



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2014-2015 BUDGET

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OVERVIEW

On January 9th the Governor released his proposed budget for 2014-15. As expected, the budget proposal reflects a brighter revenue picture, which has yielded increased general fund revenue and an operating surplus for next year.

Overall the Governor's budget forecasts \$108.7 billion in available General Fund resources, this includes a \$4.2 billion balance projected at the end of 2013-14, and \$104.5 billion in budget year revenues.

The Governor proposes \$106.8 billion in General Fund expenditures, which includes \$61.7 billion in non-Prop 98 expenditures and \$45.1 billion in Prop 98 expenditures.

Under the Governor's proposed budget, there are \$2.5 billion in total reserves, this includes \$967 million in the regular reserve, and \$1.6 billion in the Budget Stabilization Account (the existing, Prop 58 Rainy Day Fund).

The Governor's proposed budget reflects many of the values included in the Assembly Democrat's Blueprint for a Responsible Budget.

Most notably, the Governor puts forth a Rainy Day Fund proposal that reflects the Assembly's proposal to capture spiking capital gains revenues. The volatility of capital gains tax revenues is the main cause of the boom and bust budget cycles. Under this Rainy Day Fund proposal, capital gains tax revenues that spike over 6.5% of total General Fund revenues will be taken off the table, deposited into the Rainy Day Fund, and be available for use during economic downturns. This mechanism essentially de-links the budget from much of the revenue volatility, to minimize OR help prevent over committing funding in boom years, and mitigate program cuts and tax increase in the bust years.

Specifically, the Rainy Day Fund proposal in the Governor's Budget calls for the following:

- Base deposits on when capital gains revenues rise to more than 6.5 percent of General Fund tax revenues.
- Create a Proposition 98 reserve, whereby spikes in funding would instead be saved for future years of decline. This would smooth school spending to prevent the damage caused by cuts. The reserve would make no changes to the guaranteed level of funding dedicated to schools under Proposition 98. (The original Assembly proposal simply excluded Prop 98 from the calculation, so this is a new element that will help preserve education funding through boom and bust cycles.)
- Double the maximum size of the Rainy Day Fund from 5 percent to 10 percent of revenues.
- Allow supplemental payments to the Wall of Debt or other long-term liabilities in lieu of a year's deposit. (This is a new element not included in the Assembly's original proposal.)

- Limit 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.

Other key elements of the Governor's proposed budget that reflect the Budget Blueprint are: paying down debt, building reserves; investing in infrastructure, and addressing unfunded liabilities.

The Governor's budget proposals, as well the Assembly Blueprint proposals and others, will be fully vetted through the Budget Subcommittee process, which will commence next month.

We hope this document helps provide an initial understanding of the Governor's proposed budget.

K-12 EDUCATION

K-12 Education

- Provides \$45.3 billion General Fund for K-12 Education in the 2014-15 Fiscal Year. Total Proposition 98 funding, including state and local property tax revenue, is \$61.6 billion, an increase of \$6.3 billion from the 2013-14 level. Total per-pupil expenditures are projected to be \$11,985 in 2013-14 and \$12,833 in 2014-15. Proposition 98 funding is determined by the "Test 1" formula for 2014-15.
- Eliminates all remaining deferred payments to K-12 schools. Pays down \$2.2 billion in inter-year deferrals to K-12 schools in 2014-15, in addition to \$3.3 billion used to pay down deferrals in 2012-13 and 2013-14. In the 2011-12 fiscal year K-12 deferrals reached a high of \$9.5 billion, causing school districts to have to borrow or make cuts to manage their cash flow.
- Provides an additional \$4.5 billion, or 10.9 percent, for the second year of implementing the Local Control Funding Formula (LCFF), in order to help schools reach their target funding level. Provides an increase of \$25.9 million for the Local Control Funding Formula for County Offices of Education. Also proposes to create a continuous appropriation for the LCFF.

Specific K-12 Education adjustments:

- Dedicates \$400 million in school facility programs. Transfers \$211 million from the School Facility Program bond authority for the core new construction and modernization programs and provides \$188.1 million in one-time Proposition 98 funding to the Emergency Repair Program to repair or replace buildings at eligible schools.
- Includes \$46.5 million to implement and administer a new school assessment system aligned to the Common Core State Standards.
- Dedicates \$363 million in energy efficiency projects through funds available from Proposition 39. Provides \$316 million to K-12 schools, and \$39 million to community colleges for energy efficiency project grants. Provides \$5 million to the Conservation Corps for continued technical assistance to K-12 schools, and \$3 million to the Workforce Investment Board for job training.

Other Proposals and Adjustments:

- Proposes changes to the independent study program, in an effort to streamline and expand opportunities for non-classroom based instruction.
- Provides \$33.3 million for a 0.86 cost-of-living adjustment for categorical programs outside the Local Control Funding Formula.
- Includes an increase of \$74 million for projected charter school ADA growth and makes other adjustments to ADA projections for school districts and county offices of education. School attendance is projected to remain flat for 2013-14 and decrease slightly in 2014-15.

