



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2014-15 MAY REVISION

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OVERVIEW

Today, the Governor released his May Revision, another key step in the effort to pass a balanced on-time budget by June 15th.

In total, the Governor's May Revision forecasts \$2.4 billion additional revenue above the January 10th levels, but assumes most of this revenue is one-time in the current year. As a result, there is only a \$856 million increase in revenue in the budget year, with the difference in the new revenue being one-time.

These revenue increases are roughly offset by projected increases in expenditures, including a \$1.2 billion increase associated with a 46 percent increase in projected Medi-Cal caseload growth, a \$659 million increase in Proposition 98 costs, \$121 million to continue elements of the drought package, and \$254 million in additional PERS costs.

The revised proposal assumes \$109.3 billion in revenue for 2014-15 and \$107.8 billion in expenditures for 2014-15. With various changes, outlined in the chart below, the Governor's May Revision includes a \$2.1 billion reserve (including the \$1.6 Prop 58 reserve, and \$528 million regular reserve).

Many of the elements of the May Revision reflect work undertaken by the Assembly. For example, the Governor proposes a STRS solution, that reflects a framework proposed by the Assembly earlier this year. In addition, the budget assumes the adoption of ACA 1 X2 (Pérez), which reflects the Assembly's longstanding desire to create a smart Rainy Day Fund.

In finalizing its version of the budget in the coming weeks, the Assembly will build on the success of strengthening budget stability and work to expand opportunity by, among other things: reducing the achievement gap; combatting child poverty; improving access to higher education, justice, and health care; increasing funding for transportation projects; and taking strides to expand affordable housing.

This Highlights summary is intended to provide a quick overview of the Governor's proposal. The Assembly Budget Committee will immediately begin reviewing the Governor's proposal and economic forecast, as well as the LAO's economic forecast, and hold extensive subcommittee hearings to craft the Assembly's final version of the State Budget.

SUMMARY OF CHARTS

2014-15 General Fund Summary

(in millions)

	2013-14	2014-15
Prior Year Balance	\$2,429	\$3,903
Revenues and Transfers	\$102,185	\$105,346
Total Resources Available	\$104,614	\$109,249
Non-Proposition 98 Expenditures	\$57,980	\$63,304
Proposition 98 Expenditures	\$42,731	\$44,462
Total Expenditures	\$100,711	\$107,766
Fund Balance	\$3,903	\$1,483
Reserve for Liquidation of Encumbrances	\$955	\$955
Regular Reserve (SFEU)	\$2,948	\$528
Budget Stabilization Account/ Rainy Day Fund	-	\$1,604

General Fund Revenue Sources

(in millions)

	2013-14	2014-15	Dollar Change	Percent Change
Personal Income Tax	\$66,522	\$70,238	\$3,716	5.6%
Sales and Use Tax	22,759	23,823	1,064	4.7%
Corporation Tax	8,107	8,910	803	9.9%
Insurance Tax	2,287	2,382	95	4.2%
Liquor Tax	351	359	8	2.3%
Tobacco Taxes	86	84	-2	-2.3%
Motor Vehicle Fees	19	20	1	5.3%
Other	2,054	1, 134	-920	-44.8%
Subtotal	\$102,185	\$106,950	\$4,765	4.7%
Transfer to the Budget Stabilization				
Account/Rainy Day Fund	-	-1,604	-1,604	-100.0%
Total	\$102,185	\$105,346	\$3,161	3.1%

General Fund Expenditures
(in millions)

Category:	2013-14	2014-15	Change	% Change
Education (K-12)	\$42,892	\$44,743	1,851	8.3%
Health and Human Services	28,858	29,633	775	2.7%
Higher Education	11,373	12,495	1,122	9.9%
Transportation	73	216	143	195.9%
Legislative, Judicial, Executive	2,696	2,919	223	8.3%
General Government:				
Non- Agency Depts.	504	701	197	39.1%
Tax Relief/Local Gov	420	442	22	5.2%
Statewide Exp.	581	1,347	766	131.8%
Corrections and Rehabilitation	9,332	9,600	268	2.9%
Natural Resources	2,234	2,258	24	1.1%
Environmental Protection	51	63	12	23.5%
Government Operations	754	692	-62	12.4%
Business, Consumer Services & Housing	643	750	429	-8.2%
Labor and Workforce Development	300	303	3	1.0%
Supplemental Payment to the Economic Recovery Bonds	-	1,604	1,604	100%
Total	\$100,711	\$107,766	\$7,055	7.0%

