



# HIGHLIGHTS OF GOVERNOR'S PROPOSED 2013-2014 BUDGET

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## OVERVIEW

Congratulations California! According to the Governor's Budget released today, the Department of Finance expects no budget deficit in 2013-14. After years of massive structural deficits, today's Governor's budget reflects a return to stability and predictability in our budgeting, an achievement that came with a heavy price with sacrifice from all Californians over the last five years.

However, while there is no projected deficit, there are still risks to our fiscal position, so a prudent reserve is needed. As a result, the Governor includes roughly \$1 billion in "reserve builder" options toward that reserve.

The major "reserve builders" will:

- Suspend four newly identified mandates--\$104 million
- Extend existing hospital quality assurance fee--\$310 million
- Extend the gross premiums tax on Medi-Cal managed care plans--\$364 million
- Use 2012-13 Proposition 98 funds appropriated beyond the Proposition 98 guarantee to prepay Quality Education Investment Act (QEIA) obligations--\$172 million
- Continue to use State Highway Account funds to pay for General Obligation Bond Debt--\$67 million

These "reserve builder" solutions are further discussed later in this document in the appropriate policy section.

Overall, the 2013-14 Governor's Budget expects \$99.3 billion in total revenues, \$97.6 billion in total expenditures, and a reserve of \$1 billion.

The Governor's budget also projects that there will be budget surpluses over the five year forecast window, reflecting the elimination of the structural deficit. The Governor has intertwined his forecast with his "Wall of Debt" effort by dedicating any surplus beyond what is needed for a reserve toward debt repayment. As a result, the "Wall of Debt" obligations shrink from \$35 billion in 2010-11 to \$5 billion by 2016-17 in the Governor's projections. This emphasis on debt repayment reinforces the Governor's message that debt repayment is the top priority for new state funds and only minimal investment, restoration, or expansion of programs will occur in the budget.

The Governor has chosen to make some investments in the budget, in particular in education. Both Proposition 30 and Proposition 98 require over \$2.7 billion of new

state revenue be invested in education in 2013-14. The Governor has chosen to couple this new investment with his policy proposals "to move government closer to the people" with various school funding policy reform proposals that have been submitted with the budget. The Governor dedicates all of the \$450 million Special Funds raised in Proposition 39 for energy efficiency projects at schools. This is in part due to the interaction of Proposition 39 with the Proposition 98 guarantee. Higher Education receives one of the few discretionary General Fund increase in the proposed budget, but this increase is also coupled with policy changes.

The Assembly will begin comprehensive hearings starting later this month in order to begin vetting and considering the various details of the budget. This report is intended to provide an immediate understanding of the Governor's proposed budget in the limited timeframe available. More information will follow as the process moves forward.

## K-12 EDUCATION

### K-14 Education (Proposition 98)

- Provides a total Proposition 98 funding level of \$56.2 billion for the 2013-14 Fiscal Year, an increase of \$2.7 billion as compared to 2012-13. Proposition 98 funding is dictated by the "Test 3" formula in the 2013-14 fiscal year, which means funding is based on growth in general fund revenues.
- Pays down \$1.8 billion of the inter-year deferrals applied to K-12 schools. At the height of the budget crisis, 20 percent of school funding was paid late. The 2012-13 Budget Act began retiring deferrals by providing \$2.2 billion towards this obligation. The Governor's proposal, coupled with the actions in 2012-13 would reduce deferral debt down to \$5.6 billion in 2013-14. This is a substantial reduction given that K-12 deferrals reached a high of \$9.5 billion in the 2011-12 fiscal year.

Making a one-time payment towards deferral debt in 2013-14 frees up ongoing funding in 2014-15 for other educational purposes. Paying down deferrals also means school districts will have to borrow less to manage their cash flow during the school year.

- Dedicates \$450 million of revenues generated through the passage of Proposition 39 to schools for energy efficient projects. Specifically, proposes to allocate \$400.5 million to K-12 schools on a per pupil basis and \$49.5 million to Community Colleges.

The Proposition 98 minimum guarantee increases as a result of Proposition 39 revenues – by \$426 million in 2012-13 and \$520 million in 2013-14. All revenue from Proposition 39—including the amount that must be used for energy efficiency projects—is included in the Proposition 98 calculation. The budget also allocates all Proposition 39-related funding to school districts and community colleges and counts them as Proposition 98 expenditures.

- Dedicates the \$162.8 million over-appropriation of Proposition 98 in the current year to retiring funding obligations under the CTA v. Schwarzenegger settlement, also known as the Quality Education Investment Act (QEIA) program.
- Provides \$300 million to create an adult education block grant for community colleges. Funds currently provided to schools for Adult Education would be part of the Local Control Funding Formula. The Administration proposes to eliminate the current system and place responsibility for these programs with the

community colleges. Funding for adult education will be allocated from a new block grant based on the number of students served and only for core instructional areas such as vocational education, English as a Second Language, elementary and secondary education, and citizenship.

