fund in 2014-15 for costs directly related to adult inmate and parole population changes. The revised average daily population projections for adult inmates are 134,214 in 2013-14 (a decrease of 771 inmates below the Governor's January budget) and 136,530 in 2014-15 (a decrease of 1,258 inmates below the Governor's January budget). The revised average daily parolee population projection is 47,247 in 2013-14 (an increase of 1,313

parolees above the Governor's January budget) and 41,866 in the budget year (an increase of 5,214 parolees above the Governor's January budget).

- **Decrease in Contract Beds.** The May Revision includes a decrease of \$26.8 million to reflect a decrease in the projected adult inmate contract bed need for 2014-15.
- **Conversion of General Acute Care Hospital Beds.** The May Revision includes a decrease of \$1.9 million General fund (\$5.6 million on-going) due to downgrading 420 in-institution licensed general acute care hospital or intermediate care facility beds to correctional treatment center beds.
- **Recidivism Reduction Fund.** The May Revision includes an increase of \$9.9 million in the Recidivism Reduction Fund, bringing total funding to \$91 million. The Governor proposes using \$900,000 of the increase to create a leadership academy and \$9 million for community reentry.
- **Community Reentry.** The May Revision includes \$49 million from the Recidivism Reduction Fund to create a community-based intensive reentry program targeting the mental health population. The proposed program would allow inmates with mental health issues to be placed in community reentry programs for the last six to twelve months of their sentence. These programs would provide a therapeutic environment and include case management services, employment services, housing, and enrollment in appropriate programs.
- **California Health Care Facility.** The May Revision includes an increase of \$12.5 million General Fund to address problems raised by the federal Healthcare Receiver around plant operations, food services, and custody staffing.

JUDICIAL BRANCH

- **Trial Court Operations.** The May Revision includes an increase of \$60 million for trial court funding, for a total increase of \$160 million. The May Revision further revises the Governor's January proposal for trial court funding to specifically provide a five percent increase in state trial court operations, for a total increase of \$86.3 million. In addition, the May Revision includes an increase of \$42.8 million to reflect increased health

Overview of the May Revision of the 2014-15 Governor's Budget

benefit and retirement adjustment costs for trial court employees. Finally, the May Revision reflects a General Fund increase of \$30.9 million to account for an estimated shortfall in the Trial Court Revenue Trust Fund.

GENERAL GOVERNMENT

TOOLS FOR LOCAL ECONOMIC DEVELOPMENT

The May Revision makes changes to the Governor's budget proposal to expand the tax increment financing tool used by Infrastructure Financing Districts (IFD). The changes would allow the current IFD program to continue to operate and separately establish the expanded program. The IFD proposal is expanded to include affordable housing projects and requirements that the affordable housing covenants last up to 55 years. Changes would also clarify that Vehicle License Fee Swap monies may be securitized to fund IFD projects, new fees could be levied to fund projects, and low- or moderate-income housing that is removed as part of a project plan, must be replaced.

WALL OF DEBT

The May Revision continues the Governor's budget plan to pay-down the "wall-of-debt"—constituting the overhang of external and internal borrowing and deferral of certain payments related to actions of the prior Administration. The debt will be reduced by over \$11 billion in the current year, including the full repayment of the Economic Recovery Bonds and all remaining deferrals to schools. Under the Governor's plan, the debt would be fully eliminated by 2017-18. The May Revision will increase the pay-down of the "wall-of-debt" in the budget year by \$100 million to repay a portion of the existing mandate reimbursement claims owed to local governments. The state owes counties, cities, and special districts over \$900 million in mandate reimbursements for costs incurred prior to 2004 that must be repaid under current law, by 2020-21. The Administration expects that most of this funding will be used by local governments to improve implementation of 2011 realignment and public safety.

DEBT SERVICE AND CASH BORROWING

Budget year debt service requirements will decrease by \$82 million General Fund from the Governor's budget, to a total of \$5.8 billion. The decrease is due to reduced General Obligation debt service costs (\$5.2 billion) and no change in lease-revenue bond debt service costs (\$610 million). The decrease is primarily due to: 1) smaller spring bond sale, 2) lower interest rates and fees, and 3) savings related to bond refinancing this spring. Current year debt service will decrease by \$113 million, for a total of \$5.4 billion. This amount includes \$4.8 billion General Obligation debt service costs and \$576 million lease-revenue bond debt service costs. The General Obligation debt service savings stem from: 1) a projected increased premiums generated from spring 2014 bond sales, 2) savings related to

bond refinancing, and 3) reduced interest rates and fees. In addition, interest costs related to internal and external cash flow and budgetary borrowing costs will decrease by \$60 million.

OFFICE OF EMERGENCY SERVICES

The Governor's May Revision includes an increase of \$4.3 million (General Fund) to provide support for the State Operations Center and field operations throughout California, which was activated in response to the drought to coordinate the state's response and to support local government.

STATE CONTROLLER'S OFFICE

The May Revision includes a total of \$2.461 million (General Fund) and 1.0 position to complete an independent assessment of the Controller's 21st Century Project. The State Controller will enter into an interagency agreement with the Department of Technology to manage and oversee the independent assessment.