CHILD CARE

- Proposes a six-county, 2,000-family pilot project over three years that will connect children enrolled in the CalWORKS program with licensed child care, engage parents with children in the child care setting, provide parenting and life skill programs for parents and provide parents with work readiness activities. The project will cost \$9.9 million General Fund in 2014-15 and \$115.4 million General Fund over three years.
- Increases CalWORKS Stage 2 General Fund by \$6.3 million to reflect an increase in the cost-per-case of eligible Stage 2 beneficiaries and a slight decrease in the number of cases. Total base cost for Stage 2 is \$364.1 million.
- Increases CalWORKS Stage 3 General Fund by \$2.8 million to reflect an increase in the cost-per-case of eligible Stage 3 beneficiaries and a decrease in the number of cases. Total base cost for Stage 3 is \$185.8 million.
- Decreases federal funds for Child Care and Development by \$9.1 million to reflect a reduction of available carryover funds and a decrease of the base grant. Total federal funding is \$555.6 million.

HIGHER EDUCATION

All Segments

- Continues the Administration's proposal to increase General Fund spending on the University of California, California State University, Hastings College of Law and community colleges over a four-year period that began with the 2013-14 Budget. Both UC and CSU will receive approximately 5-percent increases in funding for the second year in a row under the proposal. The continuation of this funding increase is predicated, however, on the segments holding tuition rates flat and adopting three-year sustainability plans that set targets for key performance metrics and implement reforms to improve student success and institutional efficiencies. Community college funding will increase by 11.4 percent.
- Creates a \$50-million grant program that will provide funding for UC, CSU or community colleges, or groups of these entities, that propose programs that will significantly increase the number of individuals in the state who earn bachelor's degrees, allow students to earn bachelor's degrees within four years, or ease transfer through the state's higher education system. The Awards for Innovation in Higher Education will be distributed by a committee chaired by the Department of Finance and with members representing the Legislature and the segments. Awards will be selected based on a proposal's ability to advance state higher education priorities, can have a statewide impact if expanded, and are likely to be implemented effectively.

University of California

- Provides \$2.99 billion in General Fund support for the UC system, an increase of \$142.2 million, above 2013-14 funding. This funding is dependent on the UC Board of Regents retaining current tuition levels for the 2014-15 school year and adopting a three-year sustainability plan to improve student outcomes and improve institutional efficiencies.

California State University

- Provides \$2.97 billion in General Fund support for the CSU system, an increase of \$142.2 million, above 2013-14 funding. This funding is dependent on the CSU Board of Trustees retaining current tuition levels for the 2014-15 school year and adopting a three-year sustainability plan to improve student outcomes and improve institutional efficiencies.

- Includes the costs of general obligation and lease revenue debt service for CSU capital improvement projects within CSU's main appropriation, instead of funding these costs in a separate appropriation. Also requires Administration approval of new CSU capital expenditures to ensure funds are used for academic facilities and limits the amount of the CSU General Fund appropriation that can be used for capital expenditures. This approach was proposed last year as well, but rejected by the Legislature.

California Community Colleges

- Provides \$7.2 billion in Proposition 98 General Fund support for the community college system, an increase of \$489.4 million, or 7.3 percent, above 2013-14 funding. This funding includes:
 - \$235.6 million in 2014-15 funds and \$356.8 million in 2012-13 and 2013-14 funds to pay down deferral debt. The Administration states this \$592.4 million payment will eliminate outstanding deferral debt owed to community colleges that was accrued during the Great Recession.
 - \$200 million for the student success programs, including \$100 million for the Student Success categorical program and \$100 million to close achievement gaps in access and achievement to underrepresented student groups;
 - \$175 million in one-time funding for deferred maintenance and instructional equipment purchases;
 - \$155.2 million to allow for a 3-percent increase in enrollment, with direction to the Board of Governors to adopt a growth formula that prioritizes districts with the highest unmet demand;
 - \$48.5 million for a .86 percent cost-of-living adjustment;
 - \$38.4 million in 2013-14 and \$35.6 million in 2014-15 to backfill the difference between estimated redevelopment agency revenues and the amount community colleges actually receive by April 15. This will allow districts more certainty when preparing their fiscal plans.
 - \$1.1 million and nine new positions for the Chancellor's Office to develop leading indicators of student success and to monitor districts' performance. Also provides \$2.5 million more to provide local assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.