- Shifts \$15.7 million in funding for the Apprenticeship Program from K-12 schools to Community Colleges and shifts responsibility within community colleges.

**Specific K-12 Education adjustments:**

- Local Control Funding Formula. Provides \$1.6 billion for the "Local Control Funding Formula". The proposal is largely the same as Weighted Student Formula proposed last year in that the Administration proposes to eliminate the majority of categorical programs, consolidate funding with revenue limit apportionments, and provide funding through a new formula that will be phased in over a period of seven years. The proposal will be coupled with a system of accountability measures both at the state and local level. Major components include:
  - A base grant, with per-student funding varying by grade span.
  - Supplemental funding based on the number of disadvantaged students (unduplicated counts of low-income students and English learners). Supplemental funding also includes a concentration factor for districts where more than 50 percent of students are disadvantaged. Intended to be used for supplemental services for these students (but not monitored or enforced by state).
  - Supplemental funding for elementary and high school: additional supplement for K-3 (intended to be used for CSR) and for 9-12 (intended but not required to be used for career technical education). At some point in the future (not 2013-14), districts would have to maintain class sizes of 24 or fewer students in order to get K-3 supplement.
  - Ultimately, the formula would fund a base rate of \$6,300 per student (the current undeficitated statewide average revenue limit). This rate does not include any of the supplements or grade span adjustments.
  - The \$1.6 billion provided for the formula would be allocated to help districts get closer to their targeted level (\$6,300 per-student base grant, plus supplemental funds). Districts further from target level would receive a larger share of \$1.6 billion. Districts with funding above the targeted level would receive no additional funds.

- The Targeted Instructional Improvement Grant (TIIG) and Home-to-School Transportation programs would be excluded from the formula.  

Funding would be permanently locked in at existing allocations, but districts could now use those funds for any purpose.
- Set-asides for routine maintenance would no longer be required.
- Excluded programs would include Special Education, ASES, Child Nutrition and various programs that are not distributed to all districts (High-Speed Internet Access, American Indian programs, FCMAT, etc.)
- Includes a County Office of Education formula that would provide a per-student allocation for students in community and court schools and unrestricted funding stream for general operations and support for school districts. This allocation would be made based on the number of students and number of districts in the county. The budget provides \$28.2 million to support the first year of implementation.
- The Governor projects the formula would be fully implemented by 2019-20.
- Mandates. Provides a total of \$300 million to fund the mandates block grant incentive program for K-12 schools and community colleges. This increase of \$100 million over funding provided in 2012-13 is intended to cover costs associated with the Behavioral Intervention Plan (BIP) mandate and the Graduation Requirement mandate. These mandates were not included in the block grant in 2012-13. The Administration proposes legislation to restructure the Behavioral Intervention Plan (BIP) mandate but proposes no changes to the High School Graduation requirement mandate.
- Other proposals:
  - Provides an increase of \$48.5 million Proposition 98 General Fund to support projected charter school average daily attendance (ADA) growth.
  - Provides an increase of \$3.6 million Proposition 98 General Fund for Special Education ADA growth.
  - Provides \$62.8 million to support a 1.65 percent cost-of-living adjustment for a select group of categorical programs that will remain outside of the new student funding formula, including Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-

- living adjustments for school district and county office of education revenue limits will be provided in the form of new funding allocated for the implementation of the new funding formulas.
- Provides an increase of \$9.7 million one-time Proposition 98 General Fund Reversion Account funding for the Emergency Repair Program.

**Non-Proposition 98 adjustments:**

- Provides an increase of \$77 million for 2013-14 in federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.

**Other Proposals With No Net Fiscal Effect.**

- Special Education Finance. Proposes to simplify the AB 602 formula by fully delinking federal funds from the calculation of each SELPA's per ADA rate. (Currently federal funds are used as an offset when calculating the amount of state aid each SELPA receives.) Also eliminates or modifies some existing special education categorical requirements for several stand-alone special education categorical programs.
- Charter School Proposals. Proposes several changes related to charter schools, including shifting the Charter School Facility Grant program to the California School Finance Authority, expanding the Charter School Facility Grant program to include non-classroom based charter schools, and modifying the funding determination process for non-classroom based charter schools.
- On-line Instruction. Proposes statutory changes to enable school districts to offer asynchronous online courses through an independent study agreement.

