



COMMITTEE ON BUDGET & FISCAL REVIEW
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Quick Summary

Proposed 2014-15 Budget

January 9, 2014

The purpose of this Quick Summary is to provide members and staff of the Legislature with an overview of the Governor's proposed budget for 2014-15. More detailed reviews of the proposals will be developed as the Committee reviews the proposals in public hearings. If you have questions, please contact the committee at (916) 651-4103.

Overall Budget Proposal

The Governor has proposed a budget for 2014-15 which includes resources of \$108.7 billion and expenditures of \$106.8 billion. Based on the budget proposal, the General Fund would end the 2014-15 year with a reserve of almost \$1 billion and include the deposit of \$1.6 billion to the Budget Stabilization Account (BSA). The budget also includes the continuation of established efforts to pay down budgetary debt from past years, but proposes a more aggressive payment schedule. The 2014-15 budget benefits from past years of spending reductions and restraints, temporary taxes approved by the voters in 2012, and a steadily improving state economy.

As a result of the combined efforts of the Administration and the Legislature, the General Fund is in the most solid position in years. In the current year, the fiscal position of the state is expected to be substantially better than when the budget was adopted in June, with additional revenues resulting in a substantial increase in the year-end reserve to \$3.3 billion. The proposed 2014-15 budget builds from this base, incorporating a general reserve and BSA of approximately \$2.6 billion. Overall, General Fund spending in 2014-15 is expected to grow by approximately 8.5 percent from the current year, driven largely by increases in education funding—K-12 and higher education—and debt repayment. To provide some context, state budget expenditures previously peaked in 2007-08 with General Fund spending of about \$103 billion. Thus, the budget year is the first year in which expenditures will be at or above the level of seven years ago.

Overview of Governor's Budget Proposal

The Governor's budget includes \$108.7 billion in General Fund revenues and other resources and \$106.8 billion in total General Fund expenditures, providing for a \$967 million reserve as well as setting aside an additional \$1.6 billion for the BSA. Expenditures in 2014-15 are proposed to be about \$8.3 billion higher than revised 2013-14 expenditures. Significant additional funding is proposed for K-12 education, higher education, and early debt repayment, with some increases for health and human services, and corrections and rehabilitation. Additional resources that have allowed for measured expansions and workload growth are the result of very positive revenue growth based on the general economic upturn. The General Fund budget details are summarized below.

2013-14 and 2014-15		
General Fund Summary		
(Dollars in Millions)		
	Revised	Proposed
	<u>2013-14</u>	<u>2014-15</u>
PRIOR YEAR BALANCE	\$2,528	\$4,212
Revenues and transfers	<u>\$100,147</u>	<u>\$104,503</u>
TOTAL RESOURCES AVAILABLE	\$102,675	\$108,715
Non-Proposition 98 Expenditures	\$57,515	\$61,731
Proposition 98 Expenditures	<u>\$40,948</u>	<u>\$45,062</u>
TOTAL EXPENDITURES	\$98,463	\$106,793
 FUND BALANCE		
Encumbrances	\$955	\$955
Special Fund for Economic Uncertainties	\$3,257	\$967
BUDGET STABILIZATION ACCOUNT	--	\$1,591

Current-Year Budget Update

The 2013-14 budget, adopted in June 2013, contained measured increases in expenditures from the prior year, with relatively isolated—but important—restorations in selected areas. The Governor’s proposed 2013-14 budget, included \$98.5 billion in General Fund (and Education Protection Account) revenues, with expenditures of \$97.7 billion. The Administration estimated that a \$2.4 billion surplus would be sufficient to erase the \$2.2 billion 2011-12 deficit. In January 2013, the Administration also projected that the \$167 million ending balance (the first in years) and a \$851 million operating surplus in 2013-14, would produce a reserve in 2013-14 of approximately \$1.0 billion.

By May of 2013, the budget situation had improved modestly, based on Department of Finance (DOF) projections, largely as a result of somewhat improved revenue estimates. The Administration’s revenue estimates at May Revision grew by \$749 million for 2011-12, 2012-13 and 2013-14, combined (including a \$500 million loan to the General Fund from cap and trade revenues). The May Revision called for certain realignment changes resulting in budget savings. Initially, the Legislature adopted the Legislative Analyst’s Office’s (LAO) more optimistic revenue projections; however, after negotiations with the Administration, lower revenue estimates were adopted that resulted in a smaller projected surplus. The adopted budget resulted in a 2012-13 reserve of \$254 million and a 2013-14 reserve of approximately \$1.1 billion. Additional spending on corrections, approved by the Legislature in August, reduced the expected reserve to approximately \$700 million.

Instead of having to address major shortfalls, the state 2013-14 budget augmented several programs:

- **School Funding.** Major components included \$2.1 billion under Prop 98 for the new Local Control Funding Formula (LCFF), \$1.25 billion for Common Core State Standards, and \$4.3 billion (2012-13 and 2013-14) to pay down K-14 deferrals.
- **Medi-Cal Expansion.** Adopted in special session, the expansion adopts a state-based plan to exercise the option, under federal health care reform, to cover more than one million additional low-income individuals.

- **Program Restorations and Augmentations.** Various program restorations were implemented, including: \$63 million for the judicial branch, \$17 million for adult dental care, \$143 million for mental health services infrastructure, \$67 million for enhanced mental health and substance abuse services, increased resources for CalWORKs, and a new financial aid program for higher education.

Since the budget was adopted, there have been several spending adjustments—particularly in the education and corrections areas—as well as significant improvements from the revenues adopted in the budget. The difference between the adopted and revised current year budget are presented below.

**General Fund Expenditures
Current Year Adopted and Revised
(Dollars in Millions)**

Program Area	Adopted 2013-14	Revised 2013-14	Change	% Change
K-12 Education	\$39,661	\$41,333	\$1,672	4.2%
Higher Education	\$10,923	\$11,173	\$250	2.3%
Health and Human Services	\$28,084	\$28,330	\$246	0.9%
Corrections and Rehabilitation	\$8,911	\$9,361	\$450	5.1%
Business, Consumer Services, Housing	\$646	\$646	\$0	0.0%
Transportation	\$206	\$151	-\$55	-26.7%
Natural Resources	\$2,124	\$2,127	\$3	0.1%
Environmental Protection	\$46	\$47	\$1	2.2%
Labor and Workforce Development	\$299	\$298	-\$1	-0.3%
Government Operations	\$742	\$753	\$11	1.5%
General Government				
Non-Agency Departments	\$523	\$519	-\$4	0.8%
Tax Relief / Local Government	\$421	\$420	-\$1	0.2%
Statewide Expenditures	\$917	\$611	-\$306	-33.4%
Legislative, Judicial and Executive	\$2,778	\$2,694	-\$84	-3.0%
<i>Total</i>	\$96,281	\$98,463	\$2,182	8.5%

Proposed Budget Expenditures

Like the current year, the proposed budget incorporates additional but restrained new programmatic increases. The table below summarizes the Governor's proposed expenditures by program area. The most noteworthy changes are in education. The largest change in expenditure by program area is in K-12 education, where the Governor proposes \$3.9 billion in additional expenditures to fully fund the Proposition 98 guarantee. On-going funding levels per student are expected to be \$8,469 in 2013-14 and \$9,194 in 2014-15. In higher education, the budget provides additional stable funding over multiple years. Finally, the Governor makes a significant commitment of resources to paying down debt and setting up a reserve.