California Student Aid Commission

- Begins implementation of the Middle Class Scholarship Program by providing \$107 million. The program will reduce tuition and fees by up to 40 percent for families with incomes up to \$150,000.
- Reforms Cal Grant Renewal eligibility requirements by allowing students who have previously been denied a Cal Grant renewal because their family income rose above eligibility levels to reapply for the program within three academic years after receiving their original award. Provides an increase of \$14.9 million General Fund to allow for this change.
- Provides \$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, \$5.5 million is attributable to the second year of implementation of the California Dream Act.
- Continues to offset Cal Grant General Fund costs with Federal Temporary Assistance for Needy Families (TANF) funding. Decreases General Fund spending on Cal Grants by \$3.2 million in 2014-15 to reflect increased TANF funds, bringing total TANF spending on Cal Grants to \$544.9 million in 2014-15.
- Continues to offset Cal Grant General Fund costs with the Student Loan Operating Fund (SLOF). SLOF funds will offset \$60 million in General Fund costs in 2014-15.

California State Library

- Provides \$3.3 million General Fund to provide public libraries access to high-speed Internet. This includes \$2.3 million to allow public library branches to access a statewide, high-speed Internet network, and \$1 million in one-time grants to libraries that require equipment upgrades to connect to the network.

TRANSPORTATION

Caltrans

- Proposes \$50 million in new funding for Rail Modernization at Caltrans, in addition to the \$250 million for High Speed Rail projects (mentioned in section below).
- Includes \$100 million for the Strategic Growth Council to support the implementation of SB 375 sustainable community strategies.
- Repays \$351 million in General Fund loans early, of this total \$337 would be used to accelerate preservation and maintenance projects on both state highways and local roads. This amount is allocated as follows:
 - \$110 million to fund pavement rehabilitation projects on 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 pavement maintenance.
 - \$9 million for active transportation projects.
 - \$5 million for environmental mitigation.
- Continues the Zero-Based budgeting review of Caltrans by reviewing the staffing levels of Capital Outlay Support and Aeronautics programs.

High Speed Rail

- Includes \$250 million of Cap and Trade Revenue for Phase I project planning (\$58.6 million) and construction and right of way acquisition for the first phase of the Initial Operating Section (\$191.4 million).

Department of Motor Vehicles

- Includes funding to implement AB 60 (Alejo), Chapter 524, Statutes of 2013, which expanded eligibility for driver's licenses. DMV estimates 1.4 million new applications resulting from this law.

HUMAN SERVICES

Department of Social Services

CalWORKs

- Implements the 5-percent grant reinvestment for CalWORKs families that was approved as part of the 2013 Budget, effective March 1, 2014, and provides General Fund (\$6.3 million) for the 2014-15 year to maintain this grant level, pursuant to the requirement in statute. The 5-percent increase is expected to cost approximately \$168 million annually. The Governor does not call for an additional increase in the basic needs grant provided to CalWORKs families. The current maximum grant level for a family of three is \$638 per month in a high-cost county, placing these families in deep poverty according to either the Supplemental Poverty Measure or the outdated Federal Poverty Level measure.
- Creates a Parent/Child Engagement Demonstration Pilot, which the Governor states will provide support to some of the most vulnerable low-income families who have multiple barriers of entry into the workforce, and do not have access to licensed child care, or who fall into CalWORKs sanction status. The Governor proposes a six-county, 2,000-family pilot project over three years that aspires to connect vulnerable children with stable licensed child care, engage parents with their children in the child care setting, enhance parenting and life skills, and provide parents with work readiness activities that will move the family toward self-sufficiency. The project will cost \$9.9 million General Fund in 2014-15, assuming March 2015 enrollment of the first cohort of families, and \$115.4 million General Fund over three years. The details of how this new program will differ from the current program or from the program as it will be impacted through the implementation of the Early Engagement policies adopted as part of the 2013 Budget are not yet known.
- Assumes average monthly caseload in the program to be 529,000 families in 2014-15, a 4 percent decrease from the 2013 Budget projection. Total Temporary Assistance for Needy Families (TANF) expenditures are \$7.1 billion (state, local, and federal funds), with \$5.5 billion used for the CalWORKs program itself and \$1.6 billion in other state programs.

In-Home Supportive Services (IHSS)

- In response to a September 2013 federal Department of Labor announcement of new regulations, effective January 1, 2015, that require overtime pay for domestic workers and compensation for providers traveling between multiple recipients, wait time that is associated with medical accompaniment, and time spent in mandatory provider training, the Governor proposes to prohibit providers from working overtime. As the employer for purposes of hiring, firing, scheduling, and supervising the work of his/her IHSS provider, this restriction will require some recipients to hire and train additional providers to fully provide their authorized services. The Governor proposes to create a Provider Backup System to assist recipients in an unexpected circumstance to obtain a provider for continued care when their regular provider would exceed the limitations on hours worked by continuing to provide services. Combined implementation of the new federal requirements will cost

\$208.9 million (\$99 million General Fund) in 2014-15 and \$327.9 million (\$153.1 million General Fund) thereafter.