## CHILD CARE

- Proposes essentially flat funding for child care and preschool programs in 2013-14. Overall funding across all programs increases by \$22 million (1 percent).
- Funds anticipated BY caseload changes for the CalWORKs child care programs. For Stage 1, this includes an increase of \$26 million due to expected work reengagement of families. The budget also includes a year-to-year decrease of \$21 million for Stage 2 offset by a net year-to-year increase of \$21 million for Stage 3 due to families timing out of Stage 2 and shifting into Stage 3. (The General Fund costs for Stage 3 increase by \$24 million due to fund shifts).
- Includes slightly negative statutory “growth” adjustment for capped programs. General Child Care, Alternative Payment, State Preschool, and Migrant program reduced by 0.05 percent. Total savings of \$333,000. Does not include COLA for any child care programs (COLA for these programs was suspended via TBL through 2014-15).
- Does not include any current-year adjustments. Does not augment CY Stage 2 funding to address additional caseload California Department of Education is reporting due to Diversion from Stage 3 in recent months. (No estimates have yet been developed for potential CY deficiency).
- Includes intent language to convene stakeholder work group to discuss reforms. States that DSS will convene group to assess opportunities for “streamlining” and making improvements to child care system.

## HIGHER EDUCATION

### All Segments

- Proposes a long-term funding plan with General Fund increases of 5 percent during 2013-14 and 2014-15 and 4 percent in the subsequent two years to the University of California, California State University and Hastings College of Law. The Administration states the funding will allow the institutions to avoid tuition and fee increases and implement reforms to help students complete degrees more quickly and serve more students at a lower cost. Community college funding also will increase by 5 percent in 2013-14. The Administration envisions an expansion of on-line classes, improved course management and planning, using faculty more effectively and increased use of summer sessions as means to improve efficiencies and time-to-degree.
- Proposes capping the number of courses students are allowed to take if they are receiving Cal Grants or other state subsidies by requiring students to pay the full cost of units if they go beyond specified units. Students will be allowed to accrue no more than 150 percent of standard units needed to complete most degrees at UC and CSU during the next two years. Community college students will be allowed to take no more than 90 semester credit units to earn an associate's degree unless they pay the full cost of units beyond this limit. Institutions would be allowed to issue waivers to students on a case-by-case basis, but the state would not provide any additional funding for these additional cases.

### University of California

- Provides a total of \$2.8 billion in General Fund support for the university system, which is an increase of \$279.1 million from the current year level. This includes an increase of \$125 million for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act, and an ongoing increase of \$125.1 million to avoid increased tuition or fees in the near future.
- Provides \$10 million to increase the number of on-line courses.
- Includes in the UC's support budget appropriation general obligation and lease revenue debt services for UC capital improvement projects. Also requires Administration approval of new UC capital expenditures, limits the amount of the UC budget that can be spent on capital projects, and suggests UC make new resources available for instruction if it restructures its debt as a result of this proposal.

**California State University**

- Provides a total of \$2.8 billion in General Fund support for the university system, which is an increase of \$316.9 million from the current year level. This includes an increase of \$125 million for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act, and an ongoing increase of \$125.1 million to avoid increased tuition or fees in the near future.
- Includes in the CSU's support budget appropriation general obligation and lease revenue debt services funding for CSU capital improvement projects. Also requires Administration approval to of new CSU capital expenditures and limits the amount of the CSU budget that can be spent on capital projects.
- Proposes that the state continue to fund retirement contributions of CSU employees based on the number of employees in 2012-13. Proposes that if CSU adds employees or increases wages beyond 2012-13 levels, CSU – not the state - will be responsible for assuming these costs in its operational budget.
- Provides CSU the authority to negotiate and set employee health benefit rates with represented and non-represented employees.

**California Community Colleges**

- Provides a total of \$6.8 billion in both General Fund and Proposition 98 funding for the community college system, which is an increase of \$617.8 million from the current year level.
- Provides \$16.9 million to increase the number of on-line courses.
- Proposes to change funding for community colleges by eliminating the practice of funding colleges based on the number of students in classes in the early weeks of the term, and instead fund colleges by focusing on student completion of the course. Details of this proposal are not provided in the Budget Summary.
- Changes the process for the Board of Governor's Fee Waiver Program by requiring students to fill out a Free Application for Federal Student Aid form and include both parent and student income when determining eligibility.
- Proposes shifting Adult Education class from the K-12 system to the community college system. Proposes \$315.7 million Proposition 98 General Fund to allow community colleges to administer this program through a block grant based on the number of students served and only for core instructional areas such as vocational education, English as a Second Language, elementary and secondary education, and citizenship.

- Includes \$49.5 million in Proposition 98 General Fund for community colleges to undertake clean energy efficiency projects. This funding is available via Proposition 39, the California Clean Energy Jobs Act.
- Proposes \$179 million in Proposition 98 General Fund to pay down deferral debt owed to community colleges. This would lower the deferral balance owed to community colleges to \$622 million.
- Proposes an increase of \$196.9 million in Proposition 98 General Fund for apportionments, a 3.6 percent increase.
- Proposes an increase of \$133.2 million Proposition 98 General Fund in 2013-14 to reflect reduced property tax estimates, and an increase of \$47.8 million for 2012-13 to offset lower-than-anticipated property tax revenues from the elimination of redevelopment agencies.
- Proposes a decrease of \$12.6 million in Proposition 98 General Fund to reflect revised estimates of student fee revenue, primarily resulting from lower-than-anticipated Board of Governors' fee waivers.