2014-15 Total Expenditures
(in millions)

Category:	General Fund	Special Funds	Bond Funds	Totals
Education (K-12)	\$44,743	\$101	\$413	\$45,257
Health and Human Services	29,633	19,345	-	48,978
Higher Education	12,495	42	340	12,877
Transportation	216	8,354	1,902	10,472
Legislative, Judicial, Executive	2,919	2,298	226	6,126
General Government:				
Non- Agency Depts.	701	1,511	1	2,213
Tax Relief/Local Gov	442	1,762	-	2,204
Statewide Exp.	1,347	2,153	-	3,500
Corrections and Rehabilitation	9,600	2,404	-	12,004
Natural Resources	2,258	1,387	526	4,171
Environmental Protection	63	2,697	427	3,169
Government Operations	692	237	8	937
Business, Consumer Services & Housing	750	775	199	1,724
Labor and Workforce Development	303	612	-	915
Supplemental Payment to the Economic Recovery Bonds	1,604			1,604
Total	\$96,353	\$41,946	\$7,408	145,707

RAINY DAY FUND

The May Revision reflects the latest version of the Rainy Day Fund, as contained in ACA 1 X2. This measure would replace Proposition 58's mechanism for setting aside funding for the Budget Stabilization Account.

Instead of providing the Governor with an optional 3 percent transfer of total revenues, this new measure would provide a 1.5 percent transfer of total General Fund Revenues to the Budget Stabilization Account, coupled with any Capital Gains Revenues in excess of 8 percent of total General Fund Revenues.

In addition, half of the funding transferred to the Budget Stabilization Account would be used for debt repayment until 2029-30.

The chart below, contained in the May Revision, provides an estimate of how this new measure would transfer into funding for debt reduction and additional deposits to the Budget Stabilization Account over the next three fiscal years.

Figure INT-06
**Calculation of Rainy Day Amounts
 at 2014-15 May Revision**
 (Dollars in Millions)

	Fiscal Year		
	2015-16	2016-17	2017-18
Annual 1.5% of General Fund Revenues	\$1,698	\$1,773	\$1,854
Capital Gains Tax Revenues in Excess of 8% of General Fund Taxes ^{1/}	\$174	\$233	\$341
Total Rainy Day Amount	\$1,872	\$2,005	\$2,195
Debt Repayment (50%)	\$936	\$1,003	\$1,097
Deposit to Rainy Day Fund (50%)	\$936	\$1,003	\$1,097

^{1/} Net of amount of revenues attributable to Proposition 98.

Note: Numbers may not add due to rounding.

K-12 EDUCATION

Overall Proposition 98:

- Provides a total funding level of \$75.9 billion (\$45.1 billion General Fund and \$30.8 billion other funds) for K-12 education.
- Increases the overall Proposition 98 funding level over the last three years (2012-13 to 2014-15) by a total of \$242 million above the Governor's January Budget. Specifically, the Proposition 98 funding level decreased by \$547 million in 2012-13, increased by approximately \$1.5 billion in 2013-14, and decreased by \$700 million in 2014-15.
- Decreases the Proposition 98 minimum guarantee from \$61.6 billion to \$60.9 billion in 2014-15. The increase in 2013-14 revenues results in lower year-to-year growth in General Fund revenues, requiring a lower maintenance factor payment in 2014-15.
- Maintains the Governor's commitment to paying down debt by eliminating all payment deferrals to schools by the end of 2014-15. The May Revision accelerates the repayment of deferrals in 2013-14, reducing the deferral payment in 2014-15 by \$742.2 million.
- Maintains the \$4.5 billion investment in implementing the Local Control Funding Formula (LCFF) provided in the Governor's January Budget. The Governor also proposes the following changes to the LCFF related to the calculation of unduplicated pupils:
 - Allows schools participating in Provision 2 or 3 of the National School Lunch Program to establish student eligibility every four years, instead of every year.
 - Requires the Superintendent of Public Instruction to revise a local educational agency's three year average of unduplicated students using 2014-15 student data instead of 2013-14, if this would increase their average.
- Provides \$26.7 million in one-time Proposition 98 General fund for the K-12 High Speed Network to help schools in securing internet connectivity and infrastructure in order to implement the new computer based assessments aligned to the common core.