DEPARTMENT OF GENERAL SERVICES

The May Revision for the Department of General Services proposes:

- A request to accelerate, by one fiscal year, bond authority used to fund the oversight of audits for the Kindergarten-University Public Education Facilities Bond Act of 2006 (Proposition 1D) by the Department of Finance, Office of State Audits and Evaluations. The request is cost neutral over the life of the voter-approved proposition.
- A request for \$5.4 million (Service Revolving Fund) to implement water efficiency and conservation measures in state-owned facilities. This request will result in a one-time increase in the Individual Building Rental Rate and the Building Rental Account Rate of \$0.05 per square foot.
- A request to transfer 1.0 position and the associated funding, totaling \$83,000, to administer the Office of Public School Construction's Emergency Repair Program.
- A request to transfer \$5.4 million (State School Facilities Fund) to the State School Utilization Fund. This request is budget neutral. This request will better support the Office of Public School Construction's administration of the School Facility Program. The fees associated with this fund had previously been used to support the Deferred Maintenance Program; this categorical program was folded into the Local Control Funding Formula, and is no longer necessary.

CALIFORNIA MILITARY DEPARTMENT

The May Revision includes a request for \$85,000 (General Fund) to provide funding to support the ongoing workload associated with the operations of the Military Council.

DEPARTMENT OF TECHNOLOGY

The May Revision includes a request for 2.0 positions and \$208,000 (General Fund) to form the initial elements of the Statewide Project Management office which, when fully operational, will provide additional support to projects that require assistance.

CONTROL SECTION 1.50

The May Revision includes a request to amend Control Section 1.50 to provide greater flexibility to the Department of Finance to address technical corrections, changes, or cleanup that may be required as a result of the conversion to, and implementation of the Financial Information Systems of California (FI\$CAL).

CONTROL SECTION 11.00

The May Revision includes a request to amend Control Section 11.00, which relates to changes in cost, scope, or time required to complete an information technology project approved by the Legislature.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The May Revision includes a request for a one-time increase of \$2 million (General Fund), which will be used as a match to draw down additional federal funds that will be made available to the Small Business Development Center Network.

FRANCHISE TAX BOARD

The May Revision includes a request for an increase of \$3.562 million (General Fund) and 26.0 three-year limited-term positions. This request addresses the backlog and caseload associated with the adjudication of docketed and undocketed tax protests.

COMMISSION ON STATE MANDATES

The May Revision includes a request for an increase of \$100 million (General Fund) in order to provide accelerated payment of pre-2004 local government mandate claims. Additionally, the Governor has requested that provisional budget bill language be added, and Government Code Section 17617 be amended in order to accomplish the accelerated payment.

EDUCATIONAL REVENUE AUGMENTATION FUND (ERAF)

The May Revision includes a request for an increase of \$4.21 million (General Fund) in order to ensure that funds are available to backfill the Vehicle License Fee Swap and Triple-Flip costs for San Mateo County and the cities located therein.

STATE COUNTY ASSESSORS' PARTNERSHIP PROGRAM

The May Revision includes proposed trailer bill language to establish the State-County Assessors' Partnership Program during FY 2014-15. The proposed amendments address metrics for measuring program success, expand the purposes for which the program may be used, and make changes to the methodology for which funds may be distributed within the program.

HEALTH AND HUMAN SERVICES AGENCY

- **Office of Investigations and Law Enforcement Support.** The May Revision includes \$1.8 million (\$1.2 million General Fund and \$600,000 in reimbursements) for 9 positions to create an Office of Investigations and Law Enforcement Support within the Health and Human Services Agency. The purpose of this office is to provide support and oversight for the public safety officers currently working within the state hospitals and developmental centers.

HEALTH

HEALTH CARE REFORM

- **Updated Caseload Projections for Medi-Cal.** The May Revision reflects updated caseload forecasts for Medi-Cal and a resulting increase of about \$1.2 billion General Fund in 2014-15. Total Medi-Cal enrollment is now projected to be 11.5 million in 2014-15, which represents an increase of about 1.4 million beneficiaries from the Governor's January budget. The increase in caseload is a primarily a result of the federal Affordable Care Act's (ACA) mandatory expansion of Medi-Cal and the increased program awareness for individuals who were previously eligible to receive Medi-Cal benefits, but not enrolled in the program.
- **County Savings on Indigent Care as a Result of Health Care Reform.** The May Revision continues to assume that counties would save \$300 million in 2013-14 as a result of federal health care reform, but decreases the 2014-15 redirection estimate of \$900 million to \$724.9 million. Compared to the Governor's budget, this revised redirection results in increased CalWORKs General Fund costs of \$175.1 million. Under the ACA, county costs for indigent health care are expected to decrease as more individuals gain access to coverage. Current law redirects these county savings to CalWORKs, providing a corresponding General Fund offset.

MEDI-CAL PROGRAM

- **Pediatric Vision Services.** The May Revision proposes \$2 million (\$1 million General Fund) for a pilot program to increase utilization of pediatric vision services. The pilot would use qualified mobile vision providers to expand vision screenings and services.
- ***Katie A. Settlement and Administrative Costs.*** The May Revision includes \$2 million (\$600,000 General Fund in the Department of Health Care Services (DHCS) budget and \$400,000 General Fund in the Department of Social Services budget) as a placeholder for potential county administrative costs associated with semi-annual progress reports requirements under the *Katie A. v. Bonta* settlement agreement.
- **Coordinated Care Initiative (CCI).** The May Revision proposes an increase of \$14.1 million General Fund related to changes in the CCI and trailer bill language to implement the enrollment policy for Cal MediConnect and Medicare Advantage or Dual-Eligible Special Needs Plans (D-SNPs). The May Revision proposes that dual eligibles enrolled in a Medicare Advantage or D-SNP, that is not a participating CCI plan, will no longer be passively enrolled into Cal MediConnect and that non-CCI D-SNPs (in the eight CCI counties) will be allowed to enroll individuals eligible for Cal MediConnect into D-SNPs until the end of 2014.
- **Current Year Operating Shortfall.** DHCS will seek a supplemental appropriation in the current year to fund Medi-Cal cost increases as a result of delayed implementation of Medi-Cal provider rate reductions, the delay in federal approval of the hospital quality assurance fee, and Medi-Cal caseload increases. The current shortfall is estimated to be approximately \$553.4 million.