#### **Hastings College of Law**

- Proposes an increase of \$392,000 General Fund for core instructional costs to mitigate the need for increasing tuition and fees.
- Proposes to include into the Hastings' support budget appropriation general obligation debt services.

#### **California Student Aid Commission**

- Proposes to offset some General Fund Cal Grant costs with Federal Temporary Assistance for Needy Families (TANF) reimbursements, similar to the 2012 Budget Act. The offset would decrease General Fund costs by \$139.2 million and bring the total TANF funds expended on the Cal Grant program to \$942.9 million in 2013-14.
- Proposes an increase of \$61 million General Fund in 2012-13 and \$161.1 million General Fund in 2013-14 to reflect increased participation in the Cal Grant program. Of the 2013-14 amount, \$19.5 million is attributable to the first year of implementation of the Dream Act.
- Proposes an increase of \$60 million Student Loan Operating Fund and an offsetting decrease of \$60 million General Fund to cover Cal Grant program costs.

## TRANSPORTATION

### Transportation Agency

- Reflects the establishment of the Secretary of Transportation, as enacted in the GRP 2 of 2012.

### Caltrans

- Mentions that a working group will begin in 2013 to discuss transportation infrastructure needs. The Budget Summary in particular references that the expected infrastructure needs exceed the currently identified resources and that a sustainable strategy for prioritizing and funding transportation is needed.
- Includes a Zero-Based Budget review of three Caltrans programs, the Active Transportation Program, Local Assistance Program, and the Planning Program.
- Authorizes a loan from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI interest expense. The loan will be repaid by the General Fund over the next four fiscal years. This achieves a General Fund savings of \$362.3 million in 2011-12.
- Continues the transfer of State Highway Account special fund revenues to offset General Fund costs for General Obligation Bond Debt, resulting in a \$67 million General Fund savings. This proposal is one of the "reserve builder" solutions proposed by the Governor.

### High Speed Rail

- Recognizes that the project will continue to advance through \$8 billion federal and bond funding adopted in the 2012 budget.

### Department of Motor Vehicles

- Contains \$980,000 and two positions to implement SB 1298 (Padilla), Chapter 570, Statutes of 2012, which authorized the operation of autonomous vehicles on public roads.

## HUMAN SERVICES

### Department of Social Services

#### CalWORKs

- Includes \$142.8 million in additional funding for CalWORKs employment services, necessitated by the major program changes adopted as part of the 2012 Budget. Those program changes dramatically altered the time limits and character of services offered in the CalWORKs program, reducing the Welfare To Work services time clock for parents in the program from 48 to 24 months, subject to a complicated possible extension. The many, extensive details in implementing the recently-enacted program changes, and their real impacts on the families and children in CalWORKs and poverty in California, will continue to be the subject of budget review and oversight.

#### In-Home Supportive Services

- Proposes to make the 20 percent January 1, 2012 “trigger” reduction in IHSS operational on November 1, 2013. This 20 percent reduction was adopted as part of the 2011 Budget, subject to a revenue shortfall trigger. When the trigger was pulled in December 2011, a court injunction halted implementation of the cut. The Governor assumes court resolution and implementation of this dramatic reduction in IHSS hours in 2013-14, resulting in a savings of \$113.2 million in the budget year.
- Includes an increase of \$92.1 million associated with more restrictive federal requirements to draw down enhanced federal matching funds under the federal Community First Choice Option.
- Reflects restoration in 2013-14 of the 3.6 percent across-the-board hours reduction with an increase of \$59.1 million.
- Increases funding of \$47.1 million related and pursuant to the recently enacted county maintenance-of-effort (MOE) requirement for IHSS.
- Decreases funding by \$30.2 million associated with the health care certification requirement enacted in 2011-12.
- Delays implementation of the Coordinated Care Initiative (CCI) until September 2013. The CCI impacts IHSS recipients, though the IHSS program itself remains intact under the CCI.

**Child Welfare Services**

- State Funds for Child Welfare Services were realigned to counties as part of the 2011 Realignment.
- Includes \$1 million (\$482,000 General Fund) and nine positions in 2013-14 for the Department of Social Services to support and oversee the Child Welfare System-New System project through the procurement phase.

**Department of Developmental Services**

- Continues the Annual Family Program Fee, which was scheduled to sunset June 30, 2013, which assesses a fee of \$150 or \$200 per family based on family size, income, and additional criteria. The fee offsets General Fund costs by \$7.2 million.
- Assumes that \$40 million is not received from the First 5 California Children and Families Commission in 2012-13 and backfills for this to provide services to children aged birth through five.
- Assumes the scheduled sunset of the 1.25 percent regional center operations and provider payment reduction for 2013-14 and thus increases funds in DDS by \$46.7 million (\$32 million General Fund).
- Increases funding by \$36.1 million in 2012-13 and \$177.5 million in 2013-14 to reflect increases in caseload and utilization of services.