- Proposes no further changes for the IHSS program as a component of the Coordinated Care Initiative (CCI). No earlier than April 2014, certain Medi-Cal beneficiaries residing in a county authorized to participate in the CCI demonstration will begin transitioning from the traditional fee-for-service model to a managed care model for receiving health care services, including IHSS services. The Governor states that under the CCI, the fundamental structure of the IHSS program will remain the same, with eligibility determination, assessment of hours, and program administration conducted by county social workers and administrative staff.
- Proposes no change to the 7-percent reduction in authorized hours that will take effect July 1, 2014, replacing the current 8-percent reduction.
- Assumes average monthly caseload in this program to be 453,000 recipients in 2014-15, a 1.2-percent increase from the 2013 Budget projection. Includes \$2 billion General Fund for the IHSS program in 2014-15, a 6.4-percent increase over the 2013 Budget.

Supplemental Security Income/State Supplementary Payment

- Passes through an annual federal cost-of-living adjustment (COLA) to the SSI portion of the grant equivalent to the year-over-year increase in the Consumer Price Index (CPI). The current CPI growth factors are 1.5 percent for 2014 and a projected 0.6 percent for 2015. Maximum SSI/SSP monthly grant levels will increase by \$11 and \$16 for individuals and couples, respectively, effective January 2014. Maximum SSI/SSP grant levels before this COLA increase are \$866 per month for individuals and \$1,462 per month for couples. Cash Assistance Program for Immigrants (CAPI) benefits are equivalent to SSI/SSP benefits, less \$10 per month for individuals and \$20 per month for couples.
- The average monthly caseload in this program is estimated to be 1.3 million recipients in 2014-15, a slight increase over the 2013-14 projected level. The SSI/SSP caseload consists of 27-percent aged, 2-percent blind, and 71-percent disabled persons. Includes \$2.8 billion General Fund for the SSI/SSP program. This represents a 1.2-percent increase (\$34 million) from the revised 2013-14 budget.

Community Care Licensing (CCL)

- Includes \$7.5 million (\$5.8 million General Fund) and 71.5 positions for quality enhancement and program improvement in CCL, responding to a number of high-profile incidents at children's and adult residential care facilities licensed by the state. This proposal significantly increases civil penalties and will attempt to improve the timeliness of investigations. A specialized complaint hotline will assist in acquiring better initial information, conducting consistent prioritization, and dispatching incoming complaints to regional offices. Further, the Department will assist with policy and practice development for medical and mental health conditions in community facilities to enhance quality and accountability by increasing training for new field staff and creating training for supervisors and managers. The Budget proposes that the Department also commit resources to achieve quality assurance and consistency for consumer safety and protection throughout the state. These changes are funded in part by a proposed 10-percent increase in licensing fees.

State Hearings Division

- Includes \$9.8 million (\$1.3 million General Fund) and 63 two-year limited-term positions in 2014-15 to address the anticipated workload impact on the State Hearings Division resulting from implementation of the Affordable Care Act. The additional resources will provide timely hearing decisions to address disputes from Medi-Cal and Covered California applicants.

Department of Developmental Services

Future of Developmental Centers Task Force

- States that this Task Force, which was convened in May 2013 by the California Health and Human Services Agency, will recommend that the future role of state-operated Developmental Centers (DCs) should be to provide secure treatment services; smaller, safety-net crisis and residential services; and specialized health care resource centers. The Governor states that as California moves in this direction, the stakeholder process will continue to be used to monitor changes and make recommendations for the most effective use of available resources. The statutory expectation, as approved in the 2013 Budget, was that the Task Force would produce a plan with the introduction of this Governor's Budget on the closure of DCs.

Certification Issues

- Includes \$9.2 million (\$5.1 million General Fund) to reflect anticipated costs related to the ongoing implementation of the Sonoma Developmental Center Program Improvement Plan. The Plan was entered into on March 13, 2013 with the California Department of Public Health and the Centers for Medicare and Medicaid Services (CMS) to bring the facility back into compliance with federal requirements. DDS is currently working with Public Health and CMS on certification actions at the Fairview, Porterville and Lanterman Developmental Centers and anticipates entering into an agreement in January specifying a path to resolving these certification issues.

Labor Regulations and Minimum Wage

- Includes \$7.5 million (\$4 million General Fund) to adjust for new United States Department of Labor regulations, effective January 1, 2015, that affect pay for domestic workers. Chapter 351, Statutes of 2013 (AB 10), incrementally increases California's minimum wage to \$10 per hour, effective January 1, 2016. To accommodate the increase to \$9 per hour, effective July 1, 2014, the Budget includes \$110.1 million (\$69.5 million General Fund).

Deferred Maintenance

- Provides \$10 million for DDS as part of an overall \$100 million funding effort for various state agencies to address critical infrastructure deferred maintenance needs.