General Fund Expenditures Current and Budget Year (Dollars in Millions)

Program Area	Revised 2013-14	Proposed 2014-15	Change	% Change
K-12 Education	\$41,333	\$45,251	\$3,918	9.5%
Higher Education	\$11,173	\$12,377	\$1,204	10.8%
Health and Human Services	\$28,330	\$28,793	\$463	1.6%
Corrections and Rehabilitation	\$9,361	\$9,560	\$199	2.1%
Business, Consumer Services, Housing	\$646	\$745	\$99	15.3%
Transportation	\$151	\$212	\$61	40.4%
Natural Resources	\$2,127	\$2,175	\$48	2.3%
Environmental Protection	\$47	\$54	\$7	14.9%
Labor and Workforce Development	\$298	\$268	-\$30	-10.1%
Government Operations	\$753	\$685	-\$68	-9.0%
General Government				
Non-Agency Departments	\$519	\$610	\$91	17.5%
Tax Relief / Local Government	\$420	\$437	\$17	4.0%
Statewide Expenditures	\$611	\$1,191	\$580	94.9%
Legislative, Judicial and Executive	\$2,694	\$2,844	\$150	5.6%
Economic Recovery Bonds Payment	-	\$1,591	\$1,591	-
<i>Total</i>	\$98,463	\$106,793	\$8,330	8.5%

Other Budget Components

The Governor's Budget proposes some major policy and budgetary changes. Some of the more important aspects of the budget proposal are outlined below:

Budget Reserve

As an integral part of the proposal, the budget includes measures that would result in additional reserves for economic uncertainties. The proposed budget includes a constitutional amendment to strengthen the state's BSA reserve fund, which it terms a 'Rainy Day Fund.' The key components of the proposal are:

- **Deposits to the Fund.** Basing deposits on when capital gains revenues rise to more than 6.5 percent of General Fund tax revenues.
- **New Prop 98 Reserve.** Creating a Proposition 98 reserve, whereby spikes in funding would instead be saved for future years of decline and be used to smooth school spending to prevent the damage caused by cuts. The reserve would not alter the guaranteed level of funding under Proposition 98.
- **Size of Reserve.** Doubling the maximum size of the Rainy Day Fund from five percent to 10 percent of revenues.
- **Supplemental Payments.** Allowing supplemental payments to the Wall of Debt or other long-term liabilities in lieu of a year's deposit.
- **Fund Withdrawals.** Limiting the maximum amount that could be withdrawn in the first year of a recession to half of the fund's balance. This will ensure that the state does not overly rely on the fund at the start of a downturn.

The budget proposes making a down payment on saving for fiscal downturns by making a three percent deposit for 2014-15. Under current constitutional provisions, half goes to make a supplemental payment to pay off the Economic Recovery Bonds as described later and the other half—\$1.6 billion—is deposited into the reserve fund.

Wall of Debt

The budget adopts a more aggressive pay-down of the Wall of Debt, as described further in this report. In 2011, the Wall of Debt's level of outstanding budgetary borrowing totaled \$34.7 billion, which has now been reduced to less than \$25 billion. The budget proposes reducing this debt by more than \$11 billion this year, and fully eliminates it by 2017-18. The three key debt reduction proposals are:

- **Eliminate School Deferrals.** During the height of the recession, the state deferred almost 20 percent of annual payments to schools and community colleges, meaning that schools and colleges received one-fifth of their funds a year after they spent them. Some schools and colleges were able to borrow to manage these deferrals, while others had to implement the deferrals as cuts.
- **Economic Recovery Bonds Retirement.** Voters approved \$15 billion in Economic Recovery Bonds in 2004 to cover budget deficits beginning in 2002. By making a supplemental payment of \$1.6 billion this year, the state will retire the last of the bonds and finally finish paying for the 2002-03, 2003-04, and 2004-05 budgets.
- **Early Loan Payments.** The budget makes early payments on transportation loans totaling \$351 million, and the Cap and Trade loan, totaling \$100 million. This will enable the state to make critical investments in maintaining the state's highways and roads, and addressing climate change.

General Fund Revenues

California relies on a broad range of taxes and other revenues to support the activities of the General Fund. However, the personal income tax, sales and use tax, and corporation taxes account for over 96 percent of General Fund revenues. For the budget year, the personal income tax is expected to generate \$69.8 billion (66 percent), the sales and use tax \$24.1 billion (24 percent), and the corporation tax \$8.7 billion (8 percent). For the current year, all three taxes are expected to show improvements. Rapid expansion is expected to occur for the personal income tax, due largely to capital gains realizations, while the sales and use tax is expected to grow moderately. Even the corporation tax, which has been weak, is expected to recover somewhat.

Based on continued moderate economic growth in the state, and the passage of two tax measures in November 2012, the major revenue sources are expected to grow by 8.5 percent for the personal income tax, 5.0 percent for the sales and use tax, and 8.9 percent for the corporation tax. The budget includes increased revenues from personal income taxes and sales and use taxes due to the passage of Proposition 30, as well as general economic growth.

Education

The budget proposes to continue investments in both K-12 schools and higher education. Increasing revenues in 2014-15 bring \$10 billion in new Proposition 98 funding this year, and billions more in the next few years. The key changes in the education area include:

- **K-12 Schools.** Per student funding levels will increase by \$3,410 through 2017-18, including an increase of more than \$2,188 per student in 2014-15 over 2011-12 levels. The budget commits most new funding to districts serving disadvantaged students and corrects historical inequities in school district funding with continued implementation of the LCFF.
- **Higher Education.** The budget provides additional funding to the state's higher education system to help maintain its quality and affordability. The budget includes stable funding growth to eliminate the need for further tuition increases and intends to have community colleges and university systems work together to help ensure students complete their degrees in a timely manner.

Infrastructure

The Administration plans to release the state's five-year infrastructure plan shortly. This is the first plan since 2008. The plan is intended to focus on more than new projects and includes the estimated cost of \$64.6 billion to maintain the state's existing assets. The budget includes \$815 million (\$800 million General Fund) to begin addressing the state's deferred maintenance projects in state parks, highways, local streets and roads, K-12 schools, community colleges, courts, prisons, state hospitals, and other state facilities. By maintaining its assets, the state will keep its assets functioning longer and reduce the need to build more expensive new infrastructure.

Major Budget Components – Summary by Program Area

Overall Proposition 98 – K-14 Education

Prior- and Current Year Adjustments (resulting in additional one-time funds)

The Governor’s budget estimates that the total Proposition 98 guarantee (K-14) for 2012-13 increased by \$1.8 billion, compared to the level estimated in the 2013 Budget Act. Similarly, for 2013-14, the Governor estimates an increase in the total guarantee of \$1.5 billion. Both of these adjustments lead to Proposition 98 “settle-up” obligations, which result in additional one-time resources. (The Governor proposes to use these additional one-time resources to pay off deferrals – see below.) The Administration estimates that the Proposition 98 calculation for 2012-13 is a Test 1 calculation and for 2013-14 a Test 3 calculation.

Budget Year – Overall Funding Levels. The Governor’s budget estimates a total Proposition 98 funding level of \$61.6 billion (K-14). This is a \$6.3 billion increase over the 2013-14 Proposition 98 level provided in the 2013 Budget Act. The Administration estimates that the Proposition 98 calculation for 2014-15 will be a Test 1 calculation.

Paying off Budgetary Deferrals. The Governor’s budget proposes to repay all K-14 deferrals, as cited in the Governor’s budget summary at a total cost of \$6.4 billion. This proposal eliminates a practice used in prior budgets, in which school districts and community colleges would receive a significant portion of their funds a year after they had spent them. This practice resulted in hardships for school districts and community colleges, which would oftentimes have to borrow money to accommodate the deferrals, or cut services.

Proposition 98 - K-12 Education -- Major Spending Proposals

The Governor’s budget includes a proposed Proposition 98 funding level of \$54.3 billion for K-12 programs. This includes a year-to-year increase of nearly \$4.3 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2013-14. Under the Governor’s proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from \$8,469 provided in 2013-14 to \$9,194 in 2014-15. This 2014-15 proposed funding level in Proposition 98 funds for K-12 reflects a per-pupil increase of 8.6 percent,

as compared to the per-pupil funding level provided in the 2013 Budget Act. The Governor's major K-12 spending proposals are identified below.

Paying off deferrals. As noted above, the Governor's budget proposes to pay off outstanding payment deferrals – a practice used in previous budgets whereby the state would delay the issuance of money to school districts for months after school districts had planned to spend it. The Governor's budget proposes to end this practice by paying off all payment deferrals, estimated at a cost of \$6.4 billion for K-12 programs and community colleges. For K-12 programs, the LAO estimates the total amount of payment deferrals at \$5.6 billion, all of which would be paid off in the Governor's proposed budget.