DEPARTMENT OF MANAGED HEALTH CARE (DMHC)

- **Federal Mental Health Parity.** The May Revision proposes trailer bill language to implement the federal mental health parity act.

MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

- **Eliminates Major Risk Medical Insurance Program (MRMIP).** The May Revision proposes to eliminate MRMIP effective January 1, 2015 and to require health care plans to offer their Medicare supplemental insurance products to individuals with End Stage Renal Disease. The Governor's January budget proposes to eliminate MRMIB and transfer the remaining programs to DHCS.

DEPARTMENT OF PUBLIC HEALTH

- **AIDS Drug Assistance Program (ADAP).** The May Revision includes \$26.1 million (federal funds) to add two new Hepatitis C virus drugs to the ADAP formulary.
- **Office of AIDS-Health Insurance Premium Payment Program – Medical Payment Costs Sharing Wrap.** The May Revision proposes to pursue mechanisms to pay out-of-pocket medical expenses for clients who chose to purchase private health insurance beginning in January 1, 2016. Developing this mechanism would remove the current financial disincentive for ADAP-only clients to obtain private health insurance. This proposal would provide clients with comprehensive health insurance.
- **Biomonitoring.** The May Revision proposes an increase of \$175,000 (Toxic Substances Control Account) and \$175,000 (Birth Defects Monitoring Program Fund) to fund two positions in the Biomonitoring program as federal funding for the program is being reduced. There is a corresponding proposal under the Department of Toxic Substances Control.

EMERGENCY MEDICAL SERVICES AUTHORITY (EMSA)

- **Poison Control System.** The May Revision proposes an increase in \$827,000 General Fund and \$1.5 million reimbursements to provide a funding augmentation for the California Poison Control System. The funding would ensure that this system maintains the staffing levels and call response times necessary to maintain accreditation. This request replaces an April Finance Letter that proposed funding from the California Children and

Families Commission (instead of General Fund) as the Commission denied this request for funding.

MENTAL HEALTH OVERSIGHT & ACCOUNTABILITY COMMISSION

- **Investment in Mental Health Wellness Act Triage Grant Oversight.** The May Revision proposes \$296,000 (Mental Health Services Fund) for three positions to administer and monitor the Triage Personnel Grant, as created by SB 82 (Committee on Budget and Fiscal Review), Chapter 34, Statutes of 2013.

DEPARTMENT OF STATE HOSPITALS

The May Revision includes \$1.6 billion (\$1.5 billion GF) for support of the Department of State Hospitals (DSH). The patient population is projected to be 7,109 in 2014-15, 105 patients less than the projected population in the Governor's January budget. Over 90 percent of the patient population comes from the criminal justice system.

- **Restoration of Competency Program Expansion.** The May Revision includes an increase of \$3.9 million GF and 13.5 positions to expand the Restoration of Competency Program (ROC) by 45 to 55 beds. Expanding this program, which allows people who have been deemed incompetent to stand trial (IST) by reason of insanity to receive mental health services in the county jail, rather than being transferred to a state hospital, should help to reduce the IST waiting list for those who are waiting for space to open up in a state hospital. The annual cost of the ROC program is approximately \$78,000 per bed, as opposed to an IST bed in a state hospital that costs approximately \$265,000 per bed.

HIGHER EDUCATION

University of California (UC) and California State University (CSU)

The Governor's January budget proposed \$142.2 million each, for the UC and CSU, to continue to support the Governor's four-year investment plan in higher education that started in 2013-14.

The multi-year plan assumes a five percent increase for UC and CSU in 2014-15 and a four percent increase in each of the subsequent two years. The continuation of the multi-year plan is predicated on the UC Regents and the CSU Board of Trustees adopting three-year sustainability plans that set targets for key measures, and the expectation that the universities maintain current tuition and fee levels through 2016-17.

The May Revision:

- Retains the multi-year funding plan, sustainability plan requirement, and tuition freeze.
- Includes a \$340,000 reduction to CSU's base budget due to lower 2013-14 general obligation bond debt service payments. Under the Governor's plan, this is the last year CSU's budget will be adjusted for changes in debt service.

California Community Colleges (CCC)

- Includes a decrease of \$16 million Proposition 98 General Fund to reflect a reduction of growth from 3 percent to 2.75 percent, and a reduction in the statutory cost-of-living adjustment from 0.86 percent to 0.85 percent. These reductions result in \$140.4 million available for general apportionment growth (as opposed to \$155 million proposed in the Governor's budget) and \$47.3 million for the cost-of-living adjustment (as opposed to \$48.5 million proposed in the Governor's budget). Lastly, moves the proposed implementation date for a new enrollment growth allocation formula from the budget year to 2015-16.