**Alcohol and Drug Programs**

- Eliminates the Department of Alcohol and Drug Programs and transfers the remaining substance use disorders services programs and associated funding to the Department of Health Care Services (DHCS). Under this proposal, DHCS will administer the federal Substance Abuse Prevention and Treatment block grant. The Office of Problem Gambling is an exception to this transfer and is proposed to be moved to the Department of Public Health.

## HEALTH SERVICES

### Department of Health Care Services

#### Federal Health Care Reform

- Expands Medi-Cal based on current eligibility, as mandated by the federal Affordable Care Act (ACA), by implementing eligibility and enrollment simplifications, including: 1) using a new standard for determining income eligibility, based on Modified Adjusted Gross Income (MAGI); 2) eliminating the asset test for individuals under MAGI; and, 3) conducting an "ex parte" review when making a redetermination of eligibility. Includes \$350 million to cover the costs of the expected caseload increase as a result of these changes, though assumes a more refined estimate will be developed later this year.
- Expands Medi-Cal to cover medically-indigent adults, currently not eligible for Medi-Cal, as provided for through the ACA, through one of two proposed structures: 1) State-Level Expansion – an expansion to the existing state-run Medi-Cal program, financed by capturing county savings currently used for health services for this population; transfers programmatic and fiscal responsibility for various human services programs, including subsidized child care, from the state to counties; excludes long-term care coverage; or 2) County-Based Expansion – expands the existing county-operated Low-Income Health Programs, giving counties flexibility to determine benefits beyond statewide minimums, though excludes long-term care coverage.

#### Medi-Cal

- Implements provider rate reductions, approved through AB 97 (Budget Committee), Chapter 3, Statutes of 2011, for savings of \$488.4 million in 2013-14.
- Extends the Hospital Quality Assurance Fee for savings of \$310 million General Fund in 2013-14. The fee currently sunsets on December 31, 2013.
- Reauthorizes the Gross Premiums Tax on Medi-Cal managed care plans permanently, for General Fund savings of \$85.9 million in 2012-13, and \$217.3 million in 2013-14.
- Implements still-to-be-developed efficiencies in Medi-Cal managed care for General Fund savings of \$135 million in 2013-14.

- Implements annual open enrollment in Medi-Cal for General Fund savings of \$1 million in 2013-14.
- Implements reforms to the Coordinated Care Initiative (CCI, adopted through 2012 budget trailer bill). The changes include: 1) budgetary adjustments reflecting more accurate caseload estimates; 2) delays implementation from March to September 2013, and varies the enrollment timelines by county; and, 3) revises CCI savings estimates to \$170.7 million in 2013-14 and \$523.3 million annually thereafter, pending final agreements with the federal government.

### **Behavioral Health Care**

- Transfers all substance use disorder programs from the Department of Alcohol and Drug Programs to DHCS.
- Transfers mental health licensing and quality improvement functions from the Department of Social Services to DHCS.

### **Department of Public Health**

- Mandates zero-based budgeting for the Department of Public Health (DPH). Begins implementation of this new budgeting process with DPH contracts, the Baby BIG program and the Women, Infants and Children (WIC) program.
- Reduces funding for the AIDS Drug Assistance Program (ADAP) by \$12.7 million in 2012-13 (a \$16.9 million General Fund decrease coupled with an increase of \$4.2 million in other funds) to reflect an expected decrease in caseload, primarily resulting from clients transitioning to county Low-Income Health Programs.
- Transfers the Office of Problem Gambling from the Department of Alcohol and Drug Programs to DPH.

### **Department of State Hospitals**

- Allocates \$100.9 million General Fund for the new California Health Care Facility in Stockton to begin operations, activating 514 beds. This funding covers facility staffing, including \$33.4 million for full year costs of existing positions and \$67.5 million for new staff. This does not cover the cost of transferring inmate-patients from Salinas Valley State Prison or the California Medical Facility at Vacaville.

- Reduces \$5.6 million General Fund for the personal duress alarm systems at Metropolitan and Patton State Hospitals, reflecting an updated project schedule.

The budget maintains funding for alarm upgrades at Atascadero and Coalinga State Hospitals.

- Augments resources of \$20.1 million (reimbursements) to cover the cost of the estimated increase in civil commitments. The budget includes no increase in funding to address waiting lists for individuals who are either Incompetent to Stand Trial or Mentally Disordered Offenders.

### **Managed Risk Medical Insurance Board**

- Reduces funding for the Managed Risk Medical Insurance Board (MRMIB) by \$143.9 million General Fund reflecting the transfer of children from the Healthy Families Program to Medi-Cal, approved through 2012 budget trailer bill.
- Assumes the "phasing out" of the Managed Risk Medical Insurance Program (MRMIP) and Pre-Existing Condition Insurance Program (PCIP), based on the implementation of the federal Affordable Care Act in 2014. Proposes that MRMIB continue to operate the Access for Infants and Mothers (AIM) and County Health Initiative Matching Fund (CHIM) programs.