New K-12 School Finance Formula (Local Control Funding Formula). The 2013 Budget Act adopted a new way for the state to provide funding to school districts and county offices of education: the Local Control Funding Formula (LCFF). The Governor's budget proposes an increase of \$4.5 billion to implement the LCFF. This investment would eliminate about 28 percent of the funding gap between the formula's 2013-14 funding level and its target at full implementation. The budget proposes to fund the formula's base grants at a rate of \$7,829 per pupil, as measured by pupil average daily attendance (ADA), inclusive of cost-of-living and grade span adjustments. The 2013-14 budget funded the base grants at \$7,643 per pupil ADA. Proposals to change LCFF from current law include transferring funding into the formula for two additional categorical programs (specialized secondary programs and agricultural vocational education), and creating a new continuous appropriation of LCFF funding that would bypass the annual budget process.

Enrollment and Cost-of-Living Adjustments. The Governor's proposed budget reflects an estimated decrease in student enrollment in the K-12 system. Specifically, it reflects a decrease of \$214.5 million in 2013-14, as a result of a decrease in the projected average daily attendance (ADA), as compared to the 2013 Budget Act. For 2014-15, the Governor's proposed budget reflects a decrease of \$42.9 million to reflect a projected decline in ADA for the budget year. (For charter schools, the Governor's proposed budget funds an estimated increase in charter school ADA – see "Other adjustments" below). The proposed budget also provides \$33.3 million to support a 0.86 percent cost-of-living adjustment for categorical programs that are not included in the new LCFF. These programs include special education and child nutrition, among others. The proposed funding level for the LCFF includes cost-of-living adjustments for school districts and county offices of education.

Constitutional Amendment to create a Proposition 98 reserve. The Governor’s budget proposes a constitutional amendment to increase year-to-year stability in education funding. The amendment is intended to create a mechanism to smooth out year-to-year changes in education funding, in order to prevent the damage caused by significant cuts to education. The budget summary states, “The amendment will not change the overall guaranteed level of funding for education.”

Non-classroom-based independent study. The Governor’s budget summary states that the Administration plans a legislative proposal regarding the use of non-classroom-based independent study, also commonly known as on-line independent study. The summary describes the legislative proposal as having the objective “to both streamline and expand the instructional opportunities available through this process.” The proposal would require that independent study courses meet the following requirements: 1) be equivalent in rigor and quality to classroom-based courses; 2) contain the same number of educational minutes as classroom-based courses; 3) provide at least one meeting per week between the teacher and students; 4) maintain student-teacher ratios equivalent to that in classroom-based courses (unless a new ratio is collectively bargained); and 5) may not result in the school district or county office claiming more than one unit of ADA for each student enrolled in independent study.

Other K-12 Education Budget Proposals

K-12 School Facilities. The Governor’s Budget proposes \$188.1 million in one-time Proposition 98 funds for the Emergency Repair Program. In addition, the Administration proposes to continue a dialogue with the Legislature and stakeholders about the best way to fund school facilities, “including consideration of what role, if any, the state should play in the future of school facilities funding.” The Administration proposes to transfer \$211 million in remaining School Facility Program bond authority from specialized programs to new construction (\$105.5 million) and modernization (\$105.5 million) programs. The budget summary notes that approximately \$163 million remains in the Seismic Mitigation program.

Proposition 39 Energy Efficiency Investments. The Governor’s budget proposes to allocate \$363 million in Proposition 39 energy funds available in 2014-15, as follows:

- \$316 million to K-12 school districts, for energy efficiency project grants.
- \$39 million to community college districts, for energy efficiency project grants.
- \$5 million to the California Conservation Corps, to provide technical assistance to school districts.
- \$3 million to the Workforce Investment Board, for continued implementation of job-training programs.

The Governor's budget does not propose an increase in Proposition 39 funds for revolving loans under the Energy Conservation Assistance Act.

Assessments to help implement the New Common Core Standards. The Governor proposes an increase of \$46.5 million in Proposition 98 funds to implement AB 484 (Bonilla), Chapter 489, Statutes of 2013. This bill created a new assessment system aligned to the new common core standards, which have been embraced by California and most other states.

Charter Schools. The Governor's budget proposes an increase of \$74.3 million in Proposition 98 funds to reflect an increase in charter school ADA.

Adult Education. While the Governor's budget does not include any new proposals to adult education, the budget summary cites the reforms initiated in the 2013 Budget Act, and notes that adult education consortia plans will be completed in early 2015. The summary also cites the Administration's intent to invest in adult education in 2015-16, via a single adult education categorical program. The summary also signals the Administration's intent to continue working with the Legislature, the State Department of Education and the California Community Colleges Chancellor's Office on the work initiated in the 2013 Budget Act.

Child Care and Development

The Governor's budget includes a demonstration pilot to try to improve the outcomes for 2,000 CalWORKs families, to involve six counties over three years, providing licensed subsidized childcare and other services. The budget does not include any other major changes or proposals to preschool or childcare funding. The proposed budget includes the following minor adjustments for 2014-15:

- Stage 2 – an increase of \$6.3 million General Fund (non-Proposition 98) to reflect a combination of a decrease in caseload and an increase in the cost-per-case.
- Stage 3 – an increase of \$2.8 million General Fund (non-Proposition 98) to reflect a combination of a decrease in caseload and an increase in the cost-per-case.
- Federal Child Care and Development Funds – a decrease of \$9.1 million to reflect a reduction in carryover funds and a decrease of \$5.9 million in the base grant.

Higher Education

Multi-Year Stable Funding Plan – The Governor's budget continues to support the four-year investment plan in higher education that started in 2013-14, which assumes additional General Fund support for the University of California (UC), the California State University (CSU), California Community Colleges (CCCs) and Hastings College of the Law.

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.

State funding for the CCCs is projected to increase by 11.4 percent in 2014-15 and the Administration expects that community colleges funding will continue to grow significantly over the next several years, as Proposition 98 resources continue to rebound. The Governor's budget focuses this increased funding to support student success and to prioritize expanded access in districts where there is the greatest unmet need in the primary missions of the CCCs.

Promote Innovative Models of Higher Education – The budget proposes \$50 million in one-time General Fund to create the Awards for Innovation in Higher Education program. Applications for awards can be submitted by a UC, CSU, community college, or a group of any of these entities. These incentive awards are proposed to recognize models of innovation in higher education that: 1) significantly increase the number of individuals in the state who earn bachelor's degrees; 2) allow students to earn bachelor's degrees that can be completed within four years of enrollment in higher education; and, 3) ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere.

University of California – Specific Adjustments

General Fund Increase – As discussed above, an increase of \$142.2 million General Fund pursuant to the multi-year funding plan. This funding is predicated on maintenance of current tuition levels.

Hastings College of the Law – Specific Adjustments

General Fund Increase – An increase of \$1.3 million General Fund. This funding is predicated on maintenance of current tuition levels.

California State University – Specific Adjustments

General Fund Increase – As discussed above, an increase of \$142.2 million General Fund pursuant to the multi-year funding plan. This funding is predicated on maintenance of current tuition levels.

Infrastructure Needs – Proposes to fund the costs of debt service from CSU's

main General Fund appropriation, instead of a separate budget appropriation. Any new CSU capital expenditures will be subject to Administrative approval to ensure the funds are used for academic facilities; and there will be limits on the amount of the CSU's budget that can be spent on capital expenditures. The Governor proposed a similar approach last year that was rejected by the Legislature.

California Community Colleges – Specific Adjustments

Please see the K-12 Education section of this report for additional information on the overall K-14 Proposition 98 budget.

Implementing Statewide Performance Strategies – Proposes \$1.1 million non-Proposition 98 General Fund and nine positions for the Chancellor's Office to develop leading indicators of student success and to monitor districts' performance. Further, proposes \$2.5 million Proposition 98 General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.

Investing in Student Success – Provides \$200 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes \$100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students. In addition, targets \$100 million to close gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding is intended to allow colleges to better coordinate delivery of existing categorical programs.

Allocating Apportionments – Proposes \$155.2 million Proposition 98 General Fund for growth in general-purpose apportionments, which represents a three percent increase in enrollment. The Governor's budget directs the Board of Governors to adopt a growth formula that gives first priority to districts identified as having the greatest unmet need in adequately serving their community's higher educational needs. All districts will receive some additional growth funding and, over time, will be fully restored to pre-recession apportionment levels.