- Proposes the following changes to the Governor's January Budget proposal on independent study and blended learning:
 - Eliminates the requirement for students to meet weekly to assess if a student is meeting satisfactory academic progress.
 - Allows schools to offer site-based blended learning, using a universal learning agreement for all students enrolled in the same course.
 - Provides funding for students enrolled in course-based independent study based on average daily attendance, instead of enrollment.

K-12 Adjustments:

- Decreases the Proposition 39 energy efficiency funds available for K-12 schools by \$9 million in 2014-15, for a total of \$307 million due to reduced revenue estimates.
- Increases Proposition 98 General Fund amount provided to schools by \$83.9 million in 2014-15 due to lower offsetting property tax revenues.
- Provides \$103.1 million in 2013-14 and \$121.1 million in 2014-15 due to increases in projected average daily attendance. Also provides an additional \$15.3 million Proposition 98 General Fund for categorical programs and \$1.6 million for the Mandates Block Grant due to projected growth in attendance.
- Adds three additional mandates to the Mandates Block Grant (Parental Involvement, Williams Case Implementation, and Developer Fees) but makes no related adjustment to block grant funding. Includes \$1,000 for claims for each of these three new mandates as well as two existing mandates already included in the block grant.
- Updates the cost-of-living adjustment (COLA) to 0.85 percent for 2014-15, resulting in a decrease of \$258,000 Proposition 98 General Fund.

HIGHER EDUCATION

University of California and California State University

- Continues the Governor's proposed multi-year funding plan for UC and CSU, providing a 5% increase in state General Fund support over the current year, which amounts to \$142.2 million for each segment. The increase assumes both segments will not increase student tuition for the 2014-15 school year and notes that the Administration expects the universities to decrease the time it takes students to obtain a degree, increase the number of students who complete programs, and improve the rate of transfer from community colleges to four-year colleges and universities. The funding increase comes, however, with no specific requirements for the universities.
- Continues the proposal from January to create an Innovation in Higher Education Award, which would distribute \$50 million in one-time funding to reward programs that increase bachelor's degrees, improve four-year completion rates or improve transfer rates. Campuses would apply for the award and receive funding after a committee chaired by the Department of Finance determines winners.

California Community Colleges

- Provides funding for 2.75% enrollment growth, instead of 3% growth which was proposed in January. The revised plan puts apportionment funding at \$140.4 million Proposition 98 General Fund.
- Reduces the proposed cost-of-living adjustment (COLA) from .86% as proposed in January to .85%. Under the new proposal, \$47.3 million Proposition 98 General Fund would be available for COLA.
- Provides \$50 million, Proposition 98 General Fund, to augment the Economic and Workforce Development categorical program. The program supports regional planning for career technical education programs tied to regional workforce needs, and also supports equipment costs.

- Proposes for 2015-16 an increase in the funding rate for career development and college preparation noncredit courses to equal the rate of credit courses. The Administration notes that the current rate discourages these classes, which are in part designed to help students succeed in achieving career technical education goals.
- Rescinds a January proposal to provide \$87.5 million Proposition 98 General Fund for the replacement of instructional equipment, and instead increases funding to allow community colleges to address deferred maintenance by \$60.5 million Proposition 98 General Fund. Total funding for deferred maintenance is now proposed at \$148 million.
- Provides an increase of \$6 million Proposition 98 General Fund to upgrade bandwidth and replace technology equipment at each community college to support technology initiatives begun in 2013-14 such as electronic transcripts, electronic education planning, and the online education initiative. Of this funding, \$1.4 million is one-time and \$4.6 million is ongoing.
- Continues to pay down all outstanding deferrals, but changes the year in which payments are counted.

California Student Aid Commission

- Increases General Fund support of the Cal Grant program by \$25.1 million in 2014-15 and \$13.9 million in 2013-14 to reflect revised participation.
- Increases General Fund support for the Cal Grant program by \$164.5 million to offset reductions in support from the federal Temporary Assistance for Needy Families and the Student Loan Operating Fund.
- Decreases General Fund support for the Cal Grant program by \$6 million to offset \$6 million available to support the program from the Cal Loan Program. These funds are available due to the sale of the Cal Loan Program.