## **NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION**

### **Proposition 39**

- Allocates all Proposition 39 funding (\$450 million in 2013-14 and \$550 million in each of the next four years) to schools and community colleges. Proposes that the Department of Education and the Chancellor's Office for the California Community Colleges be responsible for distributing funding, and may consult with both the California Energy Commission and the Public Utilities Commission to develop guidelines for prioritizing the use of the funds. These guidelines will reflect the state's energy "loading order", which guides the state's energy policies.

### **Air Resources Board**

- Addresses the expenditure of Cap and Trade auction proceeds of \$200 million in 2012-13 and \$400 million in 2013-14, in recognition of the state's initial experience with the first auction. Finance will provide a three-year investment plan for auction proceeds in the May Revision per AB 1532 (J. Pérez), Chapter 807, Statutes of 2012. The first plan will prioritize programs in the transportation (including mass transit and high speed rail), and electricity and commercial/residential energy area, as well as the water sector.

### **Timber Harvest Plans**

- Increases by \$6.6 million Timber Regulation and Forest Restoration Fund and 49.3 positions in the California Natural Resources Agency, the Department of Conservation, the Department of Forestry and Fire Protection, the Department of Fish and Wildlife, and the State Water Resources Control Board to increase review of timber harvest plans.

### **Energy Resources Conservation and Development Commission**

- Increases by \$192.2 million Electric Program Investment Charge funds and 58.5 positions to implement the program. The Administration intends the program to support energy efficiency and conservation activities, renewable energy resources, and public interest research and development within the operating area of the investor-owned utilities.

**Department of Water Resources**

- Increases of \$11.3 million Proposition 84 funds for the Lake Perris Dam rehabilitation project. Proposition 84 provides \$54 million for recreation, fish and wildlife enhancement costs associated with the State Water Project.

## PUBLIC SAFETY

### California Department of Corrections and Rehabilitation

- Proposes total funding of \$9 billion (\$8.7 billion General Fund and \$252 million other funds) for the California Department of Corrections and Rehabilitation (CDCR) in 2013-14.
- Updates CDCR adult institution population estimates to reflect most recent trends. While the adult inmate population continues to decline as a result of Realignment, new admissions are currently trending higher than the 2012 Budget Act projections. Specifically, the 2012 Budget Act projected an adult inmate average daily population of 129,961 in the current year. However, updated projections exceed Budget Act projections by roughly 2,262 inmates, a 1.7 percent increase, for a total population of 132,223. The budget year adult inmate population is projected to be 3,618 inmates less than previously estimated, a 2.7 percent decrease, for a total population of 128,605.
- Updates CDCR adult parole population estimates to reflect most recent trends. The current projections reflect a parolee population reduction of 4,052 in 2012-13 as compared to 2012 Budget Act projections, for a total average daily population of 57,640. The adult parolee population is projected to decrease by 14,682 in 2013-14, for a total population of 42,958.
- Updates CDCR juvenile institution population estimates to reflect most recent trends. The Division of Juvenile Justice (DJJ) average daily ward population is decreasing when compared to 2012 Budget Act projections. Specifically, the ward population is projected to decrease by 120 in 2012-13, for a total population of 871 in 2012-13 and 913 in 2013-14. 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.
- Updates CDCR juvenile parole population estimates to reflect the elimination of DJJ parole. Pursuant to SB 1021 (Budget and Fiscal Review Committee), Chapter 41, Statutes of 2012, juvenile parole ended on January 1, 2013 and all juveniles remaining on parole as of December 31, 2012 were discharged.

**Judicial Branch**

- Proposes total funding of \$7.6 billion (\$2.5 billion General Fund and \$5.1 billion other funds) in 2013-14 for the Judicial Branch.
- Proposes a \$200 million transfer from the Immediate and Critical Needs Account to support trial court operations as the courts adapt to a new reserve policy that limits trial court reserves to one percent. This transfer will delay numerous courthouse construction projects up to one year, but will allow some of the most critical projects to continue, as determined by the Judicial Council.
- Proposes \$34.8 million from the Immediate and Critical Needs Account in 2013-14 to fund the new Long Beach Courthouse service fee payment.
- Proposes a range of statutory changes that will reduce workload through administrative efficiencies, increase user fees to support ongoing workload at the trial courts, and assist the Judicial Branch in effectively managing monthly trial court cash flow issues.

**California Office of Emergency Services**

- Proposes total funding of \$1.2 billion (\$1.3 million General Fund) in 2013-14 for the California Office of Emergency Services.
- Reduces expenditure authority for the California Disaster Assistance Act Program. This expenditure authority reduction aligns the appropriation with actual expenditures for this program and is not anticipated to have any impact on recovery activities.

## GENERAL GOVERNMENT

### Franchise Tax Board

- Increases by \$152.2 million in General Fund and 184 positions in 2013-14 for Enterprise Data to Revenue.
- Proposes an increase in personal income tax collections of \$3 million General Fund by the Franchise Tax Board and \$800,000 General Fund by the Employment Development Department as part of the review for Enhanced Data Sharing.