Cost of Living Adjustment – Proposes \$48.5 million for a statutory cost-of-living adjustment of 0.86 percent.

Eliminating Apportionment Deferrals – Proposes \$235.6 million Proposition 98 General Fund, combined with \$356.8 million Proposition 98 General Fund provided from 2012-13 and 2013-14 funds, to eliminate all remaining outstanding deferral debt owed to the CCCs. Inter-year deferrals for CCCs reached a high of \$961 million in the 2011-12 fiscal year. The increase will eliminate the substantial borrowing costs borne by the districts as a result of funding deferrals, and will allow those resources to instead be used in the classroom.

Financial Stability for Apportionments – Proposes \$38.4 million in 2013-14, and \$35.6 million in 2014-15, in Proposition 98 General Fund by shifting a portion of the redevelopment agency revenues that are scheduled to be received in the final months of the fiscal year to the following fiscal year. Proposition 98 General Fund would be used to backfill the difference between estimated total fiscal year redevelopment agency revenues and the amount the CCCs receive through April 15th. This change is intended to allow districts to have more certainty when preparing their fiscal plans.

Investing in Deferred Maintenance and Instructional Equipment – Proposes \$175 million Proposition 98 General Fund, on a one-time basis, split equally between deferred maintenance and instructional equipment purchases. These resources are intended to allow districts to protect investments previously made in facilities, and improve students' experience by replenishing and investing in new instructional equipment.

Student Financial Aid

Middle Class Scholarship Implementation – Includes \$107 million General Fund to begin implementation of the Middle Class Scholarship Program.

Expand Cal Grant Renewal Award Eligibility – Includes \$14.9 million General Fund to allow students who have previously been denied a Cal Grant renewal award for financial reasons (their income rose above eligibility levels) to reapply for the program no more than three academic years after receiving their original award (if their incomes fall below the income threshold in that timeframe).

Cal Grant Program Growth – Includes \$3.4 million General Fund in 2013-14, and \$103.3 million General Fund in 2014-15, to reflect increased participation in the Cal Grant program. Of the 2014-15 amount, \$28 million is attributable to the second year of implementation of the California Dream Act.

Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements – Includes a decrease of \$3.2 million General Fund to reflect increased TANF funds available through an interagency agreement with the Department of Social Services. This adjustment will bring the total TANF funds expended on the Cal Grant program to \$544.9 million in 2014-15.

Offset Cal Grant Costs with Student Loan Operating Fund (SLOF) – Includes \$60 million SLOF funds to offset Cal Grant General Fund costs.

California State Library

High-Speed Internet Access – Proposes \$3.3 million General Fund to provide public libraries access to high-speed Internet to better meet the demands of today's library patrons. This includes \$2.3 million to allow California's public library branches to access a statewide, high-speed Internet network, and \$1 million General Fund, on a one-time basis, for grants to public libraries that require equipment upgrades to connect to a high-speed network.

Resources and the Environment

- **Cap and Trade Revenues** – Proposes to invest \$850 million of Cap and Trade auction revenue proceeds to support existing and new programs, including those that meet statutory mandates for funding to low income and disadvantaged communities. Funding is proposed to be allocated, as follows: (1) \$300 million for rail modernization, including \$250 million for High Speed Rail; (2) \$100 million to the Strategic Growth Council for sustainable communities; (3) \$200 million to the Air Resources Board for low carbon transportation; (4) \$140 million for energy efficiency and clean energy, including funding for water efficiency, weatherization programs and agricultural energy efficiency; (5) \$50 million for fire prevention and urban forestry; (6) \$30 million for waste diversion; and, (7) \$30 million for wetlands and watershed restoration. The budget also proposes \$5 million from the Environmental License Plate Fund for a one-time climate change assessment.

- **Drinking Water Program Reorganization** – Proposes to consolidate water regulatory agencies by shifting the Drinking Water Program from the Department of Public Health to the State Water Board.
- **Beverage Container Recycling Program Reform** – Proposes a second phase of the recycling program reform to address a structural deficit of \$100 million within the Beverage Container Recycling Fund. The reform includes a three-year phase-out of processing fee subsidies, elimination of administrative fees paid to processors and recyclers, redirection of existing funds to support local recycling and fraud deterrence; and, diversification of funding for local conservation corps.
- **Water Action Plan** – Proposes investment of \$619 million to address water supply and quality issues, including \$8 million for groundwater management, \$11 million for projects in disadvantaged communities, and \$20 million for water and energy efficiency. Continues to fund flood protection and integrated regional water management programs with existing bond funding.
- **Oil Spill Response Program** – Proposes \$6.7 million from the Oil Spill Prevention and Administration Fund and 39 positions to enhance inland oil spill prevention, preparedness and response capabilities, mainly from increased rail shipments.
- **State Parks Operations and Deferred Maintenance** – Proposes a one-time increase of \$14 million to continue existing park service levels throughout the state. Proposes \$40 million for critical infrastructure and deferred maintenance.
- **Proposition 39 Energy Efficiency Funds** – Proposes to allocate \$363 million of energy efficiency funds, including \$355 million for K-12 and Community Colleges, \$5 million for the California Conservation Corps for continued technical assistance to K-12 school districts, and \$3 million to the Workforce Investment Board for job training. (See additional information under the K-12 Education section.)
- **Coastal Commission Local Coastal Plan Funding** – Reduces funding for Local Coastal Plan upgrades. The current-year budget includes \$3 million (one-time, General Fund) as part of a multi-year proposal intended to address sea level rise from climate change within local coastal plans. The proposed budget does not continue this funding.

- **California Advanced Services Fund Program Expansion** – Proposes \$39 million, as required by statute, to provide broadband services to areas currently without broadband access and to build out facilities in underserved areas.

Transportation

Department of Transportation Funding – Provides for total expenditures of \$10.9 billion for the department, including \$9.9 billion for highway transportation. The primary sources of funding for the department are federal funds, plus state taxes on gasoline and diesel fuel, and vehicle weight fees (about \$8.2 billion), with additional funds from Propositions 1B bonds (about \$745 million), and reimbursements from local governments (about \$1.6 billion).

Transit Funding – Provides about \$373 million for transit operations from the sales tax on diesel fuel. This revenue is associated with the “fuel tax swap” legislation, which was adopted three years ago, and restored state funding for transit operators. Additionally, Proposition 1B expenditures for transit capital are anticipated at \$824 million in 2014-15.

Repayment of Transportation Loans – Proposes to repay \$351 million of transportation funds loaned to the General Fund. Uses of the funds from the repayment include the following: \$110 million for payment rehabilitation projects on the state highways, \$100 million to cities and counties for preservation of local streets and roads, \$100 million for traffic management mobility projects, \$27 million for highway payment maintenance, and \$9 million for active transportation projects.

Cap and Trade Revenues – Provides \$50 million in Cap and Trade funds in the Caltrans budget for competitive grants for existing rail operators to integrate rail systems and to provide connectivity to high-speed rail. Also, proposes \$100 million for the Strategic Growth Council to support implementation of SB 375 (Steinberg), Chapter 728, Statutes of 2008, for sustainable communities strategies. These strategies include projects such as, transit and transit-oriented development, that includes low-income housing, active transportation, agricultural land preservation, and planning.

High-Speed Rail – Proposes \$1.3 billion (\$1.1 billion in federal funds and \$250 million in Cap and Trade funds) in capital outlay funding to acquire property and right-of-way access to begin construction of the first section of the high-speed rail system extending from Madera to near Bakersfield. Proposed legislation would establish an ongoing commitment of Cap and Trade revenues to the high-speed rail project. Also, the budget proposes state operations funding of \$29 million from a loan from the Public Transportation Account to fund 177 state staff and various contractors to develop and implement the project. In addition, \$32 million in federal funds is for local agencies to develop local/regional components of the high-speed rail system.