TRANSPORTATION

- Reduces Capital Outlay Support staffing by \$21.8 million and 195 positions to reflect reduced workload from the wind-down of Proposition 1B and the American Recovery and Reinvestment Act funds for transportation projections.
- Proposes contract resources to advance 22 highway projects associated with one-time funding available due to an early repayment of General Fund Loans contained in the Governor's infrastructure package.

HUMAN SERVICES

CalWORKs

- Makes no significant new policy proposals for the CalWORKs program beyond those included in the Governor's January Budget.
- Increases General Fund and federal Temporary Assistance for Needy Families block grant expenditures of \$35 million in 2013-14 and \$95.2 million in 2014-15 to reflect revised caseload projections since the Governor's Budget. The CalWORKs caseload continues to decline, but at a slower rate than previously projected.
- Increases General Fund by an additional \$6.8 million to provide for the cost of the March 1, 2014 increase in the CalWORKs Maximum Aid Payment levels. This backfill is required by statute given revised caseload and updated projections of revenues to the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

In-Home Supportive Services (IHSS)

- Makes no new significant policy proposals or changes to the Governor's January proposals regarding implementation of new Fair Labor Standards Act rules regarding overtime pay in the IHSS program. The Governor's proposed prohibition on overtime pay remains the administration's proposal.
- Provides an increase of \$107.9 million General Fund in 2013-14 and \$134.4 million General Fund in 2014-15 primarily associated with increases in caseload, hours per case, and costs per hour.

Food Assistance

- Includes \$5 million General Fund in 2014-15 for additional food assistance to severely drought-impacted communities with high levels of unemployment. This funding is in addition to \$15 million in estimated unspent funds authorized for 2013-14, bringing the total proposed amount available for drought response to \$20 million in 2014-15.
- Increases by \$10.5 million General Fund in 2014-15 to provide a state-funded energy assistance subsidy for CalFresh recipients, to comply with recent federal changes regarding the minimum energy assistance benefit that must be received by a household in order to access the standard utility allowance. This program increases household monthly food budgets by an average of \$62 for over 320,000 families.

- Includes \$20.7 million General Fund for CalFresh administration, associated with the eligibility of an additional 134,000 CalFresh households by June 2015 as a result of ACA implementation, bringing the total estimated 2014-15 CalFresh caseload increase due to ACA implementation to 279,000 households.

Child Welfare

- Increases by \$3.1 million (\$1.5 million General Fund) for additional positions to support the entrance of up to 18 additional counties into the federal child welfare Title IV-E Waiver program.

Department of Developmental Services

- Includes proposals related to the "Plan for the Future of Developmental Centers in California," issued by the Health and Human Services Agency and the Department of Developmental Services (DDS) on January 13, 2014, which recommended that the future role of the state should be the operation of a limited number of smaller, safety-net crisis and residential services. The Plan also recommended continuing to serve individuals judicially committed to the state for competency training and to provide these individuals transition services as they move back to the community. Another recommendation was the development of new and additional service components, including development of an enhanced community behavioral home model and providing health resource centers and community housing through public/private partnerships. The May Revision proposes developing resources in the community for individuals transitioning from developmental centers, as follows:
 - Developing a pilot program for a new enhanced behavioral support home model in the community. The May Revision contains \$13 million in reappropriated Community Placement Plan funds for this purpose.
 - Improving crisis services at Fairview Developmental Center and establishing new crisis services at Sonoma Developmental Center. The May Revision proposes \$3.2 million (\$2 million General Fund) and 43.1 positions to serve individuals in the community with developmental disabilities who need short-term stabilization.
 - Expanding the Community State Staff Program to support individuals moving from developmental centers and enhancing regional center staffing to support community transition, resource development, and quality assurance. The May Revision contains \$458,000 (\$321,000 General Fund) and four redirected positions for DDS to evaluate developmental services community placement funds.

- Includes \$1.5 million (\$894,000 General Fund) for 2014-15 contract costs related to the Program Improvement Plan for Fairview, Porterville, and Lanterman Developmental Centers. The Plan was entered into on January 16, 2014, with the California Department of Public Health and the federal Centers for Medicare and Medicaid Services to bring the facilities back into compliance with federal requirements.