### State Workforce

- Begins discussion of successor contracts to start in early 2013. Contracts for 19 of the state's 21 bargaining units will expire between the period of June 30 – July 2, 2013.
- Increases by \$502.1 million for current labor contracts and excluded employees for previously negotiated top step adjustments and health care benefit contribution increases for active employees.

### Pensions

- Includes an increase of \$95.2 million in 2013-14 for pension contributions.

### State Mandates

- Proposes to suspend four mandates for General Fund savings of \$103.8 million.
- Additionally, proposes to suspend five mandates determined by the Commission on State Mandates to be reimbursable activities, including best practices by local agencies. The savings amount is unknown at this time.

### Employment Development Department

- Calls for stakeholder meetings to address the Unemployment Insurance (UI) Program, which is expected to owe the Federal Unemployment Account \$10.2 billion at the end of 2013. The state has borrowed money from the Disability Fund for the last two years to make interest payments of \$303.5 million and \$308.2 million. The administration believes the next interest payment, due in September 2013, will be \$291.2 million and proposes using General Fund to

make the payment, and calls for further discussions on the UI program's financing structure.

- Revises UI Benefit Payments to \$12.9 billion in 2012-13 and \$9.5 billion in 2013-14, reflecting an extension of federal benefits through December 2013 and a reduction in the unemployment rate.
- Revises Disability Insurance Benefit Payments by an increase of \$66.7 million in 2012-13 and \$225.9 million in 2013-14.
- Increases revenue from payroll taxes by nearly \$2 million as a result of increased data sharing between EDD and the Franchise Tax Board.

**Department of Industrial Relations**

- Proposes an increase of \$152.9 million in the Workers' Compensation Administration Revolving Fund and 82 positions to implement workers' compensation reforms prescribed in Chapter 363, Statutes of 2012 (SB 863).
- Eliminates the July 1, 2013 sunset date for the employer surcharge for the Occupational Safety and Health Fund and the Labor Enforcement and Compliance Fund to permanently fund these programs.
- Eliminates the Targeted High Hazard Assessment by replacing the \$9.1 million in revenue with an offsetting increase in the Occupational Safety and Health Fund assessment to bring safety, workplace injury prevention and enforcement efforts under one assessment.
- Stabilizes funding for the Compliance Monitoring Unit by redirecting \$2.5 million General Fund to the unit from worker's safety and labor standards enforcement activities with a backfill from the employer surcharge, a \$5 million loan from the Targeted Inspection and Consultation Fund and cost recovery from other sources that support public works projects.

**California Department of Veterans Affairs**

- Includes \$27 million to continue the opening of two new veterans homes in Redding and Fresno. These facilities will begin accepting residents in 2013.

**Department of Consumer Affairs**

- Utilizes performance-based budgeting requiring all boards, bureaus and divisions to undergo program evaluations to determine appropriate enforcement

and licensing performance measures in order to increase efficiency and focus on achieving program goals.

- Implements the BreEZe computer system to uniformly track the licensing data of its boards and bureaus.

**Department of General Services**

- Decreases state expenditures by \$5.6 million through eliminating 22.5 service positions to reflect operational efficiencies.
- Reduces \$1.6 million of state bond funds and 20 positions from the Office of Public School Construction in anticipation of a decreased workload due to the elimination of new state bond programs.
- Lessens the state government fleet by 7,000 vehicles.
- Increases the use of zero-emission vehicles and provides electric vehicle charging stations to build a more sustainable fleet.
- Proposes an increase of \$11 million for maintenance projects to consolidate agencies and departments into state-owned facilities instead of leased facilities and to comply with the Americans with Disabilities Act.

## **LOCAL GOVERNMENT**

### **Savings from Redevelopment Elimination**

- Includes approximately \$2.1 billion in 2012-13 and \$1.1 billion in 2013-14 to offset the state's Proposition 98 obligation now that three payment cycles have passed.
- Estimates approximately \$1 billion in ongoing savings as each Recognized Obligation Payment Cycle Schedule passes, beginning in 2016-17.

## REVENUES

### Enterprise Zone Reform

- Assumes pursuing Enterprise Zone reform through legislation, which would increase General Fund revenues by \$10 million in 2012-13 and \$50 million in 2013-14.
  - Proposes to limit retrovouchering by requiring all voucher applications to be made within one year of the date of the application.
  - Requires third party verification of employee residence within a Targeted Employment Area.
  - Streamlines the vouchering process for hiring veterans and recipients of public assistance.
  - Creates stricter zone audit procedures and audit failure procedures.