Department of Motor Vehicles – Provides \$64.7 million to DMV to implement, beginning January 2015, SB 60 (Alejo), Chapter 524, Statutes of 2013, which requires DMV to issue a driver’s license to undocumented residents who are unable to submit satisfactory proof that their presence in the United States is authorized under federal law. This is anticipated to result in 1.4 million additional people receiving drivers’ licenses over the next three years. The budget assumes 822 staff will be hired by September 2014 and that five temporary offices will be established in key locations throughout the state.

California Highway Patrol – Provides \$16 million for the replacement of four aircraft (two helicopters and two airplanes) for the second year of a long-term replacement plan for CHP’s aging air fleet.

Health and Human Services

The Governor’s budget includes a total of \$118 billion (\$28.8 billion General Fund and \$89.2 billion other funds) for health and human services that serve low-income, vulnerable individuals and families.

Health

Department of Health Care Services (DHCS)

The budget proposes \$76.1 billion (\$17.2 billion General Fund) for DHCS.

Medi-Cal Program. The budget proposes total expenditures of \$73.9 billion (\$16.9 billion General Fund) for 2014-15. This is a 4.1 percent increase in General Fund spending from the prior year. It is projected that Medi-Cal will serve about 10.1 million Medi-Cal eligible individuals, an increase in caseload of about 10.2 percent, primarily due to the implementation of federal health care reform.

Federal Health Care Reform. ABX1 1 (Pérez) and SBX1 1 (Hernandez and Steinberg) of 2013 implemented aspects of federal health care reform and expanded Medi-Cal by:

- Simplifying eligibility, enrollment, and retention rules, making it easier to enroll and stay on Medi-Cal. This is referred to as the “mandatory expansion.”
- Expanding eligibility to adults without children and parent and caretaker relatives with incomes of up to 138 percent of the federal poverty level. This is referred to as the “optional expansion.”
- Increasing mental health and substance use disorder benefits available in Medi-Cal.

The budget includes \$867.4 million (\$404.9 million General Fund) for the mandatory expansion and \$6.7 billion federal funds for the optional expansion. The federal government has committed to pay 100 percent of the costs of the optional expansion for the first three years; by 2020-21, the federal share will decrease to 90 percent and the state will pay 10 percent.

Federal health care reform is expected to increase the Medi-Cal caseload by 1.03 million in 2013-14 and 1.36 million in 2014-15.

Medi-Cal Provider Rate Reductions. AB 97 (Budget Committee), Chapter 3, Statutes of 2011, enacted Medi-Cal provider rate reductions. The budget proposes that these reductions will result in General Fund savings of \$282.8 million in 2014-15, this includes \$244.5 million for the ongoing savings and \$38.3 million for the retroactive recoupment of these savings.

Forgive Retroactive Provider Rate Reductions. The Administration proposes to forgive retroactive provider rate reduction recoupments for certain fee-for-service providers and services (physicians/clinics, specialty drugs, dental, intermediate care facilities for the developmentally disabled, and medical transportation) for an increase of \$11.6 million (\$5.8 million General Fund) in 2013-14 and

\$72.6 million (\$36.3 million General Fund) in 2014-15. The total cost of these recoupments is \$434.2 million (\$217.1 million General Fund) and will be spread over the next several years. (Retroactive obligations are not proposed to be forgiven for non-specialty drugs, distinct-part nursing facilities, and durable medical equipment/medical supplies.)

The Administration intends to seek federal matching dollars to forgive these retroactive reductions. Previously, the Administration had indicated that state-only funds could be used to forgive retroactive reductions.

Coordinated Care Initiative (CCI). The Administration includes a net General Fund savings of \$159.4 million in 2014-15 as a result of CCI, including the General Fund savings from the sales tax on managed care organizations. Without the tax revenue, CCI would have a General Fund cost of \$172.9 million in 2014-15.

The Administration proposes the following for CCI:

- Cal MediConnect dual eligibles in Medicare fee-for-service will be passively enrolled for Medicare and Medi-Cal benefits; beginning on April 2014, in Orange, Riverside, San Bernardino, San Diego, and San Mateo counties.
- In Los Angeles County, dual eligibles may voluntarily enroll in Cal MediConnect or opt out, beginning April 2014; and the remaining dual eligibles will be passively enrolled, beginning in July 2014.
- Alameda and Santa Clara counties will passively enroll dual eligibles no sooner than July 2014.
- Trailer bill language to no longer exempt Medicare Advantage and D-SNP plans from Cal MediConnect enrollment, effective January 2015.
- Those only eligible for Medi-Cal or for partial Medicare coverage in all participating counties will have long-term supports and services included in managed care, beginning July 2014.

Background: The CCI will operate in eight counties: Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara. The main components of CCI are:

- Cal MediConnect Program: A voluntary three-year demonstration (with the federal CMS) for dual eligible beneficiaries (those eligible for both Medicare and Medi-Cal) to receive coordinated medical, behavioral health,

long-term institutional, and home-and community-based services through a single organized delivery system. No more than 456,000 beneficiaries would be eligible for the duals demonstration in the eight counties.

- **Managed Medi-Cal Long-Term Supports and Services (MLTSS):** All Medi-Cal beneficiaries, including dual eligible beneficiaries, will be required to join a Medi-Cal managed care health plan to receive their Medi-Cal benefits, including LTSS and Medicare wrap-around benefits.

Medi-Cal Pregnancy Coverage. Under current law, citizen pregnant women with incomes up to 208 percent of the federal poverty level (FPL) are eligible for limited-scope services (generally pregnancy-related services) under Medi-Cal. The Administration proposes that beneficiaries with incomes under 100 percent of FPL would receive full-scope Medi-Cal and that beneficiaries with incomes between 100 and 208 percent of FPL will receive comprehensive coverage through Covered California (the state's health benefit exchange). The Governor's budget proposes to pay for the out-of-pocket costs for these beneficiaries electing to receive coverage through Covered California, beginning in January 2015, which will result in General Fund savings of \$16.6 million in 2014-15.

Drug Medi-Cal Program Integrity. The Governor's budget proposes 21 positions and \$2.2 million (\$1.1 million General Fund) to continue increased program integrity efforts and recertification of Drug Medi-Cal providers. This proposal is in response to program integrity concerns. Since July 2013, DHCS has temporarily suspended the certification of 177 facilities and referred 68 drug treatment providers to the Department of Justice for potential criminal prosecution.

Pediatric Dental and Vision Services Outreach. The budget proposes \$17.5 million (\$8.75 million federal funds and \$8.75 million Proposition 10 funding provided by the California Children and Families Commission) to increase dental outreach activities for children ages zero to three years old. This outreach is intended to increase pediatric dental utilization. The method for improving the utilization and quality of pediatric vision services is still under development.

Managed Risk Medical Insurance Board (MRMIB)

The budget includes \$177.6 million (\$1.2 million General Fund) for programs administered by MRMIB. MRMIB currently administers the Access to Infants and Mothers Program, which provides comprehensive health care to lower middle-

income pregnant women; the County Health Initiative Matching Fund Program, which provides comprehensive health benefits through county-sponsored insurance programs; and the Major Risk Medical Insurance Program, which provides health coverage for individuals with pre-existing conditions.

Elimination of MRMIB. The Administration proposes to eliminate MRMIB and transfer its programs to the Department of Health Care Services, effective July 1, 2014.

Department of Public Health (DPH)

The budget proposes \$3 billion (\$110.6 million General Fund) for DPH. This is a decrease of about \$4.6 million General Fund compared to the Budget Act of 2013.

Drinking Water Program Reorganization. The budget proposes to transfer \$200.3 million (\$5 million General Fund) and 291.2 positions for the Drinking Water Program to the State Water Resources Control Board. Please see the Resources and Environment Section of this report for additional information.

Genetic Disease Screening Program. The budget proposes to implement a \$45 fee increase, effective July 1, 2014, in the Prenatal Screening Program to bring the fee to \$207. This fee covers the blood test for detecting birth defects during pregnancy and the follow-up services offered to women with positive screening results. The Administration proposes that the fee increase is necessary to correct for the historic overstatement of caseload and inadequate fee revenue in recent years to cover costs of the program.

Office of Statewide Health Planning and Development (OSHPD)

The budget proposes \$145.7 million (\$74,000 General Fund) for OSHPD.