Health and Human Services Agency

- Proposes \$1.2 million General Fund and nine positions to establish the Office of Investigations and Law Enforcement Support within the Health and Human Services Agency. DDS has been the subject of federal interventions regarding the handling of investigations in a significant number of assault cases. The Department of State Hospitals also operates a law enforcement unit that would benefit from the oversight and support of the Office. The Office would work with the California Highway Patrol to develop policies and procedures and an organizational structure that will enable the Office to provide centralized oversight and accountability of these two law enforcement programs. The Office will also establish and implement standardized policies and procedures, provide and review administrative and criminal investigations, and improve recruitment and training.

HEALTH SERVICES

Department of Health Care Services (Medi-Cal & Health Care Reform)

- Assumes a 60 percent increase (over the January budget) in Medi-Cal caseload (to 815,000) as a result of federally-required program simplifications adopted last year, and associated additional (over the January budget) net General Fund costs of \$89.3 million in 2013-14 and \$513 million in 2014-15. Assumes total General Fund costs of this caseload increase to be \$193 million in 2013-14 and \$918 million in 2014-15.
- Assumes a 100 percent increase (over the January budget) in Medi-Cal caseload (to 1.6 million) as a result of the "optional expansion" adopted last year, and associated additional (over the January budget) net federal fund costs of \$6 billion in 2014-15.
- Assumes \$191.2 million (General Fund) in 2014-15 to cover the costs of increased mental health and substance use disorder benefits in Medi-Cal.
- Assumes \$187.2 million (General Fund) for Medi-Cal managed care rate increases in 2014-15.
- Assumes \$68.6 million (General Fund) in 2013-14 and \$25.8 million (General Fund) in 2014-15 to cover the costs of further delays in resuming Medi-Cal redeterminations through CalHEERS.
- Assumes \$300 million to be redirected from counties to the state, in indigent care savings (resulting from the Medi-Cal expansion), in 2013-14 (consistent with the January budget), and decreases the amount of redirection for 2014-15 from \$900 million to \$724.9 million.
- Appropriates \$2 million (\$1 million General Fund) for a pilot program to increase utilization of pediatric vision services utilizing qualified mobile vision providers to expand vision screenings and services in schools.
- Appropriates \$2 million (\$600,000 General Fund to DHCS, and \$400,000 General Fund to the Department of Social Services) as a placeholder for potential county administrative costs associated with semi-annual progress reports required under the *Katie A. v. Bonta* settlement agreement, related to the provision of mental health care to children and youth in, or at risk of placement in, foster care.

Department of Public Health

- Appropriates \$26.1 million (federal funds) to the AIDS Drug Assistance Program (ADAP) to add two new Hepatitis C virus drugs to the ADAP formulary.
- Proposes that the Department of Public Health pursue mechanisms to pay out-of-pocket medical expenses for Office of AIDS clients who choose to purchase private health insurance beginning January 1, 2016.

Department of State Hospitals

- Appropriates \$3.9 million General Fund and 13.5 positions to the Department of State Hospitals to expand the Restoration of Competency Programs by up to 55 beds. This program seeks to restore competency for Incompetent to Stand Trial patients in county jails, rather than in state hospitals.

Managed Risk Medical Insurance Board

- Eliminates, on January 1, 2015, the Major Risk Medical Insurance Program (MRMIP), a state-only program for Californians with pre-existing conditions. Proposes to require health care plans to offer their Medicare supplemental insurance products to individuals with End Stage Renal Disease on Medicare who cannot obtain supplemental coverage in the individual market due to statutory restrictions.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Emergency Drought Response