HEALTH

Department of Health Care Services

Affordable Care Act Implementation

- Assumes net Medi-Cal costs of \$867.4 million (\$404.9 million General Fund) in 2014-15 reflecting anticipated increased enrollment resulting from simplifications and other improvements to the program required by the Affordable Care Act.
- Assumes net costs of \$6.7 billion (all federal funds) in 2014-15 to cover the costs of the expansion to Medi-Cal approved through 2013 legislation as a component of the Affordable Care Act, in anticipation of an increase in enrollment of 1.4 million people.
- Assumes \$16.6 million General Fund savings in 2014-15 to be achieved by the state paying for the out-of-pocket costs for pregnancy-only Medi-Cal beneficiaries electing to receive comprehensive coverage through Covered California, beginning January 2015.

Coordinated Care Initiative

- Requires "dual-eligibles" (individuals in both Medicare and Medi-Cal) who are in fee-for-service Medicare to be passively enrolled into this demonstration project ("Cal MediConnect") beginning April 2014 in all participating counties except Los Angeles, Alameda, and Santa Clara. Proposes that in Los Angeles, dual-eligibles may voluntarily enroll in Cal MediConnect or opt out beginning April 2014, and the remaining dual-eligibles to be passively enrolled beginning July 2014. Requires dual-eligibles in Alameda and Santa Clara counties to be passively enrolled no sooner than July 2014.
- Requires that dual-eligibles in Medicare Advantage plans and those opting out of Cal MediConnect in all participating counties to be enrolled in managed care for Medi-Cal benefits beginning July 2014. Requires dual-eligibles in Medicare Advantage plans who do not opt out of the project to be enrolled into Cal MediConnect for Medicare benefits in January 2015.
- Requires individuals who are eligible only for Medi-Cal or for partial Medicare coverage in participating counties to have long-term services and supports included in managed care beginning July 2014.

Medi-Cal

- Includes \$5.8 million General Fund for 2013-14 and \$36.3 million General Fund for 2014-15 to cover the cost of forgiving the retroactive recoupments of AB 97(Committee on Budget), Chapter 11, Statutes of 2011, provider rate reductions for the following provider groups and services: physicians, clinics, specified high-cost drugs for serious conditions, dental, intermediate care facilities for the developmentally disabled and medical transportation. Assumes a total cost of \$217.7 million over several years.

- Includes \$17.5 million (Proposition 10 funds provided by the California Children and Families Commission) to increase dental care outreach activities for children ages zero to three years.

Managed Risk Medical Insurance Board

- Eliminates the Managed Risk Medical Insurance Board by transferring its remaining programs to the Department of Health Care Services (DHCS). Specifically, transfers the Access for Infants and Mothers Program (AIM), County Health Initiative Matching Fund Program (CHIM), and Major Risk Medical Insurance Program (MRMIP) to DHCS, including \$177.6 million (\$1.2 million General Fund) in funding for these programs.

Department of Public Health

- Transfers \$200.3 million (\$5 million General Fund) and 291.2 positions for the administration of the Drinking Water Program from the Department of Public Health to the State Water Resources Control Board.
- Increases the Prenatal Screening Program fee, effective July 1, 2014, to \$207, a \$45 increase. This fee revenue covers the cost of a blood test and follow-up services offered to women with positive screening results.

Department of State Hospitals

- Includes \$1.5 million General Fund to design and plan for specialized short-term housing units at most state hospitals, totaling approximately 44 new beds.
- Includes \$27.8 million General Fund to increase bed capacity by 105 beds to address the waitlist specific to "Incompetent to Stand Trial (IST)" patients.
- Includes \$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.
- Includes \$8 million General Fund to conclude implementation of the new Personal Duress Alarm System at all state hospitals.
- Includes \$1.1 million General Fund to establish a Patient Management Unit to centralize admissions and transfers of patients throughout the state hospitals system.
- Includes \$10 million for deferred infrastructure maintenance at state hospitals.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Cap and Trade Investment Plan

- Proposes to invest \$850 million of Cap and Trade auction proceeds to support existing and pilot programs that will reduce greenhouse gases. This amount includes the repayment of \$100 million that was loaned to the General Fund in 2013-14, with the remaining balance being repaid within the next few years. Specifically, the Cap and Trade Expenditure Plan proposes:
 - \$250 million for High-Speed Rail;
 - \$50 million for Integration Rail Systems;
 - \$100 million for Sustainable Communities;
 - \$200 million for Low Carbon Transportation;
 - \$140 for Energy Efficiency and Clean Energy; and
 - \$110 million for Natural Resources and Waste Diversion

State Water Resources Control Board

Reorganization of the Drinking Water Program

- Proposes to transfer \$200.3 million and 291 positions for the administration of the Drinking Water Program from the Department of Public Health to the Water Board.