Song-Brown Primary Care Residency Program. The budget proposes \$2.84 million from the California Health Data Planning Fund per year, for three years, to fund a pilot to expand the Song-Brown program to provide grants to primary care residency programs and to expand eligibility to teaching health centers.

Department of State Hospitals (DSH)

The budget proposes \$1.6 billion (\$1.5 billion General Fund) for the support of DSH. The patient population is projected to reach a total of 7,214 in 2014-15. Over 90 percent of the current population comes from the criminal justice system.

Coleman v. Brown Lawsuit Patients – Proposes \$26.3 million General Fund to keep 137 beds active at Salinas Valley and Vacaville Psychiatric Programs to serve “Coleman” patients during the activation of the new California Health Care Facility in Stockton.

Incompetent to Stand Trial (IST) Patients – Proposes \$27.8 million (General Fund) to increase bed capacity by 105 beds to address the waiting list for IST patients.

Safety and Security – Proposes \$8 million (General Fund) to complete the installation and updating of the Personal Duress Alarm System (PDAS) projects. The system is currently being installed in Patton and Metropolitan State Hospitals and installation will begin at Atascadero and Coalinga in 2014. Upgrade of the PDAS at Napa State Hospital was successfully completed in November 2012.

Short-Term Housing Units – Proposes \$1.5 million (General Fund) for the design and planning of specialized, short-term housing units at most state hospitals, totaling approximately 44 beds statewide.

Patient Management Unit – Proposes \$1.1 million (General Fund) for the creation of a centralized patient management unit that will allow DSH to centralize the intake management of their patients. The Administration intends for this to allow them to improve their utilization of beds by directing patients to the most appropriate hospital for their needs.

State Hospital Maintenance Infrastructure Improvements – Proposes \$10 million to address unidentified deferred infrastructure maintenance costs.

Human Services

Developmental Services

The Department of Developmental Services (DDS) will provide services and supports to an estimated 274,000 individuals with developmental disabilities, in the current year. Approximately 1,330 of these individuals reside in state developmental centers (DCs). The Governor proposes an overall 2014-15 budget for DDS of \$5.2 billion (\$2.9 billion GF). This reflects an increase of nearly 8,000 individuals served in the community and a reduction of 223 individuals residing in DCs.

- **Developmental Centers:**

- **Master Plan:** Trailer bill language adopted last year, required the Secretary of the California Health and Human Services Agency (Secretary) to submit to the Legislature a master plan for the future of DCs, by November 15, 2013; and to submit to the Legislature, by January 10, 2014, the Administration's resulting plans to meet the needs of all current residents in DCs. The master plan, developed in consultation with a task force established by the Secretary, is expected to be submitted to the Legislature shortly, but it is unknown when the more specific plans to implement the recommendations of the master plan will be submitted.
- **Certification Issues:** The Governor's budget includes \$9.2 million (\$5.1 million GF) for on-going costs to implement the Sonoma Developmental Center (SDC) Program Improvement Plan (PIP). Additionally, the Governor has submitted to the Joint Legislative Budget Committee a notification of unanticipated cost funding request from DDS for \$7.2 million (\$3.6 million GF) to cover current year costs. The PIP addresses quality of care deficiencies at SDC that resulted in the loss of federal certification and funding for four Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IID) units. The budget assumes the restoration of federal reimbursements at SDC in the budget year.

On January 3, 2014, the state Department of Public Health announced that they had begun the process for decertifying ICF-IID units at the

remaining three DCs -- Fairview, Porterville and Lanterman. The Governor's budget anticipates entering into an agreement in January specifying a path to resolve these certification issues.

- **Population Adjustments:** The budget assumes a decrease of \$12.8 million (\$2.8 million GF) to reflect a reduction in the number of residents at state developmental centers, excluding Lanterman.
- **Lanterman Closure Activities:** The budget proposes a net decrease of \$22.7 million (\$12 million GF) related to closure activities at Lanterman Developmental Center.
- **Deferred Maintenance:** The budget includes \$10 million GF to address critical infrastructure deferred maintenance needs.

- **Community Services Program**

- **Caseload and Utilization:** The Governor's budget provides a \$2.4 million increase (\$8.4 million GF decrease) to reflect caseload and utilization growth in the current year, including higher than anticipated enrollment in the federal Home and Community-Based waiver. For 2014-15, the budget proposes an increase of \$138.6 million (\$82.9 million GF).
- **Regional Center Operations:** The Governor's budget provides a \$2.1 million GF increase in regional center operations, in both the current and budget years, to correct the double-counting of savings related to the 2009-10 Early Start Eligibility savings proposal.
- **Impacts from Other Departments:** The Governor's budget proposes a decrease of \$3.1 million GF to reflect the restoration of Enteral Nutrition and partial restoration of Adult Dental Services as a Medi-Cal Optional Benefit.
- **Labor Regulations and Minimum Wage Impacts:** The budget includes \$7.5 million (\$4 million GF) to make adjustments for new United States Department of Labor regulations requiring overtime compensation for service providers previously exempt, effective January 1, 2015. Additionally, the budget includes \$110.1 million (\$69.5 million GF), to

address the impact of the increase in the state minimum wage to \$9 per hour, effective July 1, 2014.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The CalWORKs program provides temporary cash assistance and welfare-to-work services to low-income families with children. Over the last several years, the program has sustained very significant reductions, including a decrease from 60 to 48 months in the amount of time adults can receive assistance in a lifetime and additional restrictions that will result in some adults losing all assistance after 24 months. The Governor proposes an overall 2014-15 budget of \$5.5 billion in federal, state, and local funds for the program and estimates a caseload of 529,000 families (a decrease of 4 percent).

- **Parent/Child Demonstration Pilot:** The Governor's budget proposes a six-county, 2,000 family pilot project over three years for low-income families to connect children with licensed child care. The budget projects a \$9.9 million GF cost in 2014-15 and \$115.4 million GF total over three years, and assumes the first cohort of families to enroll in March 2015, and the second cohort in 2016.
- **Maximum Aid Payment Levels:** The Governor's budget assumes a 5 percent increase in Maximum Aid Payment Levels, effective March 1, 2014, and estimates an annual cost of \$168 million to be funded by 1991 Realignment growth funds and a \$6.3 million GF augmentation.

In-Home Supportive Services (IHSS)

The IHSS program provides personal care and domestic services to approximately 450,000 low-income individuals who are aged, blind, or have disabilities. Over the last several years, the enacted budgets have included major reductions and changes to the IHSS program, including an 8 percent reduction, from July 1, 2013, to June 30, 2014, in authorized hours of service to each IHSS recipient, and, beginning July 1, 2014, a 7 percent reduction in authorized hours. The budget includes \$2 billion GF (a 6.4 percent increase) and estimates a 453,417 person caseload in 2014-15.

- **Overtime compensation:** The Governor's budget recognizes the U.S. Department of Labor's new Fair Labor Standards Act regulations, effective January 1, 2015, that require overtime pay for domestic workers and for activities that were not previously eligible for compensation, such as travel time between multiple recipients, wait time associated with medical accompaniment, and time spent in mandatory provider training. The budget proposes to prohibit providers from working overtime, except for documented emergency circumstances, and will create a Provider Backup System to assist recipients in obtaining a provider if their regular provider exceeds the number of authorized hours. The budget assumes that implementation of new federal requirements will cost \$208.9 million (\$99.1 million GF) in 2014-15 and \$327.9 million (\$153.1 million GF) annually thereafter.
- The Governor's budget also makes changes to the anticipated schedule associated with implementing the Coordinated Care Initiative, which impacts the IHSS program. See the Health Section of this report.

Other

- **SSI/SSP:** The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program provides monthly cash assistance to eligible individuals who are aged, blind, or who have disabilities. The estimated caseload for the SSI/SSP program is 1.3 million recipients. The Governor's budget reflects an estimated cost-of-living increase of 1.5 percent in 2014 and 0.6 percent in 2015 for the SSI portion of the grants, which is federally funded. The budget also assumes a corresponding increase in state costs for benefits under the Cash Assistance for Immigrants (CAPI) program. The budget includes \$2.8 billion GF for the SSI/SSP program.
- **Community Care Licensing:** The Governor's budget includes \$7.5 million (\$5.8 million GF) and 71.5 positions in 2014-15 for quality enhancement and program improvement measures. The funds will allow the Community Care Licensing Division to inspect a licensed residential facility at least once every five years, as statutorily required, increase staff training, and create a specialized complaint hotline. The budget assumes these changes to be funded, in part, by a proposed 10 percent increase in licensing fees.