- Requests an increase of \$53.8 million (General Fund) and \$12.2 million (State Responsibility Area funds) for the Department of Forestry and Fire Protection to expand firefighter surge capacity, retain seasonal firefighters beyond the budgeted fire season, provide additional defensible space inspectors, and enhance air attack capabilities to suppress wildfires. Of these additional resources, \$10 million is available to support local grants for fire prevention projects or public education efforts that benefit owners of habitable structures in state responsibility areas.
- Requests an increase of \$30.3 million (General Fund) and \$8.5 million other funds for the Department of Fish and Wildlife to implement enhanced salmon monitoring, restore sensitive habitat, improve water infrastructure for wildlife refuges, expand the fisheries restoration grant program, and remove barriers for fish passage.
- Requests an increase of \$18.1 million (General Fund) for the Department of Water Resources to comprehensively assess current surface and groundwater conditions, expedite water transfers, provide technical guidance to local water agencies, and provide additional public outreach through the Save Our Water campaign.
- Requests an increase of \$5 million (General Fund) for the Department of Social Services to provide food assistance for communities most impacted by the drought.
- Requests an increase of \$4.4 million (General Fund) for the Office of Emergency Services for the State Operations Center to continue to provide local communities with technical guidance and disaster recovery support related to the drought.
- Requests an increase of \$5.4 million (special funds) for the Department of General Services to implement water efficiency and conservation measures in state-owned facilities.
- Requests an increase of \$4.3 million (General Fund) for the State Water Resources Control Board to continue enforcement of drought-related water rights and water curtailment actions.

Department of Water Resources

- Requests \$2.5 million (General Fund) for initiating development and implementation of the California Statewide Sustainable Groundwater Management Program. This will fund 5 existing and 5 new positions. This funding will be used to begin the implementation of Action 6, Expand Water Storage Capacity and Improve Groundwater Management, in the January 2014 Governor's Five-Year California Water Action Plan. This proposal complements, but does not duplicate, work funded recently through two 2014/15 BCPs: California Groundwater Elevation Monitoring and Drought Emergency Response Program.

Department of Conservation

- Requests a one-time appropriation of \$5.7 million (Oil, Gas, and Geothermal Administrative Fund) to address increased costs to conduct and complete the Independent Scientific Study on Well Stimulation Treatments on or before January 1, 2015, and the Environmental Impact Report no later than July 1, 2015, as specified by SB 4 (Pavley), Chapter 313, Statutes of 2013.

Energy Commission

- Requests baseline authority for two positions (\$284,000) and \$300,000 per year for independent audit support from Energy Resources Programs Account funds, for a total request of \$584,000 to implement and operate Proposition 39. These positions will serve as staff to the Citizens Oversight Board charged with annually reviewing all expenditures from the Fund, reviewing an annual independent audit of the Fund and selected projects, publishing a complete accounting each year, and submitting an evaluation of the program to the legislature.
- Requests one new permanent position and \$200,000 in baseline contract funds, for a total request of \$342,000 to continually evaluate California's vulnerability to petroleum fuel price fluctuations and recommend actions to minimize adverse impacts of price changes on the economy and the transportation energy sector.

Natural Resources Agency

- Requests \$529,000 and 2 positions to implement the requirements of the AB 32 Scoping Plan Update. The proposal also includes \$250,000 a year for 2 years to fund an economic resources study to support the forest carbon plan.

Tahoe Conservancy, Lahontan Water Board, and Bi-State Lake Tahoe Science Council

- Requests \$150,000 each (\$450,000) to implement the provisions of SB 630 (Chapter 762, Statutes of 2013). SB 630 created the Tahoe Science Account which is funded by lease revenues collected from piers and other leases in Lake Tahoe.

Parks

- Requests \$521,000 in fiscal year (FY) 2014-15 and \$450,000 in subsequent fiscal years from the State Parks and Recreation Fund and Lake Tahoe Conservancy Account for the operation and maintenance of Kings Beach State Recreation Area.
- Requests local assistance funding from Prop 84 to the East Bay Regional Park District for their continued design development expenses and future construction expenses related to capital improvements to Brickyard Cove at McLaughlin Eastshore State Park.

PUBLIC SAFETY

California Department of Corrections and Rehabilitation

- Increases the 2013-14 budget by \$5.3 million and the 2014-15 budget by \$4.2 million to reflect changes in adult inmate and parolee populations. The revised adult inmate population estimate is 134,215 in 2013-14 and 136,530 in 2014-15. The revised adult parolee population estimate is 47,247 in 2013-14 and 41,866 in 2014-15.
- Decreases the 2013-14 budget by \$271,000 and the 2014-15 budget by \$258,000 to reflect changes in the juvenile ward population. The revised juvenile ward population estimate is 707 in 2013-14 and 656 in 2014-15.
- Increases funding for the California Health Care Facility by \$12.5 million to address operational issues identified by the court appointed Receiver as the basis for suspending the intake of new patient-inmates in January 2014.
- Provides the level of resources necessary (\$3.1 million) for the Department to begin expanding medical parole, implementing an elderly parole program, establishing a parole process for non-violent, non-sex offender "two-strikers" who have served at least 50% of their sentences.