Department of Resources Recycling and Recovery

Beverage Container Recycling Program Reform

- Proposes several programmatic changes, including a three-year phase-out of processing fee subsidies, eliminating Administrative fees paid to processors and recyclers, redirecting existing funds to support local recycling and fraud deterrence, and diversifying funding for local conservation corps.

Water Action Plan

- Proposes \$619 million in expenditures to support the Governor's Water Action Plan which purports to expand water storage capacity, improve drinking water in communities where available supplies are substandard, increase flood protection, and increase regional self-reliance.

Department of Fish and Wildlife

Oil Spill Response Program

- Proposes \$6.7 million from the Oil Spill Prevention and Administration Fund and 38 positions to enhance the Department's inland oil spill prevention, preparedness, and response capabilities.

Department of Parks and Recreation

- Proposes a one-time increase of \$14 million from the State Parks and Recreation Fund to continue existing service levels throughout the state park system.
- Provides \$40 million to be allocated to State Parks as part of an overall \$100 million funding effort for various state agencies to address critical infrastructure deferred maintenance needs.

PUBLIC SAFETY

California Department of Corrections and Rehabilitation

- Proposes total funding of \$9.8 billion (\$9.5 billion General Fund and \$320 million other funds) for the California Department of Corrections and Rehabilitation (CDCR) in 2014-15.
- Updates the CDCR's adult institution population estimates to reflect the most recent trends. The state's prison population is higher than projected in the 2013 Budget Act. Specifically, the 2013 Budget Act projected an adult inmate average daily population of 128,885 in the current year. Updated projections 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 increase by 8,903 inmates, an increase of 6.9 percent, for a total population of 137,788.
- Updates the CDCR's adult parolee population estimates to reflect the most recent trends. The state's adult parolee population is higher than projected in the 2013 Budget Act. Specifically, the 2013 Budget Act projected an overall adult parolee average daily population of 42,495 in the current year. Updated projections reflect a parolee population increase of 3,439 in 2013-14 as compared to 2013 Budget Act projections, for a total average daily population of 45,934. The adult parolee population is projected to decrease by 5,843, from the current year projection, to a total population of 36,652 in 2014-15,
- Updates the CDCR's juvenile institution population estimates to reflect most recent trends. The Division of Juvenile Justice (DJJ) 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 on December 31, 2012.
- Proposes \$1.4 million (General Fund) in support of Department of Justice legal services rendered on behalf of the CDCR.
- 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.

- Proposes \$14 million (General Fund) to support the establishment of an enhanced drug and contraband interdiction program.
- Provides an increase of \$75 million (General Fund) to address increasing Workers' Compensation costs.
- Proposes \$20 million to address unidentified deferred infrastructure maintenance costs.

Addressing the 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 appropriated in AB 105 (Steinberg and Huff), Chapter 310, Statutes of 2013. The proposed plan would set aside \$81.1 million for use toward the following recidivism reduction efforts:
 - \$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 600-900. \
 - \$8.3 million 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.
- Includes additional resources to support expansion of California's Medical Parole and inmate time-credit earning programs. Also includes resources to support the establishment of an Elderly Parole program.

Local Law Enforcement and Jails

- Includes \$500 million for the construction of "better" jail facilities. The Governor's proposal would require a ten-percent funding match from counties successful in accessing this funding.
- Includes \$27.5 million for cities in support of frontline law enforcement efforts.
- 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 on an annual basis.)

Judicial Branch

- Proposes total funding of \$3.3 billion (\$1.3 billion General Fund and \$2 billion other funds) for the Judicial Branch in 2014-15, of which \$2.5 billion is provided in support of trial court operations.
- Provides \$100 million (General Fund) to support trial court operations.
- Provides \$5 million (General Fund) to support the state judiciary.

California Highway Patrol

- Proposes total funding of \$2 billion (special funds) for the California Highway Patrol (CHP) in 2014-15.
- Provides \$16 million to support of the replacement of four aircraft (two helicopters and two airplanes), representing the second year of a long-term plan to replace CHP's aging air fleet.
- Proposes \$4.9 million in one-time funding to replace 12 dispatch radio consoles at two CHP communication centers.

GENERAL GOVERNMENT

Employment Development Department

- Includes \$231.6 million General Fund for the Unemployment Insurance (UI) Program to make the 2014 interest payment to the Federal Unemployment Account, which the Employment Development Department began borrowing from in 2009 to continue to make UI benefit payments without interruption.
- Calls for the development of a solvency solution for the state's UI Trust Fund, expected to achieve a prudent reserve by 2021, repay the Disability Insurance Fund and General Fund for interest payments, phase in changes to the financing structure, and improve the integrity of the UI program.
- Proposes \$38 million from the Contingent Fund, an increase in withholding penalties from 10 percent to 15 percent, a one-year suspension of the transfer of personal income tax withholding penalties to the General Fund, and \$49 million in cost-saving measures to address the unemployment insurance administration funding shortfall.