Overview of the May Revision of the 2014-15 Governor's Budget

- Includes an increase of \$50 million Proposition 98 General Fund to support one-time and ongoing costs to improve student success in career technical education, including:
 - A one-time increase of \$50 million Proposition 98 General Fund to support the existing Economic and Workforce Development program at the CCC Chancellor's Office. These funds are proposed to provide resources for community colleges to develop, enhance, and expand career technical education programs that build upon existing regional capacity to better meet regional labor market demands.
 - Beginning in 2015-16, an increase in the funding rate for career development and college preparation noncredit courses (also known as CDCP or enhanced noncredit) to equal the rate provided for credit courses. Career development and college preparation noncredit courses offer flexibility for community colleges to design and deliver courses better suited for students pursuing career technical education. Community colleges will have a year to plan how best to take advantage of this new flexibility before the rates increase.
- Provides an increase of \$60.5 million Proposition 98 General Fund, for a total of \$148 million, to reduce the backlog of deferred maintenance. Community colleges will not need to provide matching funds for deferred maintenance in 2014-15. The May Revision amends the Governor's budget proposal so that all funds will go to deferred maintenance, as opposed to a portion being reserved for instructional equipment.
- Includes an increase of \$6 million Proposition 98 General Fund, of which \$1.4 million is one-time and \$4.6 million is ongoing, to upgrade bandwidth and replace technology equipment at each community college. These investments are intended to support student success technology initiatives started in 2013-14, including electronic transcripts, electronic planning, incoming student evaluation, and the online education initiative.
- Includes a decrease of \$1.5 million Proposition 98 General Fund due to a lower revenue forecast for the California Clean Energy Jobs Act, which was approved by voters in 2012 and increases state corporate tax revenues to support energy efficiency.

Overview of the May Revision of the 2014-15 Governor's Budget

- Includes an increase of \$17.7 million Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.
- Includes an increase of \$24.7 million Proposition 98 General Fund as a result of decreased offsetting student enrollment fee revenues.
- Includes a decrease of \$345,000 Proposition 98 General Fund to align mandate block grant funding with the revised full-time equivalent students estimate.
- Continues proposal to eliminate all outstanding CCC deferrals; however, changes the year in which payments are counted. Because of the changes in the minimum guarantee, the deferral payments counted as 2012-13 and 2014-15 appropriations are reduced (by \$56 million and \$78 million, respectively) and the amount counted as 2013-14 payments is increased by \$134 million.

Financial Aid

- Includes \$13.9 million General Fund in 2013-14 and \$25.1 million General Fund in 2014-15 to reflect revised participation estimates in the Cal Grant program.
- Includes a decrease of \$104.5 million in Federal Temporary Assistance for Needy Families (TANF) Reimbursements and a like increase of General Fund. Combined with the TANF funds included in the Governor's budget, the May Revision offsets \$440.5 million in Cal Grant General Fund costs.
- Includes a decrease of \$60 million from the Student Loan Operating Fund (SLOF) and a like increase of General Fund to reflect that SLOF funds will not be available in 2014-15 to offset Cal Grant program General Fund costs.
- Includes an increase of up to \$6 million Student Loan Authority Fund and a like decrease of General Fund to reflect an offset of costs for the loan assumption program. These funds are available due to the sale of the Cal Loan Program portfolio, recently approved by the California Educational Facilities Authority.

Overview of the May Revision of the 2014-15 Governor's Budget

- Provides \$52,000 in reimbursement authority for the Student Aid Commission to furnish data to financial aid researchers. Under this proposal, research organizations will cover the costs for CSAC to fulfill approved data requests.

State Library

- Includes \$192,000 General Fund and two positions to assist with various research projects on behalf of the librarian.

HUMAN SERVICES

DEPARTMENT OF SOCIAL SERVICES (DSS)

- **Realignment Related to Health Reform.** As discussed in the Health section of this report, the May Revision proposes to determine a level of county savings related to decreased county costs for indigent health care, and to correspondingly require counties to use those savings to take on increased fiscal responsibility for human services programs, such as CalWORKs, at the local level. The Administration estimates that the shifts will include approximately \$300 million in 2013-14. The May Revision decreases the 2014-15 redirection amount of \$900 million to \$724.9 in the budget year. The Administration indicates that a final reconciliation for 2013-14 will take place by January 2016.
- **In-Home Supportive Services (IHSS).** The Governor's January budget proposes \$6.2 million (\$1.8 million General Fund) for services and administration. The May Revision recognizes an increase of \$107.9 million General Fund in 2013-14 and an increase of \$13.4 million General Fund in the budget year, associated with increases in caseload, hours per case, and costs per hour.

The May Revision does not propose any changes to the Governor's January proposal to restrict overtime or to establish a provider backup system.

- **CalWORKs.** The May Revision proposes an increase in General Fund and TANF block grant of \$35 million in 2013-14 and \$95.2 million in the budget year to reflect updated caseload projections since the Governor's budget.

Due to revised caseload figures and updated revenue projections for the Subaccount, the May Revision recognizes \$13 million General Fund, an increase of \$6.8 million General Fund from the Governor's January budget, is needed to fund the grant increase in 2014-15.

- **CalFresh.** The May Revision includes \$20.7 million General Fund for administration, associated with a projected additional 134,000 households by June 2015 due to Affordable Care Act implementation.

The May Revision proposes an increase of \$10.5 million General Fund to provide a state-funded energy assistance subsidy for CalFresh recipients, to comply with a recent change from the federal Agricultural Act of 2014.

- **State Hearings Division.** The May Revision proposes to increase funding by \$3.6 million which reflects a shift of proposed project resources (six positions and contract funding) from DSS to the Office of Systems Integration.

Other

The May Revision for DSS also proposes:

- To update January's caseload estimates based on more recent data for CalWORKs, CalFresh, and IHSS programs.
- To provide an increase of \$17.5 million in funding to update the Case Management Information and Payrolling System (CMIPS) II to reflect recent changes to the federal Fair Labor Standards Act, to increase the state's minimum hourly wage rate, and for enhancements to accommodate visually-impaired IHSS recipients.
- To increase \$3.1 million (\$1.5 million General Fund) for additional positions to support the entrance of up to 18 additional counties into the federal Title IV-E child welfare waiver program.
- To include \$5 million General Fund for additional food assistance to counties with unemployment rates that were above the state-wide average in 2013, and which have a higher share of agricultural workers than California as a whole. For more information on the emergency drought response, please see the Drought section of this report.