Recidivism Reduction

- Increases the amount available in the Recidivism Reduction Fund, created by Chapter 310, Statutes of 2013 (SB 105), by \$9.9 million. This increases the total amount available in the Recidivism Reduction Fund to \$91 million for 2014-15. The Governor is proposing to allocate \$865,000 of this increase for the California Leadership Academy and \$9 million for reentry programs provided in the community.

2011 Public Safety Realignment

- Increases funding for the realigned trial court security program by \$1 million. This increase is attributed to additional courthouse security costs related to the construction of new courthouses with security needs that differ from the needs identified prior to enactment of the Public Safety Realignment of 2011.
- Increases funding for county probation by \$11.3 million above the amount guaranteed to counties pursuant to the Public Safety Realignment of 2011. This increase is attributed to unanticipated growth in the number of offenders being supervised by county probation departments.

Judiciary

- Increases funding for the Judicial Branch by \$60 million. This increase is intended to address an unanticipated shortfall in fee revenue, trial court employee costs, and provide a five-percent increase in trial court support. The Administration has committed to an additional five-percent increase for trial court support in the 2015-16 Governor's Budget.
- Increases funding for the Supreme Courts, Court of Appeals, and the Administrative Office of the Courts by \$2.3 million to address increased rent costs.

City Law Enforcement Grants

- Increases city law enforcement grants by \$12.5 million, providing a total of \$40 million for front-line law enforcement. The funding in this program has been identified as a strategy for helping to mitigate the impacts of budget reductions during the recent economic recession.

GENERAL GOVERNMENT

Employee Compensation

- Includes the determination by the Director of Finance that there are sufficient revenues to fully fund salary increases for 13 of the state's collective bargaining units based on agreements reached in the summer of 2013.
- Proposes an additional \$9 million for updated salary information for these bargaining units and an additional \$1.6 million to include a trigger increase recently negotiated with Bargaining Unit 13 for a total of \$183.7 million.

State Employees' Retirement

- Includes an increase to state retirement contributions of \$576.7 million (\$342.7 million General Fund) for 2014-15. Of this amount \$65.1 million is projected for California State University.
- Provides that the increase in state retirement contributions are due to the following:
 - On February 20, 2014, CalPERS Board of Administration adopted new assumptions, which include longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol.
 - Retirement rates are higher than originally projected in the Governor's budget because of normal rates due to difference in actual versus projected employer contributions, payroll growth, retirement dates, and benefit payments.

Teachers' Retirement System

- Proposes a solution to eliminate the CalSTRS unfunded liability estimated at \$74.4 billion over 30 years (2045-46) including:
 - Providing a plan based upon shared responsibility among the state, school districts, and teachers
 - Proposing to phase in the state's contribution over three years beginning with providing \$450 million (\$73.2 million General Fund) in additional

funding in 2014-15

- Increases teacher contributions from 8 percent to 10.25 percent phased in over three years
- Increases school contributions from 8.25 percent to 19.1 percent of payroll, phased in over seven years
- Increases the state's total contribution to the Defined Benefit plan from 3 percent in 2013-14 to 6.3 percent of payroll by 2016-17 and ongoing.
- Providing that the state continues to pay 2.5 percent of payroll annually for a supplemental inflation protection program for a total of 8.8 percent. The state's share reflects the shortfall that would exist had benefits or contributions not changed after 1990.

Department of Human Resources

- Proposes five positions and \$848,000 in 2014-15 to provide additional resources for labor relations related to In-Home Supportive Services Employer-Employee Relations Act

State Controller

- Provides \$2.5 million General Fund and one position on a one-year basis for the State Controller's Office to contract with the Department of Technology to oversee an independent assessment of the 21st Century project.

Employment Development Department

- Provides \$67.6 million (\$46.4 million) for additional resources for the administration of the UI Program. These additional resources reflect the effort to stabilize the administration of the program, as outlined in a February 2014 letter from Secretary of Labor and Workforce Development David Lanier. The goal of these resources is to achieve service levels that process all claims for unemployment benefits with three days of receipts, respond to online inquiries within 5 days of receipts, and respond to 50,000 calls per week.
- Reflects updated Unemployment Insurance benefit payment estimates, resulting in an overall increase of \$215.1 million
- Decreases Unemployment Insurance loan interest by \$13.1 million to reflect lower levels of unemployment.