- **State Hearings Division:** The Governor’s budget includes \$9.8 million (\$1.3 million GF) and 63 two-year limited-term positions in 2014-15 to address anticipated workload impact from the Affordable Care Act implementation.

Local Government

- **Redevelopment.** As part of the 2011-12 budget, local redevelopment agencies (RDAs) were dissolved. The adopted legislation allowed for continued payment of obligations secured by the property tax increment, but redirected “unobligated” property taxes to the local taxing entities—primarily to local school districts, cities, and counties. As obligations are paid off, the amount of property taxes going to local governments and schools will increase. Additional property tax revenue received by local school districts offsets the Proposition 98 General Fund obligation on a dollar-for-dollar basis and thus represents a General Fund savings.

Given the difficulties involved in the RDA wind-down, accurately estimating the property tax revenue freed-up for local schools has been a challenge. In addition, flurry of lawsuits and the general complications involved in eliminating this \$5 billion program add to the uncertainty. In 2011-12 and 2012-13 combined, approximately \$2.2 billion was returned to K-14 schools. The Governor’s budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be \$1.1 billion in 2013-14. For 2014-15, Proposition 98 General Funding savings are expected to be \$785 million. On an ongoing basis, Proposition 98 General Fund savings are estimated to be \$1 billion annually. Under certain conditions, funds above this amount will increase available resources for K-14 schools.

- **Economic Development.** Local governments have a number of different tools available to them for local economic development efforts. In some respects, however, the elimination of RDAs does leave them without the flexibility that is important for addressing various local needs. One underutilized financing method is the Infrastructure Financing District (IFD). IFDs are empowered to use tax increment financing to finance tax allocation bonds, the proceeds from which are used for local development. Cities, counties, and special districts have the option to participate in IFDs while schools cannot. IFDs require a two-thirds vote by the affected electorate to be created and are limited in the types of projects that they may generally fund.

The budget proposes expanding the tax increment financing tool utilized by IFDs, for a broader array of uses than that which is currently authorized under law. The budget proposal includes:

- Broadening the types of projects that IFDs can fund.
- Allowing cities or counties that meet specified benchmarks to create these new IFDs, and to issue related debt, subject to receiving 55 percent voter approval.
- Permitting new IFD project areas to overlap with the project areas of the former RDAs, while strictly limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations.
- Maintaining the current IFD prohibition on the diversion of property tax revenues from K-14 schools, which will ensure any usage will have no state General Fund impact.
- Requiring entities that seek to establish an IFD to gain the approval of the county, cities, and special districts that would contribute their revenue.

If the establishing city or county formerly operated an RDA, the expanded IFD tool would be available to them only if they meet various benchmarks, including: receipt of a Finding of Completion from Finance, compliance with all State Controller's Office RDA audit findings, and the conclusion of any outstanding legal issues with the state.

- **State-County Assessor's Partnership.** The budget proposes to reconstitute, on a limited basis, a State-County Assessors' Partnership Agreement Program to enhance local property assessment efforts. The program would begin on a three-year pilot basis, funded at \$7.5 million per year, and to be administered by the Department of Finance. The program would be limited to nine county assessors' offices that will be competitively selected. Both local governments and the state (through a reduction in the General Fund Prop 98 obligation) would benefit from improved property tax collections. The state funded a similar program until 2000-06, when it was eliminated as a savings measure.

General Government

- **California Department of Veterans Affairs (CDVA)** – Proposes a \$34 million increase in General Fund to complete the activation of the state Veterans Homes located in Redding and Fresno.
- **Office of Emergency Services (OES)** – Proposes a \$2.7 million increase in order to relocate public safety communications equipment and operations that are currently housed at Red Mountain to three new communications sites.
- **Department of General Services (DGS)** – Proposes a \$2.5 million increase in General Fund to support the development of a long-range planning study for the Sacramento Region in order to address ongoing infrastructure and space needs.
- **California Department of Business Oversight (DBO)** – Proposes a \$2.7 million increase in special funds in order to support 19 positions in 2014-15 to establish cyclical examinations of broker-dealers and investment advisors. In 2015-16, support will increase to \$5.2 million and 36 positions for continued support of cyclical examinations of broker-dealers and investment advisors.
- **Department of Technology (IT)** – Proposes a \$6.7 expenditure from the Technology Services Revolving Fund to design, construct, and install a new uninterruptible power supply system, cooling components and associated equipment at one of the two state-owned data centers. The budget also proposes a \$684,000 increase in expenditures to support a two-year pilot project that would fund five limited-term positions within the Office of Information Security in order to audit state departments' compliance with State and Federal Information Technology security policies.
- **Financial Information Systems of California (FI\$Cal)** – Proposes a \$4.3 million increase in 2014-15 due to escalating project scope. The Department of General Services (DGS) financial system was originally scheduled to be integrated within the FI\$Cal system in 2014. Due to a need to replace the antiquated DGS financial system prior to integrating with FI\$Cal, the cost of the project will increase and the integration will be delayed to a later date.

- **State Controller's Office (SCO)** – Proposes a \$6.5 million (\$3.6 million General Fund, \$2.9 million other funds) to address ongoing litigation efforts related to the currently suspended effort to update the state's payroll system.
- **Department of Consumer Affairs (DCA)** – Proposes a \$12.4 million increase in special funds in order to support 90 enforcement related positions and \$466,000 special funds to support 11 positions related to licensing workload.
- **Unemployment Insurance (UI)** – Includes a decrease of \$251.8 million in 2013-14, and a decrease of \$3.2 billion in 2014-15 for UI benefit payments administered by the Employment Development Department (EDD) based on current economic conditions and the expiration of the federal benefits extension program, which impacts approximately 222,000 Californians. The Governor's budget also includes a decrease of \$142.6 million in 2013-14 and an increase of \$177.5 million in 2014-15 for Disability Insurance benefit payments.
- **UI Program Administration** – Includes: 1) \$38 million from the Contingent Fund; 2) an increase in withholding penalties deposited in the Contingent Fund from 10 percent to 15 percent effective July 1, 2014, resulting in increased revenue of \$10 million (\$25 million annually after 3 years); and, 3) a one-year suspension of the transfer of personal income tax withholding penalties to the General Fund, retaining approximately \$16 million for the program. These measures return service levels for EDD's administration of the UI program back to those achieved in 2012-13 and allow the department to retain staff and continue overtime to process new and continued claims.
- **Workforce Investment Act (WIA)** – Includes an increase of \$11.8 million in federal funds in 2013-14 for the Governor's discretionary WIA programs and rapid response activities.
- **Process Safety Management Unit Expansion (Refinery Inspections)** – Includes an increase of \$2.4 million Occupational Safety and Health Fund to enforce workplace health and safety regulations in 15 refineries and over 1,600 other facilities that handle hazardous chemicals. This expands the Department of Industrial Relation's existing Process Safety Management Unit to 26 positions. These staff will significantly increase the number of refinery inspections, as well as the time spent conducting each inspection. Refinery inspections will be funded from a new regulatory fee, based on the amount of crude oil being processed at each refinery.

- **Public Works/Prevailing Wage Consolidation** – Includes multiple adjustments to consolidate all public works and prevailing wage enforcement activities within a single unit, supported by a new registration fee on contractors who choose to work on public works projects. The fee will support an \$11.4 million program with 83 positions. The new fee will eliminate the program’s reliance on the General Fund and bond funds tied to public works projects, which have resulted in funding challenges in the past. These funding changes, along with programmatic efficiencies realized through the consolidation, will provide the program with a stable funding source to support prevailing wage determinations, monitoring, and enforcement throughout the state. This represents an increase of more than 20 positions compared to prior enforcement levels.
- **Employee Compensation** – Includes \$173.1 million (\$82.4 million General Fund) to fund collective bargaining contract agreement “triggers” for employee salary increases. A final determination on whether the “triggers” will go into effect in 2014-15 will be made at the May Revision, based on the latest revenue projections and updated expenditure information.