**SUMMARY OF CHARTS**

**2013-14 General Fund Budget Summary**  
(in millions)

	<b>2012-13</b>	<b>2013-14</b>
<b>Prior Year Balance</b>	<b>-\$1,615</b>	<b>\$785</b>
Revenues and Transfers	\$95,394	\$98,501
<b>Total Resources Available</b>	<b>\$93,779</b>	<b>\$99,286</b>
Non-Proposition 98 Expenditures	\$55,487	\$56,780
Proposition 98 Expenditures	\$37,507	\$40,870
<b>Total Expenditures</b>	<b>\$92,994</b>	<b>\$97,650</b>
<b>Fund Balance</b>	<b>\$785</b>	<b>\$1,636</b>
Reserve for Liquidation of Encumbrances	\$618	\$618
Special Fund for Economic Uncertainties	\$167	\$1,018

**General Fund Expenditures by Agency**  
(in millions)

	2012-13	2013-14	Change from Dollar Change	2012-13 Percent Change
Legislative, Judicial, Executive	\$2,044	\$2,546	\$502	24.6%
Business, Consumer Services & Housing	\$217	\$645	\$428	197.2%
Transportation	\$183	\$207	\$24	13.1%
Natural Resources	\$2,022	\$2,062	\$40	2.0%
Environmental Protection	\$47	\$46	-\$1	-2.1%
Health and Human Services	\$27,121	\$28,370	\$1,249	4.6%
Corrections and Rehabilitation	\$8,753	\$8,805	\$52	0.6%
K-12 Education	\$38,323	\$41,068	\$2,745	7.2%
Higher Education	\$9,776	\$11,109	\$1,333	13.6%
Labor and Workforce Development	\$345	\$329	-\$16	-4.6%
Governmental Operations	\$661	\$742	\$81	12.3%
General Government				
Non-Agency Departments	\$480	\$528	\$48	10.0%
Tax Relief/Local Government	\$2,520	\$421	-\$2,099	-83.3%
Statewide Expenditures	\$502	\$772	\$270	53.8%
<b>Total</b>	<b>\$92,994</b>	<b>\$97,650</b>	<b>\$4,656</b>	<b>5.0%</b>

**General Fund Revenue Sources**  
(in millions)

	2012-13	2013-14	Change from 2012-13	
			Dollar Change	Percent Change
Personal Income Tax	\$60,647	\$61,747	\$1,100	1.8%
Sales and Use Tax	\$20,714	\$23,264	\$2,550	12.3%
Corporation Tax	\$7,580	\$9,130	\$1,550	20.4%
Insurance Tax	\$2,022	\$2,198	\$176	8.7%
Liquor Tax	\$320	\$326	\$6	1.9%
Tobacco Taxes	\$91	\$89	-\$2	-2.2%
Motor Vehicle Fees	\$26	\$23	-\$3	-11.5%
Other	\$3,994	\$1,724	-\$2,270	-56.8%
<b>Total</b>	<b>\$95,394</b>	<b>\$98,501</b>	<b>\$3,107</b>	<b>3.3%</b>

**2013-14 Total State Expenditures by Agency**  
(in millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$2,546	\$2,579	\$275	\$5,400
Business, Consumer Services & Housing	\$645	\$741	\$68	\$1,454
Transportation	\$207	\$8,186	\$5,085	\$13,478
Natural Resources	\$2,062	\$1,181	\$1,209	\$4,452
Environmental Protection	\$46	\$2,450	\$127	\$2,263
Health and Human Services	\$28,370	\$16,799	\$76	\$45,245
Corrections and Rehabilitation	\$8,805	\$2,272	\$4	\$11,081
K-12 Education	\$41,068	\$119	\$5	\$41,192
Higher Education	\$11,109	\$45	\$383	\$11,537
Labor and Workforce Development	\$329	\$535	-	\$864
Governmental Operations	\$742	\$335	\$13	\$1,090
General Government				
Non-Agency Departments	\$528	\$1,581	\$3	\$2,122
Tax Relief/Local Government	\$421	\$1,876	-	\$2,297
Statewide Expenditures	\$772	\$2,229	-	\$3,001
<b>Total</b>	<b>\$97,650</b>	<b>\$40,928</b>	<b>\$7,248</b>	<b>\$145,826</b>

**2013-14 Revenue Sources**  
(in millions)

	General Fund	Special Funds	Total	Change from 2012-13
Personal Income Tax	\$61,747	\$1,194	\$62,941	\$945
Sales and Use Tax	\$23,264	\$11,089	\$34,353	\$3,237
Corporation Tax	\$9,130	-	\$9,130	\$1,550
Highway Users Taxes	-	\$6,026	\$6,026	\$407
Insurance Tax	\$2,198	\$485	\$2,683	\$297
Liquor Tax	\$326	-	\$326	\$6
Tobacco Taxes	\$89	\$748	\$837	-\$25
Motor Vehicle Fees	\$23	\$5,887	\$5,910	\$118
Other	\$1,724	\$14,745	\$16,469	-\$2,262
<b>Total</b>	<b>\$98,501</b>	<b>\$40,174</b>	<b>\$138,675</b>	<b>\$4,273</b>