DEPARTMENT OF CHILD SUPPORT SERVICES

Federal incentive payments are based on the state's annual data reliability compliance and its performance in five measures: Statewide Paternity Establishment Percentage (PEP); Cases with Support Orders Established; Collections on Current Support; Cases with Collections on Arrears; and Cost

Effectiveness for California. The May Revision makes the following adjustment to the Department of Child Support Services:

- A decrease of \$112,000 in General Fund local assistance and an increase of \$112,000 in Federal Trust Fund to reflect a projected increase in Federal Performance Basic Incentive Funds.

DEPARTMENT OF DEVELOPMENTAL SERVICES (DDS)

DDS oversees services and care provided to approximately 276,112 children and adults with developmental disabilities who reside in the community and in state-run facilities. The May Revision includes \$5.2 billion (\$2.9 billion General Fund) for support of the department and community services.

Developmental Centers

The May Revision reflects no change in caseload for developmental centers in the current year, and an increase of two individuals in the budget year.

The May Revision includes several new initiatives to begin implementation of the Health and Human Services Agency's "Future of Developmental Centers" plan. Specifically, these include:

- Re-appropriate \$13 million in unspent community placement plan funds to develop a pilot program for a new enhanced behavioral support home model in the community.
- Increase by \$3.2 million (\$2 million General Fund) and 43.1 positions to improve crisis services at Fairview Developmental Center and establish new crisis services at Sonoma Developmental Center.
- Increase by \$458,000 (\$321,000 General Fund) and four redirected positions to evaluate developmental services community placement funds, with the goal of improving support for persons moving out of developmental centers and enhancing regional center staffing to support community transition, resource development, and quality assurance.

Overview of the May Revision of the 2014-15 Governor's Budget

- Trailer bill language to expand the community state staff program to all developmental centers.

The Governor proposed the following additional changes:

- Establish an “Office of Investigation and Law Enforcement Support” within the Health and Human Services Agency (\$1.2 million General Fund and nine positions) to provide additional law enforcement oversight at the state developmental centers and state hospitals (See Health Section of this document).
- Increase by \$1.5 million (\$894,000 General Fund) for contract costs associated with implementation of the program improvement plans at Fairview, Porterville and Lanterman developmental centers, in order to achieve compliance with federal requirements.
- Reduce by \$1,407,000 General Fund and \$1,081,000 federal funds, to reflect updated Lanterman Developmental Center closure activities.

Community-Based Services

The May Revision reflects decrease in regional center caseload of 493 in the current year, and an increase of 1,112 in the budget year.

The May Revision contains no new proposals in the community-based services budget and makes the following adjustments to proposals made in the Governor's January budget:

- Increase by \$8,466,000 (General Fund), \$14,060,000 (reimbursements), and \$2,983,000 (federal funds) to reflect adjustments in caseload, operational costs, and an increase in the federal Early Start grant award.
- Decrease by \$9,620,000 (General Fund) and increase by \$6,034,000 (reimbursements) to reflect revised estimate of the impact of the minimum wage increase, effective July 1, 2014.
- Increase by \$246,000 (General Fund) and \$42,000 (reimbursements) to reflect updated expenditure data used to estimate the impact of overtime changes to the federal Fair Labor Standards Act, effective January 1, 2015.

Overview of the May Revision of the 2014-15 Governor's Budget

- Increase loan authority by \$135 million (General Fund), from \$260 million to \$395 million, to ensure sufficient cash flow is available for regional center purchase-of-services.

K-12 EDUCATION AND CHILD CARE

The May Revision includes total funding of \$75.9 billion (\$45.1 billion General Fund and \$30.8 billion other funds) for all K-12 Education programs.

Proposition 98 – K-14 Education

Changes to the Minimum Guarantee. Driven by changes to General Fund revenues, the estimated Proposition 98 funding obligations included in the May Revision for the three-year period of 2012-13 to 2014-15 increase by a total of \$242 million over the Governor's budget. More specifically, the revised Proposition 98 minimum guarantee levels for the 2012-13 through 2014-15 fiscal years are \$57.8 billion, \$58.3 billion, and \$60.9 billion, respectively. Compared to January, this reflects:

- A decrease of \$547 million to the 2012-13 Proposition 98 guarantee, primarily due to a decrease in General Fund revenues.
- An increase of approximately \$1.5 billion to the 2013-14 guarantee, due to higher revenues and enrollment growth.
- A decrease of approximately \$700 million to the 2014-15 guarantee, primarily due to slower year-over-year General Fund revenue growth.

Repayment of Deferrals. The May Revision continues to prioritize repayment of all inter-year budgetary deferrals. However, given the changes in the Proposition 98 guarantee each year, the funding identified for these purposes is a different mix of ongoing 2014-15 funds and one-time funds attributable to 2012-13 and 2013-14, than the Administration proposed in January.

Mandates. Consistent with the January budget, the May Revision does not include any current or budget-year funding to pay down the backlog of the state's obligations attributable to mandates, which are another component of the "Wall of Debt". Instead, the Governor has indicated his intent to pay off these obligations in the 2015-16 through 2017-18 fiscal years. The May Revision includes the following mandates-related adjustments:

- An increase to the K-12 block grant of \$1.6 million to account for increased attendance.
- The addition of three new mandates to the K-12 block grant (Parental Involvement, *Williams Case* Implementation, and Developer Fees), with no related adjustments to block grant funding.

- \$1,000 for claims for each of the three new mandates mentioned above, as well as two existing mandates already included in the K-12 block grant (Graduation Requirements and Student Records).
- A decrease to the community college block grant of \$345,000 to account for a revised level of enrollment growth.