Department of Technology

- Proposes \$208,000 and two positions to establish a Statewide Project Management Office.

LOCAL GOVERNMENT

Redevelopment

- Provides that General Fund savings from the dissolution of Redevelopment Agencies (RDAs) will be \$1.1 billion in 2013-14, \$811 million in 2014-15, and \$1 billion on an ongoing basis by 2016-17.
- Estimates that in 2013-14 and 2014-15 combined, cities will receive an additional \$541 million, counties will receive \$662 million, and special districts will receive \$209 million in general purpose revenue
- Provides that ongoing property tax revenues of more than \$700 million annually will be distributed to cities, counties, and special districts

Tools for Local Governments

- Proposes changes to the Infrastructure Financing Districts (IFDs) proposal including:
 - Establishes Enhanced IFDs as a stand-alone provision in statute to allow cities and counties that have not resolved their outstanding RDA-related issues to participate in the current IFD program, which will continue without modification. This means that the new IFD program will still have the restrictions that require cities and counties to meet the benchmarks.
 - Clarifies that monies received by cities and counties pursuant to the Vehicle License Fee Swap may be securitized to fund Enhanced IFD projects
 - Clarifies that entities participating in an Enhanced IFD may seek voter approval, pursuant to existing statutory and constitutional requirements, to levy new fees or assessments to support projects identified in an Enhanced IFD project plan.
 - Establishes affordable housing projects as projects of community-wide significance that an Enhanced IFD may fund.
 - Clarifies that Enhanced IFDs must replace any low- or moderate-income housing that is removed as part of a project plan, as is required under current IFD law.
 - Specifies that any affordable housing created or replaced as part of an Enhanced IFD project plan must include long-term affordability covenants of 55 years for rental units and 45 years for owner-occupied units.

Mandates

- Proposes \$100 million payment to local governments for the pre-2004 mandate debt. The State currently owes counties, cities, and special districts \$900 million in mandate reimbursements for costs incurred prior to 2004.

State-County Assessors' Partnership

- Provides modifications to the January proposal for the State-County Assessors' Partnership including:
 - Clarifies program funds may be used to assess and reassess business personal property as well as real property
 - Provides more flexibility in the distribution of grant funds to enable, for example, funds that are not claimed by assessors' offices in larger counties to be used to fund the participation of additional assessors' offices in smaller counties.
 - Allows program funds to be used for information technology systems that can assist assessors' offices in reassessing property to its appropriate value.

TAXATION AND REVENUE

Revenues

- Provides that overall revenue estimates are higher than the Governor's January budget proposal by \$2.4 billion which includes \$2 billion in 2013-14, \$856 million in 2014-15, and a decrease of \$513 million in 2012-13.
- States that the increase is driven by higher than expected personal income tax withholding, partnership income, and dividend income.
- Provides that the differences for the Personal Income Tax, Sales and Use Tax, and the Corporation Tax are reflected in the chart below:

	2012-13			2013-14			2014-15		
	January	May	Difference	January	May	Difference	January	May	Difference
	Forecast	Forecast		Forecast	Forecast		Forecast	Forecast	
Personal Income Tax	65.3	64.5	-0.8	64.3	66.5	2.2	69.7	70.2	0.5
Sales Tax	20.5	20.5	0	22.9	22.8	-0.1	24.1	23.8	-0.3
Corporation Tax	7.5	7.8	0.3	8	8.1	0.1	8.7	8.9	0.2
Other	6.6	6.6	0	4.9	4.8	-0.1	3.6	4	0.4
Total	99.9	99.4	-0.5	100.1	102.2	2.1	106.1*	106.9*	0.8

*BSA Transfer of \$1.6 billion is not reflected in total

Debt Service

- States that General Fund Debt service expenditures will decrease by \$112.7 million for a total of \$5.4 billion. Of the \$5.4 billion, \$4.8 billion is General Obligation debt service costs and no change for lease revenue bond debt service costs at \$575.8 million.
- Provides that the net decrease is related to increase savings in the form of investor premiums received from the spring 2014 bond sales, savings related to bond refinancing, and reduced variable interest rates and fees.