Department of Industrial Relations

- Includes \$2.4 million in revenue from a newly established regulatory fee for oil refineries based on the amount of crude oil being processed at each refinery to fund inspections and enforce workplace health and safety regulations.
- Consolidates the public works and prevailing wage enforcement activities to one unit, to be funded 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.

Department of Consumer Affairs

- Includes \$12.4 million special fund and 90 positions for enforcement workload.
- Includes \$466,000 special fund and 11 positions for licensing workload.

Department of Technology

- Includes funding and positions authority to audit other departments compliance with state and federal security policies.
- Includes \$6.7 million to improve the Gold Camp Data Center

Fi\$Cal

- Includes \$4.3 million funding to expand the scope of the Fi\$Cal project to include the replacement of the DGS fiscal system.

Franchise Tax Board

- Provides \$75.1 million in General Fund, including \$68.5 million for vendor payments and 71 positions for Enterprise Data to Revenue in 2014-15, which is currently in its fourth-year of a six-year project.
- Includes \$7.7 million to continue 101 limited-term positions for an additional two years for the Accounts Receivable Management Program.

Debt Service

- States that General Fund debt service will increase as the state issues the remaining voter-authorized bonds, by \$416.5 million or 7.5 percent for a total of \$6 billion. Of this amount \$382.2 million is for General Obligation debt services and \$34.3 million for lease revenue bonds.

State Controller's Office

- Proposes \$6.5 million for the 21st Century Project on a one-time basis in 2014-15 to address litigation and related support efforts associated with the payroll system.

State Workforce

- Assumes the necessary conditions for the trigger-based salary increases in 2014-15, to fund 13 of the state's collective bargaining contract agreements reached in the summer of 2013, will be met and therefore includes \$173.1 million to fund them. Contains additional language that states that a final determination will be made at the May Revision based on the latest revenue projections and updated information.
- Proposes to address state employees' workers' compensation costs that have been largely absorbed by departments but have continued to increase and includes \$81.1 million to augment the Department of Corrections and Rehabilitation and the Department of Forestry and Fire Protection for some of those costs.
- Includes proposals to identify ways the state can reduce its reliance on contractors.

Pensions

- Estimates under the Public Employees' Pension Reform Act of 2013, 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 as a result of bargaining units making additional contributions.
- Estimates approximately \$4 billion in total funding for state employee pensions in 2014-15.
- Discusses a shared responsibility by the Administration, the Legislature, school districts, teachers and the pension system to address the unfunded liability for CalSTRS, which is estimated to be \$80.4 billion.

LOCAL GOVERNMENT

Savings from Redevelopment Elimination

- Includes General Fund savings resulting from the dissolution of Redevelopment Agencies (RDAs) to be \$1.1 billion in 2013-14, \$785 million in 2014-15, and estimates ongoing savings to be \$1 billion annually.
- Estimates that in 2013-14 and 2014-15 combined, cities will receive an additional \$525 million, \$605 million for counties, and \$205 million for special districts in general purpose revenues from the dissolution of redevelopment. Additionally estimates ongoing property tax revenues of more than \$700 million annually for cities, counties and special districts.

Tools for Local Economic Development

- Proposes legislation to do the following:
 - Expand the types of projects that Infrastructure Financing Districts (IFDs) may fund to include military base reuse, urban infill, transit priority projects, affordable housing, and necessary consumer services.
 - Allow cities or counties that meet specified benchmarks to create these new IFDs, to issue related debt, and to receive a 55 percent voter approval.
 - Allow 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.
 - Maintain the current IFD prohibition on the diversion of property tax revenues from K-14 schools and require entities that seek to establish an IFD to gain the approval of the county, city, and special districts that would contribute their revenue.
 - Specifies benchmarks for a city or county that formerly operated an RDA to meet before the expanded IFD tool is available including the conclusion of any outstanding legal issues between successor agencies and the state..

State-County Assessors' Partnership Agreement Program

- Establishes the a State-County Assessors' Partnership Agreement Program on a three-year pilot basis for nine counties, to be funded at \$7.5 million per year, and to be administered by the Department of Finance.