Proposition 39 Energy Efficiency Programs for K-14 Education. The May Revision decreases the amount of energy efficiency funds available to K-12 schools in 2014-15 by \$9 million, to \$307 million, to reflect reduced revenue estimates.

Proposition 98 – Other Major Changes for K-12 Education

Local Control Funding Formula (LCFF). The May Revision continues to propose a \$4.5 billion second-year-implementation investment in the LCFF formula (which eliminates around 28 percent of the remaining funding gap). The May Revision also proposes the following adjustments to LCFF:

- **Attendance-Related Increases.** The May Revision proposes increases of \$103 million in 2013-14, and \$121 million in 2014-15, to cover higher LCFF costs caused by increased attendance estimates.
- **One-time Revision to Unduplicated Pupil Enrollment Calculation.** Recognizing that during the initial transition to the LCFF in 2013-14, some local educational agencies (particularly those participating in Provisions 2 and 3 of the National School Lunch Program) encountered administrative challenges collecting income eligibility forms, the May Revision proposes changes in how to count low-income, English Language Learner, and foster youth pupils. Specifically, for purposes of calculating a rolling average that determines local funding, the superintendent would use a local educational agency's (LEA) 2014-15 count of unduplicated students in place of its 2013-14 count (if the 2014-15 count is higher). For those LEAs with higher 2014-15 counts, this provision would effectively provide a one-time hold harmless against a lower 2013-14 count and result in a higher rolling average going forward.
- **Additional Change for Provision 2 and 3 Schools.** Rather than requiring all schools to collect annual counts of low-income students, the May Revision proposes to allow schools participating in Provision 2 or 3

of the National School Lunch Program to do school-wide counts only once every four years. These schools would, however, be required to annually update their counts for newly enrolled or disenrolled students.

Common Core Implementation and the K-12 High Speed Network. The May Revision proposes an investment of \$26.7 million in one-time Proposition 98 General Fund for the K-12 High Speed Network to perform a network connectivity assessment and allocate grant funding to school districts. The Administration indicates that this funding is intended to facilitate participation in computer adaptive tests during 2014-15. This proposal follows last year's investment of \$1.25 billion in one-time funds to assist schools with professional development, instructional materials, and technology enhancements related to Common Core Implementation. Beyond the \$26.7 million for the High Speed Network, however, the May Revision does not propose additional new investments in Common Core implementation.

Independent Study. The January budget proposed changes to policies surrounding the instructional opportunities available through independent study by authorizing local educational agencies to offer course-based independent study options for students in grades 9-12 and site-based blended learning programs for grades K-12. The Senate did not take up these proposed changes, preferring for the Administration to pursue them via the Legislature's policy, rather than budget, process. The May Revision proposes some changes to the details of the Administration's January proposal.

Other Technical Adjustments. The May Revision also includes the following adjustments:

- **Local Property Taxes.** An increase of \$83.9 million Proposition 98 General Fund in 2014-15 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues.
- **Average Daily Attendance.** An increase of \$103.1 million in 2013-14 and an increase of \$121.1 million in 2014-15 for school districts, charter schools and county offices of education as a result of an increase in projected attendance in both years.

- **Categorical Program Growth.** An increase of \$15.3 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected attendance growth.
- **Cost-of-Living Adjustments.** A decrease of \$258,000 Proposition 98 General Fund to selected categorical programs based on a revised cost-of-living factor of 0.85 percent for 2014-15.

Note: See the following sections of this report for information regarding additional proposals impacting K-12 Education:

- Employee Compensation – for information regarding May Revision proposals that impact the CalSTRS system;
- Introduction – for information regarding the proposed Rainy Day Fund; and
- General Government – for information regarding proposals impacting school facilities funding.

Child Care and Early Childhood Education

No Notable Proposals Related to Transitional Kindergarten or State Preschool. Consistent with the January budget, the Governor does not propose any major changes to these early childhood education programs. The May Revision does, however, include an increase of \$356,000 Proposition 98 General Fund for State Preschool to reflect an increase in the population of 0-4 year old children.

Adjusts funding for three stages of CalWORKs child care. The May Revision proposes an increase of \$14.628 million to reflect revised cost estimates for CalWORKs Stage 2 and Stage 3 child care and a decreased caseload in Stage 2 (about 4,000) and an increase caseload in Stage 3 (about 3,700). Specifically, the May Revision decreases funding for Stage 1 by \$13.5 million; decreases funding for Stage 2 by \$15.6 million; and, increases funding for Stage 3 by \$11.2 million, to reflect revised caseload estimates and higher average cost of care.

Removes General Fund sequestration backfill. The May Revision removes \$15.6 million General Fund, which was originally provided in 2013-14 to backfill an anticipated sequester in federal funds that did not occur.

Increases statutory growth adjustment. The May Revision increases growth funding by \$0.8 million to provide a total of \$5.9 million in statutory growth adjustments across General Child Care, Alternative Payment, State Preschool, and Migrant and Handicapped programs.

Adjusts Federal Child Care Funds. The May revision proposes to provide an increase of \$24.4 million to reflect: (1) an increase of \$7.1 in one-time federal funds available from prior years, and (2) an increase of \$17.3 in ongoing federal funds. These funds will likely offset non-Proposition 98 General Fund in the CalWORKs Stage 3. This adjustment will increase total available carryover funds to \$27.8 million.

LABOR

EMPLOYMENT DEVELOPMENT DEPARTMENT

- Includes a decrease of \$660.5 million in 2013-14 to reflect a projected decrease in Unemployment Insurance (UI) benefit payments due to a lower-than-anticipated unemployment rate and the discontinuation of the federal benefits extension program in December 2013. While the May Revision continues to reflect a lower unemployment rate in 2014-15, the revised estimate of UI benefit payments is \$215.1 million higher than the Governor's budget forecast, due in part to a longer duration of claims.