Additionally, The Governor’s budget includes \$98.6 million (\$40.3 million General Fund) to extend the same general salary increases negotiated for rank and file members to unrepresented state managers and supervisors, to avoid salary compaction issues. Managers and supervisors associated with Bargaining Unit 5 – California Association of Highway Patrolmen and Bargaining Unit 6 – California Correctional Peace Officers Association will receive the salary adjustment extended to their rank and file counterparts.

- **Employee Retirement** – As a result of the Public Employees’ Pension Reform Act of 2013, the Governor’s budget estimates that the state will contribute an additional \$67.1 million during 2013-14, and \$108.4 million in 2014-15, toward the state’s unfunded liability. The Budget estimates approximately \$4 billion in total funding for state employee pensions in 2014-15.
- **Workers’ Compensation** – Proposes \$81.1 million (\$80.7 million General Fund) to augment the budgets of the California Department of Corrections and Rehabilitation and the Department of Forestry and Fire Protection for workers’ compensation costs.
- **Bond Debt Service** – General Fund debt service expenditures, after various other funding offsets, will increase by \$416.5 million (7.5 percent), to a total of

\$6 billion, over the current year expenditures. This increase is comprised of \$382.2 million for General Obligation (GO) debt service (\$5.3 billion total), and \$34.3 million for lease-revenue bonds (\$673.7 million total). The increase is attributed to recent bond sales and the planned issuance of additional bonds over the next year.

- **California Five-Year Infrastructure Plan** – The Five-Year Infrastructure Plan is being released with the budget. The Plan outlines the Administration’s infrastructure priorities for the next five years for the major state infrastructure programs, including high-speed rail and other transportation, state institutions, judicial branch, natural resources, and education. The Plan only proposes limited, new lease-revenue bond authorizations. The \$815 million (\$800 million General Fund) package makes the most significant investments in highway and local streets and roads maintenance projects, schools and community colleges, and state parks.
- **Cashflow Borrowing** – Includes \$120 million General Fund for interest costs associated with cashflow borrowing. This includes \$60 million for special fund borrowing and \$60 million in external borrowing (or Revenue Anticipation Notes [RANs]). Cashflow borrowing is not a budget solution and funds borrowed in one year are fully repaid within the same fiscal year.
- **Budgetary Loans from Special Funds** – Includes \$54 million for interest on budgetary loans. The Governor indicates that at the end of 2013-14, special fund budgetary loans will total \$3.9 billion, which will drop to \$2.9 billion by 2014-15.
- **Franchise Tax Board (FTB)** – Calls for \$75.1 million and 71 positions to continue implementation of the Enterprise Data to Revenue (EDR) Project to facilitate the collection of personal and corporation income taxes. FTB estimates the project will generate additional General Fund revenues of \$4.9 billion through 2017. Ongoing revenues are estimated to be in excess of \$1 billion annually when the project is fully implemented.

In addition, the budget calls for \$7.7 million for the Accounts Receivable Management Program (ARMP), which will provide 101 limited-term positions and generate \$108 million in General Fund revenues in the budget year. The accounts receivable inventory has accumulated during periods of staffing reductions and furloughs.

Corrections and Judiciary

California Department of Corrections and Rehabilitation (CDCR) – Proposes total funding of \$9.8 billion (\$9.5 billion General Fund and \$320 million other funds) in 2014-15.

CDCR Population – The 2013 Budget Act projected an adult inmate average daily population of 128,885 in the current year. The current year adult inmate population is now projected to exceed Budget Act projections by 6,101 inmates, a 4.7 percent increase, for a total population of 134,986. The budget year adult inmate population is projected to be 137,788, a 6.9 percent increase of 8,908 inmates. The current projections also reflect an increase in the parolee population of 3,439 in the current year compared to Budget Act projections, for a total average daily population of 45,934. The parolee population is projected to be 36,652 in 2014-15, a decrease of 5,843.

CDCR, Division of Juvenile Justice (DJJ) Population – The DJJ's average daily ward population is increasing in the current year and decreasing in 2014-15, when compared to 2013 Budget Act projections. Specifically, the ward population is projected to increase by 32 in 2013-14, for a total population of 711; and decrease by 34 in 2014-15, for a total population of 645. The ward population has decreased significantly in recent years, due primarily to fewer parole violators being housed by DJJ, as a result of AB 1628 (Budget Committee), Chapter 729, Statutes of 2010, which shifted supervision responsibility for wards released from DJJ to the counties, beginning in January 2011; and SB 1021 (Budget and Fiscal Review Committee), Chapter 41, Statutes of 2012, which mandated the discharge of all remaining juvenile parolees by December 31, 2012.

Court Ordered Prison Population Cap – Assumes the Federal Courts will grant California a two-year extension on meeting the court imposed population cap currently set at 137.5 percent of system-wide design capacity. Based on this assumption, the Governor's budget reflects total expenditures of \$228 million from the \$315 million (General Fund) appropriated in AB 105 (Steinberg and Huff), Chapter 310, Statutes of 2013. The proposed plan would set aside \$81.1 million for use toward recidivism reduction efforts, as follows:

- \$11.8 million to expand substance use disorder treatment to ten additional state prisons.

- \$9.7 million to expand substance use and cognitive behavioral treatment to in-state contracted facilities.
- \$11.3 million to increase the number of slots in the Integrated Services for Mentally Ill Parolees program from 600 to 900.
- \$8.3 million for the design and planning necessary to convert a 600 bed facility in Stockton into a reentry hub over the next two years.
- \$40 million to support state reentry programs in the community, either through programs provided in jails or for services provided within communities.

The proposed budget also states the intent of the Administration to immediately begin implementing measures required by the federal court pertaining to expanded medical parole, elderly parole, and credit enhancements.

Expansion of Correctional Officer Training – Includes \$61.7 million (General Fund) to temporarily expand the capacity of the Correctional Officer Training Academy from 720 to 3,400 cadets. The Administration contends that this increased cadet need is driven primarily by correctional officer retirements and other attrition.

Enhanced Drug and Contraband Interdiction Program – Proposes \$14 million (General Fund) to support the establishment of an enhanced drug and contraband interdiction program. The funding will allow for an increase in the number of passive search dogs and the equipment necessary to search prisoners and visitors. The proposed program does not include the searching of guards or staff at the prisons.

CDCR Workers' Compensation – Provides an increase of \$75 million (General Fund) to address increasing workers' compensation costs.

Prison Maintenance Infrastructure Improvements – Proposes \$20 million to address unidentified deferred infrastructure maintenance costs.

CDCR Legal Services – Proposes \$1.4 million (General Fund) in support of Department of Justice legal services rendered on behalf of the CDCR.

Local Jail Construction – Includes \$500 million in lease-revenue bond financing for the construction of jail facilities in order to improve treatment space in local

jails. This would bring the total state spending on local jail construction, since 2007, to \$2.2 billion. The Governor's proposal would require a 10 percent funding match from participating counties.

Changes to Realignment – Proposes legislation to require that any county jail felony sentence be a split sentence, unless the court finds it to be in the interests of justice to impose a straight sentence.

Proposes that sentences over 10 years be served in state prison. The Administration specifies that this proposed change is only to be implemented if the Administration is successful in its efforts to meet its court-ordered population cap. (Preliminary estimates suggest that this would be approximately 300 offenders annually.)

Board of State and Community Corrections (BSCC) – Proposes total funding of \$134.2 million (\$44.3 million General Fund) for the BSCC.

Local Law Enforcement – Includes \$27.5 million (General Fund) for cities in support of frontline law enforcement efforts.

Judicial Branch – Proposes total funding of \$3.3 billion (\$1.3 billion General Fund) for the Judicial Branch, of which \$2.5 billion is provided in support of trial court operations.

Local Trial Court Funding – Provides \$100 million (General Fund) in on-going additional funding to support trial court operations.

Judicial Council Funding – Provides \$5 million (General Fund) in on-going additional funding to support the state judiciary.