INFRASTRUCTURE

California Five-Year Infrastructure Plan

- Proposes an \$815 million (\$800 million General Fund) package of one-time investments in maintenance of state infrastructure, including :
 - Highway Users Tax Account Loan Repayment: \$337 million
 - K-12 Schools Emergency Repair Program: \$188 million
 - California Community Colleges: \$175 million
 - Department of Parks and Recreation: \$40 million
 - Department of Corrections and Rehabilitation: \$20 million
 - Judicial Branch: \$15 million
 - Department of Developmental Services: \$10 million
 - Department of State Hospitals: \$10 million
 - Department of General Services: \$7 million
 - State Special Schools: \$5 million
 - Department of Forestry and Fire Protection: \$3 million
 - California Military Department: \$3 million
 - Department of Food and Agriculture: \$2 million

REVENUES

Revenues

- Projects an overall revenue increase of \$6.3 billion from 2012-13 through 2014-15, from the projections in the 2013-14 Budget Act. Of this amount,
 - An increase of \$1.7 billion in revenues for 2012-13,
 - An increase by \$3 billion in 2013-14 over the forecast at the time of the adopted 2013 Budget Act, and
 - An increase of 1.6 billion in 2014-15, over the assumed projections for the adopted 2013 Budget Act.
- Includes a \$1.6 billion transfer to Budget Stabilization Account in 2014-15.
- Forecasts total General Fund Revenues to be \$100.1 billion in 2013-14, which is 3 percent higher or \$3 billion higher than the forecast from the 2013 Budget Act.
- Forecasts total General Fund Revenues to be \$106.1 billion in 2014-15, which is the first forecast to exceed the pre-recession revenue peak of \$102.6 billion.

Personal Income Tax

- Estimates personal income tax (PIT) revenues will increase in 2013-14 by 5.6 percent from \$60.9 billion to \$64.3 billion from what was assumed in the 2013 Budget Act.
- Estimates that PIT revenues will increase in 2014-15 to \$69.8 billion.

Sales and Use Tax

- Projects sales and use tax (SUT) revenues will generate revenues of \$22.9 billion in 2013-14, and \$24.1 billion in 2014-15.
- Includes a \$486 million reduction in 2014-15 as a result of the start of the manufacturing equipment sales tax exemption on July 1, 2014.

Corporation Tax

- Estimates corporation tax will increase by 6.8 percent to \$8.0 billion in 2013-14.
- Estimates corporation tax will increase by 8.9 percent to \$8.7 billion in 2014-15.

• SUMMARY OF CHARTS

2014-15 General Fund Budget Summary

(in millions)

| | 2013-14 | 2014-15 |
|--|------------------|------------------|
| Prior Year Balance | \$2,528 | \$4,212 |
| Revenues and Transfers | \$100,147 | \$104,503 |
| Total Resources Available | \$102,675 | \$108,715 |
| Non-Proposition 98 Expenditures | \$57,515 | \$61,731 |
| Proposition 98 Expenditures | \$40,948 | \$45,062 |
| Total Expenditures | \$98,463 | \$106,793 |
| Fund Balance | \$4,212 | \$1,922 |
| Reserve for Liquidation of Encumbrances | \$955 | \$955 |
| Special Fund for Economic Uncertainties | \$3,257 | \$967 |
| Budget Stabilization Account/Rainy Day Fund | | \$1,591 |

General Fund Expenditures by Agency

(in millions)

| | 2013-14 | 2014-15 | Change from Dollar Change | 2013-14 Percent Change |
|---|-----------------|------------------|---------------------------------|------------------------------|
| Legislative, Judicial, Executive | \$2,694 | \$2,844 | \$150 | 5.6% |
| 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% |
| Health and Human Services | \$28,330 | \$28,793 | \$463 | 1.6% |
| Corrections and Rehabilitation | \$9,361 | \$9,560 | \$199 | 2.1% |
| K-12 Education | \$41,333 | \$45,251 | \$3,918 | 9.5% |
| Higher Education | \$11,173 | \$12,377 | \$1,204 | 10.8% |
| Labor and Workforce Development | \$298 | \$268 | -\$30 | -10.1% |
| Governmental 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% |
| Supplemental Economic Recovery Bond Payment | - | \$1,591 | \$1,591 | 100.0% |
| Total | \$98,463 | \$106,793 | \$8,330 | 8.5% |

General Fund Revenue Sources

(in millions)

- Change from 2012-13

| | 2013-14 | 2014-15 | Dollar Change | Percent Change |
|---|------------------|------------------|----------------|----------------|
| Personal Income Tax | \$64,287 | \$69,764 | \$5,477 | 8.5% |
| Sales and Use Tax | \$22,920 | \$24,071 | \$1,151 | 5.0% |
| Corporation Tax | \$7,971 | \$8,682 | \$711 | 8.9% |
| Insurance Tax | \$2,143 | \$2,297 | \$154 | 7.2% |
| Liquor Tax | \$350 | \$357 | \$7 | 2.0% |
| Cigarette Tax | \$89 | \$86 | -\$3 | -3.4% |
| Motor Vehicle Fees | \$20 | \$30 | 0 | 0.0% |
| Other | \$2,367 | \$817 | -\$1,550 | -65.5% |
| Subtotal | \$100,147 | \$106,094 | \$5,947 | 5.9% |
| Transfer to the Budget Stabilization Account/Rainy Day Fund | | -1,591 | -1,591 | -100.0% |
| Total | \$100,147 | \$104,503 | \$4,356 | 4.3% |