- Includes an increase of \$67.6 million (\$46.6 million General Fund), to provide additional resources for the administration of the UI Program. The Governor's budget proposed \$64 million for additional UI administration support, however, the UI Program continued to receive a greater demand for services. In February 2014, the Secretary for Labor and Workforce Development outlined a plan for additional resources in the current year in order to take immediate action to improve customer service. These additional resources are proposed in 2014-15 to sustain the enhanced level of service and provide timely unemployment benefits. The May Revision proposes additional staff and overtime funding to support the following service levels:
 - Process all claims for unemployment benefits within three days of receipt.
 - Respond to online inquiries within five days of receipt.
 - Schedule 95 percent of eligibility determinations in a timely manner.
 - Respond to 50,000 calls per week.

DROUGHT

In February of this year, the Legislature passed a package of legislation for drought relief. The legislation provided \$687 million (multiple funds) to provide emergency water supply assistance, housing and food assistance, and immediate drought relief projects. The May Revision includes a number of proposals, in addition to the February allocations.

- **Fire Prevention and Protection.** The May Revision includes \$54 million (General Fund) and \$2.2 million (State Responsibility Area Fund) to expand fire protection services, retain seasonal firefighters, provide additional defensible space inspectors, and enhance air fleet capabilities.
- **Fish and Wildlife.** The May Revision includes \$30 million (General Fund) and \$8.5 million (other funds) for fish monitoring, restoration of habitat, water infrastructure on wildlife refuges, fisheries grant programs, and physical structure modifications for fish passage. The February drought package included \$2.3 million (General Fund) for urgent fish, stream, and conservation activities related to the drought.
- **Water Supply.** The May Revision includes \$18 million (General Fund) to assess current surface and groundwater conditions, expedite water transfers, provide technical assistance to locals, and increase public outreach. The February drought package included \$30 million (Greenhouse Gas Funds) for water efficiency, \$2 million (General Fund) for drought education and groundwater monitoring, and accelerated allocation of flood projects and integrated regional water management funds.
- **Food Assistance.** The May Revision includes \$5 million (General Fund) for food assistance for communities impacted by the drought. The February drought package included \$25 million (General Fund) for this purpose.
- **Water Rights Enforcement.** The May Revision includes \$4.3 million (General Fund) for continued water-rights enforcement and water curtailment actions. The February drought package included \$2.5 million for this purpose.
- **Emergency Services and State Buildings.** The May Revision includes \$4.4 million (General Fund) to continue to provide local communities with technical assistance and disaster recovery support and \$5.4 million (Service

Revolving Fund) to implement water efficiency and conservation measures in state-owned buildings.

NATURAL RESOURCES

- **Fire Prevention Local Assistance Grants.** The May Revision includes \$10 million (State Responsibility Area Fund) for grants to locals for fire prevention projects and public education efforts that benefit owners of habitable structures in state responsibility areas.
- **Groundwater Management.** The May Revision includes \$2.5 million and \$5 million ongoing (General Fund) to the Department of Water Resources for four years to support the assessment of groundwater basins, and to provide local and regional technical assistance. This is in addition to \$2.9 million proposed in the January budget.
- **Parks Forward Proposals.** The May Revision includes a description of activities the Department of Parks and Recreation is taking that correspond to the Parks Forward Commission's initial recommendations including: (1) increasing the number of cabins in the system; (2) modernizing fee collection and technology; and, (3) enhancing information on the parks system through technology.
- **Lake Tahoe Environmental Improvements.** The May Revision includes three Lake Tahoe proposals designed to improve near-shore water quality, to establish a bi-state science-based advisory council, and to allocate funds from the Tahoe Science account which is funded by pier and other lands leased from the state, per statutory direction in 2013.
- **SB 4 Hydraulic Fracturing.** The May Revision includes \$5.7 million (Oil, Gas, and Geothermal Administrative Fund) for increased contract costs related to the well stimulation study and environmental impact report.

ENVIRONMENTAL PROTECTION

- **Climate-Engagement with Mexico and Other Jurisdictions.** The May Revision includes \$1.1 million (Air Pollution Control Fund, Cost of Implementation Fee and Motor Vehicle Account) and six positions to engage Mexico and “numerous” other jurisdictions on climate-related actions.
- **Clean Vehicle Rebate Project.** The May Revision includes a one-time transfer of \$30 million (\$15 million in the current year and \$15 million in the budget year) from the Vehicle Inspection and Repair Fund to the Air Quality Improvement Fund to continue a grant program for light duty zero-emission and plug-in vehicle rebates.
- **Biomonitoring.** The May Revision includes \$175,000 (Toxic Substances Control Account) and \$175,000 (Birth Defects Monitoring Program Fund) to fund two positions in the Biomonitoring program as federal funding for the program is being reduced. A similar amount is proposed for two positions at the Department of Public Health.
- **Regional Drinking Water and Wastewater Plan—Salinas Valley.** The May Revision includes \$500,000 (Waste Discharge Permit Fund penalty assessments) to develop an integrated plan to address the drinking water and wastewater needs of the disadvantaged communities in the Salinas Valley, whose water has been affected by waste discharges.

PUBLIC EMPLOYMENT AND RETIREMENT

TEACHERS' RETIREMENT SYSTEM

- Includes approximately \$450 million (\$73.2 million General Fund) to begin implementation of a comprehensive funding solution intended to close the California State Teachers' Retirement System (CalSTRS) shortfall, which is now estimated at \$74.4 billion. The Administration's proposal is built on shared responsibility among the state, school districts, and teachers and is projected to put CalSTRS on a sustainable path that will eliminate the unfunded liability by 2045-46. The funding plan is proposed to start modestly to provide teachers, school employers, and the state sufficient time to prepare for significant, future budget costs. Total contributions today equal 19.3 percent of teacher payroll and will rise to 35.7 percent, reaching more than \$5 billion annually.

Under the funding plan, teacher contributions will increase from 8 percent to a total of 10.25 percent of pay, phased in over the next three years. School contributions will increase from 8.25 percent to a total of 19.1 percent of payroll, phased in over the next seven years (the budget year increase will be 1.25 percent). These school contributions will be paid from existing revenue sources.

The state's total contribution will increase from approximately 3 percent in 2013-14 to 6.3 percent of payroll in 2016-17 and ongoing. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program, for a total of 8.8 percent. The state's share reflects the shortfall that would exist had benefits or contributions not changed after 1990. The Administration proposes increasing the state's contribution to meet its commitment to liabilities based on the 1990 benefit level. The 1990 funding plan was the first time CalSTRS had a long-term sustainable funding plan in place. In 1998, as the pension fund approached a surplus, the Legislature increased retirement benefits and restructured the state's contribution.

Additional benefit and contribution changes were later made. Pursuant to Education Code Section 22955, the state is not responsible for unfunded liabilities based on those changes. However, state funding to support the pre-1990 benefit structure remains insufficient.

Unlike other pension systems, contributions to CalSTRS are set in state law, and contributions from school districts and teachers do not automatically adjust to ensure the system's revenues meet its required expenditures. If no action is taken, it is projected that the system will run out of money in 33 years.

STATE EMPLOYEES' RETIREMENT

- Reflects an increase to state retirement contributions of \$576.7 million (\$342.7 million General Fund). Of this incremental increase, \$65.1 million General Fund is projected for California State University. The projected increase in state retirement contributions are due to the following:
 - On February 20, 2014, the California Public Employees' Retirement System Board of Administration adopted new assumptions as part of a review of demographic trends. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol. The impact of the assumption changes will be phased in over three years, with a 20-year amortization. This action accounts for \$430.1 million (\$254.2 million General Fund) of the total increase.
 - Retirement rates are higher than originally projected in the Governor's budget because of normal changes due to differences in actual versus projected employer contributions, payroll growth, retirement dates, and benefit payments. Of the total increases indicated above, these factors account for \$146.6 million (\$88.5 million General Fund) in additional costs.

EMPLOYEE COMPENSATION

- Proposes \$9 million (\$6.8 million General Fund) for salary increases for 13 of the state's bargaining units, based on agreements reached in the summer of 2013 and updated salary information for these bargaining units, and an additional \$1.6 million (\$1.1 million General Fund) to include a "trigger" increase recently negotiated with the International Union of Operating

Engineers (Bargaining Unit 13). This brings the total funding to \$183.7 million (\$90.3 million General Fund).

These salary increases were tied to the concept of a revenue-based “trigger,” provided the Director of Finance makes the determination that revenues at the 2014-15 May Revision are sufficient to fully fund existing statutory and constitutional obligations, existing fiscal policy, and the cost of the trigger-based salary increases. The Director of Finance has determined that revenues will meet the criteria outlined above.

DEPARTMENT OF HUMAN RESOURCES

- Includes \$848,000 (\$424,000 General Fund) and five positions to provide additional resources for labor relations related to the In-Home Supportive Services (IHSS) Employer-Employee Relations Act. Pursuant to statutory requirements, the Department of Human Resources will represent the statewide authority on all aspects of labor relations for the IHSS Employer-Employee Relations Act. Positions will become effective over time to align bargaining obligations to when counties are expected to fully implement the Coordinated Care Initiative. This will result in nine ongoing positions starting in 2015-16.

TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

The May Revision calls for several changes in the funding and programs for the Department of Transportation (Caltrans).

- A reduction of \$21.8 million and 195 positions for engineering, design, and construction oversight activities of the Capital Outlay Program. The reduction also includes a decrease in consultant contracts and overtime equivalent to 15 full-time positions. Caltrans work is expected to decline significantly as a result of decreased workload associated with the depletion of Proposition 1B funds and the expiration of the American Recovery and Reinvestment Act (ARRA) funds.
- An increase of \$243.0 million for the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) Program to reflect the updated administrative and project cost savings available to support additional transportation projects.
- An increase of \$10.5 million in operating expenses for AMTRAK from the Public Transportation Account for increased operating and capital equipment costs on the three state-supported Intercity Passenger Rail services (Pacific Surfliner, San Joaquin, and Capital Corridor routes). The increase is partly attributable to the federal Passenger Rail Investment and Improvement Act of 2008, which requires that all short distance AMTRAK corridor services be 100 percent state-supported.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

The Administration requests \$32.4 million in Motor Vehicle Account funding for 2014-15 to provide acquisition and design authority for five office replacement projects. Based on the results of a site search conducted in 2013-14, the Administration proposes to relocate five offices that no longer meet the California Highway Patrol's programmatic requirements, nor the seismic performance criteria required for state-owned buildings. For these five offices, the existing property is too small for an on-site replacement. The total replacement costs for these offices are estimated to be \$167.6 million.

VETERANS AFFAIRS

The May Revision includes two requests related to the California Department of Veterans Affairs (CDVA).

- The May Revision includes a request for an increase of \$114,000 and 3.0 positions in order to convert contracted landscaping functions at the Chula Vista facility to state civil service.
- The May Revision includes a request for a reduction of \$16.883 million (General Fund) due to the delayed opening of the skilled nursing facility at the West Los Angeles facility, and the community-based services facilities located in Lancaster and Ventura.